QUALITY DISTRIBUTION INC
Form 10-Q
May 08, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2009

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

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

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	x

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 4, 2009, the registrant had 19,644,470 shares of Common Stock, no par value, outstanding.

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QUALITY DISTRIBUTION, INC.

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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,	
	2009	**2008**
OPERATING REVENUES:		
Transportation	$ 111,027	$ 149,259
Other service revenue	27,608	26,745
Fuel surcharge	11,097	32,497
Total operating revenues	149,732	208,501
OPERATING EXPENSES:		
Purchased transportation	81,891	119,972
Compensation	23,211	28,604
Fuel, supplies and maintenance	17,540	30,133
Depreciation and amortization	5,335	4,896
Selling and administrative	7,145	9,248
Insurance claims	4,049	5,562
Taxes and licenses	1,337	1,217
Communication and utilities	2,734	3,616
Gain on disposal of property and equipment	(103)	(544)
Restructuring costs	600	
Total operating expenses	143,739	202,704
Operating income	5,993	5,797
Interest expense	7,000	9,151
Interest income	(103)	(117)
Gain on extinguishment of debt	(675)	
Other expense	143	10
Loss before income taxes	(372)	(3,247)
Benefit from income taxes	(70)	(1,328)
Net loss	$ (302)	$ (1,919)
PER SHARE DATA:		
Net loss per common share		
Basic	$ (0.02)	$ (0.10)
Diluted	$ (0.02)	$ (0.10)

Weighted-average number of shares		
Basic	19,215	19,064
Diluted	19,215	19,064

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

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(In 000 s)

Unaudited

	March 31, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 7,092	$ 6,787
Accounts receivable, net	76,712	81,612
Prepaid expenses	11,932	12,922
Deferred tax asset, net	14,707	14,707
Other	8,026	7,950
Total current assets	118,469	123,978
Property and equipment, net	144,349	148,692
Goodwill	173,519	173,519
Intangibles, net	22,272	22,698
Non-current deferred tax asset, net	22,654	22,636
Other assets	9,646	10,580
Total assets	$ 490,909	$ 502,103
LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current maturities of indebtedness	$ 3,446	$ 8,361
Current maturities of capital lease obligations	8,115	7,994
Accounts payable	15,105	16,126
Affiliates and independent owner-operators payable	11,155	7,649
Accrued expenses	23,075	25,357
Environmental liabilities	4,507	4,819
Accrued loss and damage claims	9,338	8,705
Total current liabilities	74,741	79,011
Long-term indebtedness, less current maturities	324,130	330,409
Capital lease obligations, less current maturities	14,697	15,822
Environmental liabilities	6,738	6,035
Accrued loss and damage claims	12,336	12,815
Other non-current liabilities	25,122	25,158
Total liabilities	457,764	469,250
Commitments and contingencies - Note 9		
Redeemable noncontrolling interest	1,833	1,833
SHAREHOLDERS EQUITY		
Common stock, no par value; 29,000 shares authorized; 19,849 issued and 19,644 outstanding at March 31, 2009 and 19,754 issued and 19,549 outstanding at December 31, 2008, respectively	363,101	362,945

Treasury stock, 205 shares at March 31, 2009 and December 31, 2008	(1,580)	(1,580)
Accumulated deficit	(114,336)	(114,034)
Stock recapitalization	(189,589)	(189,589)
Accumulated other comprehensive loss	(26,050)	(26,488)
Stock subscriptions receivable	(234)	(234)
Total shareholders equity	31,312	31,020
Total liabilities, redeemable noncontrolling interest and shareholders equity	$ 490,909	$ 502,103

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 Equity

For the Three Months Ended March 31, 2009 and 2008

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 Subscription Receivables	Total Shareholders Equity
Balance, December 31, 2007	19,334	(158)	$ 361,617	$ (1,564)	$ (126,146)	$ (189,589)	$ (16,748)	$ (270)	$ 27,300
Net loss					(1,919)				(1,919)
Issuance of restricted stock	76								
Amortization of restricted stock			110						110
Amortization of non-employee options			31						31
Amortization of stock options			281						281
Amortization of prior service costs, net of tax provision							18		18
Translation adjustment, net of tax provision							83		83
Balance, March 31, 2008	19,410	(158)	$ 362,039	$ (1,564)	$ (128,065)	$ (189,589)	$ (16,647)	$ (270)	$ 25,904
Balance, December 31, 2008	19,754	(205)	$ 362,945	$ (1,580)	$ (114,034)	$ (189,589)	$ (26,488)	$ (234)	$ 31,020
Net loss					(302)				(302)
Issuance of restricted stock	95								
Amortization of restricted stock			63						63
Amortization of stock options			93						93
Amortization of prior service costs and losses, net of tax							312		312
Translation adjustment, net of tax							126		126
Balance, March 31, 2009	19,849	(205)	$ 363,101	$ (1,580)	$ (114,336)	$ (189,589)	$ (26,050)	$ (234)	$ 31,312

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,	
	2009	**2008**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (302)	$ (1,919)
Adjustments to reconcile to net cash and cash equivalents provided by (used in) operating activities:		
Deferred income tax benefit	(18)	(1,182)
Depreciation and amortization	5,335	4,896
Bad debt expense	602	132
Gain on disposal of property and equipment	(103)	(544)
Gain on extinguishment of long-term debt	(675)	
Stock-based compensation	156	422
Amortization of deferred financing costs	701	726
Amortization of bond discount	275	275
Redeemable noncontrolling interest dividends	36	36
Changes in assets and liabilities:		
Accounts and other receivables	4,539	(5,573)
Prepaid expenses	(178)	(3,352)
Other assets	365	477
Accounts payable	958	(1,043)
Accrued expenses	(2,281)	4,214
Environmental liabilities	391	(658)
Accrued loss and damage claims	153	(4,119)
Affiliates and independent owner-operators payable	3,506	4,971
Other liabilities	402	(39)
Current income taxes	(208)	(625)
Net cash provided by (used in) operating activities	13,654	(2,905)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(1,758)	(5,306)
Acquisition of businesses and assets		(1,319)
Proceeds from sales of property and equipment	2,166	2,534
Net cash provided by (used in) investing activities	408	(4,091)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt		1,049
Principal payments on long-term debt	(4,626)	(540)
Principal payments on capital lease obligations	(1,877)	(354)
Proceeds from revolver	8,000	28,900
Payments on revolver	(13,000)	(28,830)
Payments on acquisition notes	(227)	(224)
Deferred financing costs		(187)
Change in book overdraft	(1,985)	212
Redeemable noncontrolling interest dividends	(36)	(36)
Net cash used in financing activities	(13,751)	(10)

Effect of exchange rate changes on cash	(6)	(10)
Net increase (decrease) in cash and cash equivalents	305	(7,016)
Cash and cash equivalents, beginning of period	6,787	9,711
Cash and cash equivalents, end of period	$ 7,092	$ 2,695
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for:		
Interest	$ 4,805	$ 4,764
Income Taxes	114	171

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

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 and (iv) the term Boasso refers to our wholly owned subsidiary, Boasso America Corporation, a Louisiana corporation.

We are primarily engaged in truckload transportation of bulk chemicals and are also engaged in International Organization Standardization, or ISO, tank container transportation and depot services, tank wash facility services, logistics and other value-added services. 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 various term contracts with the Company. 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.

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 (U.S. 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 consolidated balance sheet data was derived from audited financial statements, but does not include all the disclosures required by U.S. GAAP. For further information, refer to our Annual Report on Form 10-K for the year ended December 31, 2008, including the consolidated financial statements and accompanying notes.

Operating results for the three months ended March 31, 2009 are not necessarily indicative of the results that may be expected for the entire fiscal year.

New Accounting Pronouncements

On January 1, 2009, we adopted Financial Accounting Standards Board (FASB) SFAS No. 141 (revised 2007), *Business Combinations* (SFAS 141R). This statement significantly changes the financial accounting and reporting of business combination transactions, but retains the fundamental requirements in SFAS 141, including that the purchase method be used for all business combinations and for an acquirer to be identified for each business combination. The impact of adopting SFAS 141R will depend on the nature, terms and size of business combinations completed going forward.

On January 1, 2009, we adopted FASB SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51* (SFAS 160). SFAS 160 establishes accounting and reporting standards for noncontrolling interests in subsidiaries. This statement requires the reporting of all noncontrolling interests as a separate component of stockholders equity, the reporting of consolidated net income (loss) as the amount attributable to both the parent and the noncontrolling interests and the separate disclosure of net income (loss) attributable to the parent and to the noncontrolling interests. In addition, this statement provides accounting and reporting guidance related to changes in noncontrolling ownership interests. Other than the reporting requirements described above which require retrospective application, the provisions of SFAS 160 are to be applied prospectively in the first annual reporting period beginning on or after December 15, 2008. The adoption of SFAS 160 had an immaterial impact on our consolidated financial statements.

We adopted Emerging Issues Task Force Topic No. D-98, *Classification and Measurement of Redeemable Securities* (EITF D-98), in conjunction with the adoption of SFAS 160. This standard is applicable for all noncontrolling interests where the Company is subject to equity classified securities that are redeemable or may become redeemable at a fixed or determinable price on a fixed or determinable date, at the option of the holder, or upon the occurrence of an event that is not solely within the control of the issuer. A subsidiary of QDI has issued and outstanding preferred stock that is held by holders other than QDI and its other subsidiaries. The holders have the right to cause us to redeem their shares of preferred stock. The redemption value of the preferred stock held by these noncontrolling holders equals the fair value of $1.8 million at March 31, 2009 and is reflected in our consolidated balance Sheets as Redeemable noncontrolling interest.

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On January 1, 2009, we adopted FASB Staff Position No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSP FAS 142-3). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets.* More specifically, FSP FAS 142-3 removes the requirement under paragraph 11 of SFAS 142 to consider whether an intangible asset can be renewed without substantial cost or material modifications to the existing terms and conditions and instead, requires an entity to consider its own historical experience in renewing similar arrangements. FSP FAS 142-3 also requires expanded disclosure related to the determination of intangible asset useful lives. The adoption of FSP FAS 142-3 had no impact on our consolidated financial statements.

On January 1, 2009, we adopted FASB Staff Position No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (FSP EITF 03-6-1), which addresses whether unvested equity-based awards are participating securities and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method described in FASB Statement No. 128, *Earnings per Share*. The adoption of FSP EITF 03-6-1 had no impact on our consolidated financial statements.

In June 2008, the FASB Issued EITF No. 08-3, *Accounting by Lessees for Nonrefundable Maintenance Deposits* (EITF No. 08-3). EITF No. 08-3 requires that nonrefundable maintenance deposits paid by a lessee under an arrangement accounted for as a lease be accounted for as a deposit asset until the underlying maintenance is performed. When the underlying maintenance is performed, the deposit may be expensed or capitalized in accordance with the lessee s maintenance accounting policy. Upon adoption entities must recognize the effect of the change as a change in accounting principle. The adoption of EITF No. 08-3 had no impact the Company s financial condition, results of operations or cash flows.

In December 2008, the FASB issued FSP No. FAS 132(R)-1, *Employers Disclosures about Postretirement Benefit Plan Assets* (FSP FAS 132(R)-1). FSP FAS 132(R)-1 amends SFAS No. 132 (revised 2003), *Employers Disclosures about Pensions and Other Postretirement Benefits*, to provide guidance on an employer s disclosures about plan assets of a defined benefit pension or other postretirement plan. This guidance is intended to ensure that an employer meets the objectives of the disclosures about plan assets in an employer s defined benefit pension or other postretirement plan to provide users of financial statements with an understanding of the following: how investment allocation decisions are made, the major categories of plan assets, the inputs and valuation techniques used to measure the fair value of plan assets, the effect of fair value measurements using significant unobservable inputs on changes in plan assets, and significant concentrations of risk within plan assets. The disclosures required under FSP FAS 132(R)-1 become effective for us on December 31, 2009. As FSP FAS 132(R)-1 only requires enhanced disclosures, we have determined that the adoption of FSP FAS 132(R)-1 will not have an impact on our consolidated financial statements.

Adoption of Statement of Financial Accounting Standards No. 157 and No. 159

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Liabilities, (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. If the fair value option is elected, unrealized gains and losses will be recognized in earnings at each subsequent reporting date. On January 1, 2008, we did not elect to adopt the provisions of SFAS 159.

On January 1, 2008, we adopted the provisions of Statement of Financial Accounting Standards No. 157, Fair Value Measurements, (SFAS 157). SFAS 157 defines fair value and provides guidance for measuring fair value and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements, but rather applies to all other accounting pronouncements that require or permit fair value measurements. In February 2008, the FASB issued final Staff Position No. FAS 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements that Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13,* which amended SFAS 157 to exclude FASB Statement No. 13 and its related interpretive accounting pronouncements that address leasing transactions. In February 2008, the FASB also issued final Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157*, to allow a one-year deferral of adoption of SFAS 157 for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. We have elected this one-year deferral and thus will not apply the provisions of SFAS 157 to nonfinancial assets and nonfinancial liabilities that are recognized at fair value in the financial statements on a nonrecurring basis until our fiscal year beginning January 1, 2009.

SFAS 157 enables the reader of the financial statements to assess the inputs used to develop fair value measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. SFAS 157 requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

We have no financial assets or financial liabilities that require application of SFAS 157.

We generally apply fair value techniques on a nonrecurring basis associated with (1) valuing potential impairment loss related to goodwill and indefinite-lived intangible assets accounted for pursuant to SFAS No. 142 and (2) valuing potential impairment loss related to long-lived assets accounted for pursuant to SFAS No. 144.

Acquisition of Business Assets

During the first quarter of 2009, we did not complete any acquisitions of businesses and affiliates. During 2008, we purchased two transportation companies and an affiliate for $2.1 million, in the aggregate, of which $1.4 million was paid in cash at closing and the remaining $0.7 million is payable over future periods. Of the total $2.1 million, we allocated $1.0 million to property and equipment, $0.9 million to goodwill, and $0.2 million to other intangible assets such as non-compete agreements.

Goodwill and Intangible Assets

Under SFAS 142, Goodwill and Other Intangible Assets, goodwill and intangible assets are 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 or intangible assets within the reporting unit is greater than the implied fair value of goodwill.

We perform our impairment test annually during the second quarter with a measurement date of June 30th. No impairment was determined to have occurred as of June 30, 2008, since the calculated fair value exceeded the carrying amount.

Our goodwill assets as of March 31, 2009 and December 31, 2008, were $173.5 million.

Intangible assets at March 31, 2009 were as follows (in thousands):

	Gross value	Accumulated amortization	Net book value	Average lives (in years)
Tradename	$ 9,800	$	$ 9,800	Indefinite
Customer relationships	11,998	(1,277)	10,721	11
Non-compete agreements	3,053	(1,302)	1,751	2 4
	$ 24,851	$ (2,579)	$ 22,272	

Amortization expense for the three months ended March 31, 2009 and 2008 was $0.4 million and $0.4 million, respectively. Remaining intangible assets will be amortized to expense as follows (in thousands):

2009 remaining	$ 1,248
2010	1,615
2011	1,440
2012	1,229
2013 and after	6,940
Total	$ 12,472

2. Comprehensive Income (Loss)

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

	Three months ended March 31,	
	2009	2008
Net loss	$ (302)	$ (1,919)
Other comprehensive income (loss):		
Amortization of prior service costs, net of tax	312	18
Foreign currency translation adjustments, net of tax	126	83
Comprehensive income (loss)	$ 136	$ (1,818)

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3. Loss Per Share

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

	Three months ended					
	March 31, 2009			March 31, 2008		
	Net loss (numerator)	Shares (denominator)	Per-share amount	Net loss (numerator)	Shares (denominator)	Per-share amount
Basic loss available to common shareholders:						
Net loss	$ (302)	19,215	$ (0.02)	$ (1,919)	19,064	$ (0.10)
Effect of dilutive securities:						
Stock options						
Unvested restricted stock						
Stock units						
Diluted loss available to common shareholders:						
Net loss	$ (302)	19,215	$ (0.02)	$ (1,919)	19,064	$ (0.10)

There is no effect of our stock options and restricted stock in the computation of diluted earnings per share for the three months ended March 31, 2009 and March 31, 2008 due to a net loss in both quarters.

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,	
	2009	2008
Stock options	1,699	3,013
Unvested restricted stock	216	188

4. Stock-Based Compensation

We maintain performance incentive plans under which stock options, restricted shares, and stock units may be granted to employees, non-employee directors, consultants and advisors. As of March 31, 2009, we have two active stock-based compensation plans.

We recognize expense for stock-based compensation based upon estimated grant date fair value. We apply the Black-Scholes valuation model in determining the fair value of share-based payments to employees. The resulting compensation expense is recognized over the requisite service period, which is generally the awards vesting term. Compensation expense is recognized only for those awards expected to vest, with forfeitures estimated based on our historical experience and future expectations. All stock-based compensation expense is classified within Compensation on the Consolidated Statement of Operations. None of the stock-based compensation was capitalized during the first three months of 2009.

The fair value of options granted during the first three months of 2009 and 2008 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 2009, expected stock price volatility is based on the historical volatility of our common stock, which began trading on November 13, 2003. 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:

	2009	2008
Risk free rate	1.57%	3.28%
Expected life	5 years	5 years
Volatility	78.7%	66.5%
Expected dividend	nil	nil

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

	Options Issued	Restricted Shares Issued
March 31, 2009	456,280	95,557

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

	Three months ended March 31,	
	2009	2008
Stock options	$ 93	$ 281
Restricted stock	63	141
	$ 156	$ 422

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, 2009 (in thousands):

		Remaining years
Stock options	$ 1,256	4
Restricted stock	390	4
	$ 1,646	

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. No options were exercised during the three months ended March 31, 2009.

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. Pension costs are funded in accordance with the provisions of the applicable law.

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,	
	2009	2008
Service cost	$ 51	$ 54
Interest cost	688	682
Amortization of prior service cost	23	23
Amortization of loss	288	88

Expected return on plan assets	(509)	(800)
Net periodic pension cost	$ 541	$ 47

We contributed $0.1 million to our pension plans during the three months ended March 31, 2009. We expect to contribute an additional $0.7 million during the remainder of 2009.

6. Restructuring

During the quarter ended June 30, 2008, we committed to a plan of restructure resulting in the termination of approximately 130 non-driver positions and the consolidation or closure of underperforming company terminals. We continued our restructuring plan throughout 2008 which resulted in a restructuring charge of $5.3 million, of which the majority related to our trucking segment. Our

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restructuring plan is continuing in 2009, and in the first quarter we recorded a charge of $0.6 million related to employee termination benefits and other related exit activities. As of March 31, 2009, approximately $0.7 million was accrued related to the restructuring charges, which is expected to be paid through the remainder of 2009.

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 SFAS No. 146 Accounting for Costs Associated with Exit or Disposal Activities .

In the three months ended March 31, 2009, we had the following activity in our restructuring accruals:

	Balance at December 31, 2008	Additions	Payments	Reductions	Balance at March 31, 2009
Restructuring costs	$ 786	$ 600	$ (725)	$	$ 661

7. Segment Reporting

Reportable Segments

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

Trucking, which consists of truckload transportation of bulk chemicals, and

Container Services, specifically ISO tank container transportation and depot services.

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

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

	Three months ended March 31,	
	2009	2008
Operating revenues:		
Trucking	$ 111,148	$ 167,481
Container Services	19,901	21,883
Other revenue	18,683	19,137
Total	149,732	208,501
Operating income:		
Trucking	7,585	6,817
Container Services	3,289	2,007
Other operating income	951	1,325
Total segment operating income	11,825	10,149

Depreciation and amortization expense	5,335	4,896
Other expense (income)	497	(544)
Total	5,993	5,797
Interest expense	7,000	9,151
Interest income	(103)	(117)
Other (income) expense	(532)	10
Loss before income taxes	$ (372)	(3,247)

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, 2009 and 2008 is as follows (in thousands):

	Three months ended March 31, 2009		
	U. S.	International	Consolidated
Total operating revenues	$ 141,114	$ 8,618	$ 149,732
Operating income	5,217	776	5,993
	As of March 31, 2009		
Long-term identifiable assets (1)	$ 157,218	$ 9,403	$ 166,621
	Three months ended March 31, 2008		
	U. S.	International	Consolidated
Total operating revenues	$ 194,922	$ 13,579	$ 208,501
Operating income	4,196	1,601	5,797
	As of December 31, 2008		
Long-term identifiable assets (1)	$ 164,068	$ 7,322	$ 171,390

(1) Includes property and equipment and intangible assets.

8. Income Taxes

We adopted FASB Interpretation 48, Accounting for Uncertain Income Tax Positions (FIN 48), at the beginning of fiscal year 2007. As a result of the implementation, we recognized an increase to reserves for uncertain tax positions of $0.3 million. The increase to the reserve was accounted for as an adjustment to the beginning balance of retained earnings on the balance sheet.

At December 31, 2008, we had approximately $2.0 million of total gross unrecognized tax benefits. Of this total, $1.3 million (net of federal benefit on state tax issues) represents the amount of unrecognized tax benefits that, if recognized would favorably affect the effective income tax rate in any future periods.

Included in the balance of gross unrecognized tax benefits at December 31, 2008, was $0.3 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 statue of limitations.

For the three months ended March 31, 2009, there was no material net change to our gross unrecognized tax benefits. Our total gross unrecognized tax benefit at March 31, 2009 was $2.0 million.

Our continuing practice is to recognize interest and/or penalties related to income tax matters in income tax expense. We had $1.3 million (net of federal tax benefit) accrued for interest and $0.5 million accrued for penalties at December 31, 2008. The total amount accrued for interest and penalties at March 31, 2009 was $1.8 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 2005, to international examinations for years before 2003 and with few exceptions, to state examinations before 2004.

9. 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 American chemical industry initiative to enhance the industry s responsible management of chemicals. We have obtained independent certification that our management system is in place and functions according to professional standards and we continue to evaluate and continuously improve our Responsible Care ® Management System performance.

Our activities involve the handling, transportation and storage of bulk chemicals, both liquid and dry, many of which are classified as hazardous materials or hazardous substances. Our tank wash and terminal operations engage in the generation, storage, discharge and disposal of wastewater that may contain hazardous substances, the inventory and use of cleaning materials that may contain hazardous substances and the control and discharge of storm-water from industrial sites. In addition, we may store diesel fuel, materials containing oil and other hazardous products at our terminals. As such, we and others who operate in our industry are subject

to environmental, health and safety laws and regulation by U.S. federal, state and local agencies as well as foreign governmental authorities. Environmental laws and regulations are complex, and address emissions to the air, discharge onto land or water, and the generation, handling, storage, transportation, treatment and disposal of waste materials. These laws change frequently and generally require us to obtain and maintain various licenses and permits. Environmental laws have tended to become more stringent over time, and most provide for substantial fines and potential criminal sanctions for violations. Some of these laws and regulations are subject to varying and conflicting interpretations. Under certain of these laws, we could also be subject to allegations of liability for the activities of our affiliates or owner-operators.

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

We have also incurred in the past, and expect to incur in the future, capital and other expenditures related to environmental compliance for current and planned operations. Such expenditures are generally included in our overall capital and operating budgets and are not accounted for separately. However, we do not anticipate that compliance with existing environmental laws in conducting current and planned operations will have a material adverse effect on our capital expenditures, 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 adversely affected 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. The recorded liabilities are adjusted periodically as remediation efforts progress or as additional technical or legal information becomes available. As of March 31, 2009 and December 31, 2008, we had reserves in the amount of $11.2 million and $10.9 million, respectively, for all environmental matters discussed below.

The balances presented include both long term and current environmental reserves. We expect these environmental obligations to be paid over the next five years. Additions to the environmental liability reserves are classified on the 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 27 sites. At two of the 27 sites, we will be participating in the initial studies to determine site remediation objectives. Since our overall liability cannot be estimated at this time, we have set reserves for only the initial remedial investigation phase. At 21 of the 27 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 four of the 21 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 future expenditures for these off-site multi-party environmental matters to be in the range of $2.5 million to $3.8 million.

At six sites, we are the only responsible party and are in the process of conducting investigations and/or remediation projects. Four of these projects relate to operations conducted by Chemical Leaman Corporation and its subsidiaries (CLC) prior to our acquisition of and merger with CLC in 1998. These four sites are: (1) Bridgeport, New Jersey; (2) William Dick, Pennsylvania; (3) Tonawanda, New York; and (4) Scary Creek, West Virginia. The remaining two investigations and potential remediation were triggered by the New Jersey Industrial Site Remediation 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 for these four properties to be in the range of $8.7 million to $16.7 million.

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 the U.S. Environmental Protection Agency (USEPA) in May 1991 for the treatment of groundwater and in October 1998 for the removal of contamination in the wetlands. In addition, we were required to assess the removal of contaminated soils.

The groundwater treatment remedy negotiated with USEPA calls for a treatment facility for in place treatment of groundwater contamination via in-situ treatment and a local discharge. Treatment facility construction was completed in early 2007. Wetlands contamination has been remediated with localized restoration completed. Monitoring of the restored wetlands is continuing. In regard to contaminated soils, we believe that USEPA is now in the process of finalizing a feasibility study for the limited areas that show contamination and warrant additional investigation or work. We have estimated expenditures to be in the range of $5.5 million to $8.5 million.

William Dick, Pennsylvania

CLC entered into a consent order with the Pennsylvania DEP and USEPA in October 1995 obligating it to provide a replacement water supply to area residents, treat contaminated groundwater, and perform remediation of contaminated soils at this former wastewater disposal site. The replacement water supply is complete. We completed construction of a treatment facility with local discharge for groundwater treatment in the fourth quarter of 2007. Plant start-up issues are on-going. The agencies have approved a contaminated soils remedy, which requires both thermal treatment of contaminated soils and treatment of residuals via soil vapor extraction. The remedy expanded to include off-site shipment of contaminated soils. Soil treatment was completed in September 2007. Site sampling has been conducted and the results indicate that the soil clean-up objectives have not been fully achieved. Negotiations are on-going with USEPA over further remedial actions that may be needed at the site. We have estimated expenditures to be in the range of $1.0 million to $3.4 million.

Other Properties

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

Tonawanda, New York: CLC entered into a consent order with the New York Department of Environmental Conservation on June 22, 1999 obligating it to perform soil and groundwater remediation at this former truck terminal and tank wash site. We have completed a remedial investigation and a feasibility study. The State issued a record of decision in May 2006. The site is currently in Remedial Design phase.

ISRA New Jersey Facilities: We are obliged to conduct investigations and remediation at two 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. These sites are in the process of remedial investigation with projections set in contemplation of limited soil remediation expense for contaminated areas. The former owner of a third site has agreed to take responsibility for it so we are not currently taking action under ISRA for the site.

We have estimated future expenditures for Scary Creek, Tonawanda and ISRA to be in the range of $2.2 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.

10. Guarantor Subsidiaries

The 9% Senior Subordinated Notes due 2010 and the Senior Floating Rate Notes due 2012 issued by QD LLC and QD Capital are unconditionally guaranteed on a senior subordinated basis pursuant to guarantees by all of our direct and indirect domestic subsidiaries, and by QDI. 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.

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

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its ability to receive funds from its subsidiaries through dividend and other payments. The subsidiary 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 subsidiary guarantors because management has determined such information is not material to the holders of the above-mentioned notes.

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

Condensed consolidating balance sheets at March 31, 2009 and December 31, 2008 and condensed consolidating statements of operations for the three month periods ended March 31, 2009 and March 31, 2008 and the condensed consolidating statements of cash flows for each of the three month periods ended March 31, 2009 and March 31, 2008.

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

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Consolidating Statements of Operations

Three Months Ended March 31, 2009

Unaudited - (In 000 s)

	QDI	QD LLC & QD Capital	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenues:						
Transportation	$	$	$ 111,027	$	$	$ 111,027
Other service revenue			27,560	48		27,608
Fuel surcharge			11,097			11,097
Total operating revenues			149,684	48		149,732
Operating expenses:						
Purchased transportation			81,891			81,891
Compensation			23,211			23,211
Fuel, supplies and maintenance			17,540			17,540
Depreciation and amortization			5,335			5,335
Selling and administrative		22	7,113	10		7,145
Insurance claims			4,044	5		4,049
Taxes and licenses			1,337			1,337
Communication and utilities			2,734			2,734
Gain on disposal of property and equipment			(103)			(103)
Restructuring costs			600			600
Operating (loss) income		(22)	5,982	33		5,993
Interest expense (income), non-related party, net		6,231	682	(16)		6,897
Interest (income) expense, related party, net		(6,231)	6,332	(101)		
Gain on extinguishment of debt		(675)				(675)
Other expense			24	119		143
Income (loss) before income taxes		653	(1,056)	31		(372)
(Benefit from) provision for income taxes			(123)	53		(70)
Equity in loss of subsidiaries	(302)	(955)			1,257	
Net loss	$ (302)	$ (302)	$ (933)	$ (22)	$ 1,257	$ (302)

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Consolidating Statements of Operations

Three Months Ended March 31, 2008

Unaudited - (In 000 s)

	QDI	QD LLC and QD Capital	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenues:						
Transportation	$	$	$ 149,259	$	$	$ 149,259
Other service revenue			26,582	163		26,745
Fuel surcharge			32,497			32,497
Total operating revenues			208,338	163		208,501
Operating expenses:						
Purchased transportation			119,972			119,972
Compensation			28,604			28,604
Fuel, supplies and maintenance			30,133			30,133
Depreciation and amortization			4,918	(22)		4,896
Selling and administrative			9,229	19		9,248
Insurance claims			5,551	11		5,562
Taxes and licenses			1,216	1		1,217
Communication and utilities			3,616			3,616
Gain on disposal of property and equipment			(544)			(544)
Operating income (loss)			5,643	154		5,797
Interest (income) expense, non-related party, net	(23)	8,628	452	(23)		9,034
Interest expense (income), related party, net		(1,565)	1,695	(130)		
Other expense (income)			62	(52)		10
Income (loss) before income taxes	23	(7,063)	3,434	359		(3,247)
(Benefit from) provision for income taxes			(1,404)	76		(1,328)
Equity in (loss) earnings of subsidiaries	(1,942)	5,121			(3,179)	
Net (loss) income	$ (1,919)	$ (1,942)	$ 4,838	$ 283	$ (3,179)	$ (1,919)

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Consolidating Balance Sheet

March 31, 2009

Unaudited - (In 000 s)

	QDI	QD LLC and QD Capital	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
Current Assets:						
Cash and cash equivalents	$	$	$ 5,006	$ 2,086	$	$ 7,092
Accounts receivable, net	71		76,565	76		76,712
Prepaid expenses		71	11,851	10		11,932
Deferred tax asset, net			14,707			14,707
Other	154		7,793	79		8,026
Total current assets	225	71	115,922	2,251		118,469
Property and equipment, net			144,349			144,349
Goodwill			173,519			173,519
Intangibles, net			22,272			22,272
Investment in subsidiaries	29,264	632,846	21,234		(683,344)	
Non-current deferred tax asset, net	1,007		21,647			22,654
Other assets		8,795	851			9,646
Total assets	$ 30,496	$ 641,712	$ 499,794	$ 2,251	$ (683,344)	$ 490,909
LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND SHAREHOLDERS EQUITY (DEFICIT)						
Current Liabilities:						
Current maturities of indebtedness	$	$	$ 3,446	$	$	$ 3,446
Current maturities of capital lease obligations			8,115			8,115
Accounts payable			15,105			15,105
Intercompany	(816)	293,473	(267,599)	(5,657)	(19,401)	
Affiliates and independent owner-operators payable			11,155			11,155
Accrued expenses		5,285	17,777	13		23,075
Environmental liabilities			4,507			4,507
Accrued loss and damage claims			9,338			9,338
Income tax payable						
Total current liabilities	(816)	298,758	(198,156)	(5,644)	(19,401)	74,741
Long-term indebtedness, less current maturities		313,690	10,440			324,130
Capital lease obligations, less current maturities			14,697			14,697
Environmental liabilities			6,738			6,738
Accrued loss and damage claims			12,336			12,336
Other non-current liabilities			24,328	794		25,122
Total liabilities	(816)	612,448	(129,617)	(4,850)	(19,401)	457,764
Redeemable noncontrolling interest			1,833			1,833
Shareholders equity (deficit):						
Common Stock	363,101	354,963	493,866	7,629	(856,458)	363,101
Treasury stock	(1,580)					(1,580)
Accumulated (deficit) retained earnings	(114,336)	(110,062)	158,894	393	(49,225)	(114,336)
Stock recapitalization	(189,589)	(189,589)		(55)	189,644	(189,589)

Accumulated other comprehensive income	(26,050)	(26,048)	(25,182)	(866)	52,096	(26,050)
Stock subscriptions receivable	(234)					(234)
Total shareholders equity (deficit)	31,312	29,264	627,578	7,101	(663,943)	31,312
Total liabilities, redeemable noncontrolling interest and shareholders equity (deficit)	$ 30,496	$ 641,712	$ 499,794	$ 2,251	$ (683,344)	$ 490,909