QUALITY DISTRIBUTION INC
Form 10-Q
November 06, 2014
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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 September 30, 2014

or

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

For the transition period from __________ to __________

Commission File Number: 000-24180

Quality Distribution, Inc.

(Exact name of registrant as specified in its charter)

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

813-630-5826

(Registrant s telephone number, including area code)

N/A

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

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

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

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

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

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

As of November 3, 2014, the registrant had 28,059,053 shares of Common Stock, no par value, outstanding.

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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 September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
OPERATING REVENUES:				
Transportation	$ 186,102	$ 171,899	$ 539,959	$ 510,540
Service revenue	35,808	32,169	102,108	98,328
Fuel surcharge	36,580	31,603	106,509	95,521
Total operating revenues	258,490	235,671	748,576	704,389
OPERATING EXPENSES:				
Purchased transportation	174,674	153,153	505,978	446,405
Compensation	23,871	24,431	68,081	76,402
Fuel, supplies and maintenance	24,841	26,376	73,601	79,991
Depreciation and amortization	5,287	6,318	16,185	19,740
Selling and administrative	9,031	8,331	24,069	23,965
Insurance costs	5,636	4,607	16,620	13,477
Taxes and licenses	856	922	2,532	2,904
Communication and utilities	929	930	2,884	2,947
Gain on disposal of property and equipment	(125)	(1,014)	(1,838)	(2,512)
Impairment charges				55,692
Total operating expenses	245,000	224,054	708,112	719,011
Operating income (loss)	13,490	11,617	40,464	(14,622)
Interest expense	7,439	8,169	22,085	23,776
Interest income	(129)	(214)	(374)	(659)
Gain on early extinguishment of debt			(4,217)	
Write-off of debt issuance costs	422	521	422	521
Other income, net	(325)	(102)	(322)	(7,345)
Income (loss) before income taxes	6,083	3,243	22,870	(30,915)
Provision for (benefit from) income taxes	2,509	480	4,854	(11,675)
Net income (loss)	$ 3,574	$ 2,763	$ 18,016	$ (19,240)

PER SHARE DATA:				
Net income (loss) per common share				
Basic	$ 0.13	$ 0.10	$ 0.66	$ (0.73)
Diluted	$ 0.13	$ 0.10	$ 0.64	$ (0.73)
Weighted-average number of shares				
Basic	27,802	26,463	27,435	26,516
Diluted	28,281	27,146	27,983	26,516

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

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss)

Unaudited (In 000 s)

	Three months ended September 30,		Nine months ended September 30,	
	2014	**2013**	**2014**	**2013**
Net income (loss)	$ 3,574	$ 2,763	$ 18,016	$ (19,240)
Other comprehensive income:				
Amortization of prior service costs and losses	316	386	948	1,159
Foreign currency translation adjustment	137	(37)	104	54
Total other comprehensive income	453	349	1,052	1,213
Comprehensive income (loss)	$ 4,027	$ 3,112	$ 19,068	$ (18,027)

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

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

Unaudited (In 000 s)

	September 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,286	$ 1,957
Accounts receivable, net	146,501	120,932
Prepaid expenses	13,612	13,401
Deferred tax asset, net	27,630	20,709
Other current assets	11,087	9,919
Total current assets	201,116	166,918
Property and equipment, net	160,539	170,114
Assets held-for-sale	2,836	1,129
Goodwill	32,955	32,955
Intangibles, net	15,683	16,149
Non-current deferred tax asset, net	20,214	31,401
Other assets	6,290	8,583
Total assets	$ 439,633	$ 427,249
LIABILITIES AND SHAREHOLDERS DEFICIT		
Current liabilities:		
Current maturities of indebtedness	$ 10,614	$ 8,692
Current maturities of capital lease obligations	373	1,888
Accounts payable	11,929	10,248
Independent affiliates and independent owner-operators payable	21,987	14,398
Accrued expenses	37,690	30,580
Environmental liabilities	4,729	3,818
Accrued loss and damage claims	8,571	8,532
Total current liabilities	95,893	78,156
Long-term indebtedness, less current maturities	346,786	369,730
Capital lease obligations, less current maturities	253	2,995
Environmental liabilities	3,181	4,479
Accrued loss and damage claims	10,410	10,747
Other non-current liabilities	13,491	17,393
Total liabilities	470,014	483,500

Commitments and contingencies Note 14

SHAREHOLDERS DEFICIT				
Common stock, no par value; 49,000 shares authorized; 29,721 issued and 28,059 outstanding at September 30, 2014 and 28,779 issued and 27,203 outstanding at December 31, 2013		449,565		441,877
Treasury stock, 1,662 shares at September 30, 2014 and 1,576 shares at December 31, 2013		(11,443)		(10,557)
Accumulated deficit		(252,489)		(270,505)
Stock recapitalization		(189,589)		(189,589)
Accumulated other comprehensive loss		(26,425)		(27,477)
Total shareholders deficit		(30,381)		(56,251)
Total liabilities and shareholders deficit	$	439,633	$	427,249

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

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

Consolidated Statements of Shareholders Deficit

For the Nine Months Ended September 30, 2014 and 2013

Unaudited (In 000 s)

	Shares of Common Stock	Shares of Treasury Stock	Common Stock	Treasury Stock	Accumulated Deficit	Stock Recapitalization	Accumulated Other Comprehensive Loss	Stock Purchase Warrants	Total Shareholders Deficit
Balance, December 31, 2012	28,102	(879)	$ 437,192	$ (5,849)	$ (228,467)	$ (189,589)	$ (31,752)	$ 25	$ (18,440)
Net loss					(19,240)				(19,240)
Issuance of restricted stock	257								
Forfeiture of restricted stock		(45)		(26)					(26)
Amortization of restricted stock			1,277						1,277
Amortization of stock options			1,221						1,221
Stock option exercises	109		311						311
Purchases of treasury stock		(617)		(4,454)					(4,454)
Amortization of prior service costs and losses (pension plans), net of tax							1,159		1,159
Foreign currency translation adjustments, net of tax							54		54
Balance, September 30, 2013	28,468	(1,541)	$ 440,001	$ (10,329)	$ (247,707)	$ (189,589)	$ (30,539)	$ 25	$ (38,138)

Balance, December 31, 2013	28,779	(1,576)	$ 441,877	$ (10,557)	$ (270,505)	$ (189,589)	$ (27,477)	$	$ (56,251)
Net income					18,016				18,016
Issuance of restricted stock	19								
Forfeiture of restricted stock		(56)		(472)					(472)
Amortization of restricted stock			1,985						1,985
Amortization of stock options			750						750
Stock option exercises	923	(30)	4,953	(414)					4,539
Amortization of prior service costs and losses (pension plans), net of tax							948		948
Foreign currency translation adjustments, net of tax							104		104
Balance, September 30, 2014	29,721	(1,662)	$ 449,565	$ (11,443)	$ (252,489)	$ (189,589)	$ (26,425)	$	$ (30,381)

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)

	Nine Months Ended September 30,	
	2014	**2013**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 18,016	$ (19,240)
Adjustments to reconcile to net cash and cash equivalents provided by operating activities:		
Deferred income tax expense	8,181	(12,314)
Depreciation and amortization	16,185	19,740
Bad debt expense (recoveries)	513	(496)
Gain on disposal of property and equipment	(1,838)	(2,512)
Impairment charge		55,692
Gain on early extinguishment of debt	(4,217)	
Write-off of deferred financing costs	340	420
Write-off of bond discount	82	101
Stock-based compensation	2,735	2,489
Amortization of deferred financing costs	1,759	1,808
Amortization of bond discount	144	158
Release of deferred tax asset valuation allowance	(3,915)	(720)
Contingent consideration adjustment		(7,800)
Changes in assets and liabilities:		
Accounts and other receivables	(26,300)	(13,633)
Prepaid expenses	4,169	4,691
Other assets	(1,945)	209
Accounts payable	2,027	432
Independent affiliates and independent owner-operators payable	7,589	4,480
Accrued expenses	4,316	5,568
Environmental liabilities	(387)	(39)
Accrued loss and damage claims	(297)	1,283
Other liabilities	(2,426)	(1,074)
Current income taxes	200	108
Net cash provided by operating activities	24,931	39,351
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(29,659)	(19,156)
Acquisition purchase price adjustment		(857)
Onboarding payment to independent affiliate	(125)	(1,000)
Proceeds from sales of property and equipment	20,848	17,981

Net cash used in investing activities	(8,936)	(3,032)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt		17,500
Principal payments on long-term debt	(39,997)	(26,056)
Principal payments on capital lease obligations	(613)	(1,407)
Proceeds from revolver	269,122	163,600
Payments on revolver	(248,422)	(183,300)
Payments on acquisition notes	(200)	(443)
Deferred financing costs	(113)	(935)
Change in bank overdraft	(396)	(577)
Purchases of treasury stock		(4,454)
Proceeds from exercise of stock options	4,953	311
Net cash used in financing activities	(15,666)	(35,761)
Net increase in cash and cash equivalents	329	558
Cash and cash equivalents, beginning of period	1,957	2,704
Cash and cash equivalents, end of period	$ 2,286	$ 3,262
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for:		
Interest	$ 15,713	$ 17,171
Income Taxes	665	824

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

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

1. Summary of Significant Accounting Policies

Basis of Presentation

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

We operate the largest chemical bulk tank truck network in North America through QCI. We are the largest provider of intermodal ISO tank container and depot services in North America through Boasso. We provide logistics and transportation services to the unconventional oil and gas industry through QCER, including, with respect to the movement of, crude oil, fresh water and production fluids. We conduct a significant portion of our business through a network of independent affiliates and independent owner-operators. Independent affiliates are companies which enter into various term contracts with the Company. Independent affiliates are responsible for paying for their own power equipment (including debt service), fuel and other operating costs. Most of the independent affiliates lease trailers from us. Independent owner-operators are independent contractors who, through a contract with us, supply one or more tractors and drivers for our use. Contracts with independent owner-operators may be terminated by either party on short notice. We charge independent affiliates and third-parties for the use of tractors and trailers as necessary. In exchange for the services rendered, independent affiliates and independent owner-operators are normally paid a percentage of the revenues collected on each load hauled.

Our accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and do not include all of the information and notes required by accounting principles generally accepted in the United States (GAAP) for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments and accruals) considered necessary for a fair statement of consolidated financial position, results of operations and cash flows have been included. The year ended December 31, 2013 consolidated balance sheet data was derived from our audited financial statements, but does not include all the disclosures required by GAAP. For further information, refer to our Annual Report on Form 10-K for the year ended December 31, 2013, including the consolidated financial statements and accompanying notes.

Operating results for the three and nine months ended September 30, 2014 are not necessarily indicative of the results that may be expected for any future period.

New Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board (FASB) issued an update to authoritative guidance related to disclosure of uncertainties about an entity s ability to continue as a going concern. The amendments in this update require management to assess an entity s ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. Specifically, the amendments (1) provide a definition of the term substantial doubt, (2) require an evaluation every reporting period including interim periods, (3) provide principles for considering the mitigating effect of management s plans, (4) require certain disclosures when substantial doubt is alleviated as a result of consideration of management s plans, (5) require an express statement and other disclosures when substantial doubt is not alleviated, and (6) require an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). The guidance is effective for annual periods ending December 31, 2016 and early adoption is permitted. The Company does not expect this guidance to have a material impact on our consolidated financial statements.

In June 2014, the FASB issued an update to authoritative guidance related to accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. The guidance will be effective beginning January 1, 2016 and it is not expected to have a material impact on our consolidated financial statements.

In May 2014, the FASB issued an accounting pronouncement related to revenue recognition, which amends the prior guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. Principles apply to the measurement of revenue and timing of its recognition. The new standard requires entities to recognize revenue to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration at which the entity expects to be entitled to in exchange for those goods or services. This pronouncement is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and early adoption is not permitted. The Company is currently evaluating the impact of this pronouncement.

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In April 2014, the FASB issued authoritative guidance, which specifies that only disposals representing a strategic shift in operations, such as a disposal of a major line of business, should be presented as discontinued operations. In addition, the new guidance requires expanded disclosures for discontinued operations, including disclosure of pre-tax profit or loss of an individually significant component of an entity that does not qualify for discontinued operations reporting. This guidance is effective for the Company prospectively in the first quarter of fiscal 2016. Principles of the new guidance are not applicable to a component that is classified as held for sale before the effective date even if disposed of after the effective date. As the accounting standard will only impact presentation, the new standard will not have an impact on the Company s financial position, results of operations, or cash flows.

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

Acquisitions and Dispositions

During 2013 and the nine months ended September 30, 2014, we did not complete any acquisitions or dispositions of businesses or independent affiliates.

2. Variable Interest Entities

At September 30, 2014 and December 31, 2013, we have a variable interest in one variable interest entity (VIE), for which we are not the primary beneficiary. We have concluded, based on our qualitative consideration of our contracts with the VIE, the operating structure of the VIE and our role with the VIE, that we do not have the power to direct the activities that most significantly impact their economic performance. Therefore, we are not required to consolidate the operations of this VIE.

This VIE is an independent affiliate that is directly engaged in the dry bulk and chemical transportation business through the management of trucking terminals in the North East region of the U.S. We are involved with this VIE as a non-controlling interest. Our maximum exposure to loss as a result of our involvement with this unconsolidated VIE is limited to our recorded loans receivable which aggregated approximately $3.8 million and $3.2 million at September 30, 2014 and December 31, 2013, respectively. These loans are secured by second-priority liens on certain assets of the VIE.

3. Fair Value of Financial Instruments

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

Level 1 Quoted prices for identical instruments in active markets;

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

Level 3 Instruments whose significant inputs are unobservable.

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

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Fair Value Measurements on a Nonrecurring Basis

The fair value of our long-term indebtedness is based on Level 2 quoted market prices. As of September 30, 2014, the carrying value and fair value are as follows (in thousands):

	Carrying Value	Fair Value
9.875% Second-Priority Senior Secured Notes due 2018 (2018 Notes)	$ 180,000	$ 189,450

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

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

4. Goodwill and Intangible Assets

Goodwill

Under the FASB guidance, goodwill and intangible assets are subject to an annual impairment test as well as impairment assessments of certain triggering events. We evaluate goodwill for impairment by determining the fair value based on criteria in the FASB guidance for each reporting unit. Our chemical and intermodal reporting units contain goodwill and other identifiable intangible assets as a result of previous business acquisitions. Our energy logistics reporting unit contains no goodwill. Our annual impairment test is performed during the second quarter with a measurement date of June 30th. For our intermodal and chemical logistics reporting units, we conducted our analysis under the revised goodwill impairment rules in which we qualitatively assessed whether it was more likely than not that the respective fair value of this reporting unit was less than the carrying amount. We considered various qualitative factors, including macroeconomic conditions, relevant industry and market trends, cost factors, overall financial performance, other entity-specific events and events affecting the reporting unit that could indicate a potential change in the fair value of our reporting unit or the composition of its carrying values. We also considered the specific future outlook for the reporting unit based on our most recent forecasts. We determined that impairment in intermodal or chemical logistics reporting units was not likely and thus we were not required to perform a quantitative analysis. In addition, there were no indicators that a triggering event in our intermodal or chemical logistics reporting units had occurred as of the quarter ending September 30, 2014.

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

	September 30, 2014	December 31, 2013
Intermodal	$ 31,410	$ 31,410
Chemical Logistics	1,545	1,545
Total	$ 32,955	$ 32,955

Intangible Assets

In 2014, our intangible assets included a tradename, customer relationships and non-compete agreements. We performed our annual impairment test in the second quarter of fiscal 2014 for the indefinite-lived intangible assets related to a tradename of approximately $7.4 million in the intermodal reporting unit as of June 30, 2014. We conducted our analysis under the revised intangibles goodwill and other impairment rules in which we qualitatively assessed whether it was more likely than not that the respective fair value of this indefinite-lived asset was less than the carrying amount. We considered various qualitative factors, including macroeconomic conditions, relevant industry and market trends, cost factors, overall financial performance, other entity-specific events and events that could indicate a potential change in the fair value of indefinite-lived assets or the composition of its carrying values. We determined that impairment of the indefinite-lived assets was not likely and thus we were not required to perform a quantitative analysis. In addition, there were no indicators that a triggering event in our intermodal reporting unit had occurred as of the quarter ending September 30, 2014.

Our long-lived assets including revenue earning equipment, operating property and equipment and intangible assets with finite lives, are tested for recoverability when events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. Based upon management s review of the value of the finite-lived intangible assets in our intermodal and energy logistics reporting units, we determined that no indicators of impairment existed as of September 30, 2014.

There were no indicators that a triggering event in our intermodal or energy logistics reporting units had occurred as of the quarter ended September 30, 2014.

Intangible assets at September 30, 2014 are as follows (in thousands):

	Gross Book Value	2014 Additions (1)	Accumulated Amortization	Net Book Value	Average Lives (in years)
Tradename Intermodal	$ 7,400	$	$	$ 7,400	Indefinite
Customer relationships Intermodal and Energy Logistics	14,260	600	(7,267)	7,593	10-12
Non-compete agreements Intermodal and Energy Logistics	1,620		(930)	690	3-6
	$ 23,280	$ 600	$ (8,197)	$ 15,683	

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

Of the net book value of intangibles of approximately $15.7 million at September 30, 2014, $14.5 million was allocated to our intermodal reporting unit and approximately $1.2 million was allocated to our energy logistics reporting unit.

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

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

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

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

Amortization expense for the three months ended September 30, 2014 and 2013 was $0.4 million and $1.0 million, respectively. Amortization expense for the nine months ended September 30, 2014 and 2013 was $1.1 million and $3.1 million, respectively. Estimated amortization expense for intangible assets is as follows (in thousands):

2014 remaining	$ 364
2015	1,478
2016	1,473
2017	1,398
2018	1,278
2019 and thereafter	2,292
Total	$ 8,283

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5. Long-term Indebtedness

Term Loan Facility

On June 14, 2013, our ABL Facility was amended to provide for a new $17.5 million senior secured term loan facility (Term Loan) which was fully funded on July 15, 2013. Borrowings under the Term Loan bear interest at a margin equal to 2.50% for base rate borrowings and 3.50% for LIBOR borrowings, with a potential step-down of 0.25% after 18 months if a senior secured leverage ratio is met. Obligations under the Term Loan mature on the earlier of June 14, 2016 or the date on which the ABL Facility terminates. Beginning no earlier than the 12-month anniversary of the Term Loan and no later than the 24-month anniversary of the Term Loan, we will be subject to mandatory repayment of the principal amount of the Term Loan in equal quarterly payments for the remainder of the maturity period. We currently estimate that repayments will begin in the second quarter of 2015. Borrowing availability under our ABL Facility was expanded to include additional eligible accounts receivable and tractor and trailer equipment in conjunction with the new borrowing. We may voluntarily repay the outstanding amount under the Term Loan at any time without premium or penalty, other than customary breakage costs with respect to the LIBOR loans. As of September 30, 2014 and December 31, 2013, the balance of the Term Loan was $17.5 million. The interest rate on borrowings under the Term Loan at September 30, 2014 and December 31, 2013 was 3.7%.

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

June 2014 5% Subordinated Notes

As part of the consideration we paid for a 2012 acquisition, we issued promissory notes in an aggregate principal amount of $21.3 million (the Acquisition Notes). The Acquisition Notes contained a fixed interest rate of 5.0% per annum, had a maturity date of June 1, 2017 and were unsecured and subordinated. On November 12, 2013, we made optional principal payments of $2.1 million. On June 12, 2014, we extinguished the remaining principal balance of the Acquisition Notes of $19.2 million at a discount for $15.0 million in cash. As a result of this transaction, we recognized a gain on early extinguishment of debt of $4.2 million for the three months ended June 30, 2014. The cash payment on the Acquisition Notes was funded with proceeds from borrowings under our existing ABL Facility and cash on hand.

July 2014 Notes Redemption

On July 16, 2014, we redeemed a portion of our 9.875% Second-Priority Senior Secured Notes due 2018 (2018 Notes) in the aggregate principal amount of $22.5 million. The redemption price for these 2018 Notes equaled 100% of the aggregate principal amount of $22.5 million, plus accrued but unpaid interest up to the redemption date, plus a 3.0% premium of $0.7 million. The redemption was funded with borrowings under our ABL Facility and cash on hand. In the third quarter of 2014, $0.4 million of unamortized debt issuance costs related to this redemption were written off.

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6. Income (Loss) Per Share

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

	Three months ended					
	September 30, 2014			September 30, 2013		
	Net income (numerator)	Shares (denominator)	Per-share amount	Net income (numerator)	Shares (denominator)	Per-share amount
Basic income available to common shareholders:	$ 3,574	27,802	$ 0.13	$ 2,763	26,463	$ 0.10
Effect of dilutive securities:						
Stock options		328			517	
Unvested restricted stock		84			157	
Unvested restricted stock units		67				
Stock warrants					9	
Diluted income available to common shareholders:	$ 3,574	28,281	$ 0.13	$ 2,763	27,146	$ 0.10

	Nine months ended					
	September 30, 2014			September 30, 2013		
	Net income (numerator)	Shares (denominator)	Per-share amount	Net loss (numerator)	Shares (denominator)	Per-share amount
Basic income (loss) available to common shareholders:	$ 18,016	27,435	$ 0.66	$ (19,240)	26,516	$ (0.73)
Effect of dilutive securities:						
Stock options		390				
Unvested restricted stock		122				
Unvested restricted stock units		36				
Diluted income (loss) available to common shareholders:	$ 18,016	27,983	$ 0.64	$ (19,240)	26,516	$ (0.73)

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

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Stock options	747	1,914	685	1,970
Unvested restricted stock	110	282	72	327

Unvested restricted stock units	501	532

7. Stock-Based Compensation

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

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

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We apply the Black-Scholes valuation model in determining the fair value of share-based payments to employees. The resulting compensation expense is recognized over the requisite service period, which is generally the vesting term of two to four years. Compensation expense is recognized only for those awards expected to vest, with forfeitures estimated based on our historical experience and future expectations. All stock-based compensation expense is classified within compensation in the Consolidated Statements of Operations.

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, 2014 (in thousands):

		Remaining years
Restricted stock units	$ 5,575	2.5
Stock options	1,138	1.8
Restricted stock	1,083	1.7
	$ 7,796	

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

8. Employee Benefit Plans

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

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Service cost	$ 41	$ 41	$ 124	$ 124
Interest cost	503	463	1,509	1,390
Amortization of prior service cost	24	24	70	71
Amortization of loss	292	362	878	1,088
Expected return on plan assets	(642)	(584)	(1,925)	(1,753)
Net periodic pension cost	$ 218	$ 306	$ 656	$ 920

We contributed $2.8 million to our pension plans during the nine months ended September 30, 2014. We expect to contribute an additional $0.4 million during the remainder of 2014.

Multi-employer pension plans

At September 30, 2014, we contributed to three separate multi-employer pension plans for employees under collective bargaining agreements. These agreements cover approximately 3.2% of our total workforce, including our independent affiliates employees and independent owner-operators providing service to us. These multi-employer pension plans provide defined benefits to retired participants. We do not directly or indirectly manage any of these multi-employer pension plans. Trustees, half of whom are appointed by the International Brotherhood of Teamsters (the Teamsters) and half of whom various contributing employers appoint, manage the trusts covering these plans. Our collective bargaining agreements with the Teamsters determine the amounts of our ongoing contributions to these plans.

We do not currently intend to withdraw from the three multi-employer pension plans or take any actions that we are not entitled to take that would subject us to payment of contingent obligations upon withdrawal from such plans. Based on information provided to us from the trustees of these plans, we estimate our portion of the contingent liability in the case of a full withdrawal or termination from these plans to be approximately $85.6 million, of which $79.8 million relates to the Central States Southeast and Southwest Areas Pension Plan.

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

9. Accumulated Other Comprehensive Loss

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	**2013**	**2014**	**2013**
Foreign currency translation				
Beginning balance	$ (1,094)	$ (1,089)	$ (1,061)	$ (1,180)
Net (loss) gain on foreign currency translation, net of tax	137	(37)	104	54
Ending balance	$ (957)	$ (1,126)	$ (957)	$ (1,126)
Pension benefits				
Beginning balance	$ (25,784)	$ (29,799)	$ (26,416)	$ (30,572)
Amortization of prior service cost	24	24	70	71
Amortization of loss	292	362	878	1,088
Ending balance	$ (25,468)	$ (29,413)	$ (25,468)	$ (29,413)
Total AOCL ending balance	$ (26,425)	$ (30,539)	$ (26,425)	$ (30,539)

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

Reclassifications out of accumulated other comprehensive loss were nominal.

10. Restructuring

We account for restructuring costs associated with one-time termination benefits, costs associated with lease and contract terminations and other related exit activities in accordance with FASB s guidance. We previously made estimates of the costs to be incurred as part of a restructuring plan developed during 2008 and concluded at the end of 2010. The restructuring plan consisted of various actions including termination of approximately 380 non-driver positions and the consolidation, closure or affiliation of underperforming company-operated terminals, our withdrawal

from three multi-employer pension plans and costs associated with the consolidation of our corporate headquarters, and resulted in charges during 2008, 2009 and 2010, primarily related to our chemical logistics segment. As of September 30, 2014, we have approximately $1.1 million of restructuring charges included in accrued expenses on the Consolidated Balance Sheet which are expected to be paid through 2017.

In the nine months ended September 30, 2014, we had the following activity in our restructuring accrual (in thousands):

	Balance at December 31, 2013	Payments	Balance at September 30, 2014
Restructuring costs	$ 1,582	$ (487)	$ 1,095

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11. Segment Reporting

Reportable Segments

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

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

- Energy Logistics, which consists primarily of the transportation of fresh water, disposal water and crude oil for the unconventional oil and gas (UCO&G) market, through our network of company-operated terminals and terminals operated by 4 independent affiliates, and equipment rental income; and

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

Segment operating income reported in our segment tables excludes amounts such as depreciation and amortization, gains and losses on disposal of property and equipment, restructuring costs and impairment charges. Although these amounts are excluded from the reportable business segment operating income results, they are included in our reported Consolidated Statements of Operations. We have not provided specific asset information by segment, as it is not regularly provided to our chief operating decision maker for review.

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

	Three Months Ended September 30, 2014				
	Chemical Logistics	Energy Logistics	Intermodal	Shared Services	Total
Operating Revenues:					
Transportation	$ 125,756	$ 39,469	$ 20,877	$	$ 186,102
Service revenue	18,404	2,566	14,360	478	35,808
Fuel surcharge	30,077	1,127	5,376		36,580
Total operating revenues	174,237	43,162	40,613	478	258,490
Segment operating income (loss)	20,245	2,015	7,832	(11,440)	18,652

Depreciation and amortization	2,398	2,003	844	42	5,287
(Gain) loss on disposal of property and equipment	(1,256)	1,131			(125)
Operating income (loss)	19,103	(1,119)	6,988	(11,482)	13,490
Interest expense	1,813	4,106	1,512	8	7,439
Interest income	(122)	(7)			(129)
Other (income) expense	(325)			422	97
Income (loss) before income taxes	$ 17,737	$ (5,218)	$ 5,476	$ (11,912)	$ 6,083

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	Three Months Ended September 30, 2013				
	Chemical Logistics	Energy Logistics	Intermodal	Shared Services	Total
Operating Revenues:					
Transportation	$ 112,704	$ 40,819	$ 18,376	$	$ 171,899
Service revenue	17,417	2,264	12,359	129	32,169
Fuel surcharge	27,049		4,554		31,603
Total operating revenues	157,170	43,083	35,289	129	235,671
Segment operating income (loss)	19,892	2,432	5,417	(10,820)	16,921
Depreciation and amortization	2,743	2,603	854	118	6,318
(Gain) loss on disposal of property and equipment	(2,602)	1,648	(15)	(45)	(1,014)
Operating income (loss)	19,751	(1,819)	4,578	(10,893)	11,617
Interest expense	2,558	4,077	1,515	19	8,169
Interest income	(214)				(214)
Other (income) expense	(578)			997	419
Income (loss) before income taxes	$ 17,985	$ (5,896)	$ 3,063	$ (11,909)	$ 3,243

	Nine Months Ended September 30, 2014				
	Chemical Logistics	Energy Logistics	Intermodal	Shared Services	Total
Operating Revenues:					
Transportation	$ 363,951	$ 115,796	$ 60,212	$	$ 539,959
Service revenue	53,359	6,639	41,135	975	102,108
Fuel surcharge	87,411	3,642	15,456		106,509
Total operating revenues	504,721	126,077	116,803	975	748,576
Segment operating income (loss)	59,610	7,461	20,504	(32,764)	54,811
Depreciation and amortization	7,270	6,188	2,498	229	16,185
(Gain) loss on disposal of property and equipment	(3,273)	1,454	(19)		(1,838)
Operating income (loss)	55,613	(181)	18,025	(32,993)	40,464
Interest expense	5,091	12,425	4,537	32	22,085
Interest income	(356)	(18)			(374)
Other income	(322)			(3,795)	(4,117)
Income (loss) before income taxes	$ 51,200	$ (12,588)	$ 13,488	$ (29,230)	$ 22,870

	Nine Months Ended September 30, 2013				
	Chemical Logistics	Energy Logistics	Intermodal	Shared Services	Total
Operating Revenues:					
Transportation	$ 334,978	$ 120,321	$ 55,241	$	$ 510,540
Service revenue	50,420	8,685	38,782	441	98,328
Fuel surcharge	81,500	273	13,748		95,521
Total operating revenues	466,898	129,279	107,771	441	704,389
Segment operating income (loss)	61,326	9,991	18,749	(31,768)	58,298
Depreciation and amortization	8,390	8,496	2,490	364	19,740
Impairment charges (1)		55,692			55,692
(Gain) loss on disposal of property and equipment	(3,397)	3,244	59	(2,418)	(2,512)
Operating income (loss)	56,333	(57,441)	16,200	(29,714)	(14,622)
Interest expense	7,329	11,849	4,530	68	23,776
Interest income	(659)				(659)
Other (income) expense	(1,021)	(6,800)		997	(6,824)
Income (loss) before income taxes	$ 50,684	$ (62,490)	$ 11,670	$ (30,779)	$ (30,915)

(1) Includes an impairment charge of $55.2 million of goodwill and $0.5 million of intangible assets related to our energy logistics reporting unit.

12. Income Taxes

At December 31, 2013, we had approximately $2.5 million of total gross unrecognized tax benefits. Of this total, $1.3 million (net of federal benefit on state tax issues) represents the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in any future periods.

Included in the balance of total gross unrecognized tax benefits at December 31, 2013 was less than $0.1 million related to tax positions for which it was reasonably possible that the total amounts could significantly change during the next twelve months due to expiration of the applicable statute of limitations.

For the three months ended September 30, 2014, the net change to our total gross unrecognized tax benefit was a decrease of $0.2 million. Our total gross unrecognized tax benefit at September 30, 2014 was $2.2 million. This represents the total of our unrecognized tax benefits (not including interest and penalties).

Our continuing practice is to recognize interest and/or penalties related to income tax matters in income tax expense. We had $0.5 million (net of federal tax benefit) accrued for interest and $0.2 million accrued for penalties at December 31, 2013. The total amount accrued for interest and penalties at September 30, 2014 was $0.6 million.

We are subject to income tax in the U.S., Canada, and Mexico, as well as in multiple state jurisdictions. We believe we are no longer subject to U.S. federal income tax examinations for the years before 2009, to international

examinations for years before 2009 and, with few exceptions, to state examinations before 2009.

The effective tax rates for the three months ended September 30, 2014 and 2013 were 41.3% and 14.8%, respectively. The effective tax rate for the current quarter differed from our statutory rate primarily due to an unfavorable state tax adjustment. The effective tax rate for the same period in 2013 differed from our statutory rate primarily due to a favorable state tax adjustment. The effective tax rates for the nine months ended September 30, 2014 and 2013 were 21.2% and 37.8%, respectively. The effective tax rates for the nine months ended September 30, 2014 and 2013 differed from our statutory rate due to partial releases of the foreign tax credit valuation allowance.

13. Share Repurchase Program

On November 20, 2012, we announced a share repurchase program pursuant to which our Board of Directors authorized the repurchase of up to $15.0 million in shares of our common stock in an open-ended repurchase program (the Repurchase Program). The Repurchase Program does not have an expiration date. Stock has been, and may in the future be, purchased pursuant to the Repurchase Program, from time to time, in the open market or through private transactions, subject to market conditions. Subject to applicable laws, repurchases under the Repurchase Program may be made at such times and in such amounts as we deem appropriate and may be made pursuant to Rule 10b5-1. We are not obligated to purchase any shares under the Repurchase Program and it can be discontinued at any time that we feel additional purchases are not warranted. As of September 30, 2014, we have repurchased approximately 1.2 million shares valued at $8.1 million under the Repurchase Program, with the authority to repurchase an additional $6.9 million of shares.

14. Commitments and Contingencies

Environmental Matters

It is our policy to comply with all applicable environmental, safety, and health laws. We also are committed to the principles of Responsible Care®, an international chemical industry initiative to enhance the industry s responsible management of chemicals. We have obtained independent certification that our chemical logistics management system is in place and functions according to professional standards, and we continue to evaluate and continuously improve our Responsible Care® Management System performance. Our current activities involve the handling, transportation and storage of bulk chemicals, both liquid and dry, wastewater from oil and gas wells and crude oil, which in many cases are classified as hazardous materials or hazardous substances. The energy logistics business operates disposal wells for non-conventional oil drilling wastewater. In addition, our former tank wash business (which was sold in 2009) and the remaining limited tank wash activities we continue to conduct, involve the generation, storage, discharge and disposal of wastes that may contain hazardous substances. As such, we and others who operate in our industry are subject to environmental, health and safety laws and regulation by U.S. federal, state and local agencies as well as foreign governmental authorities. Environmental laws and regulations are complex, and address emissions to the air, discharge onto land or water, and the generation, handling, storage, transportation, treatment and disposal of waste materials. These laws change frequently and generally require us to obtain and maintain various licenses and permits. Environmental laws have tended to become more stringent over time, and most provide for substantial fines and potential criminal sanctions for violations. Some of these laws and regulations are subject to varying and conflicting interpretations. Under certain of these laws, we could also be subject to allegations of liability for the activities of our independent affiliates or independent owner-operators.

We are potentially subject to strict joint and several liability for investigating and rectifying the consequences of spills and other releases of such substances. From time to time, we have incurred remedial costs and regulatory penalties with respect to chemical or wastewater spills and releases at our facilities and on the road, and, notwithstanding the existence of our environmental management program, we cannot: (1) assure that such obligations will not be incurred in the future, (2) predict with certainty the extent of future liabilities and costs under environmental, health, and safety laws, or (3) assure that such liabilities will not result in a material adverse effect on our business, financial condition, operating results or cash flow. We have established reserves for remediation expenses at known contamination sites when it is probable that such efforts will be required of us and the related expenses can be reasonably estimated. We have also incurred in the past, and expect to incur in the future, expenditures related to environmental compliance; however, we do not anticipate that compliance with existing environmental laws will have a material adverse effect on our earnings or competitive position.

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Reserves

Our policy is to accrue remediation expenses when it is probable that such efforts will be required and the related expenses can be reasonably estimated. Estimates of costs for future environmental compliance and remediation may be impacted by such factors as changes in environmental laws and regulatory requirements, the availability and application of technology, the identification of currently unknown potential remediation sites and the allocation of costs among the potentially responsible parties under the applicable statutes. Our reserves for environmental compliance and remediation are adjusted periodically as remediation efforts progress or as additional technical or legal information becomes available. It is difficult to quantify with certainty the potential financial impact of actions regarding expenditures for environmental matters, particularly remediation, and future capital expenditures for environmental control equipment. Nevertheless, based upon the information currently available, we believe that our ultimate liability arising from such environmental matters, taking into account the reserves described below, should not be material to our business or financial condition. As of September 30, 2014 and December 31, 2013, we had reserves in the amount of approximately $7.9 million and $8.3 million, respectively, for all environmental matters, of which the most significant are presented and discussed below.

	Number of Sites		Reserves (in millions)	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
Multi-party sites	16	17	$ 1.6	$ 2.1
Sole party major sites:				
Bridgeport, New Jersey	1	1	4.1	3.6
William Dick, Pennsylvania	1	1	0.4	0.7
Other Properties	7	7	1.8	1.9
Total	25	26	$ 7.9	$ 8.3

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

Changes to the environmental reserves are reflected in our Consolidated Statements of Operations within the Selling and administrative category.

Property Contamination Liabilities

We have been named as (or are alleged to be) a potentially responsible party under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (CERCLA) and similar state laws at 25 sites at September 30, 2014.

Multi-Party Sites

At 16 of the 25 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 2 of the 16 sites, we have explicitly denied any liability and since there has been no subsequent demand for payment, we have not established a reserve for these matters. At 4 of

the 16 sites, we have received notices about our potential liability; however, we do not have enough information upon which to estimate our potential liability at this time, and as a result we have not established a reserve for these matters. At 9 of the 16 sites, 1 is in settlement discussions, 4 are in long-term operation and maintenance, and 4 are in various stages of remedial investigation or remedial action work.

At one of the 16 sites, we are one of approximately seventy companies party to a May 2007 Administrative Order on Consent (AOC) with the U.S. Environmental Protection Agency (USEPA) to perform a Remedial Investigation/Feasibility Study (RI/FS) of the contaminants in the lower seventeen mile stretch of the Passaic River, known as the Lower Passaic River Study Area. The RI/FS is ongoing and has not been completed. Sampling results indicate that the primary contaminants of concern in the river are dioxin, mercury and PCBs. Separately, in April 2014, USEPA released its Focused Feasibility Study (the FFS) with its proposed plan for an interim remedy of the lower eight miles of the Lower Passaic River Study Area. The USEPA s preferred plan in the FFS would involve dredging the river bank to bank and installing an engineered cap. USEPA accepted public comments on the FFS through August 20, 2014 and the comment period is now closed. The AOC for the RI/FS does not obligate us to fund or perform any remedial action contemplated by the FFS or any permanent remedy that may be recommended in the RI/FS. There are many uncertainties associated with the final cost and allocation of potential liability for any remedial actions on the river and the Company cannot reliably estimate its portion of the final costs for this matter at this time. In addition, we have found no evidence that the

Company s operations at this location contributed any contaminants of concern to the river. The Company believes that the evidence developed so far indicates that companies other than ours are responsible for substantially all of the remediation that may be ultimately required. We have set reserves for only our share of the costs of the RI/FS and a small dredging and capping project at River Mile 10 performed by the seventy companies, that has now been completed, except for operations and maintenance of less than $0.1 million. The Company will vigorously defend itself in this matter.

We have estimated future expenditures for these 16 multi-party environmental matters to be in the range of $1.6 million to $3.8 million. As of September 30, 2014, we have reserved $1.6 million.

Sole Party Major Sites

At 9 of the 25 sites, we are alleged to be the only responsible party and are in the process of conducting investigations and/or remediation projects. Six of these projects relate to operations conducted by CLC and its subsidiaries prior to our acquisition of CLC in 1998. These six sites are: (1) Bridgeport, New Jersey; (2) William Dick, Pennsylvania; (3) Tonawanda, New York; (4) Scary Creek, West Virginia; (5) Charleston, West Virginia; and (6) East Rutherford, New Jersey. The remaining three sites relate to investigations and potential remediation that were triggered by the New Jersey Industrial Site Recovery Act (ISRA), which requires such investigations and remediation following the sale of industrial facilities. Each of these 6 CLC sites is discussed in more detail below. We have estimated future expenditures for these 9 properties to be in the range of $6.3 million to $16.7 million. As of September 30, 2014, we have reserved $6.3 million.

Bridgeport, New Jersey

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

The groundwater treatment remedy negotiated with USEPA required us to construct a treatment facility for in-place treatment of groundwater contamination and a local discharge which was completed in early 2007. After various start-up issues, the treatment facility began long-term operations in July 2011 and is in the operations and maintenance phase. The plant appears to be performing in accordance with its design criteria and meeting permit requirements. Based on the second annual groundwater report, contamination does not appear to be completely delineated and a limited number of additional monitoring wells are expected to be installed. Wetlands contamination has been remediated with localized restoration completed. Monitoring of the restored wetlands is required by USEPA and is on-going. USEPA has requested additional monitoring through 2017. In regard to contaminated soils, USEPA finalized the feasibility study and issued a record of decision in 2009 for the limited areas that show contamination and warrant additional investigation or work. We entered into a consent order with USEPA in 2010 to perform the remediation work, which will consist primarily of in-place thermal treatment. In late 2012, USEPA concluded that our additional required site investigation work for delineation purposes was complete. We have finished the preliminary engineering design phase, the 95% design and the 100% design report for the thermal treatment of contaminated soils. The final design includes limited groundwater extraction with treatment through the existing plant. Comments from USEPA on the 100% thermal design report have been received and substantially addressed. We plan to amend the design to address the additional limited groundwater extraction and treatment needed. The project is now entering the pre-construction site activity phase for the thermal remediation, which includes application for certain NJDEP permits to perform the work. We have estimated aggregate expenditures for the Bridgeport location to be in the range of $4.1 million to $8.5 million. As of September 30, 2014, we have reserved $4.1 million.

William Dick, Pennsylvania

CLC entered into a consent order with the Pennsylvania Department of Environmental Protection and USEPA in 1995 to provide a replacement water supply to area residents, treat contaminated groundwater, and perform remediation of contaminated soils at this former wastewater disposal site. The replacement water supply is complete. We completed construction of an interim remedy that consisted of a groundwater treatment facility with local discharge in 2007 and the treatment facility began operations in 2010. In order to negotiate a final long term groundwater remedy with USEPA, a feasibility study work plan was submitted to the Agency during the quarter ended September 30, 2014. Although initial soil treatment was completed in 2007, test results indicated that soil clean-up objectives were not fully achieved in both shallow and deep soil subzones. Soil piles generated from previous isolated discrete removal actions were subsequently treated on-site. During 2013, we received notification from USEPA that this work is considered complete and the treated soil was used as backfill at the site. The fieldwork for further limited soil remediation consisting of targeted in-situ chemical treatment of the deep soil subzones at the site has been concluded, and no further remediation work in the deep soil subzones is expected. Targeted in-situ chemical treatment of the shallow soil subzone was recently performed, which completes the soils remediation work for this area and at the site. On September 30, 2014, USEPA confirmed completion of the construction phase of the remedy and the operation of the remedy as intended. This completes the remedial action work for the soils operable unit in accordance with the approved remedial design. We have estimated aggregate expenditures for the William Dick location to be in the range of $0.4 million to $3.4 million. As of September 30, 2014, we have reserved $0.4 million.

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Other Properties

Tonawanda, New York: CLC entered into a consent order with the New York Department of Environmental Conservation (NYSDEC) in 1999 obligating it to perform soil and groundwater remediation at this former truck terminal and tank wash site. The state issued a record of decision in 2006. The remedial design work plan has been approved by the NYSDEC, and the remedial action phase is expected to begin during the fourth quarter of 2014.

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

Charleston, West Virginia: CLC completed its remediation plan for a former drum disposal area in 1995 at this truck terminal and tank wash site under the terms of a state hazardous waste permit. Supplemental groundwater monitoring was also required and completed. In 2012, we entered into the state s voluntary clean-up program which requires us to perform additional sampling to close the site. The sampling work phase that was negotiated with the State of West Virginia was completed at the site, and our site assessment report, which does not contemplate further sampling work, has been approved by the West Virginia Department of Environmental Protection (WVDEP). A risk assessment report was submitted to WVDEP for evaluation on September 30, 2014.

East Rutherford, New Jersey: This former truck terminal property was sold after CLC completed a plan of remediation relating to a diesel fuel release but New Jersey Department of Environmental Protection (NJDEP) did not grant closure. Additional soil sampling and groundwater monitoring work is necessary to close the site under the State s licensed site remediation professional program. Soil sampling results indicate further sampling is necessary to delineate the extent of contamination that may require limited remediation.

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

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

We have estimated aggregate future expenditures for Tonawanda, Scary Creek, Charleston, East Rutherford and ISRA New Jersey to be in the range of $1.8 million to $4.8 million. As of September 30, 2014, we have reserved $1.8 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.

15. Guarantees

In conjunction with certain third-party financing vendors, we have established a lease purchase program to enable certain independent owner-operators and independent affiliates to lease tractors from those third-party vendors. As part of this program, we have agreed with those third-party vendors to guarantee certain lease payment obligations of participating independent owner-operators and independent affiliates in certain circumstances. The guarantees expire at various dates beginning in 2015 through 2021 and are for an average outstanding loan amount per tractor of approximately $0.1 million.

Our estimated aggregate maximum exposure under these lease guarantees was approximately $37.6 million as of September 30, 2014, which represents the total amount of the remaining lease payments on all outstanding guaranteed leases as of that date. However, upon a default, we are likely to, and have contractual rights to, take actions to reduce or recoup our expenditures, including

purchasing the tractor and reselling it to recover all or a portion of the amounts paid, or facilitating an arrangement between the third-party vendor and another independent owner-operator or independent affiliate to assume the lease. In addition, up to 50% of any realized losses related to independent owner-operators managed by independent affiliates could be recouped from those independent affiliates pursuant to agreements with those independent affiliates. Therefore, we believe our potential exposure is substantially less than $37.6 million and would not have a material adverse effect on our consolidated financial position, results of operations or cash flows. We did not incur any material levels of default under these leases during the nine months ended September 30, 2014.

16. Guarantor Subsidiaries

At and during the nine months ended September 30, 2014, there were outstanding 2018 Notes that were issued by our subsidiaries, QD LLC and QD Capital. The payment obligations of QD LLC and QD Capital under the 2018 Notes are guaranteed by QDI and by all of its domestic subsidiaries other than immaterial subsidiaries as further described below.

The 2018 Notes are the senior obligations of our subsidiaries, QD LLC and QD Capital, and are secured by a subordinated, second-priority lien on assets that secure our ABL Facility through a collateral agreement that is separate from the indenture under which these notes were issued. Pursuant to an intercreditor agreement, the liens on the collateral securing the 2018 Notes rank junior in right of payment to the ABL Facility, including the Term Loan, and obligations under certain hedging agreements, cash management obligations and certain other first-lien obligations. Decisions regarding the maintenance and release of the collateral secured by the collateral agreement are made by the lenders under our ABL Facility, and neither the indenture trustee nor the holders of the 2018 Notes have control of decisions regarding the release of the collateral.

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

The subsidiary guarantors of all of the 2018 Notes are all of our direct and indirect domestic subsidiaries other than immaterial subsidiaries. No non-domestic subsidiaries are guarantor subsidiaries. QD Capital has no material assets or operations. QD LLC, all of the subsidiary guarantors and QD Capital are 100% owned by QDI. The subsidiary guarantors are 100%-owned subsidiaries of QD LLC. QD LLC conducts substantially all of its business through and derives virtually all of its income from its subsidiaries. Therefore, its ability to make required principal and interest payments with respect to its indebtedness depends on the earnings of subsidiaries and its ability to receive funds from its subsidiaries through dividend and other payments.

QDI has no significant restrictions on its ability to receive funds from its subsidiaries. The ABL Facility, including the Term Loan, and the Notes Indenture contain certain limitations on QD LLC s ability to make distributions to QDI. We do not consider these restrictions to be significant, because QDI is a holding company with no significant operations or assets, other than ownership of 100% of QD LLC s membership units. QD LLC s direct and indirect wholly-owned subsidiaries are generally permitted to make distributions to QD LLC, which is the principal obligor under the ABL Facility, the Term Loan and the 2018 Notes. We do not believe that additional financial or narrative information about QDI, QD LLC, QD Capital or the subsidiary guarantors would be material to evaluating the guarantees.

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

Condensed consolidating balance sheets at September 30, 2014 and December 31, 2013 and condensed consolidating statements of operations for the three and nine-month periods ended September 30, 2014 and 2013, respectively, and the condensed consolidating statements of cash flows for each of the nine-month periods ended September 30, 2014 and 2013.

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

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In the second quarter of 2014, the Company revised certain amounts within its guarantor subsidiaries condensed consolidating balance sheet. Specifically, the investment in subsidiary, intercompany, and retained earnings balances, have been adjusted resulting in revisions between QDI, QD LLC and QD Capital, and its guarantor subsidiaries. The impact of the revision, which impacted only the condensed consolidating balance sheet, is not material in the aggregate and had no impact or effect on our consolidated financial statements for any periods presented. Financial definitions and provisions under the Company s 9.875% Second-Priority Senior Secured Notes Due 2018 (2018 Notes), the ABL Facility and the senior secured term loan facility are calculated solely on the basis of our consolidated financial statements, and the revision has no impact on our compliance with the provisions of our indebtedness. As prior period information is presented, the Company will similarly revise the condensed consolidating balance sheets in future filings.

Condensed Consolidating Balance Sheet Revised

As of December 31, 2013

	QDI		QD LLC and QD Capital		Guarantor Subsidiaries		Non-Guarantor Subsidiaries		Eliminations		
	Previously Reported	As Reported	Previously Reported	As Reported	Previously Reported	As Reported	Previously Reported	As Reported	Previously Reported	As Reported	Prev Rep
rm	$ (123,790)	$ (123,790)	$ 388,157	$ 322,433	$	$	$	$	$ (264,367)	$ (198,643)	$
term	$ 144,057	$ 144,057	$ 194,293	$ 260,017	$ 359,733	$ 223,304	$ 12,213	$ 6,375	$ (710,296)	$ (633,753)	$
	$ 20,267	$ 20,267	$ 582,450	$ 582,450	$ 359,733	$ 223,304	$ 12,213	$ 6,375	$ (974,663)	$ (832,396)	$
term	$	$	$ 355,044	$ 355,044	$ 350,562	$ 278,581	$ 4,690	$ 128	$ (710,296)	$ (633,753)	$
)											
	$ (270,505)	$ (270,505)	$ (262,159)	$ (262,159)	$ 15,881	$ (48,567)	$ 5,085	$ 3,809	$ 241,193	$ 306,917	$ (27
	$ (270,505)	$ (270,505)	$ 92,885	$ 92,885	$ 366,443	$ 230,014	$ 9,775	$ 3,937	$ (469,103)	$ (326,836)	$ (27

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

Condensed Consolidating Statements of Operations

and Statements of Comprehensive Income (Loss)

Three Months Ended September 30, 2014

Unaudited (In 000 s)

	QDI	QD LLC and QD Capital	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenues:						
Transportation	$	$	$ 186,102	$	$	$ 186,102
Service revenue			35,806	2		35,808
Fuel surcharge			36,580			36,580
Total operating revenues			258,488	2		258,490
Operating expenses:						
Purchased transportation			174,674			174,674
Compensation			23,871			23,871
Fuel, supplies and maintenance			24,849	(8)		24,841
Depreciation and amortization			5,287			5,287
Selling and administrative		18	9,009	4		9,031
Insurance costs			5,629	7		5,636
Taxes and licenses			853	3		856
Communication and utilities			929			929
Gain on disposal of property and equipment			(125)			(125)
Operating (loss) income		(18)	13,512	(4)		13,490
Interest expense, non-related party, net		7,288	22			7,310
Interest (income) expense, related party, net		(7,288)	7,288			
Write-off of debt issuance costs		422				422
Other (income) expense			(461)	136		(325)
(Loss) income before income taxes		(440)	6,663	(140)		6,083
(Benefit from) provision for income taxes	(146)		2,655			2,509
Equity in earnings of subsidiaries	3,428	3,868			(7,296)	
Net income (loss)	$ 3,574	$ 3,428	$ 4,008	$ (140)	$ (7,296)	$ 3,574

Total other comprehensive income, net of tax	453	453	316	137	(906)	453
Comprehensive income (loss)	$ 4,027	$ 3,881	$ 4,324	$ (3)	$ (8,202)	$ 4,027

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

Condensed Consolidating Statements of Operations

and Statements of Comprehensive Income (Loss)

Three Months Ended September 30, 2013

Unaudited (In 000 s)

	QDI	QD LLC and QD Capital	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenues:						
Transportation	$	$	$ 171,899	$	$	$ 171,899
Service revenue			32,147	22		32,169
Fuel surcharge			31,603			31,603
Total operating revenues			235,649	22		235,671
Operating expenses:						
Purchased transportation			153,153			153,153
Compensation			24,431			24,431
Fuel, supplies and maintenance			26,376			26,376
Depreciation and amortization			6,318			6,318
Selling and administrative		16	8,305	10		8,331
Insurance costs			4,600	7		4,607
Taxes and licenses			922			922
Communication and utilities			930			930
Gain on disposal of property and equipment			(142)	(872)		(1,014)
Operating (loss) income		(16)	10,756	877		11,617
Interest expense (income), non-related party, net		7,702	255	(2)		7,955
Interest (income) expense, related party, net		(7,702)	7,784	(82)		
Write-off of debt issuance costs		521				521
Other expense (income), net	476		(548)	(30)		(102)
(Loss) income before income taxes	(476)	(537)	3,265	991		3,243
(Benefit from) provision for income taxes	(35)		336	179		480
Equity in earnings of subsidiaries	3,204	3,741			(6,945)	
Net income	$ 2,763	$ 3,204	$ 2,929	$ 812	$ (6,945)	$ 2,763

Total other comprehensive income (loss), net of tax	349	349	386	(37)	(698)	349
Comprehensive income	$ 3,112	$ 3,553	$ 3,315	$ 775	$ (7,643)	$ 3,112

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

Condensed Consolidating Statements of Operations

and Statements of Comprehensive Income (Loss)

Nine Months Ended September 30, 2014

Unaudited (In 000 s)

	QDI	QD LLC & QD Capital	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenues:						
Transportation	$	$	$ 539,959	$	$	$ 539,959
Service revenue			102,082	26		102,108
Fuel surcharge			106,509			106,509
Total operating revenues			748,550	26		748,576
Operating expenses:						
Purchased transportation			505,974	4		505,978
Compensation			68,081			68,081
Fuel, supplies and maintenance			73,607	(6)		73,601
Depreciation and amortization			16,185			16,185
Selling and administrative		80	23,973	16		24,069
Insurance costs			16,597	23		16,620
Taxes and licenses			2,529	3		2,532
Communication and utilities			2,884			2,884
Gain on disposal of property and equipment			(1,838)			(1,838)
Operating (loss) income		(80)	40,558	(14)		40,464
Interest expense, non-related party, net		21,138	573			21,711
Interest (income) expense, related party, net		(21,138)	21,306	(168)		
Gain on early extinguishment of debt			(4,217)			(4,217)
Write-off of debt issuance costs		422				422
Other expense (income)	2		(458)	134		(322)
(Loss) income before income taxes	(2)	(502)	23,354	20		22,870
(Benefit from) provision for income taxes	(399)		5,326	(73)		4,854
Equity in earnings of subsidiaries	17,619	18,121			(35,740)	

Net income	$	18,016	$	17,619	$	18,028	$	93	$	(35,740)	$	18,016
Total other comprehensive income (loss), net of tax		1,052		1,052		948		104		(2,104)		1,052
Comprehensive income	$	19,068	$	18,671	$	18,976	$	197	$	(37,844)	$	19,068

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

Condensed Consolidating Statements of Operations

and Statements of Comprehensive Income (Loss)

Nine Months Ended September 30, 2013

Unaudited (In 000 s)

	QDI	QD LLC and QD Capital	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenues:						
Transportation	$	$	$ 510,540	$	$	$ 510,540
Service revenue			98,180	148		98,328
Fuel surcharge			95,521			95,521
Total operating revenues			704,241	148		704,389
Operating expenses:						
Purchased transportation			446,405	&n		