

QUALITY DISTRIBUTION INC
Form 10-K
March 13, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

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

For the fiscal year ended December 31, 2012

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

For the transition period from _____ to _____

COMMISSION FILE NUMBER 000-24180

Quality Distribution, Inc.

(Exact name of registrant as specified in its charter)

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Florida **59-3239073**
(State or other jurisdiction of (IRS Employer
incorporation or organization) Identification No.)

4041 Park Oaks Boulevard, Suite 200

Tampa, Florida 33610

(Address of principal executive offices) (zip code)

Registrant's telephone number, including area code:

813-630-5826

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class	Name of each exchange on which registered
Common Stock (no par value per share)	NASDAQ Global Market

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

Title of each class	Name of each exchange on which registered
None	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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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 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 No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 the definitions 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

Aggregate market value of voting stock held by non-affiliates as of June 30, 2012 was \$245.4 million (based on the closing sale price of \$11.08 per share).

As of March 1, 2013, the registrant had 27,046,644 outstanding shares of Common Stock, no par value, outstanding.

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1. Portions of Quality Distribution, Inc. Notice of Annual Meeting and Proxy Statement (Proxy Statement) for our Annual Meeting of Shareholders which will be held May 30, 2013. The Proxy Statement will be filed within 120 days of the end of the fiscal year ended December 31, 2012. (Part III of Form 10-K).

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INTRODUCTION

In this Annual Report on Form 10-K, 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 100% 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 100% owned subsidiary, QD Capital Corporation, a Delaware corporation, (iv) the term QCI refers to our 100% owned subsidiary, Quality Carriers, Inc., an Illinois corporation, (v) the term Boasso refers collectively to our 100% owned subsidiary, Boasso America Corporation, a Louisiana corporation, and Boasso's 100% owned subsidiary, Greenville Transport Company (Greenville), a Virginia corporation, (vi) the term QCER refers collectively to our 100% owned subsidiary, QC Energy Resources, Inc., a Delaware corporation, and its 100% 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 100% owned subsidiary QC Environmental Services, Inc., a North Dakota corporation, and (vii) the term CLC refers to our 100% owned subsidiary, Chemical Leaman Corporation, a Pennsylvania corporation.

FORWARD-LOOKING STATEMENTS AND CERTAIN CONSIDERATIONS

This report, along with other documents that are publicly disseminated by us, contains or might contain forward-looking statements within the meaning of the Securities Exchange Act of 1934, as amended. All statements included in this report and in any subsequent filings made by us with the SEC other than statements of historical fact, that address activities, events or developments that we or our management expect, believe or anticipate will or may occur in the future are forward-looking statements. These statements represent our reasonable judgment on the future based on various factors and using numerous assumptions and are subject to known and unknown risks, uncertainties and other factors that could cause our actual results and financial position to differ materially. We claim the protection of the safe harbor for forward-looking statements provided in the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act and Section 21E of the Exchange Act. Examples of forward-looking statements include: (i) projections of revenue, earnings, capital structure and other financial items, (ii) statements of our plans and objectives, (iii) statements of expected future economic performance, and (iv) assumptions underlying statements regarding us or our business. Forward-looking statements can be identified by, among other things, the use of forward-looking language, such as targets, modes, believes, expects, estimates, may, will, should, could, seeks, plans, intends, anticipates or scheduled to or the other variations of those terms or comparable language, or by discussions of strategy or other intentions.

Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could cause our actual results to differ materially from those contemplated by the statements. The forward-looking information is based on various factors and was derived using numerous assumptions. Important factors that could cause our actual results to be materially different from the forward-looking statements include the following risks and other factors discussed under the Item 1A Risk Factors in this Annual Report on Form 10-K. These factors include:

the effect of local, national and international economic, credit, capital and labor market conditions on the economy in general, and on the particular industries in which we operate, including excess capacity in the industry, the availability of qualified drivers, changes in fuel and insurance prices, interest rate fluctuations, and downturns in customers' business cycles and shipping requirements;

our substantial leverage and our ability to make required payments and comply with restrictions contained in our debt arrangements or to otherwise generate sufficient cash from operations or borrowings under our ABL Facility to fund our liquidity needs;

competition and rate fluctuations, including fluctuations in prices and demand for transportation services as well as for commodities such as natural gas and oil;

our reliance on independent affiliates and independent owner-operators;

a shift away from or slowdown in production in the shale regions in which we have energy logistics operations;

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our liability as a self-insurer to the extent of our deductibles as well as changing conditions and pricing in the insurance marketplace;

increased unionization, which could increase our operating costs or constrain operating flexibility;

changes in or our inability to comply with, governmental regulations and legislative changes affecting the transportation industry generally or in the particular segments in which we operate;

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federal and state legislative and regulatory initiatives, which could result in increased costs and additional operating restrictions upon us or our oil and gas frac shale energy customers;

our ability to access and use our salt water disposal wells and other disposal sites and methods in our energy logistics business;

our ability to comply with current and future environmental regulations and the increasing costs relating to environmental compliance;

potential disruption at U.S. ports of entry;

diesel fuel prices and our ability to recover costs through fuel surcharges;

our ability to attract and retain qualified drivers;

terrorist attacks and the cost of complying with existing and future anti-terrorism security measures;

our dependence on senior management;

the potential loss of our ability to use net operating losses to offset future income;

potential future impairment charges;

the interests of our largest shareholder, which may conflict with your or our interests;

our ability to successfully identify acquisition opportunities, consummate such acquisitions and successfully integrate acquired businesses and converted affiliates and achieve the anticipated benefits and synergies of acquisitions and conversions, the effects of the acquisitions and conversions on the acquired businesses' existing relationships with customers, governmental entities, affiliates, owner-operators and employees, and the impact that acquisitions and conversions could have on our future financial results and business performance and other future conditions in the market and industry from the acquired businesses;

our ability to execute plans to profitably operate in the transportation business and disposal well business within the energy logistics market;

our success in entering new markets;

adverse weather conditions;

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changes in health insurance benefit regulations;

our liability for our proportionate share of unfunded vested benefit liabilities, particularly in the event of our withdrawal from any of our multi-employer pension plans; and

changes in planned or actual capital expenditures due to operating needs, changes in regulation, covenants in our debt arrangements and other expenses, including interest expenses.

In addition, there may be other factors that could cause our actual results to be materially different from the results referenced in the forward-looking statements. All forward-looking statements contained in this Annual Report on Form 10-K are qualified in their entirety by this cautionary statement. Forward-looking statements speak only as of the date they are made, and we do not intend to update or otherwise revise the forward-looking statements to reflect events or circumstances after the date of this Annual Report on Form 10-K or to reflect the occurrence of unanticipated events.

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PART I

ITEM 1. BUSINESS

Overview

We operate the largest chemical bulk tank truck network in North America and are also the largest provider of intermodal ISO tank container and depot services in North America. In 2011, we began providing logistics services to the unconventional oil and gas frac shale energy markets. We operate an asset-light business model and service customers across North America through our network of 89 terminals servicing the chemical markets, 9 ISO tank depot services terminals (intermodal) servicing the chemical and other bulk liquid markets and 10 terminals servicing the energy markets.

Financial Reporting Segments

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

Chemical Logistics, which consists of the transportation of bulk chemicals primarily through our network of 25 independent affiliates and company-operated terminals, 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 frac shale energy markets, primarily through company-operated terminals and 2 independent affiliates; and

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

Chemical Logistics

Through our subsidiary, QCI, we coordinate the transport of a broad range of chemical products and provide our customers with logistics and other value-added services. Through our North American network, we are a core carrier for many of the major companies engaged in chemical processing. We believe the diversity of our customer base, geography and end-markets provide a competitive advantage.

The bulk tank truck market in North America includes all products shipped by bulk tank truck carriers and consists mainly of liquid and dry bulk chemicals (including plastics) and bulk dry and liquid food-grade products. We estimate, based on industry sources, that the highly fragmented North American for-hire segment of the bulk tank transport market generated revenues of approximately \$6.4 billion in 2011. We specifically operate in the for-hire chemical and food grade bulk transport market (which we estimated at \$4.4 billion in 2011). We believe we have the leading market share (estimated at 15% in 2011) in this sector based on revenues. We believe managing a larger carrier network facilitates customer service and lane density, and provides a more favorable operating cost structure for us and our independent affiliates. As such, we believe we are well-positioned to expand our business.

Chemical bulk tank truck industry growth is generally dependent on volume growth in the industrial chemical industry, the rate at which chemical companies outsource their transportation needs, the overall capacity of the rail system, and, in particular, the extent to which chemical companies make use of the rail system for their bulk chemical transportation needs. We also believe that North American chemical producers will gain a global competitive advantage and grow domestic production (thus shipments which we can service) through the use of low cost energy sources, primarily natural gas and natural gas liquids.

The chemical bulk tank truck industry is characterized by high barriers to entry such as the time and cost required to develop the operational infrastructure necessary to handle sensitive chemical cargo, the financial and managerial resources required to recruit and train drivers, substantial and increasingly more stringent industry regulatory requirements, strong customer relationships and the significant capital investments required to build a fleet of equipment and establish a network of terminals and independent affiliates.

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Our transportation revenue in the chemical logistics segment is principally a function of the volume of shipments by the bulk chemical industry, prices, the average number of miles driven per load, our market share and the allocation of shipments between tank truck transportation and other modes of transportation such as rail. Additionally, it is common practice in the bulk tank truck industry for customers to pay fuel surcharges.

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Energy Logistics

Our energy logistics business began operations in the second quarter of 2011 primarily as a third party logistics (3PL) provider. We operate the business through our subsidiary, QCER. Our energy logistics business services the unconventional oil and gas frac shale energy market through the transportation of crude oil, fresh water, flowback and produced brine water, and the disposal of flowback and produced brine water, as well as providing services ancillary to these activities. During 2012, we expanded our energy logistics business through the following acquisitions:

On April 1, 2012, we acquired certain operating assets of Trojan Vacuum Services, which operates in the Eagle Ford shale. We paid \$8.7 million in cash at closing, plus \$1.0 million in cash in January 2013 upon the satisfaction of certain operating and financial performance criteria.

On June 1, 2012, we acquired certain operating assets of Wiley Bice Trucking, LLC and certain operating assets and rights of RM Resources, LLC, (collectively Bice), which operates in the Bakken shale region, for \$81.4 million in aggregate consideration, with up to an additional \$19.0 million in cash consideration, payable one year after the closing date if certain future operating and financial performance criteria are satisfied.

On August 1, 2012, we acquired certain operating assets of Dunn s Tank Services, Inc. and its related company Nassau Disposal, Inc., (collectively Dunn s), which operates in the Marcellus, Woodford and Utica shale regions for an aggregate purchase price of \$34.3 million, with up to an additional \$3.6 million in cash consideration, payable one year after the closing date if certain future operating and financial performance criteria are satisfied.

As of December 31, 2012, we operate in the Bakken, Eagle Ford, Permian, Marcellus, Woodford, Utica and Mississippian Limestone shale regions in North America, all of which drill for both oil and natural gas with the exception of Marcellus, which is solely natural gas. We continue to evaluate the potential for expansion into additional shales, which would provide additional diversification to our business. Our strategy to target multiple resource rich shales helps to diversify our customer offerings, lessen the impact of swings in any one commodity and optimize equipment utilization. We currently operate approximately 1,400 units (tractors, trailers and combination equipment) of energy equipment in this market across a diverse customer base.

Our energy logistics business is primarily involved in fluid management and logistics in the upstream segment of the energy industry, through its services in connection with the establishment of production wells, and the midstream segment of the energy industry, in connection with the transportation of crude oil. We believe the market for services such as those provided by our energy logistics business was approximately \$5.0 to \$7.0 billion in 2011. The industry is made up of providers that include independent national or regional trucking and logistics companies such as QCER, trucking and logistics companies owned by or dedicated to large oil and gas companies, and local providers focused on one or more particular shales. Energy logistics providers are impacted by the level of new drilling activity, which impact the transportation of fresh water and flowback water used and the provision of related services used in those activities, and the number of active wells, which impacts the transportation of crude oil and produced water and the provision of related services used in those activities. The energy logistics market is also impacted by market prices for oil and gas, which influence the production activities of our customers, the prices they are willing to pay for our services, and the shales in which they operate. We expect regulation of this industry to increase over time but believe that the scope of our operations and our experience with regulation in our chemical logistics business will facilitate our adaptation to new regulations and may provide us with an advantage over some of our competitors.

Intermodal

Our subsidiary, Boasso, provides intermodal ISO tank container transportation and depot services, through terminals located in the eastern half of the United States. In the fourth quarter of 2011, Boasso expanded its operations through the acquisition of Greenville Transport Company, which operates at a port located in Norfolk, Virginia. Boasso s revenues are impacted by United States chemical import/export volume, in particular the number and volume of shipments through ports at which Boasso has terminals, as well as their market share at those ports.

In addition to intermodal tank transportation services, Boasso provides tank cleaning, heating, testing, maintenance and storage services to customers. Boasso provides local and over-the-road trucking primarily within the proximity of the port cities where its depots are located. Chemical manufacturers have sought to efficiently transport their products on a global basis by utilizing ISO tank containers, and we believe the resulting demand for distributors that can offer a broad range of services within the supply chain will drive future growth in this sector. We believe that our intermodal business will benefit from these trends because of its market leadership, experience and track record.

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The intermodal ISO tank container business generally provides services that facilitate the global movement of liquid and dry bulk chemicals, pharmaceuticals and food grade products. The proliferation of global import/export of bulk liquid chemicals has driven the movement of basic manufacturing out of the United States and has resulted in an increase in chemical plant infrastructure to service these off-shore industries. Driven by this globalization, the intermodal ISO tank container market is a growing sector of the overall liquid bulk chemical transportation sector. Demand for intermodal ISO tank containers is impacted by the aggregate volume of imports and exports of chemicals through United States ports. Demand is also impacted by the shift in modes of transportation, from drums to ISO tank containers. Economic conditions and differences among the laws and currencies of foreign nations may also impact the volume of shipments. We operate in the global intermodal ISO tank container transportation and depot services market, which we believe was approximately a \$1.0 to \$2.0 billion market in 2011.

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Seasonality

Due to the nature of our customers' business, our revenues are seasonal. Revenues generally decline during winter months, namely our first and fourth fiscal quarters and over holidays, and rise during our second and third fiscal quarters. Highway transportation can be adversely affected depending upon the severity of the weather in various sections of the country during the winter months. During periods of heavy snow, ice or rain, we may not be able to move our trucks and equipment between locations, thereby reducing our ability to provide services and generate revenues. Additionally, in our energy logistics segment, drilling within certain shales that we service may be adversely affected by the severity of weather in various sections of the country.

Competition

The tank truck business is competitive and fragmented. In our chemical logistics segment, we compete primarily with other tank truck carriers and dedicated private fleets in various states within the United States and Canada. Competition from for-hire carriers is composed of fewer than ten large carriers, most of which have other businesses that do not compete with ours, and more than 200 smaller, primarily regional carriers. With respect to certain aspects of our business, we also compete with intermodal transportation pipelines and railroads. Intermodal transportation has increased in recent years. Competition for the bulk tank truck services is based primarily on rates and service. We believe that we enjoy significant competitive advantages over other tank truck carriers because of our market share, overall fleet size, variable cost structure, strength of our independent affiliates and our national terminal network.

Our intermodal business competes primarily with other national, regional and local tank truck carriers and dedicated private fleets as well as local and regional dry container transporters. Competition in our intermodal ISO tank container services business depends on which competitors have facilities that are proximate to the ports serviced by Boasso. Among competitors for a port location, competition is based primarily on rates and service.

Our energy logistics business competes with national, regional and local trucking companies, dedicated private fleets, providers of temporary pipeline services as well as the integrated oil companies. In certain aspects of our energy business, we may also compete with rail and pipeline companies as well as companies offering water recycling options.

Our Competitive Strengths

We believe the following competitive strengths will enable us to sustain our market leadership and continue to grow our business:

Large Network

We operate the largest chemical tank truck network in North America with an approximate 15% share of the highly fragmented \$4.4 billion for-hire chemical and food grade bulk transport market (which excludes fuel transportation), in each case estimated by us based on industry data contained in *Bulk Transporter's Tank Truck Carrier 2011 Annual Gross Revenue Report*. We believe our unique large nationwide network covers all major North American chemical shippers and enables our chemical logistics business to serve customers with both international and national requirements better than our competitors, the majority of which are regionally focused.

We believe that the breadth of our network also provides our energy logistics business with a competitive advantage in the gas and oil frac shale energy market. Although the demand for logistics services is specific to the shale in which drilling occurs, many logistics customers operate across multiple shales. This provides us with the opportunity to provide services on a national basis, unlike those of our competitors that are focused on a single or limited number of shales. In certain instances, our energy logistics equipment can be moved among shales, enabling us to allocate resources as demand shifts.

We operate the largest provider of ISO tank container and depot services in North America. Boasso is the leading provider of intermodal ISO tank container over-the-road transportation and depot services in North America. We have significant exposure to high growth international markets. The intermodal tank container transportation market has experienced significant growth recently as international chemical trade has increased and chemical manufacturers move towards greater utilization of intermodal tanks and standardized intermodal tank containers to efficiently transport their products around the world via sea, land and air. Our intermodal tank container depots, which provide transportation, cleaning, heating, testing, maintenance and storage services, are located at or near ports in New Orleans, LA; Houston, TX; Newark, NJ; Charleston, SC; Chicago, IL; Detroit, MI; Savannah, GA; Jacksonville, FL; and Norfolk, VA. Greenville was acquired in November 2011, which filled a key underserved port that we expect to benefit from the future expansion of the Panama Canal.

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In all of our businesses, our size allows us, our independent affiliates and our independent owner-operators to benefit from economies of scale in the purchasing of supplies and services, including fuel, tires and insurance coverage.

Asset-Light Business Model

Our extensive use of independent affiliates and independent owner-operators results in a highly variable cost structure with relatively minimal net capital investment requirements. We generally expect sustaining capital expenditures for our chemical logistics and intermodal businesses, net of proceeds from property and equipment sales, to be approximately 1% to 2% of operating revenues annually, compared to the industry average of more than 10% for truckload carrier companies. This model contributes to the stability of our cash flow and margins and results in high returns on invested capital. The independent affiliates are generally responsible for capital investments and most of the operating expenses related to the business they service, including the capital costs related to purchasing and maintaining tractors. Typically, independent affiliates purchase or lease tractors for their business directly from the manufacturers, and to a lesser extent from us, and must lease trailers from us in accordance with our affiliate agreements. Independent owner-operators are independent

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contractors who supply one or more tractors and drivers for our own or our independent affiliates use. As with independent affiliates, independent owner-operators are responsible for most of the operating expenses related to the business they service, including costs related to the acquisition and maintenance of tractors. Some independent owner operators have lease-to-buy arrangements with us or independent affiliates for tractors.

With our entry into the energy markets, we have seen increased capital expenditures in order to build capacity for this new business. We expect this business to have higher capital requirements because we operate a number of the energy terminals as company operations. We plan to continue to add independent affiliates and owner-operators, and potentially convert company-owned operations to independent affiliates, with the overall goal to reduce capital needs while improving return on invested capital.

Our Customer Base

We serve customers in a number of diverse industries, whose products reach a diverse group of end-markets. Our chemical logistics business services most of the top 100 chemical producers with North American operations, our energy logistics business provides services to a diverse base of participants in the energy exploration and production market in the U.S., and our intermodal business provides services to all major non-vessel operating common carriers engaged in our operating footprint of ports. Our key customers include Anadarko, Arclin, Arkema, Ashland, BASF, Dow, Hoyer Global, Inc., Hunt Oil, Newport Tank Container, PPG Industries, Procter & Gamble, Stolt-Nielsen USA, and Valspar among others. In each of 2012, 2011 and 2010, no single customer accounted for more than 10.0% of combined revenues in any segment. In many cases, we have established long-term customer relationships with these clients.

Stable Pricing Environment

We believe pricing in the bulk tank truck and ISO tank industries tends to be more stable than pricing in the overall trucking industry. We believe the specialized nature of our industries, including specifically licensed drivers, specialized equipment and more stringent safety requirements, create barriers to entry which limit the more drastic swings in supply experienced by the broader trucking industry. Additionally, it is common practice in the bulk tank truck and ISO tank industries for customers to pay fuel surcharges, which enables trucking companies to recover some fuel costs from customers.

Safe and Efficient Operations

We have a strong emphasis on safety in our operations and have a relentless focus on improving productivity and efficiency. Given the nature of the cargo we haul, which requires a high degree of careful handling, we believe that our strong and proactive focus on safety creates a competitive advantage for us. For example, we completed the installation of electronic on-board recorders (EOBRs) in substantially all of our U.S. chemical logistics fleet in 2011, at a time when there was no regulatory requirement to do so. In 2012, federal legislation was enacted to mandate the use of EOBRs, and as that legislation is implemented the rest of the industry will be required to implement similar safety technology. Further, we believe this strong and proactive focus positions us well to comply with the Federal Motor Carrier Safety Administration's (the FMCSA) Compliance, Safety and Accountability (CSA) program, which imposes additional safety standards on the industry.

Strong Management Team with a Track Record of Success

Our management team, led by our Chief Executive Officer, Gary Enzor, successfully navigated our business through the recent economic slowdown by implementing cost savings measures and by leading the transition to an independent affiliate-based network, among other initiatives. As a result, we believe we are well positioned to benefit from an economic recovery. Mr. Enzor, as well as our President and Chief Operating Officer, Steve Attwood, our Executive Vice President and Chief Financial Officer, Joe Troy, and other senior managers have significant managerial, operational and financial experience and have a demonstrated ability to respond to operational challenges and enhance shareholder value.

Independent Affiliates

In our chemical logistics segment and to a lesser extent our energy logistics segment, we operate with an asset-light structure designed to reduce our assets employed and capital expenditure requirements. In furtherance of this, we maintain contractual relationships with independent trucking companies who agree to provide their equipment and expertise to support the provision of transportation services exclusively to our customers in defined markets. We refer to these independent companies as our independent affiliates.

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In exchange for the services rendered, independent affiliates are normally paid an agreed upon percentage of the revenues collected on each load hauled. Independent affiliates pay all tractor operating expenses for tractors they own and lease such as fuel,

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physical damage insurance, tractor maintenance, fuel taxes and highway use taxes. However, we reimburse independent affiliates for certain expenses passed through to our customers, such as tolls and scaling charges. We operate programs intended to benefit independent owner-operators by reducing their operating expenses for business requirements such as tractors, fuel, tires, occupational accident insurance and physical damage insurance.

We generated approximately 90%, 93% and 94% of our chemical logistics transportation revenue in the years ended December 31, 2012, 2011 and 2010, respectively, from independent affiliates. We generated approximately 23% and 45% of our energy logistics transportation revenue in the years ended December 31, 2012 and 2011, respectively, from independent affiliates. This change was the result of the 2012 Energy Acquisitions which are mainly operated as company terminals. Due to several factors, including our ownership of the customer contracts and relationships, our provision of back-office support in areas such as collections, billing and claims, our direct relationships with independent owner-operators, the presence of non-compete agreements with the independent affiliates, and, in some cases, our ownership of the trailers utilized in the contracted business, our relationships with the independent affiliates tend to be long-term in nature, with minimal turnover. We also monitor volume performance of each independent affiliate on a regular basis to ensure operating performance is in line with management's expectations. We work proactively with our affiliates to take corrective action or render assistance where appropriate and have certain contractual mechanisms in place to remedy sustained underperformance.

Independent Owner-Operators

We and our independent affiliates extensively utilize independent owner-operators. Independent owner-operators are independent contractors who, through contracts with our operating subsidiaries, supply one or more tractors and drivers for our subsidiaries or independent affiliates' use. Independent owner-operators' contracts generally are terminable by either party upon short notice.

In exchange for the services rendered, independent owner-operators are normally paid an agreed upon percentage of the revenues collected on each load hauled or on a per mile rate. The percentage of revenues paid to independent owner-operators by us is lower than the percentage paid to our independent affiliates, which have a different cost structure. Independent owner-operators pay all tractor operating expenses such as fuel, physical damage insurance, tractor maintenance, fuel taxes and highway use taxes. However, we reimburse independent owner-operators for certain expenses passed through to our customers, such as tolls and scaling charges.

We compete with other motor carriers for the services of our drivers and independent owner-operators. Our overall size and our reputation for good relations have enabled us to attract qualified professional drivers and independent owner-operators.

Employees and Independent Owner-Operators

At December 31, 2012, we utilized 3,277 drivers of which 2,289 were utilized in our chemical logistics segment, 615 were utilized in our energy logistics segment and 373 were utilized in our intermodal segment. Of this total, 1,370 were independent owner-operators, 1,277 were independent affiliate drivers, and 630 were company employee drivers. Our energy logistics business also provides 3PL services and therefore utilizes other third party carriers.

Table of Contents*Company Personnel*

At December 31, 2012, we employed 1,371 personnel (excluding drivers). Of this total, 598 were employed in our energy logistics segment, 460 were employed in our intermodal segment and 313 were employed in our chemical logistics segment.

Union Labor

At December 31, 2012, we had 137 employees and our independent affiliates had 7 employees who were members of the International Brotherhood of Teamsters. All 144 unionized employees are utilized in our chemical logistics segment.

Tractors and Trailers

As of December 31, 2012, we managed a fleet of approximately 2,800 tractors, 5,200 trailers and 1,400 energy logistics equipment utilized by either us, our independent affiliates, independent owner-operators, or shippers. The majority of our trailers are single compartment, chemical-hauling trailers. The balance of the fleet is made up of multi-compartment trailers, dry bulk trailers, and special use energy equipment. The chemical transport units typically have a capacity between 5,000 and 7,800 gallons and are designed to meet DOT specifications for transporting hazardous materials. Each trailer is designed for a useful service life of 15 to 20 years, though this has successfully been extended by us through upgrades and modifications. Each tractor is designed for a useful life of five to seven years, though this can also be extended through upgrades and modifications. Our energy logistics equipment utilized for transporting fresh water and disposal water, typically has a capacity between 4,600 and 5,500 gallons and typically has a useful service life of 4 to 15 years. Our energy logistics equipment utilized for hauling oil, typically has a capacity between 8,000 and 10,000 gallons, is designed to meet DOT specifications, and typically has a useful service life of 10 to 15 years.

We utilize our own and third-party repair shops for inspecting and repairing our fleets. Our systems enable us to determine when inspections and scheduled maintenance needs to be performed.

The following tables show the approximate number and age of tractors, trailers and energy logistics equipment we managed in all of our businesses as of December 31, 2012 and 2011:

TRACTORS (1)	LESS THAN	3-5	6-10	GREATER	2012	2011
	3 YEARS	YEARS	YEARS	THAN 10 YEARS		
Company	490	198	116	8	812	587
Independent Affiliate	331	241	358	111	1,041	1,173
Independent Owner-Operator	50	155	367	350	922	1,042
Total	871	594	841	469	2,775	2,802

TRAILERS (1)(2)	LESS THAN	5-10	11-15	16-20	GREATER	2012	2011
	5 YEARS	YEARS	YEARS	YEARS	THAN 20 YEARS		
Company (3)	601	259					