

QUALITY DISTRIBUTION INC  
Form 10-Q  
November 07, 2008  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2008

or

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

For the transition period from to

Commission File Number: 000-24180

**Quality Distribution, Inc.**

(Exact name of registrant as specified in its charter)

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<b>Florida</b> (State or other jurisdiction of incorporation or organization)	<b>59-3239073</b> (I.R.S. Employer Identification No.)
<b>4041 Park Oaks Boulevard, Suite 200, Tampa, FL</b> (Address of Principal Executive Offices)	<b>33610</b> (Zip Code)
<b>813-630-5826</b> (Registrant's telephone number, including area code)	
<b>N/A</b> (Former name, former address and former fiscal year, if changed since last report)	

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

Indicate by check mark whether the registrant is 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

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

As of November 3, 2008, the registrant had 19,528,071 shares of Common Stock, no par value, outstanding.

**Table of Contents**

**QUALITY DISTRIBUTION, INC.**

**CONTENTS**

<b><u>PART I FINANCIAL INFORMATION</u></b>	<b>1</b>
<b><u>ITEM 1 FINANCIAL STATEMENTS</u></b>	<b>1</b>
<b><u>Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2008 and 2007</u></b>	<b>1</b>
<b><u>Consolidated Balance Sheets as of September 30, 2008 and December 31, 2007</u></b>	<b>2</b>
<b><u>Consolidated Statements of Shareholders' Equity for the Nine Months Ended September 30, 2008 and 2007</u></b>	<b>3</b>
<b><u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2008 and 2007</u></b>	<b>4</b>
<b><u>Notes to Consolidated Financial Statements</u></b>	<b>5</b>
<b><u>ITEM 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	<b>26</b>
<b><u>ITEM 3 Quantitative and Qualitative Disclosures About Market Risk</u></b>	<b>43</b>
<b><u>ITEM 4 Controls and Procedures</u></b>	<b>45</b>
<b><u>PART II OTHER INFORMATION</u></b>	<b>46</b>
<b><u>ITEM 1 Legal Proceedings</u></b>	<b>46</b>
<b><u>ITEM 1A Risk Factors</u></b>	<b>46</b>
<b><u>ITEM 2 Unregistered Sale of Equity Securities and Use of Proceeds</u></b>	<b>47</b>
<b><u>ITEM 3 Defaults Upon Senior Securities</u></b>	<b>47</b>
<b><u>ITEM 4 Submission of Matters to a Vote of Security Holders</u></b>	<b>47</b>
<b><u>ITEM 5 Other Information</u></b>	<b>47</b>
<b><u>ITEM 6 Exhibits</u></b>	<b>47</b>
<b><u>Signatures</u></b>	<b>48</b>

**Table of Contents****QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES****PART I FINANCIAL INFORMATION****ITEM 1 FINANCIAL STATEMENTS****Consolidated Statements of Operations****(Unaudited - in 000 s, Except Per Share Amounts)**

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>OPERATING REVENUES:</b>				
Transportation	\$ 144,774	\$ 148,900	\$ 445,798	\$ 442,656
Other service revenue	25,494	18,736	78,916	54,847
Fuel surcharge	44,473	24,545	122,490	67,483
<b>Total operating revenues</b>	<b>214,741</b>	<b>192,181</b>	<b>647,204</b>	<b>564,986</b>
<b>OPERATING EXPENSES:</b>				
Purchased transportation	124,800	118,653	376,378	358,027
Compensation	27,519	22,302	83,518	62,558
Fuel, supplies and maintenance	30,031	21,146	93,199	56,545
Depreciation and amortization	5,207	4,468	15,435	12,960
Selling and administrative	8,699	7,442	26,515	21,314
Insurance claims	3,202	3,239	11,629	14,321
Taxes and licenses	1,583	1,105	4,042	2,729
Communication and utilities	3,104	2,952	10,109	8,081
(Gain) loss on disposal of property and equipment	(867)	219	(2,832)	418
Restructuring costs	1,700		4,075	
<b>Total operating expenses</b>	<b>204,978</b>	<b>181,526</b>	<b>622,068</b>	<b>536,953</b>
Operating income	9,763	10,655	25,136	28,033
Interest expense	8,455	7,651	26,246	23,403
Interest income	(128)	(198)	(333)	(573)
Other expense (income)	15	(279)	171	(638)
Income (loss) before income taxes	1,421	3,481	(948)	5,841
Provision for (benefit from) income taxes	704	1,982	(98)	2,229
<b>Net income (loss)</b>	<b>\$ 717</b>	<b>\$ 1,499</b>	<b>\$ (850)</b>	<b>\$ 3,612</b>
<b>PER SHARE DATA:</b>				
<b>Net income (loss) per common share</b>				
Basic	\$ 0.04	\$ 0.08	\$ (0.04)	\$ 0.19
Diluted	\$ 0.04	\$ 0.08	\$ (0.04)	\$ 0.19

**Weighted average number of shares**

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Basic	19,387	19,357	19,377	19,353
Diluted	19,556	19,488	19,377	19,488

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

**Table of Contents****QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES****Consolidated Balance Sheets****(In 000 s)****Unaudited**

	<b>September 30, 2008</b>	<b>December 31, 2007</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 23,443	\$ 9,711
Accounts receivable, net	106,352	99,081
Prepaid expenses	9,607	8,150
Deferred tax assets, net	20,483	20,483
Other	6,970	6,258
Total current assets	166,855	143,683
Property and equipment, net	154,178	121,992
Goodwill	173,143	173,575
Intangibles, net	23,124	24,167
Non-current deferred tax assets, net	17,095	16,203
Other assets	11,669	14,356
Total assets	\$ 546,064	\$ 493,976
<b>LIABILITIES, MINORITY INTEREST AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Current maturities of indebtedness	\$ 7,213	\$ 413
Current maturities of capital lease obligations	7,892	1,451
Accounts payable	17,485	17,428
Affiliates and independent owner-operators payable	16,349	12,597
Accrued expenses	30,008	25,957
Environmental liabilities	3,875	4,751
Accrued loss and damage claims	9,842	13,438
Income tax payable		555
Total current liabilities	92,664	76,590
Long-term indebtedness, less current maturities	371,671	343,575
Capital lease obligations, less current maturities	17,810	3,832
Environmental liabilities	6,636	6,418
Accrued loss and damage claims	13,831	18,474
Other non-current liabilities	13,652	15,954
Total liabilities	516,264	464,843
Commitments and contingencies - Note 9		
Minority interest in subsidiary	1,833	1,833
<b>SHAREHOLDERS EQUITY</b>		
Common stock, no par value; 29,000 shares authorized; 19,732 issued and 19,528 outstanding at September 30, 2008 and 19,334 issued and 19,176 outstanding at December 31, 2007	362,760	361,617

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Treasury stock, 204 and 158 shares at September 30, 2008 and December 31, 2007	(1,580)	(1,564)
Accumulated deficit	(126,996)	(126,146)
Stock recapitalization	(189,589)	(189,589)
Accumulated other comprehensive loss	(16,394)	(16,748)
Stock subscriptions receivable	(234)	(270)
<b>Total shareholders' equity</b>	<b>27,967</b>	<b>27,300</b>
Total liabilities, minority interest and shareholders' equity	\$ 546,064	\$ 493,976

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

**Table of Contents****QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES****Consolidated Statements of Shareholders' Equity****For the Nine Months Ended September 30, 2008 and 2007****Unaudited (In 000 s)**

	Shares of Common Stock	Shares of Treasury Stock	Common Stock	Treasury Stock	Accumulated Deficit	Stock Recapitalization	Accumulated Other Comprehensive Loss	Stock Purchase Warrants	Stock Subscription Receivables	Total Shareholders' Equity
Balance, December 31, 2006	19,210	(172)	\$ 359,995	\$ (1,527)	\$ (118,255)	\$ (189,589)	\$ (18,531)	\$ 21	\$ (340)	\$ 31,774
Net income					3,612					3,612
Issuance of restricted stock	47	11	(25)	25						
Forfeiture of restricted stock		(2)	11	(11)						
Amortization of restricted stock			253							253
Amortization of non-employee options			94							94
Amortization of stock options			880							880
Stock warrant exercise	79		21					(21)		
Stock option exercise	8	8	52	19						71
Acquisition of treasury stock		(3)		(70)					70	
FIN 48 Adjustment					(328)					(328)
Amortization of prior service costs, net of tax provision							70			70
Translation adjustment, net of tax provision							(314)			(314)
Balance, September 30, 2007	19,344	(158)	\$ 361,281	\$ (1,564)	\$ (114,971)	\$ (189,589)	\$ (18,775)	\$	\$ (270)	\$ 36,112
Balance, December 31, 2007	19,334	(158)	\$ 361,617	\$ (1,564)	\$ (126,146)	\$ (189,589)	\$ (16,748)	\$	\$ (270)	\$ 27,300
Net loss					(850)					(850)
Issuance of restricted stock	398									
Forfeiture of restricted stock		(45)								
Amortization of restricted stock			189							189
Amortization of non-employee options			94							94
Amortization of stock options			860							860

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Other stock transactions		(1)		(16)					36	20
Amortization of prior service costs and losses, net of tax						241				241
Translation adjustment, net of tax						113				113
Balance, September 30, 2008	19,732	(204)	\$ 362,760	\$ (1,580)	\$ (126,996)	\$ (189,589)	\$ (16,394)	\$	\$ (234)	\$ 27,967

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

**Table of Contents****QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES****Consolidated Statements of Cash Flows****(Unaudited - In 000 s)**

	<b>Nine Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net (loss) income	\$ (850)	\$ 3,612
Adjustments to reconcile to net cash and cash equivalents (used in) provided by operating activities:		
Deferred income tax (benefit) expense	(892)	848
Depreciation and amortization	15,435	12,960
Bad debt expense	1,000	792
(Gain) Loss on disposal of property and equipment	(2,832)	418
Stock based compensation	1,143	1,227
Amortization of deferred financing costs	2,235	1,375
Amortization of bond discount	825	182
Minority dividends	109	109
Changes in assets and liabilities:		
Accounts and other receivables	(7,915)	(9,228)
Prepaid expenses	2,692	(286)
Other assets	1,935	(87)
Accounts payable	1,830	(1,918)
Accrued expenses	4,050	5,754
Environmental liabilities	(658)	(1,270)
Accrued loss and damage claims	(8,239)	(6,500)
Affiliates and independent owner-operators payable	3,752	3,925
Other liabilities	(2,418)	939
Current income taxes	(537)	(551)
<b>Net cash provided by operating activities</b>	<b>10,665</b>	<b>12,301</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(14,967)	(7,368)
Acquisition of businesses and assets	(1,397)	(4,004)
Boasso purchase adjustment	1,318	
Proceeds from sales of property and equipment	4,598	5,471
<b>Net cash used in investing activities</b>	<b>(10,448)</b>	<b>(5,901)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of long-term debt	1,049	
Principal payments on long-term debt	(3,316)	(1,050)
Principal payments on capital lease obligations	(1,949)	(899)
Proceeds from revolver	110,700	35,700
Payments on revolver	(89,830)	(35,700)
Payments on acquisition notes	(631)	(321)
Deferred financing costs	(623)	(153)
Stock offering costs		(787)
Change in book overdraft	(1,782)	(70)
Minority dividends	(109)	(109)

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Other stock transactions	20	70
Net cash provided by (used in) financing activities	13,529	(3,319)
Effect of exchange rate changes on cash	(14)	59
Net increase in cash and cash equivalents	13,732	3,140
Cash and cash equivalents, beginning of period	9,711	6,841
Cash and cash equivalents, end of period	\$ 23,443	\$ 9,981

Supplemental Disclosure of Cash Flow Information

Cash paid during the year for:

Interest	\$ 20,308	\$ 19,055
Income Taxes	1,684	1,460

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

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**Table of Contents**

**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 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, 2007, including the consolidated financial statements and accompanying notes. Certain prior-period amounts have been reclassified to conform to the current year's presentation.

Operating results for the three and nine months ended September 30, 2008 are not necessarily indicative of the results that may be expected for the entire fiscal year.

**New Accounting Pronouncements**

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* ( SFAS 141R ). This statement significantly changes the financial accounting and reporting of business combination transactions. The provisions of this statement are to be applied prospectively to business combination transactions in the first annual reporting period beginning on or after December 15, 2008. The impact of adopting SFAS 141R will depend on the nature, terms and size of business combinations completed after the effective date.

In December 2007, the FASB issued 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. We are currently evaluating the impact of this standard on our consolidated financial statements.



**Table of Contents**

**QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES**

In April 2008 the FASB issued 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. We are currently evaluating the potential impact the adoption of FSP FAS 142-3 will have on our consolidated financial statements.

In May 2008, the FASB issued SFAS No.162, *The Hierarchy of Generally Accepted Accounting Principles* ( SFAS 162 ), which identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with U.S. GAAP. SFAS 162 is effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. We do not expect the adoption of SFAS 162 to have a material effect on our financial statements or related disclosures.

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 will not impact the Company's financial condition, results of operations or cash flows.

In June 2008, the Financial Accounting Standards Board ( FASB ) issued 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* . FSP EITF 03-6-1 is effective for the Company beginning December 1, 2009 and cannot be adopted early. All prior period earnings per share data presented in financial statements that are issued after the effective date shall be adjusted retrospectively to conform to the new guidance. We are currently evaluating the potential impact of the adoption of FSP EITF 03-6-1 will have 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.

**Table of Contents****QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES**

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***Acquisition of Boasso America Corporation*

On December 18, 2007, we acquired 100% of the stock of Boasso. The results of Boasso have been included in our results since the date of acquisition.

The purchase price of Boasso was initially allocated to the assets acquired and liabilities assumed according to their estimated fair values at the time of the acquisition. In April 2008, pursuant to the stock purchase agreement, and based on an evaluation of the net working capital as of the date of acquisition, approximately \$1.3 million was refunded to us. The allocation of the purchase price is as follows (in thousands):

Working capital, net of cash	\$ 8,312
Property and equipment	7,209
Other long-term assets	81
Non-compete agreements	400
Customer related intangibles	11,900
Tradename	9,800
Long-term debt and capital lease obligations	(4,512)
Deferred tax liabilities	(9,435)
Goodwill	29,983
	\$ 53,738

The customer-related intangible assets relate to acquired customer relationships, and are being amortized over a twelve-year weighted-average useful life on a straight-line basis. The tradename has an indefinite useful life. The allocation of the purchase price to the assets acquired and liabilities assumed may be subject to further adjustment. The goodwill acquired in this acquisition is not tax deductible, and has been allocated to the Container Services segment.

*Other Acquisitions*

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**

*Goodwill*

Under SFAS 142, Goodwill and Other Intangible Assets, goodwill is subject to an annual impairment test as well as impairment assessments of certain triggering events. SFAS 142 requires us to compare the fair value of the reporting

**Table of Contents****QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES**

unit to its carrying amount to determine if there is a potential impairment. If the fair value of the reporting unit is less than its carrying amount, an impairment loss is recorded to the extent the carrying amount of the goodwill within the reporting unit is greater than the implied fair value of goodwill.

We 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 September 30, 2008 and December 31, 2007, were \$173.1 million and \$173.6 million, respectively. In 2008, goodwill increased \$0.9 million due to the acquisition of three businesses offset by a decrease of \$1.3 million related to a purchase price adjustment based upon net working capital as of the date of the acquisition of Boasso.

*Intangible Assets*

Intangible assets at September 30, 2008 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	(744)	11,254	12
Non-compete agreements	3,053	(983)	2,070	3
	\$ 24,851	\$ (1,727)	\$ 23,124	5

Amortization expense for the nine months ended September 30, 2008 and 2007 was \$1.3 million and \$0.2 million, respectively. Remaining intangible assets will be amortized to expense as follows (in thousands):

2008 remaining	\$ 433
2009	1,665
2010	1,615
2011	1,439
2012 and after	8,172
Total	\$ 13,324

**2. Comprehensive Income (Loss)**

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Net income (loss)	\$ 717	\$ 1,499	\$ (850)	\$ 3,612
Other comprehensive income (loss):				
Amortization of prior service costs	112	23	241	70

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Foreign currency translation adjustments	53	(99)	113	(314)
Comprehensive income (loss)	\$ 882	\$ 1,423	\$ (496)	\$ 3,368

**Table of Contents****QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES****3. Income (Loss) Per Share**

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

	Three months ended			September 30, 2007		
	September 30, 2008		Per-share amount	September 30, 2007		Per-share amount
	Net income (numerator)	Shares (denominator)		Net income (numerator)	Shares (denominator)	
<b>Basic earnings available to common shareholders:</b>						
Net income	\$ 717	19,387	\$ 0.04	\$ 1,499	19,357	\$ 0.08
<b>Effect of dilutive securities:</b>						
Stock options		28			79	
Unvested restricted stock		141			48	
Stock units					4	

<b>Diluted earnings available to common shareholders:</b>						
Net income	\$ 717	19,556	\$ 0.04	\$ 1,499	19,488	\$ 0.08

	Nine months ended			September 30, 2007		
	September 30, 2008		Per-share amount	September 30, 2007		Per-share amount
	Net loss (numerator)	Shares (denominator)		Net income (numerator)	Shares (denominator)	
<b>Basic (loss) earnings available to common shareholders:</b>						
Net (loss) income	\$ (850)	19,377	\$ (0.04)	\$ 3,612	19,353	\$ 0.19
<b>Effect of dilutive securities:</b>						
Stock options					92	
Unvested restricted stock					39	
Stock units					4	

<b>Diluted (loss) earnings available to common shareholders:</b>						
Net (loss) income	\$ (850)	19,377	\$ (0.04)	\$ 3,612	19,488	\$ 0.19

There is no effect of our stock options and restricted stock in the computation of diluted earnings per share for the nine months ended September 30, 2008 due to a net loss.

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		Nine months ended	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Stock options	2,041	1,687	2,069	1,685

Unvested restricted stock

33

141

45

**Table of Contents****QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES****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 September 30, 2008, we have three 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 2008.

The fair value of options granted during the first nine months of 2008 and 2007 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 2008, 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:

	<b>2008</b>	<b>2007</b>
Risk free rate	3.21%	4.65%
Expected life	5 years	5 years
Volatility	67.3%	68.5%
Expected dividend	nil	nil

The following options and restricted shares were issued during the nine months ended September 30, 2008:

	<b>Options Issued</b>	<b>Restricted Shares Issued</b>
Quarter ended March 31, 2008	227,000	73,326
Quarter ended June 30, 2008	105,000	17,910
Quarter ended September 30, 2008	50,000	

On July 28, 2008, we issued options for 50,000 shares to our Chief Financial Officer. The exercise price of options granted was based on the fair market value of our stock at the date of the grant.

**Table of Contents****QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES**

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

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Stock options	\$ 319	\$ 306	\$ 868	\$ 974
Restricted stock	89	128	267	253
Stock units		(14)		
	\$ 408	\$ 420	\$ 1,135	\$ 1,227

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 September 30, 2008 (in thousands):

	In \$	Remaining years
Stock options	\$ 2,299	4
Restricted stock	650	4
	\$ 2,949	

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 nine months ended September 30, 2008.

**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 31<sup>st</sup> measurement date for both of our plans.

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

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Service cost	\$ 54	\$ 64	\$ 160	\$ 192
Interest cost	682	670	2,047	2,010
Amortization of prior service cost	23	23	70	70
Amortization of loss	88	104	265	312
Expected return on plan assets	(800)	(821)	(2,401)	(2,463)
Net periodic pension cost	\$ 47	\$ 40	\$ 141	\$ 121

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We have contributed \$0.9 million to our pension plans during the nine months ended September 30, 2008. The amount we expect to contribute during the remainder of 2008 is minimal.

**Table of Contents****QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES****6. Restructuring**

During the quarter ended June 30, 2008, we committed to a plan of restructure resulting in the termination of approximately 75 employees and certain contracts. As a result, we recorded a restructuring charge in the second quarter of \$2.4 million of which the majority related to our trucking segment. During the third quarter, we recorded a restructuring charge of \$1.7 million of which the majority related to our trucking segment for additional contract termination costs and related exit costs as we continued with our plan of restructure. As of September 30, 2008, approximately \$1.1 million was accrued related to the restructuring charges, which is expected to be paid through the remainder of 2008 and 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 nine months ended September 30, 2008, we had the following activity in our restructuring accruals:

	Balance at December 31, 2007	Additions	Payments	Reductions	Balance at September 30, 2008
Restructuring costs	\$	\$ 4,075	\$ (2,233)	\$ (756)	\$ 1,086

**7. Segment Reporting***Reportable Segments*

Prior to 2008, we reported our financial information as a single segment. Beginning January 1, 2008, 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 International Organization for Standardization, or ISO tank container transportation and depot services.

Due to the acquisition of Boasso in December 2007, we further enhanced our scope of services in the ISO tank container transportation and depot services market so that management now evaluates isolated revenues associated with these services and with trucking.

Segment revenues and operating income include the allocation of fuel surcharge. The operating income reported in our segments excludes amounts reported in Other operating income, such as corporate and other unallocated amounts. Corporate and unallocated amounts include depreciation and amortization, other gains and losses and restructuring costs. Although these amounts are excluded from the business segment results, they are included in reported consolidated earnings. Included in Other revenue 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.

**Table of Contents****QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES**

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

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Operating revenues:</b>				
Trucking	\$ 174,222	\$ 171,101	\$ 524,145	\$ 503,672
Container Services	22,660	2,538	66,930	7,042
Other revenue	17,859	18,542	56,129	54,272
<b>Total</b>	<b>214,741</b>	<b>192,181</b>	<b>647,204</b>	<b>564,986</b>
<b>Operating income:</b>				
Trucking	12,165	13,322	31,040	36,887
Container Services	3,125	(48)	7,198	(256)
Other operating income	513	2,068	3,576	4,780
<b>Total segment operating income</b>	<b>15,803</b>	<b>15,342</b>	<b>41,814</b>	<b>41,411</b>
Depreciation and amortization expense	5,207	4,468	15,435	12,960
Other (income) expense	833	219	1,243	418
<b>Total</b>	<b>9,763</b>	<b>10,655</b>	<b>25,136</b>	<b>28,033</b>
Interest expense	8,455	7,651	26,246	23,403
Interest income	(128)	(198)	(333)	(573)
Other expense (income)	15	(279)	171	(638)