

QUALITY DISTRIBUTION INC  
Form 10-K  
March 05, 2012  
Table of Contents

Index to Financial Statements

**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, 2011

.. **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)

Edgar Filing: QUALITY DISTRIBUTION INC - Form 10-K

**Florida**  
(State or other jurisdiction of  
incorporation or organization)

**59-3239073**  
(IRS Employer  
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:**

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

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

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
<b>None</b>	

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

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

## Edgar Filing: QUALITY DISTRIBUTION INC - Form 10-K

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  Non-accelerated filer  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, 2011 was \$196.7 million (based on the closing sale price of \$13.02 per share).

As of March 1, 2012, the registrant had 24,432,486 outstanding shares of Common Stock, no par value, outstanding.

**Table of Contents**

**Index to Financial Statements**

Documents Incorporated by Reference: Portions of the Proxy Statement for the registrant's 2012 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

**TABLE OF CONTENTS**

<b><u>INTRODUCTION</u></b>	<b>1</b>
<b><u>FORWARD-LOOKING STATEMENTS AND CERTAIN CONSIDERATIONS</u></b>	<b>1</b>
<b><u>PART I</u></b>	<b>3</b>
<b>ITEM 1. <u>BUSINESS</u></b>	<b>3</b>
<b>ITEM 1A. <u>RISK FACTORS</u></b>	<b>17</b>
<b>ITEM 1B. <u>UNRESOLVED STAFF COMMENTS</u></b>	<b>27</b>
<b>ITEM 2. <u>PROPERTIES</u></b>	<b>27</b>
<b>ITEM 3. <u>LEGAL PROCEEDINGS</u></b>	<b>27</b>
<b>ITEM 4. <u>MINE SAFETY DISCLOSURES</u></b>	<b>27</b>
<b><u>PART II</u></b>	<b>29</b>
<b>ITEM 5. <u>MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER'S PURCHASES OF EQUITY SECURITIES</u></b>	<b>29</b>
<b>ITEM 6. <u>SELECTED FINANCIAL DATA</u></b>	<b>31</b>
<b>ITEM 7. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u></b>	<b>33</b>
<b>ITEM 7A. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u></b>	<b>60</b>
<b>ITEM 8. <u>FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u></b>	<b>61</b>
<b>ITEM 9. <u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u></b>	<b>61</b>
<b>ITEM 9A. <u>CONTROLS AND PROCEDURES</u></b>	<b>61</b>
<b>ITEM 9B. <u>OTHER INFORMATION</u></b>	<b>62</b>
<b><u>PART III</u></b>	<b>63</b>
<b>ITEM 10. <u>DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</u></b>	<b>63</b>
<b>ITEM 11. <u>EXECUTIVE COMPENSATION</u></b>	<b>63</b>
<b>ITEM 12. <u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS</u></b>	<b>63</b>
<b>ITEM 13. <u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE</u></b>	<b>63</b>
<b>ITEM 14. <u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u></b>	<b>63</b>
<b><u>PART IV</u></b>	<b>64</b>
<b>ITEM 15. <u>EXHIBITS AND FINANCIAL STATEMENT SCHEDULES</u></b>	<b>64</b>
<b><u>SIGNATURES</u></b>	<b>65</b>
<b><u>REPORT OF INDEPENDENT REGISTERED CERTIFIED PUBLIC ACCOUNTING FIRM</u></b>	<b>F-2</b>
<b><u>CONSOLIDATED STATEMENTS OF OPERATIONS</u></b>	<b>F-3</b>

<b><u>CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)</u></b>	<b>F-4</b>
<b><u>CONSOLIDATED BALANCE SHEETS</u></b>	<b>F-5</b>
<b><u>CONSOLIDATED STATEMENTS OF SHAREHOLDERS DEFICIT</u></b>	<b>F-6</b>
<b><u>CONSOLIDATED STATEMENTS OF CASH FLOWS</u></b>	<b>F-8</b>
<b><u>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS</u></b>	<b>F-9</b>

---

**Table of Contents**

**Index to Financial Statements**

**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 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 Greenville refers to Boasso's wholly owned subsidiary, Greenville Transport Company, a Virginia corporation (vi) the term QCER refers collectively to our wholly owned subsidiaries, QC Energy Resources, Inc., a Delaware corporation and QC Energy Resources, LLC, a Delaware limited liability company, (viii) the term CLC refers to our wholly owned subsidiary, Chemical Leaman Corporation, a Pennsylvania corporation and (viii) the term QSI refers to our wholly owned subsidiary, Qala Systems, Inc., a Delaware 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 believes, expects, estimates, may, will, should, could, seeks, plans, intends, anticipates or scheduled to or the negatives of those terms or 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 and capital 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 restrictions contained in our debt arrangements;

competition and rate fluctuations;

our reliance on independent affiliates and independent owner-operators;

**Table of Contents**

**Index to Financial Statements**

the loss of or material reduction in the services to one or more of our major customers;

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 the future, 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;

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 interests;

our ability to successfully identify acquisition opportunities, consummate such acquisitions and integrate acquired businesses;

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

our success in entering new markets;

## Edgar Filing: QUALITY DISTRIBUTION INC - Form 10-K

adverse weather conditions;

changes in health insurance benefit regulations;

our liability for our proportionate share of unfunded vested benefit liabilities 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.



**Table of Contents**

**Index to Financial Statements**

**PART I**

**ITEM 1. BUSINESS**

**Overview**

We operate the largest chemical bulk tank truck network in North America through our wholly owned subsidiary, QCI, and are also the largest provider of intermodal ISO tank container and depot services in North America through our wholly owned subsidiary, Boasso, which also includes Greenville. In 2011, we entered the gas and oil frac shale energy markets, providing logistics services to these markets through our wholly owned subsidiaries, QCER. We operate an asset-light business model and service customers across North America through our network of 29 independent affiliates, 95 terminals servicing the chemical markets (89 of which are operated by independent affiliates and 6 which are company-operated), 9 company-operated tank depot services terminals serving the intermodal market, and 2 terminals servicing the energy markets, which are operated by independent affiliates.

**Financial Reporting Segments**

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

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

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

Energy Logistics, which consists primarily of the transportation of fresh water, disposal water and oil for the energy logistics markets, primarily through 2 independent affiliates; and

Intermodal, which consists solely of Boasso and Greenville's International Organization for Standardization or intermodal ISO tank container transportation and depot services supporting the international movement of bulk liquids.

*Chemical Logistics*

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 primarily coordinate the transport of a broad range of chemical products, primarily through our independent affiliate network, and provide our customers with logistics and other value-added services. We are a core carrier for many of the major companies engaged in chemical processing including Arclin, Arkema, Ashland, BASF, Dow, DuPont, ExxonMobil, Georgia-Pacific, Honeywell, PPG Industries, Procter & Gamble, Sunoco and Unilever, and we provide services to most of the top 100 chemical producers with North American operations. We believe the diversity of our customer base, geography and end-markets provides a competitive advantage.

We believe the specialized nature of the bulk tank truck industry, 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 industry for customers to pay fuel surcharges, which helps enable recovery of fuel price increases from customers.



## **Table of Contents**

### **Index to Financial Statements**

Our transportation revenue (excluding Energy Logistics and Intermodal) 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. The volume of shipments of chemical products is, in turn, affected by many diverse industries and end-use markets, including consumer and industrial products, paints and coatings, paper and packaging, agriculture and food products, and tends to vary with changing economic conditions. 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, our managed trucks and equipment may not be able to move between locations, thereby reducing our ability to provide services and generate revenues.

#### *Energy Logistics*

Beginning in the second quarter of fiscal 2011, transportation revenue includes revenue earned from hauling fresh and disposal water for the energy market and in the fourth quarter of 2011 we began hauling oil. This revenue is principally a function of the volume of shipments, price per hour of service, and the allocation of shipments between us and other carriers under logistics contracts we manage. Similar to the shipment of bulk chemicals, we expect revenues to generally be lower during the winter months, as drilling within certain shales that we service may be adversely affected by the severity of weather in various sections of the country.

#### *Intermodal*

Our wholly owned subsidiary, Boasso, which also includes Greenville since November 1, 2011, is the largest North American provider of intermodal ISO tank container transportation and depot services, with nine terminals located in the eastern half of the United States. In addition to intermodal tank transportation services, Boasso and Greenville provide tank cleaning, heating, testing, maintenance and storage services to customers. Boasso and Greenville provide local and over-the-road trucking primarily within the proximity of the port cities where their depots are located. Boasso also sells equipment that its customers use for portable alternative storage or office space.

Demand for intermodal ISO tank containers is impacted by the aggregate volume of imports and exports of chemicals through United States ports. Boasso and Greenville's revenues are accordingly impacted by this import/export volume, in particular by the number and volume of shipments through ports at which Boasso and Greenville have terminals, as well as their market share. Economic conditions and differences among the laws and currencies of foreign nations may also impact the volume of shipments.

Additional financial information about each of these segments is presented in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of this Annual Report on Form 10-K. Further information about each of our segments, and our business as a whole, is presented below.

### **Our History**

QDI was formed in 1994 as a holding company known as MTL, Inc. In 1998, we acquired CLC, thereby combining two of the then-leading bulk service providers, Montgomery Tank Lines and Chemical Leaman Tank Lines. In 1999, QDI changed its name from MTL, Inc. to Quality Distribution, Inc. On November 13, 2003, QDI consummated the initial public offering of its common stock. Boasso became our wholly owned subsidiary in December 2007, when we acquired all of its outstanding capital stock from a third party. Greenville became Boasso's wholly owned subsidiary in November 2011, when we acquired all of its outstanding capital stock from a third party.

**Table of Contents**

**Index to Financial Statements**

**Our Industries**

***Chemical Logistics (formerly Logistics)***

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 transport market generated revenues of approximately \$5.9 billion in 2010. We specifically operate in the for-hire chemical and food grade bulk transport market (which we estimated at \$4.0 billion in 2010). We believe we have the leading market share (estimated at 15% in 2010) in this sector based on revenues. Through our independent affiliate network, we operate the largest for-hire chemical bulk tank truck network in North America comprising terminals, tractors and trailers. We believe managing a larger carrier network facilitates customer service and lane density, and provides a more favorable cost structure for us and our independent affiliates. As such, we believe we are well-positioned to expand our business by increasing our market share.

The 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 believe the most significant factors relevant to our future business growth in our core business are the ability to obtain additional business from existing customers, add new customers, increase the utilization of our trailer fleet and add and retain qualified drivers.

The chemical bulk tank 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.

***Energy Logistics***

In 2010, we initiated a growth strategy targeting the gas and oil frac shale energy market through our wholly owned subsidiaries, QCER. We currently serve several customers and operate approximately 200 units of energy equipment in this market. In our third quarter of 2011, QCER won a multi-year contract with a major energy company to provide full logistics of their fresh and disposal water hauling needs in the Marcellus shale region of Pennsylvania. The logistics revenues associated with this contract began in the third quarter of 2011 and are expected to provide significant revenue and growth prospects for the future. In our fourth quarter of 2011, we began hauling oil in the Eagle Ford shale region of Texas which we expect to provide revenue and growth prospects for the future as well. We believe the energy market has significant revenue potential and we may realize higher margins and better equipment utilization than we experience in our chemical logistics business. In connection with our entry into this business, due to its attractive return profile, we may operate a portion of the business through company-operated terminals, rather than through independent affiliates, which could affect the overall mix of our asset-light business.

***Intermodal***

We estimate that the North American intermodal ISO tank container transportation and depot services market generated revenues of approximately \$225.0 million in 2010, and we believe Boasso (including Greensville) has the leading market share. 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

## **Table of Contents**

### **Index to Financial Statements**

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. Furthermore, chemical manufacturers have sought to efficiently transport their products by utilizing ISO tank containers. 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.

### **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 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 Competitive Strengths**

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

#### ***Largest Tank Truck Network in a Fragmented Industry***

We operate the largest tank truck network in North America with a 15% share of the highly fragmented \$4.0 billion for-hire chemical and food grade bulk transport market, in each case estimated by us based on figures contained in *Bulk Transporter's Tank Truck Carrier 2010 Annual Gross Revenue Report*. We believe our unique large nationwide network covers all major North American chemical shippers and enables us to serve customers with both international and national requirements better than our competitors, the majority of which are regionally focused. 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. Additionally, we believe the breadth of our network provides us with a competitive advantage as we continue to pursue the gas and oil frac shale energy market, which is currently primarily served by numerous small carriers.

#### ***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% of operating revenues annually, compared to the industry average of more than 10% for truckload carrier companies. This model also contributes to the stability of our cash flow and margins and increases our return on invested capital. The independent affiliates are 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 lease trailers from us. Independent owner-operators are independent

## **Table of Contents**

### **Index to Financial Statements**

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. With our entry into the energy markets, we expect our capital expenditure outlays for our energy logistics business to rise as we organically build our equipment and other resources for this business.

We prefer to own trailers as they provide us with a stable source of lease income, as well as access to attractive capital through our asset based loan facility (the New ABL Facility). Through proper maintenance, we are typically able to extend the useful lives of trailers used in our chemical logistics business beyond the expected 20 year life, leading to operational flexibility and lower maintenance capital expenditure requirements.

### ***Core Carrier to Blue Chip Chemical Companies***

We provide services to most of the top 100 chemical producers with North American operations, including many Fortune 500 companies and other major companies engaged in chemical processing. Our key customers include Arclin, Arkema, Ashland, BASF, Dow, DuPont, ExxonMobil, Georgia-Pacific, Honeywell, PPG Industries, Procter & Gamble, Sunoco and Uniliver. In 2011, 2010 and 2009, our top 10 customers in our chemical logistics business accounted for approximately 35.6%, 35.8% and 32.4%, respectively, of our chemical logistics revenue. No single customer accounted for more than 6.0% of our chemical logistics revenue in 2011. Our ability to maintain these business relationships reflects our service performance and commitment to safety and reliability. We have established long-term customer relationships with these clients, which help us attract and retain experienced independent affiliate terminal operators and drivers. Our team of national account vice presidents and directors have decades of experience in our industry, which we believe enables them to provide practical solutions to complex customer issues.

### ***Exposure to High Growth International Markets***

Through our intermodal business, we have significant exposure to high growth international markets. Boasso and Greenville, collectively are the leading providers of intermodal ISO tank container over-the-road transportation and depot services in North America. 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. Since we acquired Boasso in 2007, their revenues have increased at a compound annual growth rate of approximately 12%. Greenville was acquired in November 2011.

### ***Diverse Product End-Markets***

We serve customers in a number of different industries, whose products reach a diverse group of end-markets. Many of our customers major end-markets, such as refining and water treatment, energy, ink and agriculture typically have volumes that we believe are not highly correlated with economic cycles. In addition, our recent affiliate additions in the energy market have expanded our presence into the natural gas and oil industries. We believe the diversity of our customer base, geography and end-markets provides a competitive advantage.

### ***Stable Pricing Environment***

We believe pricing in the bulk tank truck industry tends to be more stable than pricing in the overall trucking industry. We believe the specialized nature of the bulk tank truck industry, including specifically licensed drivers, specialized equipment and more stringent safety requirements, create barriers to entry which

---

**Table of Contents**

**Index to Financial Statements**

limit the more drastic swings in supply experienced by the broader trucking industry. Additionally, it is common practice in the bulk tank truck industry for customers to pay fuel surcharges, which enables trucking companies to recover fuel price increases 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. Since 2007, we have reduced our Department of Transportation ( DOT ) accident rating from 0.7 to 0.5, which is below the national average of 0.7 in 2011. This proactive approach to safety has resulted in financial benefits by enabling us to reduce our insurance deductibles from \$5 million to \$2 million and obtain letter of credit reductions of \$24.2 million in the past few years. In addition, our insurance costs have decreased from \$23.9 million in 2007 to \$14.0 million in 2011. Given the nature of the cargo we haul, which requires a high degree of careful handling, we believe that our strong focus on safety creates a competitive advantage for us. We believe we are well positioned to comply with the recent implementation of the Federal Motor Carrier Safety Administration's (the FMCSA ) Comprehensive Safety Analysis 2010 ( CSA ) program, which imposes additional safety standards on the industry. For example, we completed the installation of electronic on-board recorders ( EOBRs ) in substantially all of our U.S. chemical logistics fleet in 2011 even though this is not currently required by regulation.

***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 economic slowdown by implementing cost savings measures and by leading the transition to an 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 implemented various operational initiatives to improve productivity. Our management team has demonstrated its ability to acquire and integrate assets, as well as divest non-core businesses, as evidenced by the acquisition of Boasso in December 2007, the divestiture of the QSI tank wash business in October 2009 and the acquisition of Greenville in November 2011. Over the last 18 months, our management team has successfully refinanced our debt, reduced leverage and raised equity capital, leading to a stronger financial position for the company.

***Our Growth Strategy***

Building on the competitive strengths mentioned above, we plan to grow our revenue and increase cash flow and profitability as follows:

***Pursue Attractive Growth Opportunities***

***Penetrate Energy Market***

In 2010, we launched an initiative to identify complementary markets to enhance organic growth in our logistics business. Specifically, in the fourth quarter of 2010, we began marketing transportation services to the frac shale natural gas and oil drilling industry. This addressable market is extensive and growing at a faster rate than our core chemical logistics business. We seek to build a sizable share as this logistics market is currently served primarily by small under-resourced carriers. In addition to growth potential, expected returns in the energy logistics market are very compelling with higher margins and better equipment utilization than we generally experience in our core chemical logistics business. In the second quarter of 2011, we began hauling fresh water to drill sites for customers in the Marcellus Shale region of Pennsylvania, and in the third quarter of 2011, we won a multi-year contract with a major energy company to provide full logistics of their fresh and disposal water hauling needs in the Marcellus shale region. The logistics revenues associated with this contract began in the third quarter of 2011 and are expected to provide significant revenue and growth prospects in the

**Table of Contents**

**Index to Financial Statements**

future. In the fourth quarter of 2011, we began hauling oil for a customer in the Eagle Ford Shale region of Texas and we are in discussions with other energy companies in the Eagle Ford region and Bakken shale region of North Dakota. We are optimistic that this new market can be a significant contributor to our 2012 revenue growth.

***Grow Business with Blue Chip Customers***

We plan to leverage our strong existing relationships with the major chemical shippers to increase our market share of these customers' volumes. For example, in the past few years, due to our strong commitment to customer service, we have been the sole source provider for one major chemical shipper and have grown revenue from \$1 million in 2004 to \$18 million in 2011. In addition, we increased our revenue with another major chemical distributor from \$3 million in 2004 to \$22 million in 2011 by leveraging our national network, solutions approach and customer service. Through our dedicated sales force, we maintain an active and robust pipeline of potential opportunities to grow our business. We believe our business model allows our existing infrastructure to absorb significant additional volume without the need for major capital expenditures in our chemical logistics business.

***Expand Through Acquisitions and New Independent Affiliations***

We have strong organizational competence which we believe will allow us to identify and evaluate potential opportunities to acquire assets and businesses and increase our independent affiliate network. We believe we can make selective, highly accretive add-on acquisitions on an opportunistic basis to supplement our existing core business. For example, in 2007, we acquired Boasso, the largest North American provider of ISO intermodal tank container transportation and depot services. In November 2011, we acquired Greenville, a leading provider of ISO intermodal tank container transportation and depot services with access to ports in Virginia, Maryland and South Carolina. In addition to acquiring companies, we are able to grow externally by bringing new independent affiliates into our network. We believe that the various services we provide to our independent affiliates, including working capital, back office and sales support, technology support, insurance and cash flow management and regulatory compliance oversight, make our platform attractive for our independent affiliates. For example, in 2010, we added a dry bulk carrier primarily servicing the east coast markets, to our affiliate network and in the fourth quarter of 2011, we added a new carrier to haul oil in the Eagle Ford shale region. We continually evaluate potential future acquisitions, some of which may be material.

***Enhance Independent Affiliate Trucking Operations***

We have focused over the last three years and continue to focus on a less capital-intensive business model based on our 29 independent affiliates. We believe this business model reduces certain fixed costs and provide a more flexible, variable cost structure for us. In 2008 and 2009, we transitioned the majority of our company-operated chemical logistics terminals to independent affiliates. We also moved one-third of our sales representatives to the independent affiliates to better cover key regional accounts. As a result of these actions and the sale of our tank wash business in 2009, we generated approximately 95%, 95% and 77% of our chemical logistics transportation revenue in the years ended December 31, 2011, 2010 and 2009, respectively, from independent affiliates. We believe that the greater proportion of operating revenue derived from independent affiliate operations in 2011 and 2010 is likely to be indicative of the proportion of operating revenue derived from independent affiliate operations in the future. At the same time, due to our ownership of the customer contracts and relationships, presence of non-compete agreements with the independent affiliates, and our ownership of the trailers, 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. We believe our selected independent affiliates are also generally well-financed and have the capacity to increase their revenue base while maintaining a high level of customer service.



**Table of Contents**

**Index to Financial Statements**

***Focus on Driver Recruitment and Retention***

We are committed to being a driver-focused company that provides both technical support and personal respect to these professionals. We believe we offer competitive compensation at a premium compared to most commercial driving opportunities. With an average haul length of 300 miles, our drivers are also generally home more frequently. Our driver organization contains field-based recruiters who augment the friendly, small business environment provided by our business model. In 2011, we implemented EOBs within our U.S. chemical logistics network fleet prior to regulatory requirements to which we believe all major carriers will be subject in the future. While this initiative has temporarily increased driver turnover and adversely impacted our revenue during 2011, we believe that as the overall economy improves, our historical ability to attract qualified drivers could prove to be a significant competitive advantage to us.

***Increase Trailer Utilization***

At December 31, 2011, we owned or leased approximately 3,700 trailers, the majority of which we lease or sublease to independent affiliates. Trailer leasing is a key component of our business model. Through proper maintenance, we are typically able to extend the useful lives of trailers beyond the expected 20 year life, leading to operational flexibility and lower maintenance capital expenditure requirements. Our independent affiliates have significant contractual limitations on their ability to lease or purchase trailers from sources other than us, helping to ensure their continued utilization. Based on our current trailer fleet, we believe we have the ability to continue to capture additional chemical logistics business volume with minimal capital expenditures. To increase our trailer utilization, we also actively pursue opportunities to lease our trailers to third parties other than our independent affiliates. The operating leverage inherent in our business model allows a significant portion of any incremental revenue generated through increased trailer utilization to flow through to our operating income.

**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 affiliate 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 a fixed 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 affiliates. 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 operate programs intended to benefit independent owner-operators by reducing their operating expenses such as tractors, fuel, tires, occupational accident insurance and physical damage insurance.

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, 2011, we utilized 2,741 drivers of which 2,239 were utilized in our chemical logistics segment, 158 were utilized in our energy logistics segment and 344 were utilized in our intermodal segment. Of this total, 1,194 were independent owner-operators, 1,325 were independent affiliate drivers, and 222 were company employee drivers. Our energy logistics business also utilizes other third party carriers.

**Table of Contents****Index to Financial Statements***Company Personnel*

At December 31, 2011, we employed 851 personnel. Of this total, 442 were employed in our intermodal segment, 395 were employed in our chemical logistics segment and 14 were employed in our energy logistics segment.

We provide our employees with health, dental, vision, life, and other insurance coverage subject to certain premium sharing and deductible provisions.

*Union Labor*

At December 31, 2011, we had 132 employees and our independent affiliates had 7 employees who were members of the International Brotherhood of Teamsters. All 139 employees are utilized in our chemical logistics segment.

**Tractors and Trailers**

As of December 31, 2011, we managed a fleet of approximately 2,900 tractors and 5,500 trailers 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 can be extended through upgrades and modifications. Each tractor is designed for a useful life of five to seven years, though this can be extended through upgrades and modifications. Our energy market equipment utilized for transporting fresh water and disposal water, typically has a capacity between 4,600 and 5,500 gallons and typically have a useful service life of 4 to 15 years. Our energy market 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 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 and trailers we managed in all of our businesses as of December 31, 2011 and 2010:

	LESS THAN 3 YEARS	3-5 YEARS	6-10 YEARS	GREATER THAN 10 YEARS	2011 TOTAL	2010 TOTAL
<b>TRACTORS (1)</b>						
Company	291	212	132	7	642	562
Independent Affiliate	221	484	421	130	1,256	1,109
Independent Owner-Operator	52	213	392	385	1,042	1,230
<b>Total</b>	564	909	945	522	2,940	2,901

	LESS THAN 5 YEARS	6-10 YEARS	11-15 YEARS	16-20 YEARS	GREATER THAN 20 YEARS	2011 TOTAL	2010 TOTAL
<b>TRAILERS (1)(2)</b>							
Company (3)	710	120	1,178	721	1,015	3,744	4,010
Independent Affiliate	188	86	384	241	608	1,507	1,481
Independent Owner-Operator							2
Shipper-Owned	124	33	20	20	45	242	245

Edgar Filing: QUALITY DISTRIBUTION INC - Form 10-K

<b>Total</b>	1,022	239	1,582	982	1,668	5,493	5,738
--------------	-------	-----	-------	-----	-------	-------	-------

(1) Age based upon original date of manufacture; tractor/trailer may be substantially refurbished or re-manufactured.

---

**Table of Contents**

**Index to Financial Statements**

- (2) Excludes approximately 1,300 chassis utilized in the intermodal segment.
- (3) Excludes approximately 350 chassis utilized in the chemical logistics segment and approximately 150 unassigned trailers.

**Technology**

We rely heavily on information technology and communications systems to operate our business and manage our network in an efficient manner. In contrast to many of our smaller competitors, we have equipped our drivers with various mobile communications systems that enable us to monitor our tractors and communicate with our drivers in the field and enable customers to track the location and monitor the progress of their cargo through the Internet. During 2011, we implemented EOBRs within our U.S. chemical logistics network.

**Risk Management, Insurance and Safety**

The primary insurable risks associated with our business are motor vehicle related bodily injury and property damage, workers' compensation and cargo loss and damage (which includes spills and chemical releases). We maintain insurance against these risks and are subject to liability as a self-insurer to the extent of the deductible under each policy. We currently maintain liability insurance for bodily injury and property damage with an aggregate limit on the coverage in the amount of \$40.0 million, with a \$2.0 million per incident deductible.

We currently maintain a \$1.0 million per incident deductible for workers' compensation insurance coverage. We are insured over our deductible up to the statutory requirement by state and we are self-insured for damage or loss to the equipment we own or lease and for cargo losses.

We employ personnel to perform compliance checks and conduct safety tests throughout our operations. A number of safety programs are conducted that are designed to promote compliance with rules and regulations and to reduce accidents and cargo claims. These programs include training programs, driver recognition programs, safety awards, driver safety meetings, distribution of safety bulletins to drivers and participation in national safety associations.

**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<sup>®</sup>, an international chemical industry initiative to enhance the industry's responsible management of chemicals. We have obtained independent certification that our management system is in place and functions according to professional standards and we continue to evaluate and continuously improve our Responsible Care<sup>®</sup> Management System performance. Our activities involve the handling, transportation and storage of bulk chemicals, both liquid and dry, many of which are classified as hazardous materials or hazardous substances. Historically, our operations involved the generation, storage, discharge and disposal of wastes that may contain hazardous substances, the inventory and use of cleaning materials that may contain hazardous substances and the control and discharge of storm-water from industrial sites. In addition, we may store diesel fuel, materials containing oil and other hazardous products at our terminals. As such, we and others who operate in our industry are subject to environmental, health and safety laws and regulation by U.S. federal, state and local agencies as well as foreign governmental authorities. Environmental laws and regulations are complex, and address emissions to the air, discharge onto land or water, and the generation, handling, storage, transportation, treatment and disposal of waste materials. These laws change frequently and generally require us to obtain and maintain various licenses and permits. Environmental laws have tended to become more stringent over time, and most provide for substantial fines and potential criminal sanctions for violations. Some of these laws and regulations are subject to varying and conflicting interpretations. Under certain of these laws, we could also be subject to allegations of liability for the activities of our independent affiliates or independent owner-operators.

---

**Table of Contents**

**Index to Financial Statements**

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

*Reserves*

Our policy is to accrue remediation expenses when it is probable that such efforts will be required and the related expenses can be reasonably estimated. Estimates of costs for future environmental compliance and remediation may be impacted by such factors as changes in environmental laws and regulatory requirements, the availability and application of technology, the identification of currently unknown potential remediation sites and the allocation of costs among the potentially responsible parties under the applicable statutes. Our reserves for environmental compliance and remediation are adjusted periodically as remediation efforts progress or as additional technical or legal information becomes available. As of December 31, 2011 and 2010, we had reserves in the amount of \$10.1 million and \$10.9 million, respectively, for all environmental matters, of which the most significant are discussed below.

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

*Property Contamination Liabilities*

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

At 8 of the 26 sites, we are the only responsible party and are in the process of conducting investigations and/or remediation projects. Five of these projects relate to operations conducted by our subsidiary, CLC, and its subsidiaries prior to our acquisition of CLC in 1998. These five sites are: (1) Bridgeport, New Jersey; (2) William Dick, Pennsylvania; (3) Tonawanda, New York; (4) Scary Creek, West Virginia; and (5) Charleston, West Virginia. The remaining three sites relate to investigations and potential remediation that were triggered by the New Jersey Industrial Site Recovery Act ( ISRA ), which requires such investigations and remediation following the sale of industrial facilities. Each of these sites is discussed in more detail below. We have estimated future expenditures over the next five years for these eight properties to be in the range of \$7.9 million to \$16.7 million.

---

**Table of Contents**

**Index to Financial Statements**

*Bridgeport, New Jersey*

QDI is required under the terms of three federal consent decrees to construct remediation at this operating truck terminal and tank wash site. CLC entered into consent orders with the U.S. Environmental Protection Agency ( USEPA ) in May 1991 for the treatment of groundwater and in October 1998 for the removal of contamination in the wetlands. In addition, we entered into a third federal consent decree with USEPA in 2010 to assess and remediate contaminated soils at the site.

The groundwater treatment remedy negotiated with USEPA required us to construct a treatment facility for in-place treatment of groundwater contamination and a local discharge which was completed in early 2007. After various start-up issues, the treatment facility began initial operations in June 2010. The plant experienced issues with the treatment of vapor phase emissions and operation was suspended in July 2010. After an engineering re-design process including an effective pilot treatability study, the plant was modified to address the treatment of the vapor phase emissions. The plant resumed operations in July 2011 and is now in the operations and maintenance phase. The plant appears to be performing in accordance with its design criteria and meeting permit requirements. Wetlands contamination has been remediated with localized restoration completed. Monitoring of the restored wetlands is required by USEPA to continue until September 2012. In regard to contaminated soils, USEPA finalized the feasibility study and issued a record of decision in 2009 for the limited areas that show contamination and warrant additional investigation or work. We entered a consent order with USEPA in 2010 to perform the remediation work, which will consist of in-place thermal treatment. This work is currently in the remedial design phase. However, additional site investigation work is required by USEPA. We have aggregate estimated expenditures for the Bridgeport location over the next five years to be in the range of \$5.3 million to \$8.5 million.

*William Dick, Pennsylvania*

CLC entered into a consent order with the Pennsylvania DEP and USEPA in October 1995 obligating it to provide a replacement water supply to area residents, treat contaminated groundwater, and perform remediation of contaminated soils at this former wastewater disposal site. The replacement water supply is complete. We completed construction of a treatment facility with local discharge for groundwater treatment in the fourth quarter of 2007. Plant start-up issues were resolved and the treatment facility began operations in June 2010. The plant experienced issues with the liquid phase carbon treatment process and the operation was suspended in August 2010. After some modification work, the plant was re-started at the end of 2010 and continues to operate. The agencies approved a contaminated soils remedy, which required both thermal treatment of contaminated soils and treatment of residuals via soil vapor extraction. The remedy expanded to include off-site shipment of contaminated soils. Soil treatment was completed in September 2007. Site sampling has been conducted and the results indicate that the soil clean-up objectives have not been fully achieved. Negotiations are on-going with USEPA over further remedial actions that may be needed at the site. We have estimated aggregate expenditures for the William Dick location over the next five years to be in the range of \$0.9 million to \$3.4 million.

*Other Properties*

*Tonawanda, New York:* CLC entered into a consent order with the New York Department of Environmental Conservation on June 22, 1999 obligating it to perform soil and groundwater remediation at this former truck terminal and tank wash site. We have completed a remedial investigation and a feasibility study. The state issued a record of decision in May 2006. The remedial design work plan was completed and submitted to the agency in the fourth quarter of 2011. The remedial action phase is expected to begin in the third quarter of 2012.

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

---

**Table of Contents**

**Index to Financial Statements**

*ISRA New Jersey Facilities:* We are obliged to conduct investigations and remediation at three current or former New Jersey tank wash and terminal sites pursuant to the state's ISRA, which requires such remediation following the sale of facilities after 1983. Two of the sites are in the process of remedial investigation with projections set in contemplation of limited soil remediation expense for contaminated areas. One site has completed the investigation phase and a final report was submitted to NJDEP. In accordance with the report findings and with the concurrence of the NJDEP, remedial efforts included the excavation of a limited number of soil hot spots at the facility. Additional planned efforts include deed recordation, placement of clean fill and the designation of a Classification Exception Area (CEA) for the groundwater.

*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. The state environmental authority has requested some additional sampling to close the site under the state's voluntary clean-up program. The negotiations are on-going with the state to finalize the agreement to enter the voluntary clean-up program.

We have estimated aggregate future expenditures over the next five years for Tonawanda, Scary Creek, ISRA New Jersey and Charleston to be in the range of \$1.7 million to \$4.8 million.

***Other Legal Matters***

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

**MOTOR CARRIER AND OTHER REGULATION**

As a motor carrier, we are subject to regulation by the FMCSA, which is a unit of the DOT. The FMCSA enforces comprehensive trucking safety regulations and performs certain functions relating to such matters as motor carrier registration, cargo and liability insurance, extension of credit to motor carrier customers, and leasing of equipment by motor carriers from independent owner-operators. There are additional regulations specifically relating to the tank truck industry, including testing and specifications of equipment and product handling requirements. We may transport most types of freight to and from any point in the United States over any route selected by us. The trucking industry is subject to possible regulatory and legislative changes, including changes intended to address climate change, that may affect the economics of the industry by requiring changes in operating practices, restricting and taxing emissions or by changing the demand for common or contract carrier services or the cost of providing truckload services. Some of these possible changes may include increasingly stringent environmental regulations, increasing control over the transportation of hazardous materials, changes in the hours-of-service regulations which govern the amount of time a driver may drive in any specific period of time, mandate to utilize EOBRS or limits on vehicle weight and size.

Interstate motor carrier operations are subject to safety requirements prescribed by the DOT. To a large degree, intrastate motor carrier operations are subject to safety and hazardous material transportation regulations that mirror federal regulations. Such matters as weight and dimension of equipment are also subject to federal and state regulations. DOT regulations mandate drug and alcohol testing of drivers and other safety personnel. In 2010, we underwent a compliance review by the FMCSA in which we retained our satisfactory DOT safety rating. Any downgrade in our DOT safety rating (as a result of the new CSA regulations described below, or otherwise) could adversely affect our business.

In December 2010, the FMCSA began to rate individual driver safety performance inclusive of all driver violations over 3-year time periods under new regulations known as the CSA. CSA is an FMCSA initiative designed to provide motor carriers and drivers with attention from FMCSA and state partners about their

---

**Table of Contents**

**Index to Financial Statements**

potential safety problems with an ultimate goal of achieving a greater reduction in large truck and bus crashes, injuries, and fatalities. Prior to these regulations, only carriers were rated by the DOT and the rating only included out-of-service violations and ticketed offenses associated with out-of-service violations. Under the CSA, the FMCSA may deem carriers with poor safety performance unfit to operate, which serves to prohibit the carrier from operating until its safety fitness determination improves.

In August 2011 a federal court decision vacated regulations of the FMCSA that would have mandated EOBRs for certain carriers with demonstrated non-compliance with hours of service regulations. The FMCSA has announced that it does not intend to appeal the decision and will instead pursue implementation of its rule proposed in February 2011 to require EOBRs for all interstate carriers currently subject to record keeping requirements for its hours-of-service regulations. Certain Congressional bills would also require EOBRs in most interstate tractors if they became law.

Title VI of The Federal Aviation Administration Authorization Act of 1994 generally prohibits individual states, political subdivisions thereof and combinations of states from regulating price, entry, routes or service levels of most motor carriers. However, the states retained the right to continue to require certification of carriers, based upon two primary fitness criteria safety and insurance and retained certain other limited regulatory rights. Prior to January 1, 1995, we held intra-state authority in several states. Since that date, we have either been grandfathered or have obtained the necessary certification to continue to operate in those states. In states in which we were not previously authorized to operate intrastate, we have obtained certificates or permits allowing us to operate.

We are subject to compliance with cargo security and transportation regulations issued by the Transportation Security Administration and by the Department of Homeland Security, including regulation by the Bureau of Customs and Border Protection. We believe that we will be able to comply with Bureau of Customs and Border Protection rules, requiring pre-notification of cross-border shipments, with no material effect on our operations. We are also subject to the motor carrier laws of Canada and Mexico.

From time to time, various legislative proposals are introduced including proposals to increase federal, state, or local taxes, including taxes on motor fuels, which may increase our costs and adversely impact the recruitment of drivers. We cannot predict whether, or in what form, any increase in such taxes applicable to us will be enacted.

During 2010, we began marketing transportation services to the frac shale natural gas and oil drilling industry. Material regulatory regimes specifically designed to regulate this industry are not currently in place. However, certain Congressional bills have been advanced that, if enacted, would subject this industry to governmental regulation. Further, federal and state environmental and other agencies might enact rules under existing statutory authority to govern this industry. The enactment of legislation regulating the frac shale natural gas and oil drilling industry, or the exercise of rulemaking authority by governmental agencies, could have a material adverse effect on the customers we serve in this industry, and accordingly could adversely affect demand for our energy logistics services, impact the profitability of this business or subject us to additional regulation.

**ADDITIONAL INFORMATION AVAILABLE ON COMPANY WEBSITE**

Our most recent Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports may be viewed or downloaded electronically or as paper copies from our website: <http://www.qualitydistribution.com> as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Our recent press releases are also available to be viewed or downloaded electronically at <http://www.qualitydistribution.com>. We will also provide electronic or paper copies of our SEC filings free of charge on request. We regularly post or otherwise make available information on the Investor Relations section of our website that may be important to investors. Any information on or linked from our website is not incorporated by reference into this Annual Report on Form 10-K.



**Table of Contents**

**Index to Financial Statements**

**ITEM 1A. RISK FACTORS**

**Risks Related to Our Business**

*Our business is subject to general and industry specific economic factors that are largely out of our control and could affect our operations and profitability.*

Our business is dependent on various economic factors over which we have little control, that include:

the availability of qualified drivers;

access to the credit and capital markets;

changes in regulations concerning shipment and storage of material we transport and depot;

increases in fuel prices, taxes and tolls;

increases in costs of equipment;

interest rate, natural gas, oil and currency fluctuations;

excess capacity in the chemical logistics, energy logistics or intermodal industry;

changes in license and regulatory fees;

potential disruptions at U.S. ports of entry;

downturns in customers' business cycles; and

reductions in customers' shipping requirements.

As a result, we may experience periods of overcapacity, declining prices, lower profit margins and less availability of cash in the future. We have a large number of customers in the chemical-processing and consumer-goods industries. If these customers experience fluctuations in their business activity due to an economic downturn, work stoppages or other industry conditions, the volume of freight transported by us or intermodal provided by us on behalf of those customers may decrease. The volume of shipments of chemical products is, in turn, affected by many other industries and end use markets, including consumer and industrial products, paints and coatings, paper and packaging, agriculture and food products, and tends to vary with changing economic conditions.

The trucking industry, in general, experienced a slowdown due to lower demand resulting from slowing economic conditions in 2008 and 2009. These conditions continued, although to a lesser extent, in 2010 and 2011 and it is uncertain whether economic conditions will improve in 2012.

and beyond.

***Our debt agreements contain restrictions that could limit our flexibility in operating our business.***

Our New ABL Facility and the indentures governing our 9.875% Second-Priority Senior Secured Notes due 2018 (the 2018 Notes ) contain covenants that limit or prohibit our ability, among other things, to:

incur or guarantee additional indebtedness or issue certain preferred shares;

redeem, repurchase, make payments on or retire subordinated indebtedness or make other restricted payments;

make certain loans, acquisitions, capital expenditures or investments;

sell certain assets, including stock of our subsidiaries;

enter into sale and leaseback transactions;

create or incur liens;

consolidate, merge, sell, transfer or otherwise dispose of all or substantially all of our assets; and

enter into certain transactions with our independent affiliates.

**Table of Contents**

**Index to Financial Statements**

These covenants may prohibit or impair us from taking actions that we believe are best for our business and shareholders. Furthermore, under the New ABL Facility we may be required to satisfy and maintain specified financial ratios under certain conditions. Our ability to meet those financial ratios can be affected by events beyond our control, and we may not meet those ratios. In addition, covenants in our debt agreements limit our use of proceeds from our ordinary operations and from extraordinary transactions. These limits may require us to apply proceeds in a certain manner or prohibit us from utilizing the proceeds in our operations or from prepaying or retiring indebtedness that we desire.

A failure to comply with any of the covenants contained in the New ABL Facility or our other indebtedness could result in an event of default, which, if not cured or waived, could have a material adverse effect on our business, financial condition and results of operations. In the event of default, the lenders of the defaulted indebtedness:

would not be required to lend any additional amounts to us under the New ABL Facility;

could elect to declare all borrowings outstanding, together with accrued and unpaid interest and fees, to be due immediately and terminate all commitments to extend further credit; or

could require us to apply all of our available cash to repay these borrowings.

Such actions by the lenders could cause cross defaults under our other indebtedness. If we were unable to repay amounts under the New ABL Facility, the lenders under the New ABL Facility could proceed against the collateral granted to them to secure that indebtedness. If any of our indebtedness is accelerated, there can be no assurance that our assets would be sufficient to repay such indebtedness in full.

***We have substantial indebtedness and may not be able to make required payments on our indebtedness.***

We had consolidated indebtedness and capital lease obligations, including current maturities, of \$307.1 million as of December 31, 2011. We must make regular payments under the New ABL Facility and our capital leases and semi-annual interest payments under our 2018 Notes.

Our 2018 Notes issued in the quarter ended December 31, 2010 carry high fixed rates of interest. In addition, interest on amounts borrowed under our New ABL Facility is variable and will increase as market rates of interest increase. We do not presently hedge against the risk of rising interest rates. Our higher interest expense may reduce our future profitability. Our future higher interest expense and future redemption obligations could have other important consequences with respect to our ability to manage our business successfully, including the following:

it may make it more difficult for us to satisfy our obligations for our indebtedness, and any failure to comply with these obligations could result in an event of default;

it will reduce the availability of our cash flow to fund working capital, capital expenditures and other business activities;

it increases our vulnerability to adverse economic and industry conditions;

it limits our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;

it may make us more vulnerable to further downturns in our business or the economy; and

## Edgar Filing: QUALITY DISTRIBUTION INC - Form 10-K

it limits our ability to exploit business opportunities.

The New ABL Facility matures August 2016. However, the maturity date of the New ABL Facility may be accelerated if we default on our obligations. If the maturity of the New ABL Facility and/or such other debt is accelerated, we do not believe that we will have sufficient cash on hand to repay the New ABL Facility and/or such other debt or, unless conditions in the credit markets improve significantly, that we will be able to refinance the New ABL Facility and/or such other debt on acceptable terms, or at all. The failure to repay or refinance the New ABL Facility and/or such other debt at maturity will have a material adverse effect on our business and financial condition, would cause substantial liquidity problems and may result in the bankruptcy of us and/or our subsidiaries. Any actual or potential bankruptcy or liquidity crisis may materially harm our relationships with our customers, suppliers and independent affiliates.

**Table of Contents**

**Index to Financial Statements**

Our ability to satisfy our interest and principal payment obligations will depend upon, among other things:

our future financial and operating performance, which will be affected by many factors beyond our control; and

our future ability to borrow under the New ABL Facility, the availability of which depends on, among other things, our complying with the covenants in the New ABL Facility.

We may not generate sufficient cash flow from operations, and we may not be able to draw under the New ABL Facility, in an amount sufficient to fund our liquidity needs. If our cash flows and capital resources are insufficient to service our indebtedness or fund our operations, we may be forced to reduce or delay capital expenditures, sell assets, seek additional capital or restructure or refinance our indebtedness. Our ability to restructure or refinance our debt will depend on the condition of the capital markets and our financial condition at such time. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. If we are not able to refinance any of our indebtedness, sell assets or raise capital on commercially reasonable terms, or at all, or for sufficient proceeds, we could default on our obligations and impair our liquidity. Our inability to generate sufficient cash flow to satisfy our debt obligations or to refinance our obligations on commercially reasonable terms would have a material adverse effect on our business, financial condition, results of operations or cash flows.

***Despite our substantial indebtedness, we may incur significantly more indebtedness, which could have a material adverse effect on our business, financial condition, results of operations or cash flows.***

The New ABL Facility and the indentures governing the 2018 Notes contain restrictions on our ability to incur additional indebtedness. These restrictions are subject to a number of important qualifications and exceptions, and the indebtedness incurred in compliance with these restrictions could be substantial. Accordingly, we or our subsidiaries could incur significant additional indebtedness in the future. We had \$82.3 million available for additional borrowing under the New ABL Facility as of December 31, 2011, including a subfacility for letters of credit, and the covenants under our debt agreements would allow us to borrow a significant amount of indebtedness beyond this amount. Additional leverage could have a material adverse effect on our business, financial condition, results of operations or cash flows and could increase the risks described in Our debt agreements contain restrictions that could limit our flexibility in operating our business, and We have substantial indebtedness and may not be able to make required payments on our indebtedness.

***The trucking industry is extremely competitive and fragmented.***

The trucking industry is extremely competitive and fragmented. No single carrier in the chemical logistics or energy logistics business has a significant market share. We compete with many other carriers of varying sizes, customers private fleets, and, to a lesser extent in the chemical logistics market, with railroads, which may limit our growth opportunities and reduce profitability. Historically, competition has created downward pressure on the trucking industry's pricing structure. Some trucking companies with which we compete have greater financial resources than we do.

We believe that the most significant competitive factor that impacts demand for our services is rates, and we may be forced to lower our rates based on our competitors' pricing decisions, which would reduce our profitability. In fact, certain markets that we serve have experienced fierce price competition in recent years. This has been further magnified through the impact of the recent global economic recession as trucking companies have focused more on price to retain business and market share. With respect to certain aspects of our business, we also compete with intermodal transportation and railroads. Intermodal transportation has increased in recent years. Growth in such forms of transport could adversely affect our market share, net sales and profit margins. Competition from non-trucking modes of transportation and from intermodal transportation would likely increase if state or federal fuel taxes were to increase without a corresponding increase in taxes imposed upon other modes of transportation.

---

**Table of Contents**

**Index to Financial Statements**

Additional trends include current and anticipated consolidation among our competitors which may cause us to lose market share as well as put downward pressure on pricing. Some of our competitors are larger, have greater financial resources and have less debt than we do. As a result, those competitors may be better able to withstand a change in conditions within our industry and in the economy as a whole. If we do not compete successfully, our operating margins, financial condition, cash flows and profitability could be adversely affected.

***Our reliance upon independent affiliates and independent owner-operators could adversely affect our operations and profitability.***

We rely heavily upon independent affiliates and independent owner-operators to perform the logistics services for which we contract with our customers. A reduction in the number of independent owner-operators, whether due to capital requirements related to the expense of obtaining, operating and maintaining equipment or for other reasons, could have a negative effect on our operations and profitability. Similarly the loss of one or more independent affiliates could adversely affect our profitability.

Contracts with independent affiliates are for various terms and contracts with independent owner-operators may be terminated by either party on short notice. Although independent affiliates and independent owner-operators are responsible for paying for their own equipment and other operating costs, significant increases in these costs could cause them to seek a higher percentage of the revenue generated if we are unable to increase our rates commensurately. A continued decline in the rates we pay to our independent affiliates and independent owner-operators could adversely affect our ability to maintain our existing independent affiliates and independent owner-operators and attract new independent affiliates, independent owner-operators and drivers. Disagreements with independent affiliates or independent owner-operators as to payment or other terms, or the failure of a key independent affiliate to meet our contractual obligations or otherwise perform consistent with our requirements may require us to utilize alternative suppliers, in each case at potentially higher prices or with disruption of the services that we provide to our customers. If we fail to deliver on time or if the costs of our services increase, then our profitability and customer relationships could be harmed.

Although our independent affiliates and independent owner-operators have substantial contractual obligations to us, we do not control them. These independent affiliates and independent owner-operators typically utilize tractors and trailers bearing our tradenames and trademarks. To the extent that one of our independent affiliates or independent owner-operators are subject to negative publicity, it could reflect on us and have a material adverse effect on our business, brand, results of operations, cash flows or financial condition.

***The loss of one or more significant customers may adversely affect our business.***

We are dependent upon a limited number of large customers. Our top ten customers accounted for 32.6% of our total revenue during 2011. The loss of one or more of our major customers, or a material reduction in services we perform for such customers, may have a material adverse effect on our business, results of operations or financial condition.

***We are self-insured and have exposure to certain claims and are subject to the insurance marketplace, all of which could affect our profitability.***

The primary accident risks associated with our business are:

motor-vehicle related bodily injury and property damage;

workers' compensation claims;

environmental pollution liability claims;

cargo loss and damage; and

general liability claims.

---

**Table of Contents**

**Index to Financial Statements**

We currently maintain insurance for:

motor-vehicle related bodily injury and property damage claims, covering all employees, independent owner operators and independent affiliates;

workers' compensation insurance coverage on our employees and company drivers;

environmental pollution liability claims; and

general liability claims.

Our insurance program includes a self insured deductible of \$2.0 million per incident for bodily injury and property damage and a \$1.0 million deductible for workers' compensation. In addition, we currently maintain insurance policies with a total limit of \$40.0 million, of which \$35.0 million is provided under an umbrella liability policy and \$5.0 million is provided under a truckers' liability policy. The \$2.0 million deductible per incident could adversely affect our profitability, particularly in the event of an increase in the number or severity of incidents. Additionally, we are self-insured for damage to the equipment that we own and lease, as well as for cargo losses and such self-insurance is not subject to any maximum limitation. We extend insurance coverage to our independent affiliates and independent owner-operators for (i) motor vehicle related bodily injury, (ii) motor-vehicle related property damage, and (iii) cargo loss and damage. Under this extended coverage, independent affiliates and independent owner-operators are responsible for only a small portion of the applicable deductibles.

We are subject to changing conditions and pricing in the insurance marketplace and we cannot assure you that the cost or availability of various types of insurance may not change dramatically in the future. To the extent these costs cannot be passed on to our customers in increased freight rates, increases in insurance costs could reduce our future profitability and cash flow.

***Changes in laws and regulations regarding health insurance benefits could adversely affect our cost of operations, employee relations and profitability.***

The recently enacted federal healthcare reform legislation could significantly increase our employee costs by requiring us either to provide health insurance coverage to our employees or to pay certain penalties for electing not to provide such coverage. Because these new requirements are broad, complex, subject to certain phase-in rules and pending legal challenges, it is difficult to predict the ultimate impact that this legislation will have on our business and operating costs. We cannot assure you that this legislation or any alternative version that may ultimately be implemented will not materially increase our operating costs. This legislation could also adversely affect our employee relations and ability to compete for new employees if our response to this legislation is considered less favorable than the responses or health benefits offered by employers with whom we compete for talent.

***The trucking industry is subject to regulation, and changes in trucking regulations may increase costs.***

As a motor carrier, we are subject to regulation by the FMCSA and the DOT, and by various federal, state, and provincial agencies. These regulatory authorities exercise broad powers governing various aspects such as operating authority, safety, hours of service, hazardous materials transportation, financial reporting and acquisitions. There are additional regulations specifically relating to the trucking industry, including testing and specification of equipment, product-handling requirements and drug testing of drivers. In 2010, we underwent a compliance review by the FMCSA in which we retained our satisfactory DOT safety rating. Any downgrade in our DOT safety rating (as a result of the new CSA regulations described below or otherwise) could adversely affect our business.

In December 2010, the FMCSA began to rate individual driver safety performance inclusive of all driver violations over 3-year time periods under new regulations known as the CSA. CSA is an FMCSA initiative designed to provide motor carriers and drivers with attention from FMCSA and state partners about their





**Table of Contents**

**Index to Financial Statements**

potential safety problems with an ultimate goal of achieving a greater reduction in large truck and bus crashes, injuries, and fatalities. Prior to these regulations, only carriers were rated by the DOT and the rating only included out-of-service violations and ticketed offenses associated with out-of-service violations.

The trucking industry is subject to possible regulatory and legislative changes that may affect the economics of the industry by requiring changes in operating practices, emissions or by changing the demand for common or contract carrier services or the cost of providing trucking services. Possible changes include:

increasingly stringent environmental regulations, including changes intended to address climate change;

restrictions, taxes or other controls on emissions;

regulation specific to the fracing industry and logistics providers to the industry;

changes in the hours-of-service regulations, which govern the amount of time a driver may drive in any specific period;

requirements leading to accelerated purchases of new trailers;

mandatory limits on vehicle weight and size; and

mandatory regulations imposed by the Department of Homeland Security.

From time to time, various legislative proposals are introduced, including proposals to increase federal, state, or local taxes, including taxes on motor fuels and emissions, which may increase our or our independent affiliates' operating costs, require capital expenditures or adversely impact the recruitment of drivers.

Restrictions on emissions or other climate change laws or regulations could also affect our customers that use significant amounts of energy or burn fossil fuels in producing or delivering the products we carry. We also could lose revenue if our customers divert business from us because we have not complied with their sustainability requirements.

***Our operations involve hazardous materials, which could create environmental liabilities.***

Our activities, particularly those relating to our handling, transporting and storage of bulk chemicals, are subject to environmental, health and safety laws and regulation by governmental authorities in the United States as well as foreign governmental authorities. Among other things, these environmental laws and regulations address emissions to the air, discharges onto land and into water, the generation, handling, storage, transportation, treatment and disposal of waste materials, and the health and safety of our employees. These laws generally require us to obtain and maintain various licenses and permits. Most environmental laws provide for substantial fines, penalties and potential criminal sanctions for violations. Additionally, we have been, and may in the future be required to obtain financial guarantees, such as letters of credit, for environmental obligations. Environmental, health and safety laws and regulations are complex, change frequently and have tended to become stricter over time. Some of these laws and regulations are subject to varying and conflicting interpretations. There can be no assurance that violations of such laws, regulations, permits or licenses will not be identified or occur in the future, or that such laws and regulations will not change in a manner that could impose material costs on us.

As a handler of hazardous substances, we are potentially subject to strict, joint and several liability for investigating and rectifying the consequences of spills and other environmental releases of these substances. We have incurred remedial costs and regulatory penalties for

## Edgar Filing: QUALITY DISTRIBUTION INC - Form 10-K

chemical or wastewater spills and releases at our facilities or over the road. As a result of environmental studies conducted at our facilities or at third party sites, we have identified environmental contamination at certain sites that will require remediation and we are currently conducting investigation and remediation projects at eight of our facilities. Future liabilities and costs under environmental, health, and safety laws are not easily predicted, and such liabilities could result in a material adverse effect on our financial condition, results of operations or business reputation.

---

**Table of Contents**

**Index to Financial Statements**

In addition, we have been named a potentially responsible party at various sites under the CERCLA and other environmental regulatory programs. Our current reserves provided for these sites may prove insufficient, which would result in future charges against earnings. Furthermore, we could be named a potentially responsible party at other sites in the future and the costs associated with such future sites could be material.

*Potential disruptions at U.S. ports of entry could adversely affect our business, financial condition and results of operations.*

Any disruption of the delivery of intermodal ISO tank containers to those ports where we do business would reduce the number of intermodal tank containers that we transport, store, clean or maintain. This reduced activity may have a material adverse effect on our business, results of operations or financial condition.

*If fuel prices increase significantly, our results of operations could be adversely affected.*

We are subject to risk with respect to purchases of fuel. Prices and availability of petroleum products are subject to political, economic and market factors that are generally outside our control. Political events in the Middle East, Venezuela, and elsewhere, as well as hurricanes and other weather-related events, and current and future legislation (such as market-based (cap-and-trade) greenhouse gas emissions control mechanisms), also may cause the price of fuel to increase. Because our operations are dependent upon diesel fuel, significant increases in diesel fuel costs could materially and adversely affect our results of operations and financial condition if we are unable to pass increased costs on to customers through rate increases or fuel surcharges. Historically, we have recovered the majority of the increases in fuel prices from chemical logistics and intermodal customers through fuel surcharges. Fuel surcharges that can be collected may not always fully offset the increase in the cost of diesel fuel. To the extent fuel surcharges are insufficient to offset our fuel costs or we are unable to continue passing on increased fuel costs to our customers, our results of operations may be adversely affected.

*The loss of qualified drivers or other personnel could limit our growth and negatively affect operations.*

During periods of high trucking volumes, there is substantial competition for qualified drivers in the trucking industry. Regulatory requirements, including CSA (discussed above), and an improvement in the economy could reduce the number of eligible drivers. Furthermore, certain geographic areas have a greater shortage of qualified drivers than other areas. We operate in many of the geographic areas where there have been driver shortages in the past and have turned down new business opportunities as a result of the lack of qualified new drivers. Our voluntary implementation of EOBRs prior to regulatory requirement has resulted in greater driver turnover in 2011 and could become an on-going competitive disadvantage if our competitors are not compelled to implement EOBRs as we anticipate. Difficulty in attracting qualified personnel, particularly qualified drivers, could require us to increase driver compensation, forego available customer opportunities and underutilize the tractors and trailers in our network. These actions could result in increased costs and decreased revenues. In addition, we may not be able to recruit other qualified personnel in the future.

*Our business may be harmed by terrorist attacks, future wars or anti-terrorism measures.*

In the aftermath of the terrorist attacks of September 11, 2001, federal, state and municipal authorities have implemented and are implementing various security measures, including checkpoints and travel restrictions on large trucks and fingerprinting of drivers in connection with new hazardous materials endorsements on their licenses. Such existing measures and future measures may have significant costs associated with them which a motor carrier is forced to bear. Moreover, large trucks carrying toxic chemicals are potential terrorist targets, and we may be obligated to take measures, including possible capital expenditures intended to protect our trucks. In addition, the insurance premiums charged for some or all of the coverage currently maintained by us could continue to increase dramatically or such coverage could be unavailable in the future.

**Table of Contents**

**Index to Financial Statements**

***We depend on members of our senior management.***

We believe that our ability to successfully implement our business strategy and to operate profitably depends in large part on the continued employment of our senior management team. If members of senior management become unable or unwilling to continue in their present positions, our business or financial results could be adversely affected.

***Our long-lived assets are subject to potential asset impairment.***

At December 31, 2011, goodwill and other intangible assets represented approximately \$49.8 million, or approximately 16.5% of our total assets and approximately 25.9% of our non-current assets, the carrying value of which may be reduced if we determine that those assets are impaired. In addition, at December 31, 2011, net property and equipment totaled approximately \$125.9 million, or approximately 41.6% of our total assets.

We review for potential goodwill impairment on an annual basis as part of our goodwill impairment testing in the second quarter of each year with a measurement date of June 30, and more often if a triggering event or circumstance occurs making it likely that impairment exists. In addition, we test for the recoverability of long-lived assets at year end, and more often if an event or circumstance indicates the carrying value may not be recoverable. We conduct impairment testing based on our current business strategy in light of present industry and economic conditions, as well as future expectations.

The annual goodwill impairment reviews performed as of June 30, 2011 and 2010 resulted in no impairment. The annual goodwill impairment review performed in June 2009 indicated there was goodwill impairment. As a result of the analysis, we concluded that a total impairment charge to goodwill of \$146.2 million was necessary at June 30, 2009, of which \$144.3 million was related to our chemical logistics segment, eliminating 100% of the carrying amount of goodwill of that segment, and \$1.9 million was related to our intermodal segment.

If there are changes to the methods used to allocate carrying values, if management's estimates of future operating results change, if there are changes in the identified reporting units or if there are changes to other significant assumptions, the estimated carrying values and the estimated fair value of our goodwill could change significantly, and could result in future impairment charges, which could materially impact our results of operations and financial condition.

***We may be unable to successfully realize all of the intended benefits from future acquisitions, and we may be unable to identify or realize the intended benefits of potential future acquisition candidates.***

We may be unable to realize all of the intended benefits of any future acquisitions. As part of our business strategy, we continually evaluate potential future acquisitions, some of which could be material, and engage in discussions with acquisition candidates. We cannot assure you that suitable acquisition candidates will be identified and acquired in the future, that the financing of any such acquisition will be available on satisfactory terms, that we will be able to complete any such acquisition or that we will be able to accomplish our strategic objectives as a result of any such acquisition. Nor can we assure you that our acquisition strategies will be viewed positively by customers or achieve their intended benefits. Often acquisitions are undertaken to improve the operating results of either or both the acquirer and the acquired company and we cannot assure you that we will be successful in this regard. We will encounter various risks in acquiring other companies, including the possible inability to integrate an acquired business into our operations, diversion of management's attention and unanticipated problems or liabilities, some or all of which could have a material adverse effect on our business, financial condition, and results of operations or cash flows.

---

**Table of Contents**

**Index to Financial Statements**

***Increased unionization could increase our operating costs or constrain operating flexibility.***

Although only approximately 2.7% of our driver population, including independent owner-operators and employees of independent affiliates, was subject to collective bargaining agreements at December 31, 2011, unions such as the International Brotherhood of Teamsters have traditionally been active in the U.S. trucking industry. Unionized workers could disrupt our operations by strike, work stoppage or other slowdown. In addition, our non-union workforce has been subject to unionization efforts in the past, and we could be subject to future unionization. Increased unionization of our workforce could result in higher compensation and working condition demands that could increase our operating costs or constrain our operating flexibility.

***If we withdraw from any of our multi-employer pension plans, we will be liable for a proportionate share of such plans' unfunded vested benefit liabilities upon our withdrawal.***

As of December 31, 2011, we contributed to three multi-employer pension plans for employees under collective bargaining agreements. In conjunction with our prior restructuring efforts, during the third quarter of fiscal 2010, we notified the trustees of three other plans of our intention to withdraw from the plans. Our withdrawal notifications were originally estimated to result in an aggregate withdrawal liability of approximately \$2.0 million, and we recorded a restructuring charge for this full amount in the third quarter of fiscal 2010. During the first nine months of fiscal 2011, we made aggregate payments of approximately \$1.5 million to fully discharge the liabilities under these three pension plans and recorded a restructuring credit of \$0.5 million.

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

***New markets such as the energy logistics market have risks with which we have limited experience, and we may not be able to operate profitably in these markets and may lose our investment.***

In 2011, we began hauling fresh water, disposal water and oil for the natural gas and oil drilling market. Although we have identified our existing contracts in this market as a source of revenue growth, we may prove unable to perform these contracts and earn anticipated revenue. We have limited experience transporting fresh water and disposal water and oil or serving natural gas or oil drilling customers. We plan to leverage our existing network of affiliates to expand or energy market business, but our existing network may prove unsuitable for this new business. Also, our market expansion requires certain capital expenditures for specialized trailers and other start-up costs that we may be unable to recoup.

Hydraulic fracturing is under significant legislative and regulatory scrutiny, the adoption of new laws or regulations at the federal, state or local level could adversely affect our customers' hydraulic fracturing operations, which could reduce demand for our logistics services. In addition, heightened political, regulatory and public scrutiny of hydraulic fracturing practices could adversely affect our business, financial condition and results of operations, whether directly or indirectly.

As we expand our business into this new market, we may face increased risks due to the cyclical nature of the energy industry. Depending on the market prices of oil and gas, customers in that industry may delay and decrease their capital and development expenditures, reducing the demand for our transportation services. Such market volatility may lead to fluctuations in results of operations from quarter to quarter. Natural gas prices in recent years have been at historic lows, leading some large producers to announce reduced fracing drilling. If this continues, it could reduce our revenues.

Accordingly, there can be no assurance that we will be able to effectively compete in this new market or that our operations in this market will be successful. If we are unsuccessful, our operating margins, financial condition, cash flows and profitability could be adversely affected.

---

**Table of Contents**

**Index to Financial Statements**

**Risks Related to our Common Stock**

*We have a single shareholder who can substantially influence the outcome of all matters voted upon by our shareholders and prevent actions which a shareholder may otherwise view favorably.*

As of March 1, 2012, Apollo Investment Fund III, L.P. and its affiliated funds ( Apollo ) were our largest shareholder and owned or controlled approximately 32.3% of our outstanding common stock. As a result, Apollo can influence substantially all matters requiring shareholder approval, including the election of directors, the approval of significant corporate transactions such as acquisitions, the ability to block an unsolicited tender offer and any other matters requiring a vote of shareholders. Three of our board members are partners or employees of Apollo. This concentration of ownership and board representation could delay, defer or prevent a change in control of our Company or impede a merger, consolidation, takeover or other business combination that a shareholder may otherwise view favorably.

*Our ability to issue blank check preferred stock and Florida law may prevent a change in control of our Company that a shareholder may consider favorable.*

Provisions of our articles of incorporation and Florida law may discourage, delay or prevent a change in control of our Company that a shareholder may consider favorable. These provisions include:

authorization of the issuance of blank check preferred stock that could be issued by our Board of Directors to increase the number of outstanding shares in order to control a takeover attempt which the Board viewed unfavorably;

elimination of the voting rights of shareholders with respect to shares that are acquired without prior Board approval that would otherwise entitle such shareholder to exercise certain amounts of voting power in the election of directors; and

prohibition on business combinations with interested shareholders unless particular conditions are met.

As a result, these provisions could limit the price that investors are willing to pay in the future for shares of our common stock.

*Future sales and issuances of our common stock in the public market may depress our stock price and result in dilution.*

The market price of our common stock could decline as a result of sales by our existing shareholders of a large number of shares of our common stock. These sales might also make it more difficult for us to sell additional equity securities at a time and price that we deem appropriate. As of March 1, 2012, there are approximately 24.4 million shares of common stock outstanding. Approximately 8.8 million shares of common stock, as of March 1, 2012, are restricted securities as defined in Rule 144 under the Securities Act of 1933 or are held by affiliates.

In addition, as of March 1, 2012, we have 2.0 million shares of common stock available for issuance under our stock option plan and restricted stock incentive plan. As of March 1, 2012, there were outstanding options for approximately 2.3 million shares and outstanding warrants of less than 0.1 million shares of our common stock. Exercise of the warrants and of options that are in-the-money will result in dilution to existing shareholders in an amount equal to the difference in the market and exercise prices multiplied by the number of shares exercised. In addition, prior to their exercise, these options and warrants may depress the market price for our common stock.

*We currently do not intend to pay dividends on our common stock.*

We do not expect to pay dividends on our common stock in the foreseeable future. In addition, the New ABL Facility and indentures governing our 2018 Notes contain certain restrictions on our ability to pay dividends on our common stock. Accordingly, the price of our common stock must appreciate in order to realize a gain on one's investment. This may not occur.





**Table of Contents****Index to Financial Statements****ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

Currently we lease approximately 68,000 square feet for our administrative and corporate office headquarters in Tampa, Florida. We are currently using approximately half of this space and are seeking opportunities to sublet the unused space. The lease for our corporate headquarters expires in December 2017. The corporate headquarters for Boasso is located in Chalmette, Louisiana, and consists of 20,000 square feet of office space. The lease expires in April 2013. We have no other location that is material to our operations.

As of December 31, our network terminals and facilities consisted of the following:

	Segment	2011 Terminals	2010 Terminals	2009 Terminals
QCI independent affiliate trucking terminals	Chemical Logistics	89	91	83
QCI company-operated trucking terminals	Chemical Logistics	6	3	16
Boasso container services terminals/depots	Intermodal	9	8	8
QCER independent affiliate energy terminals	Energy Logistics	2		
QSI tank wash facilities (1)	Other			1
Total		106	102	108

(1) We sold substantially all of the operating assets of our tank wash business in October 2009. We currently own 44 properties. We operate or lease trucking, tank wash and container services terminals.

We consider our properties to be in good condition generally and believe that our facilities are adequate to meet our anticipated requirements.

**ITEM 3. LEGAL PROCEEDINGS**

In addition to those items disclosed under Item 1. Business Environmental Matters, Business Other Legal Matters and Note 20 to our consolidated financial statements contained herein, Commitments and Contingencies Environmental 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.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable

**Table of Contents****Index to Financial Statements****EXECUTIVE OFFICERS OF THE REGISTRANT**

Our executive officers, as of March 1, 2012 were as follows:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Gary R. Enzor	49	Chief Executive Officer and Director
Stephen R. Attwood	60	President and Chief Operating Officer
Joseph J. Troy	48	Executive Vice President and Chief Financial Officer
Jonathan C. Gold	48	Senior Vice President, General Counsel and Secretary
Randall T. Strutz	47	Senior Vice President of Sales and New Business Development

**Gary R. Enzor** has been a director of QDI since 2008. He has served as our Chief Executive Officer since June 2007 and as President of QDI from November 2005 to July 2010. Mr. Enzor joined QDI in December 2004. Prior to joining QDI, Mr. Enzor served as Executive Vice President and Chief Financial Officer of Swift Transportation since August 2002. Prior to Swift, Mr. Enzor held executive positions with Honeywell International, Dell Computer and AlliedSignal Inc. (now Honeywell International, Inc.).

**Stephen R. Attwood** joined QDI in July 2008 as Senior Vice President and Chief Financial Officer. He was named President and Chief Operating Officer in July 2010. Prior to joining QDI, Mr. Attwood served as Controller and Vice President of Swift Transportation Co., Inc. Previously, Mr. Attwood held senior management positions with Dell Computer and AlliedSignal Inc. (now Honeywell International, Inc.).

**Joseph J. Troy** joined QDI in August 2010 as Executive Vice President and Chief Financial Officer. Prior to joining QDI, Mr. Troy held various senior leadership positions with Walter Industries, Inc. (predecessor to Walter Energy), including Executive Vice President and Chief Financial Officer. Prior to that, Mr. Troy held various banking positions with NationsBank and its predecessor institutions. Mr. Troy previously served on the board of directors of Cellu Tissue Holdings, Inc., a producer and seller of tissue papers in the United States. He currently serves on the board of Fisher Communications, Inc., a publicly-traded media company with television, radio, internet and mobile operations throughout the western United States, and various charitable boards.

**Jonathan C. Gold** joined QDI in January 2005 and has served as our Senior Vice President, General Counsel and Secretary since April 1, 2007. Prior to his employment with the Company, Mr. Gold served as corporate counsel with CSX Transportation, Inc. and Vice President, General Counsel and Secretary with Softmart, Inc. In addition, Mr. Gold was in private practice in Washington, D.C. and served as Judicial Clerk to U.S. District Judge Harvey E. Schlesinger. Mr. Gold retired from the U.S. Army Reserve in 2007 after more than 20 years of active and reserve service and is a decorated veteran of Operation Iraqi Freedom.

**Randall T. Strutz** joined QDI in April of 2010 and serves as the Senior Vice President of Sales and New Business Development. Before joining QDI, Mr. Strutz held the position of Chief Executive Officer with Morgan Systems, Inc., from 2008 to 2010. Prior to Morgan Systems, Mr. Strutz worked at Pacer International from 2001 to 2007 where he held the positions of Chief Commercial Officer as well as the President of Rail Brokerage and Chief Operating Officer. From 1988 through 2001 Mr. Strutz held the positions of Financial Manager, Plant Controller, Logistics Manager, Manufacturing Manager, and Plant Manager for Thomson, S.A. Mr. Strutz also worked at Price Waterhouse from 1986 to 1988.

**Table of Contents****Index to Financial Statements****PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER'S PURCHASES OF EQUITY SECURITIES**

Our common stock is traded on NASDAQ Global Market ( NASDAQ ) under the symbol QLTY . The table below sets forth the quarterly high and low sale prices for our common stock as reported on NASDAQ.

	Common Stock	
	High	Low
<b>2011</b>		
1 <sup>st</sup> quarter	\$ 12.39	\$ 8.49
2 <sup>nd</sup> quarter	13.65	10.55
3 <sup>rd</sup> quarter	13.53	8.33
4 <sup>th</sup> quarter	12.08	8.01
<b>2010</b>		
1 <sup>st</sup> quarter	\$ 6.19	\$ 3.71
2 <sup>nd</sup> quarter	8.18	5.05
3 <sup>rd</sup> quarter	7.14	4.60
4 <sup>th</sup> quarter	9.94	5.90

As of March 1, 2012, there were approximately 64 holders of record of our common stock.

**DIVIDEND POLICY**

We have not declared cash dividends on our common stock for the periods presented above and have no present intention of doing so. We currently intend to retain our future earnings, if any, to repay debt or to finance the further expansion and continued growth of our business. Additionally, our New ABL Facility and the indenture governing our 2018 Notes limit QDI's ability to pay dividends on its common stock. Future dividends, if any, will be determined by our Board of Directors.

**UNREGISTERED SALES OF EQUITY SECURITIES**

The following table lists QDI's deemed share repurchases during the three months ended December 31, 2011. All shares deemed repurchased were surrendered by employees in order to satisfy statutory tax withholding obligations in connection with the vesting of stock-based compensation awards. We have no program for public stock repurchases, and any such repurchases would be restricted by the ABL Facility and the indenture governing our 2018 Notes.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Program
November 2011	19,485	\$ 11.50		

Edgar Filing: QUALITY DISTRIBUTION INC - Form 10-K

December 2011	3,622	\$	11.25
Total	23,107	\$	11.46

**Table of Contents**

**Index to Financial Statements**

**PERFORMANCE GRAPH**

The following graph depicts a comparison of cumulative total shareholder returns for us as compared to the NASDAQ Transportation Index and the NASDAQ Stock Market (U.S.) Index. The graph assumes the investment of \$100 on December 31, 2006 through December 31, 2011 and the reinvestment of any dividends issued during the period.

The comparisons shown in the graph above are based upon historical data. We caution that the stock price performance shown in the graph below is not necessarily indicative of, nor is it intended to forecast, the potential future performance of our common stock. Information used in the graph was obtained from Research Data Group.

**Table of Contents****Index to Financial Statements****ITEM 6. SELECTED FINANCIAL DATA**

The selected historical consolidated financial information set forth below is qualified in its entirety by reference to, and should be read in conjunction with, our consolidated financial statements and notes thereto included elsewhere in this report and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The consolidated statements of operations data set forth below for the years ended December 31, 2011, 2010 and 2009 and the historical balance sheet data as of December 31, 2011 and 2010 are derived from our audited consolidated financial statements included under Item 8 of this report. The historical statements of operations data for the years ended December 31, 2008 and 2007 and the historical balance sheet data as of December 31, 2009, 2008 and 2007 are derived from our audited consolidated financial statements that are not included in this report.

	YEAR ENDED DECEMBER 31				
	2011	2010	2009	2008	2007
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)				
<b>Statements of Operations Data (1)</b>					
Operating revenues	\$ 745,951	\$ 686,598	\$ 613,609	\$ 815,290	\$ 751,558
Operating expenses:					
Purchased transportation	522,866	471,792	369,460	462,706	470,725
Depreciation and amortization	14,413	16,004	20,218	21,002	17,544
Impairment charge (2)			148,630		
Other operating expenses	150,993	162,067	190,477	298,604	239,436
Operating income (loss)	57,679	36,735	(115,176)	32,978	23,853
Interest expense, net	28,912	35,548	28,047	35,120	30,524
Write-off of debt issuance costs	3,181	7,391	20	283	2,031
Gain on extinguishment of debt			(1,870)	(16,532)	
Other expense (income)	214	791	1,912	(2,945)	940
Income (loss) before taxes	25,372	(6,995)	(143,285)	17,052	(9,642)
Provision for (benefit from) income taxes	1,941	411	37,249	4,940	(2,079)
Net income (loss) attributable to common shareholders	\$ 23,431	\$ (7,406)	\$ (180,534)	\$ 12,112	\$ (7,563)
Net income (loss) per common share:					
Basic	\$ 1.01	\$ (0.36)	\$ (9.28)	\$ 0.63	\$ (0.39)
Diluted	0.96	(0.36)	(9.28)	0.62	(0.39)
Weighted average common shares outstanding:					
Basic	23,088	20,382	19,449	19,379	19,336
Diluted	24,352	20,382	19,449	19,539	19,336

**Table of Contents****Index to Financial Statements**

	YEAR ENDED DECEMBER 31				
	2011	2010	2009	2008	2007
	(DOLLARS IN THOUSANDS, EXCEPT TERMINAL, TRAILER AND TRACTOR DATA)				
<b>Other Data (1)</b>					
Net cash provided by operating activities	\$ 35,399	\$ 21,071	\$ 39,756	\$ 19,593	\$ 14,052
Net cash (used in) provided by investing activities	(30,458)	(1,079)	9,577	(8,524)	(63,399)
Net cash (used in) provided by financing activities	(2,642)	(23,879)	(50,515)	(13,485)	52,194
Number of terminals at end of period	106	102	108	149	169
Number of trailers managed at end of period	5,493	5,738	6,410	7,115	7,506
Number of tractors managed at end of period	2,940	2,901	2,839	3,224	3,927
<b>Balance Sheet Data at Year End (1)</b>					
Working capital	\$ 45,790	\$ 34,955	\$ 19,016	\$ 44,967	\$ 67,093
Total assets	302,395	271,335	279,616	502,103	493,976
Total indebtedness, including current maturities	307,063	317,332	321,284	362,586	349,271
Shareholders' (deficit) equity	(106,185)	(146,379)	(140,736)	31,020	27,300

- (1) On December 17, 2007, we acquired 100% of the stock of Boasso America Corporation. The results of Boasso have been included in our results since the date of the acquisition. On November 1, 2011, we acquired 100% of the stock of Greenville Transport Company. The results of Greenville have been included in our results since the date of the acquisition.
- (2) The impairment charge resulted from an impairment analysis of goodwill and intangible assets performed during the quarter ended June 30, 2009. Refer to Note 13 to the consolidated financial statements contained herein.

---

**Table of Contents**

**Index to Financial Statements**

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion of our results of operations and financial condition should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this report. The following discussion includes forward-looking statements. For a discussion of important factors that could cause actual results to differ from results discussed in the forward-looking statements, see

Forward-Looking Statements and Certain Considerations contained in the Introduction to this report.

**OVERVIEW**

We operate the largest chemical bulk tank truck network in North America through our wholly owned subsidiary, QCI, and are also the largest provider of intermodal ISO tank container and depot services in North America through our wholly owned subsidiary, Boasso which also includes Greenville. In 2011, we entered the gas and oil frac shale energy markets, providing logistics services to these markets through our wholly owned subsidiaries, QCER. We operate an asset-light business model and service customers across North America through our network of 29 independent affiliates, 95 terminals servicing the chemical markets (89 of which are operated by independent affiliates and 6 which are company-operated), 9 company-operated tank depot services terminals and 2 terminals servicing the energy markets which are operated by independent affiliates.

**Financial Reporting Segments**

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

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

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

Energy Logistics, which consists primarily of the transportation of fresh water, disposal water and oil for the energy logistics markets, primarily through 2 independent affiliates; and

Intermodal, which consists solely of Boasso and Greenville's International Organization for Standardization or intermodal ISO tank container transportation and depot services.

*Chemical Logistics*

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 primarily coordinate the transport of a broad range of chemical products, primarily through our independent affiliate network, and provide our customers with logistics and other value-added services. We are a core carrier for many of the major companies engaged in chemical processing including Arclin, Arkema, Ashland, BASF, Dow, DuPont, ExxonMobil, Georgia-Pacific, Honeywell, PPG Industries, Procter & Gamble, Sunoco and Unilever, and we provide services to most of the top 100 chemical producers with North American operations. We believe the diversity of our customer base, geography and end-markets provides a competitive advantage.

We believe the specialized nature of the bulk tank truck industry, including specifically-licensed drivers, specialized equipment and more stringent safety requirements, create barriers to entry which limit the more



## **Table of Contents**

### **Index to Financial Statements**

drastic swings in supply experienced by the broader trucking industry. Additionally, it is common practice in the bulk tank truck industry for customers to pay fuel surcharges, which helps enable recovery of fuel price increases from customers.

Our transportation revenue 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. The volume of shipments of chemical products is, in turn, affected by many diverse industries and end-use markets, including consumer and industrial products, paints and coatings, paper and packaging, agriculture and food products, and tends to vary with changing economic conditions. 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.

#### *Energy Logistics*

Beginning in the second quarter of fiscal 2011, transportation revenue includes revenue earned from hauling fresh and disposal water for the energy market and in the fourth quarter of 2011 we began hauling oil. This revenue is principally a function of the volume of shipments, price per hour of service, and the allocation of shipments between us and other carriers under logistics contracts we manage. Similar to the shipment of bulk chemicals, we expect revenues to generally be lower during the winter months, as drilling within certain shales that we service may be adversely affected by the severity of weather in various sections of the country.

#### *Intermodal*

Our wholly owned subsidiary, Boasso, which also includes Greenville since November 1, 2011, is the largest North American provider of intermodal ISO tank container transportation and depot services, with nine terminals located in the eastern half of the United States. In addition to intermodal tank transportation services, Boasso and Greenville provide tank cleaning, heating, testing, maintenance and storage services to customers. Boasso and Greenville provide local and over-the-road trucking primarily within the proximity of the port cities where its depots are located. Boasso also sells equipment that its customers use for portable alternative storage or office space.

Demand for intermodal ISO tank containers is impacted by the aggregate volume of imports and exports of chemicals through United States ports, and Boasso and Greenville's revenues are accordingly impacted by this import/export volume, in particular the number and volume of shipments through ports at which Boasso and Greenville have terminals, as well as their market share. Economic conditions and differences among the laws and currencies of foreign nations may also impact the volume of shipments.

### **Our Industry**

#### ***Chemical Logistics (formerly Logistics)***

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 transport market generated revenues of approximately \$5.9 billion in 2010. We specifically operate in the for-hire chemical and food grade bulk transport market (which we estimated at \$4.0 billion in 2010). We believe we have the leading market share (estimated at 15% in 2010) in this sector based on revenues. Through our independent affiliate network, we operate the largest for-hire chemical bulk tank truck network in North

**Table of Contents**

**Index to Financial Statements**

America comprising terminals, tractors and trailers. We believe managing a larger carrier network facilitates customer service and lane density, and provides a more favorable cost structure for us and our independent affiliates. As such, we believe we are well-positioned to expand our business by increasing our market share.

The 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 believe the most significant factors relevant to our future business growth in our core business are the ability to obtain additional business from existing customers, add new customers, increase the utilization of our trailer fleet and add and retain qualified drivers.

Our 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.

***Energy Logistics***

In 2010, we initiated a growth strategy targeting the gas and oil frac shale energy market through our wholly owned subsidiaries, QCER. We currently serve several customers and operate approximately 200 units of energy equipment in this market. In our third quarter of 2011, QCER won a multi-year contract with a major energy company to provide full logistics of their fresh and disposal water hauling needs in the Marcellus shale region of Pennsylvania. The logistics revenues associated with this contract began in the third quarter of 2011 and are expected to provide significant revenue and growth prospects for the future. In our fourth quarter of 2011, we began hauling oil in the Eagle Ford shale region of Texas which we expect to provide revenue and growth prospects for the future as well. We believe this market has significant revenue potential and we may realize higher margins and better equipment utilization than we experience in our chemical logistics business. In connection with our entry into this business, due to the attractive return profile associated with this business, we may operate a portion of the business through company-operated terminals, rather than through independent affiliates, which could affect the overall mix of our asset-light business.

***Intermodal***

We estimate that the North American intermodal ISO tank container transportation and depot services market generated revenues of approximately \$225.0 million in 2010, and we believe Boasso and Greenville, collectively have the leading market share. 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. Furthermore, chemical manufacturers have sought to efficiently transport their products by utilizing ISO tank containers. 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.

## **Table of Contents**

### **Index to Financial Statements**

#### **Our Network**

Our bulk service network consists primarily of independently owned third-party affiliate terminals, independent owner-operator drivers and, to a lesser extent, company-operated terminals. Independent affiliates are independent companies we contract with to operate trucking terminals exclusively on our behalf in defined markets. The independent affiliates provide the capital necessary to service their contracted business and are also responsible for most of the operating costs associated with servicing the contracted business. Independent owner-operators are generally individual drivers who own or lease their tractors and agree to provide transportation services to us under contract. We believe the use of independent affiliates and independent owner-operators provides the following key competitive advantages to us in the marketplace:

Locally owned and operated independent affiliate terminals can provide superior, tailored customer service.

Independent affiliates and independent owner-operators generally are paid a fixed, contractual percentage of revenue collected on each load they transport creating a variable cost structure that mitigates against cyclical downturns.

Reliance on independent affiliates and independent owner-operators creates an asset-light business model that generally reduces our capital investment.

Due to several factors, including our ownership of the customer contracts and relationships, the presence of non-compete agreements with the independent affiliates, and our ownership of the trailers, our relationships with the independent affiliates tend to be long-term in nature, with minimal voluntary turnover.

Given the specialty nature of the services we provide and the size of our existing network, we believe there are significant barriers to entry to our industry. During 2010, we continued our plan that began in 2009 of consolidating certain company-operated terminals and transitioning other company-operated terminals to independent affiliates. These actions resulted in a larger portion of our revenue being generated by independent affiliates and a reduced number of terminals in our network. During the second half of 2010 and during 2011, we aggressively reduced the number of aged and underutilized specialty trailers in our fleet. We believe these actions have reduced certain fixed costs, provide a more variable cost structure and position us with a financially flexible, asset-light business platform.

We believe the most significant factors relevant to our future business growth are the ability to (i) expand into new markets, specifically the energy markets, (ii) add new customers, (iii) obtain additional business from existing customers, (iv) add and retain qualified drivers and (v) improve the utilization of our trailer fleet. While many of our customers source some of their logistics needs with rail, we expect our customers to continue to outsource a greater proportion of their logistics needs to full service tank truck carriers. As a result of our leading market position, strong customer relationships and flexible business model, we believe we are well-positioned to benefit from customers seeking consolidation of their shipping relationships and those opting to outsource a greater portion of their logistics needs to third-party tank truck carriers.

#### **Recent Significant Transactions**

##### *November 2011 Intermodal Acquisition*

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

---

**Table of Contents**

**Index to Financial Statements**

*August 2011 ABL Facility Refinancing*

On August 19, 2011, we entered into a credit agreement for a new senior secured asset-based revolving credit facility (the *New ABL Facility* ). The *New ABL Facility* provides for a revolving credit facility with a maturity of five years and a maximum borrowing capacity of \$250.0 million. The *New ABL Facility* includes a sublimit of up to \$150.0 million for letters of credit and up to \$30.0 million for swingline borrowings on same-day notice. The *New ABL Facility* replaced our previous asset-based revolving credit facility entered into on December 18, 2007 and its related collateral arrangements and guarantees (the *Previous ABL Facility* ).

*February 2011 Common Stock Offering*

On February 9, 2011, we sold 2.0 million shares of our common stock in an underwritten public offering, at a gross price of \$9.50 per share, and received net proceeds, after underwriting fees and expenses, of approximately \$17.5 million. Certain affiliates of Apollo also sold 2.6 million shares in the offering. Pursuant to the offering, we sent irrevocable redemption notices to holders of our 2013 PIK Notes to redeem \$17.5 million of these notes at par, plus accrued and unpaid interest. This note redemption was completed on March 11, 2011.

*November 2010 Senior Note Offering*

On November 3, 2010, QD, LLC and QD Capital completed an offering of \$225.0 million in aggregate principal amount of 9.875% Second-Priority Senior Secured Notes due 2018 (the *2018 Notes* ) at an issue price of 99.324% of par. Pursuant to the offering, we sent irrevocable redemption notices to holders of our 10% Senior Notes due 2013 (the *2013 Senior Notes* ), Senior Floating Rate Notes due 2012 (the *2012 Notes* ) and 11.75% Senior Subordinated PIK Notes due 2013 (the *2013 PIK Notes* ). On November 15, 2010, we repaid at maturity the remaining 9% Senior Subordinated Notes due 2010 (the *9% Notes* ). On December 3, 2010, net proceeds from the offering of the *2018 Notes* were used to fully redeem or repay all of the outstanding *2013 Senior Notes* and *2012 Notes*, plus accrued and unpaid interest. We also utilized proceeds to redeem at par, plus accrued and unpaid interest, \$47.5 million of the *2013 PIK Notes*. The balance of the offering proceeds was used to pay down outstanding borrowings under our *Previous ABL Facility*.

*May 2010 Affiliation*

On May 1, 2010, we added F. T. Silfies ( *Silfies* ) to our independent affiliate network. Headquartered in Allentown, Pennsylvania, *Silfies* specializes in bulk cement and lime transport primarily servicing the East Coast markets. In connection with this affiliation, we loaned *Silfies* \$3.0 million in cash of which \$2.6 million remains outstanding as of December 31, 2011. This loan is subordinated to *Silfies* senior debt and bears interest at 12% per annum. The loan matures on October 26, 2013 and is secured by a second priority position in all of the assets of *Silfies* and a limited personal guarantee.

*October 2009 Note Exchange*

On October 15, 2009, we exchanged approximately \$134.5 million of our *2012 Notes* for new *2013 Senior Notes*. We also exchanged approximately \$83.6 million of our *9% Notes* for approximately (a) \$80.7 million aggregate principal amount of our new *2013 PIK Notes*; (b) 1.75 million warrants; and (c) \$1.8 million in cash. The warrants are exercisable to purchase shares of our common stock at an exercise price of \$0.01 per share, during the period beginning April 16, 2010 and ending on November 1, 2013. As of December 31, 2011, approximately 0.4 million warrants remain unexercised.

*October 2009 Asset Disposition*

On October 10, 2009, we sold substantially all of the operating assets of our tank wash subsidiary, QSI, for \$13.0 million, of which \$10.0 million was paid in cash and the remaining \$3.0 million in a subordinated note. The subordinated note is a five year non-amortizing note which matures on December 31, 2014. The principal is

**Table of Contents****Index to Financial Statements**

payable in a lump sum at maturity. Interest is payable quarterly at 7% per annum, commencing December 31, 2009. In connection with the sale, QSI entered into various agreements with the purchaser, which is not affiliated with us, including long-term leases of real estate used in the tank wash business and various operating agreements. The assets sold had a net book value of \$4.9 million which included \$4.3 million of equipment, \$0.4 million of inventory, and \$0.2 million of intangibles. The sold QSI business generated approximately \$19.5 million of revenue in 2009 from tank wash and related operations. We recorded a pre-tax gain of \$7.1 million in the fourth quarter of 2009 as part of our operating income. We believe the changes in our business activities as a result of the sale of the tank wash business will reduce our environmental compliance costs going forward.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with Generally Accepted Accounting Principles ( GAAP ). We believe the following are the more critical accounting policies that impact the financial statements, some of which are based on management's best estimates available at the time of preparation. Actual future experience may differ from these estimates.

*Property and equipment* Property and equipment expenditures, including tractor and trailer rebuilds that extend the useful lives of such equipment, are capitalized and recorded at cost. For financial statement purposes, these assets are depreciated using the straight-line method over the estimated useful lives of the assets to an estimated salvage value.

The asset lives used are presented in the following table:

	<b>Average Lives (in years)</b>
Buildings and improvements	10 - 25
Tractors and terminal equipment	5 - 7
Trailers	15 - 20
Energy market equipment	4 - 15
Furniture and fixtures	3 - 5
Other equipment	3 - 10

Tractor and trailer rebuilds, which are recurring in nature and extend the lives of the related assets, are capitalized and depreciated over the period of extension, generally 3 to 10 years, based on the type and extent of these rebuilds. Maintenance and repairs are charged directly to expense as incurred. Management estimates the useful lives of these assets based on historical trends and the age of the assets when placed in service. Any changes in the actual lives could result in material changes in the net book value of these assets. Additionally, we estimate the salvage values of these assets based on historical sales or disposals, and any changes in the actual salvage values could also affect the net book value of these assets.

Furthermore, we evaluate the recoverability of our long-lived assets whenever adverse events or changes in the business climate indicate that the expected undiscounted future cash flows from the related asset may be less than previously anticipated. If the net book value of the related asset exceeds the undiscounted future cash flows of the asset, the carrying amount would be reduced to the present value of its expected future cash flows and an impairment loss would be recognized. This analysis requires us to make significant estimates and assumptions in projecting future cash flows, and changes in facts and circumstances could result in material changes in the amount of any write-offs for impairment.

*Goodwill and Intangible Assets* We evaluate goodwill and indefinite-lived intangible assets for impairment at least annually during the second quarter with a measurement date of June 30, and more frequently if indicators of impairment arise, in accordance with Financial Accounting Standards Board ( FASB ) guidance on goodwill and other intangible assets. We evaluate goodwill for impairment by determining the fair value for

---

**Table of Contents**

**Index to Financial Statements**

each reporting unit to which our goodwill relates. At June 30, 2011, our intermodal segment was our only reporting unit that contained goodwill. At December 31, 2011, our intermodal segment contains goodwill and other identifiable intangible assets associated with our Boasso acquisition in December 2007 and our Greenville acquisition in November 2011.

The methodology applied in the analysis performed at June 30, 2011 was consistent with the methodology applied in prior years, but was based on updated assumptions, as appropriate. As a result of our analysis, we concluded no impairment had occurred as of June 30, 2011 and 2010. As a result of our analysis at June 30, 2009, a total impairment charge to goodwill of \$146.2 million was necessary, of which \$144.3 million was related to our chemical logistics segment, eliminating 100% of the carrying amount of goodwill of that segment, and \$1.9 million was related to our intermodal segment.

We continued to evaluate indicators of impairment quarterly following our annual goodwill impairment test at June 30, 2011 through year end 2011, including the quarter ended December 31, 2011. There were no indications that a triggering event had occurred as of December 31, 2011. As of December 31, 2011, we had total goodwill of \$31.3 million, all of which was allocated to intermodal segment. As of December 31, 2011, we had total intangibles of \$18.5 million, of which \$17.9 million was allocated to our intermodal segment and \$0.6 million was allocated to our chemical logistics segment.

**Goodwill**

Under the FASB guidance, the process of evaluating the potential impairment of goodwill involves a two-step process and requires significant judgment at many points during the analysis. In the first step, we determine whether there is an indication of impairment by comparing the fair value of a reporting unit to its carrying amount, including goodwill. If, based on the first step, we determine that there is an indication of goodwill impairment, we assess the impairment in step two in accordance with the FASB guidance.

In the first step, we determine the fair value for each reporting unit using a combination of two valuation approaches: the market approach and the income approach. The market approach uses a guideline company methodology which is based upon a comparison of us to similar publicly-traded companies within our industry. We derive a market value of invested capital or business enterprise value for each comparable company by multiplying the price per share of common stock of the publicly traded companies by their total common shares outstanding and adding each company's current level of debt. We calculate a business enterprise multiple based on revenue and earnings from each company then apply those multiples to each reporting unit's revenue and earnings to conclude a reporting unit business enterprise value. Assumptions regarding the selection of comparable companies are made based on, among other factors, capital structure, operating environment and industry. As the comparable companies were typically larger and more diversified than our reporting units, multiples were adjusted prior to application to our reporting units' revenues and earnings to reflect differences in margins, long-term growth prospects and market capitalization.

The income approach uses a discounted debt-free cash flow analysis to measure fair value by estimating the present value of future economic benefits. To perform the discounted debt-free cash flow analysis, we develop a pro forma analysis of each reporting unit to estimate future available debt-free cash flow and discounting estimated debt-free cash flow by an estimated industry weighted average cost of capital based on the same comparable companies used in the market approach. Per the FASB guidance, the weighted average cost of capital is based on inputs (e.g., capital structure, risk, etc.) from a market participant's perspective and not necessarily from the reporting unit or QDI's perspective. Future cash flow is projected based on assumptions for our economic growth, industry expansion, future operations and the discount rate, all of which require significant judgments by management.

After computing a separate business enterprise value under the income approach and market approach, we apply a weighting to them to derive the business enterprise value of the reporting unit. The income approach and

---

**Table of Contents**

**Index to Financial Statements**

market approach were both weighted 50% in the analysis performed at June 30, 2011. The weightings are evaluated each time a goodwill impairment assessment is performed and give consideration to the relative reliability of each approach at that time. Given that the business enterprise value derived from the market approach supported what was calculated in the income approach, we believed that both approaches should be equally weighted. Based on these weightings we calculated a business enterprise value for the reporting unit. We then add debt-free liabilities of the reporting unit to the calculated business enterprise value to derive an implied fair value of the reporting unit. The implied fair value is then compared to the reporting unit's carrying value of total assets. Upon completion of the analysis in step one, we determined that the fair value of our intermodal reporting unit exceeded its carrying value. As such, a step two analysis was not required.

**Intangible assets**

To determine the implied fair value of our indefinite-lived intangible assets, we utilize the relief from royalty method, pursuant to which those assets are valued by reference to the amount of royalty income they would generate if licensed in an arm's length transaction. Under the relief from royalty method, similar to the discounted cash flow method, estimated net revenues expected to be generated by the asset during its life are multiplied by a benchmark royalty rate and then discounted by the estimated weighted average cost of capital associated with the asset. The resulting capitalized royalty stream is an indication of the value of owning the asset. Based upon management's review of the value of the indefinite-lived intangible assets in our intermodal segment, we determined that the implied fair value exceeded its carrying value.

If there are changes to the methods used to allocate carrying values, if management's estimates of future operating results change, if there are changes in the identified reporting units or if there are changes to other significant assumptions, the estimated carrying values for each reporting unit and the estimated fair value of our goodwill could change significantly, and could result in future impairment charges, which could materially impact our results of operations and financial condition.

*Deferred Tax Asset* In accordance with FASB guidance, we use the liability method of accounting for income taxes. Significant management judgment is required in determining the provision for income taxes and, in particular, any valuation allowance that is recorded or released against our deferred tax assets.

We continue to evaluate quarterly the positive and negative evidence regarding the realization of net deferred tax assets. The carrying value of our net deferred tax assets is based on our belief that it is more likely than not that we will generate sufficient future taxable income to realize these deferred tax assets. The Company reviews a rolling thirty-six month calculation of U.S. earnings, and considers other criteria at each reporting date, to determine if the Company has incurred cumulative losses in recent years. Cumulative losses in recent years pose significant negative evidence regarding the Company's ability to realize deferred tax assets. If we determine in a future reporting period that we will be able to use some or all of our deferred tax assets, the adjustment to reduce or eliminate the valuation allowance would reduce our tax expense and increase net income. Changes in deferred tax assets and valuation allowance are reflected in the Provision for income taxes line in our consolidated statements of operations.

During the second quarter of 2009, an impairment charge of \$148.6 million was recorded and as a result the Company determined that it was in a cumulative loss position. Based on this negative evidence we concluded that it was no longer more likely than not that the Company's net deferred tax asset was realizable. For purposes of assessing realizability of the deferred tax assets, this cumulative financial reporting loss position is considered significant negative evidence the Company will not be able to fully realize the deferred tax assets in the future. As a result, a \$41.2 million deferred tax valuation allowance was recorded. Our judgments regarding future taxable income may change due to changes in market conditions, changes in tax laws, operating results or other factors. If any of these factors and related estimates change in the future, it may increase or decrease the valuation allowance and related income tax expense in the same period. The Company continues to maintain a 100% valuation allowance against the balance of the net deferred tax asset in the current period.

---

**Table of Contents**

**Index to Financial Statements**

At December 31, 2011 we had an estimated \$77.0 million in federal net operating loss carryforwards, \$3.0 million of unrecognized federal operating loss carryforwards related to excess stock compensation deductions and uncertain tax position deductions, \$2.4 million in alternative minimum tax credit carryforwards and \$4.8 million in foreign tax credit carryforwards. The net operating loss carryforwards will expire in the years 2018 through 2030, while the alternative minimum tax credits may be carried forward indefinitely and the foreign tax credits may be carried forward for 10 years.

*Uncertain Income Tax Positions* In accordance with FASB guidance, we account for uncertainty in income taxes, using a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained upon audit, including resolution of related appeals or litigation processes, if any. The second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as we have to determine the probability of various possible outcomes. We re-evaluate these uncertain tax positions on a quarterly basis. This evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit, and new audit activity. Such a change in recognition and measurement would result in recognition of a tax benefit and/or an additional charge to the tax provision.

*Environmental liabilities* We have reserved for potential environmental liabilities based on the best estimates of potential clean-up and remediation for known environmental sites. We employ a staff of environmental professionals to administer all phases of our environmental programs and use outside experts where needed. These professionals develop estimates of potential liabilities at these sites based on projected and known remediation costs. These cost projections are determined through previous experiences with other sites and through bids from third-party contractors. Management believes current reserves are reasonable based on current information, but estimates of environmental reserves and exposures may be affected by information subsequently received.

*Accrued loss and damage claims* We currently maintain liability insurance for bodily injury and property damage claims, covering all employees, independent owner-operators and independent affiliates, and workers' compensation insurance coverage on our employees and company drivers. This insurance includes deductibles of \$2.0 million per incident for bodily injury and property damage and \$1.0 million for workers' compensation. As such, we are subject to liability as a self-insurer to the extent of these deductibles under the policy. We are self-insured for damage to the equipment we own or lease and for cargo losses. As of December 31, 2011, we had \$22.9 million in an outstanding letter of credit to our insurance administrator to guarantee the self-insurance portion of our liability. If we fail to meet certain terms of our agreement, the insurance administrator may draw down the letter of credit. In developing liability reserves, we rely on professional third party claims administrators, insurance company estimates and the judgment of our own personnel, and independent professional actuaries and attorneys. The most significant assumptions used in the estimation process include determining the trends in loss costs, the expected consistency in the frequency and severity of claims incurred but not yet reported to prior-year claims, and expected costs to settle unpaid claims. Management believes reserves are reasonable given known information, but as each case develops, estimates may change to reflect the effect of new information.

*Revenue recognition* Transportation revenue, including fuel surcharges and related costs, is recognized on the date freight is delivered. Service revenue consists primarily of rental revenues (primarily tractor and trailer rental), intermodal and depot revenues, tank wash revenues and insurance related administrative services. Rental revenues from independent affiliates, independent owner-operators and third parties are recognized ratably over the lease period. Intermodal and depot revenues, consisting primarily of repair and storage services, are recognized when the services are rendered. During the period that we operated our tank wash business, tank wash revenues were recognized when the wash was completed. Insurance related administrative service revenues are recorded ratably over the service period. We recognize all revenues on a gross basis as the principal and primary obligor with risk of loss in relation to our responsibility for completion of services as contracted with our customers.



---

**Table of Contents**

**Index to Financial Statements**

*Allowance for uncollectible receivables* The allowance for all potentially uncollectible receivables is based on a combination of historical data, cash payment trends, specific customer issues, write-off trends, general economic conditions and other factors. These factors are continuously monitored by our management to arrive at the estimate for the amount of accounts receivable that may be ultimately uncollectible. The receivables analyzed include trade receivables, as well as loans and advances made to independent owner-operators and independent affiliates. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, an additional allowance could be required.

*Stock compensation plans* Stock compensation is determined by the assumptions required under the FASB guidance. The fair values of stock option grants are based upon the Black-Scholes option-pricing model and amortized as compensation expense on a straight-line basis over the vesting period of the grants. Restricted stock awards are issued and measured at market value on the date of grant and related compensation expense is recognized over time on a straight-line basis over the vesting period of the grants. Stock-based compensation expense related to stock options and restricted stock was \$1.8 million and \$1.1 million, respectively, for fiscal year 2011. As of December 31, 2011, there was approximately \$3.2 million of total unrecognized compensation cost related to the unvested portion of our stock-based awards. The recognition period for the remaining unrecognized stock-based compensation cost generally varies from two to four years. For further discussion on stock-based compensation, see Note 19 of Notes to Consolidated Financial Statements included in Item 15 of this report.

*Pension plans* We maintain two noncontributory defined benefit plans resulting from a prior acquisition that cover certain vested salaried participants and retirees and certain other vested participants and retirees under an expired collective bargaining agreement. Both plans are frozen and, as such, no future benefits accrue. We record annual amounts relating to these plans based on calculations specified by GAAP, which include various actuarial assumptions such as discount rates (4.90% to 5.25%) and assumed rates of return (7.00% to 8.00%) depending on the pension plan. Material changes in pension costs may occur in the future due to changes in these assumptions. Future annual amounts could be impacted by changes in the discount rate, changes in the expected long-term rate of return, changes in the level of contributions to the plans and other factors.

We had an accumulated net pension equity charge (after-tax) of \$5.2 million at December 31, 2011 and an accumulated net pension equity charge (after-tax) of \$0.5 million at December 31, 2010.

The discount rate is based on a model portfolio of AA-rated bonds with a maturity matched to the estimated payouts of future pension benefits. The expected return on plan assets is based on our expectation of the long-term rates of return on each asset class based on the current asset mix of the funds, considering the historical returns earned on the type of assets in the funds, plus an assumption of future inflation. The current inflation assumption is 3.00%. We review our actuarial assumptions on an annual basis and make modifications to the assumptions based on current rates and trends when appropriate. The effects of the modifications are amortized over future periods.

Assumed discount rates and expected return on plan assets have a significant effect on the amounts reported for the pension plan. At December 31, 2011, our projected benefit obligation ( PBO ) was \$51.6 million. Our projected 2012 net periodic pension expense is \$1.6 million. A 1.0% decrease in our assumed discount rate would increase our PBO to \$57.3 million and decrease our 2012 net periodic pension expense less than \$0.1 million. A 1.0% increase in our assumed discount rate would decrease our PBO to \$46.7 million and increase our 2012 net periodic pension expense less than \$0.1 million. A 1.0% decrease in our assumed rate of return would not change our PBO but would increase our 2012 net periodic pension expense to \$1.9 million. A 1.0% increase in our assumed rate of return would not change our PBO but would decrease our 2012 net periodic pension expense to \$1.3 million.

*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 the FASB s

**Table of Contents****Index to Financial Statements**

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, the consolidation, closure or affiliation of underperforming company 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 December 31, 2011, approximately \$2.8 million was accrued related to the restructuring charges, which are expected to be paid through 2017.

**NEW ACCOUNTING PRONOUNCEMENTS**

Refer to Note 2, Summary of Significant Accounting Policies New Accounting Pronouncements for discussion of recent accounting pronouncements and for additional discussion surrounding the adoption of accounting standards.

**RESULTS OF OPERATIONS**

The following table sets forth for the periods indicated the percentage of total revenue represented by certain items in our Consolidated Statements of Operations:

	Year Ended December 31,		
	2011	2010	2009
<b>OPERATING REVENUES:</b>			
Transportation	69.4%	72.6%	74.1%
Service revenue	14.8	15.6	17.1
Fuel surcharge	15.8	11.8	8.8
Total operating revenues	100.0	100.0	100.0
<b>OPERATING EXPENSES:</b>			
Purchased transportation	70.1	68.7	60.2
Compensation	8.2	8.4	12.5
Fuel, supplies and maintenance	6.9	7.9	10.8
Depreciation and amortization	1.9	2.3	3.3
Selling and administrative	2.9	2.8	4.0
Insurance costs	1.9	2.3	2.3
Taxes and licenses	0.3	0.3	0.6
Communication and utilities	0.4	0.6	1.3
Gain on sale of tank wash assets			(1.2)
(Gain) loss on disposal of property and equipment	(0.2)	0.2	0.1
Impairment charge			24.2
Restructuring (credit) costs	(0.1)	1.1	0.6
Total operating expenses	92.3	94.6	118.7
Operating income (loss)	7.7	5.4	(18.7)
Interest expense, net	3.9	5.2	4.6
Write-off of debt issuance costs	0.4	1.1	
Gain on extinguishment of debt			(0.3)
Other expense		0.1	0.3
Income (loss) before income taxes	3.4	(1.0)	(23.3)
Provision for income taxes	0.3	0.1	6.1

Net income (loss)	3.1	(1.1)	(29.4)
-------------------	-----	-------	--------

**Table of Contents****Index to Financial Statements**

The following table sets forth for the periods indicated the approximate number of terminals, drivers, tractors, trailers, and chemical logistics transportation billed miles in our network (including independent affiliates and independent owner-operators) as of December 31:

	2011	2010	2009
Terminals(1)	106	102	108
Drivers	2,741	2,730	2,591
Tractors	2,940	2,901	2,839
Trailers	5,493	5,738	6,410
Chemical Logistics Transportation Billed Miles (in thousands)	107,760	115,868	108,302

(1) Refer to Item 2. Properties for terminals by segment.

**YEAR ENDED DECEMBER 31, 2011 COMPARED TO YEAR ENDED DECEMBER 31, 2010**

Total revenues for 2011 were \$746.0 million, an increase of \$59.4 million, or 8.6%, from revenues of \$686.6 million in 2010. Transportation revenue increased by \$19.3 million, or 3.9%, primarily due to an increase in new energy logistics revenue of \$29.4 million generated primarily from our delivery of fresh and disposal water in the frac shale energy market, most of which was generated in the second half of the year, and an increase of \$2.7 million in our intermodal business. This was partially offset by a decrease in chemical logistics revenue of \$12.8 million due to a decrease in bulk chemical shipments. We expect transportation services to the energy market to be a significant contributor to our revenue growth in 2012. In 2011, our chemical logistics business was adversely affected by a high level of driver turnover primarily driven by our installation of EOBRs in our fleet. We installed EOBRs in all of our U.S. fleet in order to improve efficiency and proactively address regulatory requirements that we expect in the future.

Service revenue increased \$3.1 million, or 2.9%. This increase was primarily due to an increase in intermodal revenue of \$5.2 million and other revenue of \$1.1 million, partially offset by a decrease in trailer rental revenue of \$3.2 million. Trailer rental revenue declined in connection with the implementation of EOBRs in our fleet.

Fuel surcharge revenue increased \$36.9 million, or 45.7%, primarily due to an increase in fuel prices. We have fuel surcharge programs in place with the majority of our chemical logistics and intermodal customers. These programs typically involve a specified computation based on the changes in fuel prices. As a result, some of these programs may have a time lag between when fuel prices change and when this change is reflected in revenues. It is not meaningful to compare the amount of fuel surcharge revenue or the change in fuel surcharge revenue between reporting periods to fuel expense, or the change of fuel expense between periods, as a significant portion of fuel costs are included in purchased transportation.

Purchased transportation increased \$51.1 million, or 10.8%, due to an increase of \$18.2 million in costs related to servicing the chemical logistics market resulting from a shift in mix from independent owner-operators to independent affiliates, a \$26.5 million increase for costs related to servicing the energy logistics market, and a \$6.4 million increase for costs related to our intermodal business. Total purchased transportation as a percentage of transportation revenue and fuel surcharge revenue increased slightly to 82.3% for 2011 versus 81.5% for 2010. Our independent affiliates generated 93.4% of our chemical logistics revenue and fuel surcharge revenue for 2011 compared to 93.9% for 2010. During the 2011 and 2010 periods, we paid our independent affiliates approximately 85% of chemical logistics transportation revenue and paid independent owner-operators approximately 65% of chemical logistics transportation revenue. During 2011, hauling for the energy market was performed by independent affiliates and other independent third-party carriers. In the energy market, we typically pay between 85% to 95% of the transportation revenue depending upon whether the independent affiliate or a third-party carrier does the hauling, which generated nearly 100% of our energy logistics revenue in 2011.

Compensation expense increased by \$3.5 million, or 6.1%, due to an increase in our chemical logistics business of \$2.0 million primarily due to an increase in health care claims, an increase in our intermodal business of \$1.1 million, of which \$0.4 million relates to Greenville following its acquisition and an increase of \$0.4 million in our energy logistics business.

---

**Table of Contents**

**Index to Financial Statements**

Fuel, supplies and maintenance decreased \$3.3 million, or 6.0%, due to a decrease of \$5.7 million related to our chemical logistics business primarily due to lower repairs and maintenance expense of \$4.7 million and lower equipment rent of \$2.0 million, partially offset by an increase in fuel costs of \$1.0 million from company-owned operations. Lower repairs and maintenance resulted from aggressive reduction of aged or underutilized specialty equipment in 2011. The decrease was partially offset by increased costs of \$2.5 million related to our intermodal business due to an increase in repairs and maintenance expense of \$1.2 million from higher revenues, increased fuel costs of \$0.9 million and costs of the operations of Greenville following its acquisition of \$0.4 million.

Depreciation and amortization expense decreased \$1.6 million, or 9.9%, primarily due to a decrease in depreciation from sales of revenue equipment offset by an increase in depreciation for new energy equipment.

Selling and administrative expenses increased \$2.3 million, or 11.9%, primarily due to an increase in our chemical logistics segment of \$1.1 million, which was comprised primarily of increased environmental expense and professional fees of \$1.2 million, and an increase in company-operated terminal costs of \$0.7 million mostly associated with our implementation of EOBRs, partially offset by a decrease in building rent expense of \$1.0 million. In addition, our intermodal business had increased costs of \$1.0 million due to increased demand and we had increased costs of \$0.2 million in our energy logistics business.

Insurance costs decreased by \$1.5 million, or 9.7%, due to a premium refund received of \$1.1 million related to prior policy years and a reduction in the number and severity of claims in 2011. The amount of \$1.1 million was identified as a prior period error which was corrected and recorded during the fourth quarter of 2011. We concluded that this adjustment was not material to our interim and annual consolidated financial statements for 2011 or the financial statements for any prior period based on our consideration of quantitative and qualitative factors.

Communication and utilities expense decreased \$1.4 million, or 33.7%, primarily due to cost savings initiatives.

We recognized a gain on disposal of revenue equipment of \$1.3 million in 2011, as compared to a loss on disposal of assets of \$1.1 million in 2010 from the sale and disposal of equipment.

In 2011, we recognized a restructuring credit of \$0.5 million resulting from a reduction of a liability for the withdrawal from a multi-employer pension plan which was fully paid in the second quarter of 2011. In 2010, we incurred restructuring costs of \$7.8 million resulting from a restructuring plan which began in 2008 and concluded in 2010. The costs in 2010 consisted primarily of \$2.0 million for an estimated withdrawal liability from three multi-employer pension plans, \$2.2 million for the consolidation of our corporate headquarters, as well as an additional \$3.6 million of other expenses related to exit activities.

Operating income was \$57.7 million in 2011, an increase of \$21.0 million, or 57.0%, compared to operating income of \$36.7 million in 2010. The operating margin for 2011 was 7.7% compared to 5.4% for 2010 as a result of the above-mentioned items.

Interest expense decreased by \$6.7 million, or 18.4% in 2011, primarily due to redemptions of our high cost 2013 PIK Notes in 2010 and 2011 and lower interest rates on our 2018 Notes following our debt refinancing in the fourth quarter of 2010. We expect our interest expense to continue to be lower in 2012 unless the principal balance of our indebtedness increases.

In 2011, we wrote off \$3.2 million of unamortized debt issuance costs and other bank fees, of which \$2.1 million resulted from the redemptions of our remaining 2013 PIK Notes in January 2011, March 2011 and July 2011 and \$1.1 million related to the refinancing of our Previous ABL Facility. In 2010, we wrote off \$7.4 million of unamortized debt issuance costs resulting from the redemption and repurchase of our 2013 PIK Notes in December 2010.

Other expense of \$0.2 million in 2011 consists primarily of foreign currency expense of \$0.2 million. Other expense of \$0.8 million in 2010 consists primarily of costs associated with an unconsummated stock offering of \$0.7 million.

---

**Table of Contents**

**Index to Financial Statements**

The provision for income taxes was \$1.9 million in 2011 compared to \$0.4 million in 2010. The effective rate for 2011 was 7.7%, which is lower than our anticipated 39.0% effective tax rate in large part due to an increase in the deferred tax valuation allowance.

Net income was \$23.4 million for 2011 compared to a net loss of \$7.4 million for 2010 as a result of the above-mentioned items.

**YEAR ENDED DECEMBER 31, 2010 COMPARED TO YEAR ENDED DECEMBER 31, 2009**

Total revenues for 2010 were \$686.6 million, an increase of \$73.0 million, or 11.9%, from revenues of \$613.6 million in 2009. Transportation revenue increased by \$43.8 million, or 9.6%, primarily due to an increase in linehaul revenue due to increased demand. We had a 5.6% increase in the total number of miles driven and a 5.4% increase in loads as compared with 2009.

Service revenue increased \$2.5 million, or 2.4%, compared to 2009. This increase was primarily due to \$10.2 million of increased rental income and \$5.8 million in intermodal and depot revenue. This was partially offset by a reduction in tank wash revenue of \$13.5 million due to the sale of our tank wash business in the fourth quarter of 2009.

Fuel surcharge revenue increased \$26.7 million, or 49.4%, primarily due to the increase in linehaul revenue and an increase in fuel prices. Purchased transportation increased by \$102.3 million, or 27.7%, due primarily to the increase in affiliation, linehaul revenue, miles driven and loads. Total purchased transportation as a percentage of transportation revenue and fuel surcharge revenue increased to 81.5% in 2010, versus 72.6% for 2009 due primarily to the conversion of certain company-operated terminals to independent affiliate terminals. Our independent affiliates generated 93.9% of our transportation revenue and fuel surcharge revenue for 2010 compared to 72.8% for 2009. During the 2010 and 2009 periods, we paid our independent affiliates approximately 85% of transportation revenue and paid independent owner-operators approximately 65% of transportation revenue.

Compensation expense decreased \$19.4 million, or 25.2%, primarily due to \$17.7 million of reduced expense from corporate headcount reductions, terminal consolidations, and conversions of company-operated terminals to independent affiliate terminals partially offset by a \$3.0 million increase in our intermodal operations. In addition, tank wash operations had a decrease of \$4.7 million due to the sale of this business.

Fuel, supplies and maintenance decreased \$12.2 million, or 18.3%, due to lower fuel costs of \$6.2 million, lower repairs and maintenance expense of \$3.2 million related to our logistics segment and lower rent expense of \$1.6 million due to the shift of revenue from company-operated terminals to independent affiliates. In addition, tank wash operations had a decrease of \$5.8 million due to the sale of this business, partially offset by an increase of \$2.8 million of repairs and maintenance expense and higher fuel costs of \$1.6 million related to our intermodal segment.

Depreciation and amortization expense decreased \$4.2 million, or 20.8%, due to a decrease in depreciation from disposals of revenue equipment and the sale of our tank wash assets in the fourth quarter of 2009.

Selling and administrative expenses decreased \$5.2 million, or 21.3%, primarily due to a reduction in bad debt expense of \$2.2 million, \$0.9 million of bad debt recoveries and a \$1.0 million reduction in building rent expense and other expenses related to closed or converted terminals. In addition, tank wash operations had a decrease of \$1.4 million due to the sale of this business.

Insurance costs increased by \$1.4 million, or 10.1%, due primarily to an increase in the amount of claims incurred and miles driven in the current year.

Communication and utilities expense decreased \$3.8 million, or 47.9%, primarily due to reduced expense from terminal consolidations and conversions of company-operated terminals to independent affiliate terminals.

---

**Table of Contents**

**Index to Financial Statements**

In 2009, we recorded a gain on sale of tank wash equipment of \$7.1 million resulting from the sale of substantially all of QSI's operating assets for \$13.0 million to a third party on October 10, 2009.

We incurred a loss on disposal of property and equipment of \$1.1 million in 2010, as compared to a loss of \$0.5 million in 2009, resulting primarily from the disposal of equipment.

In 2009, we recorded a non-cash impairment charge to goodwill and intangibles totaling \$148.6 million as a result of our impairment analysis, which is performed at least annually every June 30 on our business segments. We recorded a charge of \$144.3 million for the impairment of goodwill in our logistics segment. We also recorded a charge of \$1.9 million for the impairment of goodwill in our intermodal segment and a charge of \$2.4 million for the impairment of the tradename in our intermodal segment. We incurred no impairment charge in 2010. Further information regarding our impairment analysis is included in "Goodwill and Intangible Assets" in our "Critical Accounting Policies and Estimates".

We incurred restructuring costs of \$7.8 million in 2010 and \$3.5 million in 2009 primarily due to expenses associated with a restructuring plan, which began during the second quarter of 2008. The costs in 2010 consisted primarily of \$2.0 million for estimated withdrawal liability from three multi-employer pension plans, \$2.2 million for the consolidation of our corporate headquarters, as well as an additional \$3.6 million of other expenses related to exit activities. The costs in 2009 consisted of employee termination benefits and other related exit activities. As of December 31, 2010, we had accrued \$5.4 million of additional expense related to this plan, which was concluded in the fourth quarter of 2010.

Operating income was \$36.7 million in 2010 compared to an operating loss of \$115.2 million in 2009. The operating margin for 2010 was 5.4%, compared to (18.7%) for 2009 as a result of the above items.

Interest expense increased by \$7.8 million, or 27.7%, in 2010 compared to 2009 primarily due to higher interest rates on our 2013 PIK Notes and our 2013 Senior Notes versus the rates on the notes for which they were exchanged in the fourth quarter of 2009. Interest expense was also higher in 2010 due to the issuance of our 2018 Notes in the fourth quarter of 2010, which resulted in additional interest expense during the 30-day notification period between the date of issuance of the 2018 Notes and the date that our 2012 Notes, our 2013 Senior Notes and our 2013 PIK Notes were repaid or redeemed. In the fourth quarter of 2010, we redeemed \$50.0 million of our 2013 PIK Notes.

In 2009, gain on debt extinguishment of \$1.9 million resulted from the repurchase of \$4.0 million of our 9% Notes. We did not record any gain on debt extinguishment in 2010.

Other expense of \$0.8 million in 2010 consists primarily of costs associated with an unconsummated stock offering of \$0.7 million. Other expense in 2009 consists primarily of \$2.3 million of costs related to refinancing activities for our note exchanges in October 2009, partially offset by \$0.4 million in foreign currency income.

The provision for income taxes was \$0.4 million in 2010 compared to \$37.2 million in 2009. Tax expense in 2009 was due to the recording of a deferred tax valuation allowance.

Net loss was \$7.4 million for 2010 compared with a net loss of \$180.5 million for 2009 for the reasons outlined above.

**Segment Operating Results**

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

**Table of Contents****Index to Financial Statements**

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

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

Energy Logistics, which consists primarily of the transportation of fresh water, disposal water and oil for the energy logistics markets, primarily through 2 independent affiliates; and

Intermodal, which consists solely of Boasso and Greenville's International Organization for Standardization or intermodal ISO tank container transportation and depot services supporting the international movement of bulk liquids.

Segment revenues and operating income include fuel surcharge primarily to the chemical logistics and intermodal segments. The operating income reported for our segments excludes amounts such as gains and losses on disposal of property and equipment, restructuring costs, impairment charge, corporate and other unallocated amounts. Corporate and unallocated amounts include depreciation and amortization and other gains and losses and are included in our chemical logistics segment. Although these amounts are excluded from the business segment results, they are included in reported consolidated earnings. In 2009, revenues contained in the other segment represent revenues from our tank wash business which was sold during the fourth quarter of 2009. 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 operating results are as follows (in thousands):

	Year Ended December 31, 2011				
	Chemical Logistics	Energy Logistics	Intermodal	Other	Total
<b>Operating Revenues:</b>					
Transportation	\$ 429,769	\$ 29,432	\$ 58,579	\$	\$ 517,780
Service revenue	67,414	1,006	42,168		110,588
Fuel surcharge	103,487	64	14,032		117,583
<b>Total operating revenues</b>	<b>\$ 600,670</b>	<b>\$ 30,502</b>	<b>\$ 114,779</b>	<b>\$</b>	<b>\$ 745,951</b>
Segment revenue % of total revenue	80.5%	4.1%	15.4%		100.0%
Segment operating income	\$ 48,444	\$ 3,081	\$ 18,728	\$	\$ 70,253
Depreciation & amortization	10,418	785	3,210		14,413
Other income	(1,684)		(155)		(1,839)
<b>Operating income</b>	<b>\$ 39,710</b>	<b>\$ 2,296</b>	<b>\$ 15,673</b>	<b>\$</b>	<b>\$ 57,679</b>

	Year Ended December 31, 2010				
	Chemical Logistics	Energy Logistics	Intermodal	Other	Total
<b>Operating Revenues:</b>					
Transportation	\$ 442,576	\$	\$ 55,870	\$	\$ 498,446
Service revenue	70,470		37,004		107,474
Fuel surcharge	72,053		8,625		80,678



Edgar Filing: QUALITY DISTRIBUTION INC - Form 10-K

Total operating revenues	\$ 585,099	\$	\$ 101,499	\$	\$ 686,598
Segment revenue % of total revenue	85.2%		14.8%		100.0%
Segment operating income	\$ 44,791		\$ 16,863		\$ 61,654
Depreciation & amortization	13,033		2,971		16,004
Other expense	8,901		14		8,915
Operating income	\$ 22,857	\$	\$ 13,878	\$	\$ 36,735

**Table of Contents****Index to Financial Statements**

	Year Ended December 31, 2009				
	Chemical Logistics	Energy Logistics	Intermodal	Other	Total
<b>Operating Revenues:</b>					
Transportation	\$ 411,213	\$	\$ 43,445	\$	\$ 454,658
Service revenue	58,433		31,161	15,360	104,954
Fuel surcharge	49,104		4,893		53,997
<b>Total operating revenues</b>	<b>\$ 518,750</b>	<b>\$</b>	<b>\$ 79,499</b>	<b>\$ 15,360</b>	<b>\$ 613,609</b>
Segment revenue % of total revenue	84.5%		13.0%	2.5%	100.0%
Segment operating income	\$ 36,961	\$	\$ 11,287	\$ 2,240	\$ 50,488
Depreciation & amortization	16,028		2,790	1,400	20,218
Impairment charge	144,306		4,324		148,630
Other expense (income)	3,972		11	(7,167)	(3,184)
<b>Operating (loss) income</b>	<b>\$ (127,345)</b>	<b>\$</b>	<b>\$ 4,162</b>	<b>\$ 8,007</b>	<b>\$ (115,176)</b>

	2011 vs 2010	Chemical Logistics	Energy Logistics	Intermodal	Other	Total
Segment revenues	\$ change	\$ 15,571	\$ 30,502	\$ 13,280	\$	\$ 59,353
	% change	2.7%	100.0%	13.1%		8.6%
Segment operating income	\$ change	\$ 3,653	\$ 3,081	\$ 1,865	\$	\$ 8,599
	% change	8.2%	100.0%	11.1%		13.9%

	2010 vs 2009	Chemical Logistics	Energy Logistics	Intermodal	Other	Total
Segment revenues	\$ change	\$ 66,349		\$ 22,000	\$ (15,360)	\$ 72,989
	% change	12.8%		27.7%	(100.0)%	11.9%
Segment operating income	\$ change	\$ 7,830		\$ 5,576	\$ (2,240)	\$ 11,166
	% change	21.2%		49.4%	(100.0)%	22.1%

**Year Ended December 31, 2011 Compared to Year Ended December 31, 2010**

## Operating revenue:

*Chemical Logistics* revenues increased \$15.6 million, or 2.7%, for 2011 compared to 2010 primarily due to an increase of \$31.4 million of fuel surcharge revenue. Transportation revenue decreased by \$12.8 million due to reduced linehaul revenue resulting from a decrease in chemical shipments primarily caused by a high level of driver turnover resulting from our implementation of EOBRs in our U.S. fleet. In addition, service revenue decreased by \$3.0 million due primarily to decreased trailer rental revenue.

*Energy Logistics* revenues increased \$30.5 million, or 100.0%, for 2011 due to our entry into the gas and oil frac shale energy market during the year.

*Intermodal* revenues increased \$13.3 million, or 13.1%, for 2011 compared to 2010 due to an increase of \$5.4 million in fuel surcharge revenue, an increase of \$5.2 million in service revenue and an increase of \$2.7 million in intermodal transportation and depot revenue, partially due to our acquisition of Greenville.

*Other revenue* we had no other revenue in 2011 due to the sale of our tank wash business in 2009.



**Table of Contents**

**Index to Financial Statements**

Operating income:

*Chemical Logistics* operating income increased \$3.7 million, or 8.2%, for 2011 compared to 2010 primarily due to cost reductions.

*Energy Logistics* operating income increased \$3.1 million, or 100.0%, for 2011 due to our entry into the gas and oil frac shale energy market.

*Intermodal* operating income increased \$1.9 million, or 11.1%, for 2011 compared to 2010 due to increased customer demand, partially offset by incremental costs to support the increase in revenue.

*Other operating income* we had no other operating income in 2011 due to the sale of our tank wash business in 2009.

**Year Ended December 31, 2010 Compared to Year Ended December 31, 2009**

Operating revenue:

*Chemical Logistics* revenues increased \$66.3 million, or 12.8%, for 2010 compared to 2009 due to an increase of \$31.4 million in transportation revenue, an increase of \$22.9 million in fuel surcharge and an increase of \$12.0 million in service revenue.

*Intermodal* revenues increased \$22.0 million, or 27.7%, for 2010 compared to 2009 due to an increase of \$12.4 million in intermodal transportation and depot revenue, an increase in service revenue of \$5.9 million and an increase of \$3.7 million in fuel surcharge.

*Other revenue* we had no other revenue in 2010 due to the sale of our tank wash business in 2009.

Operating income:

*Chemical Logistics* operating income increased \$7.8 million, or 21.2%, for 2010 compared to 2009 primarily due to an increase in linehaul revenue, an increase in equipment rentals and cost savings initiatives and the conversion of company-operated terminals to independent affiliate terminals.

*Intermodal* operating income increased \$5.6 million, or 49.4%, for 2010 compared to 2009 due to increased demand from existing customers.

*Other operating income* we had no other operating income in 2010 due to the sale of our tank wash business in 2009.

**Table of Contents****Index to Financial Statements**

Summarized segment operating results by quarter for 2011 are as follows (in thousands):

	Three Months Ended December 31, 2011			
	Chemical Logistics	Energy Logistics	Intermodal	Total
<b>Operating Revenues:</b>				
Transportation	\$ 99,146	\$ 9,099	\$ 14,483	122,728
Service revenue	16,847	623	10,600	28,070
Fuel surcharge	24,407	64	3,481	27,952
<b>Total operating revenue</b>	<b>140,400</b>	<b>9,786</b>	<b>28,564</b>	<b>178,750</b>
Segment revenue % of total revenue	78.5%	5.5%	16.0%	100.0%
Segment operating income	11,249	1,539	3,946	16,734
Depreciation & amortization	2,668	457	818	3,943
Other income	(338)		(132)	(470)
<b>Operating income</b>	<b>\$ 8,919</b>	<b>\$ 1,082</b>	<b>\$ 3,260</b>	<b>\$ 13,261</b>

	Three Months Ended September 30, 2011			
	Chemical Logistics	Energy Logistics	Intermodal	Total
<b>Operating Revenues:</b>				
Transportation	\$ 107,693	\$ 18,341	\$ 14,940	\$ 140,974
Service revenue	16,981	306	10,851	28,138
Fuel surcharge	26,428		3,758	30,186
<b>Total operating revenue</b>	<b>151,102</b>	<b>18,647</b>	<b>29,549</b>	<b>199,298</b>
Segment revenue % of total revenue	75.8%	9.4%	14.8%	100.0%
Segment operating income	12,080	1,224	5,384	18,688
Depreciation & amortization	2,518	287	795	3,600
Other income	(145)		(53)	(198)
<b>Operating income</b>	<b>\$ 9,707</b>	<b>\$ 937</b>	<b>\$ 4,642</b>	<b>\$ 15,286</b>

	Three Months Ended June 30, 2011			
	Chemical Logistics	Energy Logistics	Intermodal	Total
<b>Operating Revenues:</b>				
Transportation	\$ 112,318	\$ 1,992	\$ 15,087	\$ 129,397
Service revenue	17,078	77	10,487	27,642
Fuel surcharge	29,014		3,940	32,954
<b>Total operating revenue</b>	<b>158,410</b>	<b>2,069</b>	<b>29,514</b>	<b>189,993</b>
Segment revenue % of total revenue	83.4%	1.1%	15.5%	100.0%

Edgar Filing: QUALITY DISTRIBUTION INC - Form 10-K

Segment operating income	14,333	318	4,735	19,386
Depreciation & amortization	2,537	41	800	3,378
Other (income) expense	(954)		23	(931)
Operating income	\$ 12,750	\$ 277	\$ 3,912	\$ 16,939

**Table of Contents****Index to Financial Statements**

	Three Months Ended March 31, 2011			Total
	Chemical Logistics	Energy Logistics	Intermodal	
<b>Operating Revenues:</b>				
Transportation	\$ 110,612	\$	\$ 14,069	\$ 124,681
Service revenue	16,508		10,230	26,738
Fuel surcharge	23,638		2,853	26,491
<b>Total operating revenue</b>	<b>150,758</b>		<b>27,152</b>	<b>177,910</b>
Segment revenue % of total revenue	84.7%		15.3%	100.0%
Segment operating income	10,782		4,663	15,445
Depreciation & amortization	2,695		797	3,492
Other (income) expense	(247)		7	(240)
<b>Operating income</b>	<b>\$ 8,334</b>	<b>\$</b>	<b>\$ 3,859</b>	<b>\$ 12,193</b>

**EXCHANGE RATES**

We operate primarily in the United States but also have operations in Canada and Mexico. Our results of operations are affected by the relative strength of currencies in the countries where we operate. Approximately 6.1%, 5.5% and 6.1% of our revenue in 2011, 2010 and 2009, respectively, was generated outside the United States.

In comparing the average exchange rates between 2011 and 2010, the Canadian dollar appreciated against the United States dollar by approximately 4.2% while the Mexican peso depreciated against the United States dollar by approximately 1.8%. The change in exchange rates positively impacted revenue by approximately \$1.8 million in 2011. The appreciation of the Canadian dollar was the primary reason for the \$0.1 million net decrease in cumulative currency translation loss in shareholders' deficit for 2011.

Gains and losses included in the consolidated statements of operations from foreign currency transactions included a \$0.2 million loss in 2011, a \$0.2 million gain in 2010, and a \$0.4 million gain in 2009. Risks associated with foreign currency fluctuations are discussed further in Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

**LIQUIDITY AND CAPITAL RESOURCES**

Our primary cash needs consist of working capital, capital expenditures and debt service. Our working capital needs depend upon the timing of our collections from customers and payments to others as well as our capital and operating lease payment obligations. Our capital expenditures primarily relate to acquiring trailers and energy market equipment and maintaining it. We reduced our capital expenditure requirements for our chemical logistics business by utilizing independent affiliates and independent owner-operators.

Independent affiliates and independent owner-operators typically supply their own tractors, which reduces our capital investment requirements. For 2011, capital expenditures were \$38.3 million and proceeds from sales of property and equipment were \$16.5 million. Capital expenditures for 2011 included \$21.5 million for equipment purchased to support our energy logistics business and proceeds from sales of property and equipment for 2011 included \$8.8 million of energy equipment sales to independent affiliates. We generally expect our sustaining capital expenditures for our chemical logistics and intermodal businesses, net of proceeds from property and equipment sales, to be approximately 1% of operating segment revenues annually. During 2011, our capital outlays were higher than historical amounts as we organically built our base of energy logistics business. We currently expect net capital expenditures for 2012 to be approximately \$21.0 million, of which approximately \$9.0 million is for equipment required for our energy logistics business. Some of our independent affiliates who are engaged with us in the energy market may at times purchase some portion of this equipment from us. Actual

**Table of Contents****Index to Financial Statements**

amounts could differ materially because of operating needs, growth needs, regulatory changes, covenants in our debt arrangements, other expenses, or other factors.

Debt service consists of principal and interest payments on the outstanding balance of our New ABL Facility as well as our outstanding 2018 Notes. We have no major debt maturities prior to August 2016, when our New ABL Facility matures. During 2010 and 2011, note indebtedness was comprised primarily of our 2018 Notes and our 2013 PIK Notes, though the aggregate principal balance and composition of notes changed during the periods. We issued all \$225.0 million aggregate principal amount of the 2018 Notes at 99.324% of par in the fourth quarter of 2010, and redeemed \$47.5 million of our 2013 PIK Notes, discharged other notes and paid down a portion of our outstanding borrowings under the Previous ABL Facility. We repurchased \$2.5 million and redeemed \$10.0 million of our 2013 PIK Notes in December 2010 and January 2011, respectively. We redeemed \$17.5 million of our 2013 PIK Notes with the proceeds from the offering of our common stock in March 2011. We redeemed the remaining \$5.8 million of our 2013 PIK Notes in July 2011.

We may from time to time repurchase or redeem additional amounts of our outstanding debt or other securities. Any repurchases or redemptions would depend upon prevailing market conditions, our liquidity requirements, contractual restrictions and other factors we consider important. Future repurchases or redemptions may materially impact our liquidity, future tax liability and results of operations.

Our primary sources of liquidity for operations during the 2011 and 2010 periods have been cash flow from operations and borrowing availability under the New ABL Facility and Previous ABL Facility. At December 31, 2011, we had \$82.3 million of borrowing availability under the New ABL Facility. We believe that, based on current operations and anticipated growth, our cash flow from operations, together with other available sources of liquidity, will be sufficient to fund anticipated capital expenditures, operating expenses and our other anticipated liquidity needs for the next twelve months. Anticipated debt maturities in 2016, the acquisition of other businesses or other events that we do not foresee may require us to seek alternative financing, such as restructuring or refinancing our long-term debt, selling assets or operations or selling additional debt or equity securities. If these alternatives were not available in a timely manner or on satisfactory terms or were not permitted under any of our debt agreements and we default on our obligations, our debt could be accelerated and our assets might not be sufficient to repay in full all of our obligations.

*Cash Flows*

The following summarizes our cash flows for 2011, 2010 and 2009 as reported in our consolidated statements of cash flows in the accompanying consolidated financial statements:

(In Thousands)	Year Ended December 31,		
	2011	2010	2009
Net cash provided by operating activities	\$ 35,399	\$ 21,071	\$ 39,756
Net cash (used in) provided by investing activities	(30,458)	(1,079)	9,577
Net cash used in financing activities	(2,642)	(23,879)	(50,515)
Effect of exchange rates	1	7	28
Net increase (decrease) in cash	2,300	(3,880)	(1,154)
Cash at beginning of period	1,753	5,633	6,787
Cash at end of period	\$ 4,053	\$ 1,753	\$ 5,633

We generated \$35.4 million, \$21.1 million and \$39.8 million in net cash provided by operating activities in 2011, 2010 and 2009, respectively. The increase in cash provided by operating activities in 2011, compared to 2010, was primarily due to improved net income. In addition, we recognized gains on sales of unutilized equipment in 2011 compared with a loss in 2010. Our restructuring and cost reduction efforts prior to 2011 and reductions in our trailer fleet during 2011 have enabled us to generate stronger operating cash in 2011. The



**Table of Contents****Index to Financial Statements**

decrease in cash provided by operating activities in 2010, as compared to 2009, was primarily due to an increase in accounts receivable in the 2010 period resulting from higher revenue, slightly offset by an increase in our restructuring accrual.

Net cash used in investing activities in 2011 and 2010 was \$(30.5) million and \$(1.1) million, respectively. Net cash provided by investing activities in 2009 was \$9.6 million. Capital expenditures totaled \$38.3 million, \$11.2 million and \$8.2 million in 2011, 2010 and 2009, respectively, while proceeds from sales of property and equipment were \$16.5 million, \$10.1 million and \$7.5 million, respectively. In 2011, we increased our capital expenditures to support our entry in the energy markets, which was partially offset by an increase in proceeds from the sale of equipment. In addition, we used \$8.6 million for the acquisition of stock of Greenville in the fourth quarter of 2011. In 2010, we used proceeds of \$10.1 million from sale of old unutilized revenue equipment to fund \$11.2 million of new revenue equipment. In 2009, we received cash of \$10.0 million from the sale of tank wash assets.

Net cash used in financing activities was \$(2.6) million, \$(23.9) million and \$(50.5) million in 2011, 2010 and 2009, respectively. In 2011, net cash received from our equity offering of approximately \$17.6 million, increased net borrowings of \$27.0 million under our New and Previous ABL Facilities, and proceeds from the exercise of stock options of \$1.8 million were utilized to redeem \$27.5 million in principal amount of our 2013 PIK Notes, to pay down other debt and capital leases of \$15.1 million, to pay fees related to our New ABL Facility and 2018 Notes of \$5.0 million and to redeem for \$1.8 million the preferred shares of our subsidiary, CLC, which were previously reflected on our balance sheet as redeemable noncontrolling interest. In 2010, cash was primarily utilized to repay \$29.5 million under our Previous ABL Facility, to pay down \$6.5 million of other debt and capital lease obligations, to pay financing fees of \$5.6 million in connection with the issuance of our 2018 Notes, to pay a large insurance claim and issue a loan to a new independent affiliate. In 2009, we primarily used cash to repay \$19.0 million of our borrowings under our Previous ABL Facility, to pay down \$17.7 million of other debt and capital lease obligations, including \$2.1 million used to repurchase \$4.0 million in principal amount of 9% Notes, and to pay financing fees of \$4.9 million in connection with debt refinancing transactions.

*Off-Balance Sheet Arrangements*

We have no off-balance sheet arrangements as defined under Item 303(a) (4) of Regulation S-K.

*Contractual Obligations*

The following is a schedule of our long-term contractual commitments, including the current portion of our long-term indebtedness at December 31, 2011 over the periods we expect them to be paid (dollars in thousands):

	<b>TOTAL</b>	<b>Year 2012</b>	<b>Years 2013 &amp; 2014</b>	<b>Years 2015 &amp; 2016</b>	<b>The Five Years after 2016</b>
Operating leases (1)	\$ 44,841	\$ 12,343	\$ 16,660	\$ 13,110	\$ 2,728
Total indebtedness (2)	299,443	4,139	3,672	66,632	225,000
Capital leases	9,101	5,261	3,840		
Interest on indebtedness (3)	166,837	25,897	50,738	49,467	40,735
<b>Total</b>	<b>\$ 520,222</b>	<b>\$ 47,640</b>	<b>\$ 74,910</b>	<b>\$ 129,209</b>	<b>\$ 268,463</b>

- (1) These obligations represent the minimum rental commitments under all non-cancelable operating leases including the guaranteed residual values at the end of the leases. Commitments also include the operating lease for our corporate headquarters. See Note 20 of the consolidated financial statements. We expect that some of our operating lease obligations for tractors and trailers will be partially offset by rental revenue from subleasing the tractors to independent affiliates and independent owner-operators and subleasing trailers to independent affiliates.

**Table of Contents****Index to Financial Statements**

- (2) Includes aggregate unamortized discount of \$1.5 million.  
 (3) Amounts presented for interest payments assume that all long-term debt obligations outstanding as of December 31, 2011 will remain outstanding until maturity and interest rates on variable-rate debt in effect as of December 31, 2011 will remain in effect until maturity.

*Long-term Debt*

Long-term debt consisted of the following (in thousands):

	December 31, 2011	December 31, 2010
Capital lease obligations	\$ 9,101	\$ 12,850
New ABL Facility	65,500	
Previous ABL Facility		38,500
11.75% Senior Subordinated PIK Notes, due 2013		33,184
9.875% Second-Priority Senior Secured Notes, due 2018	225,000	225,000
Other Notes	8,943	11,327
Long-term debt, including current maturities	308,544	320,861
Discount on Notes	(1,481)	(3,529)
	307,063	317,332
Less current maturities of long-term debt (including capital lease obligations)	(9,400)	(8,563)
Long-term debt, less current maturities (including capital lease obligations)	\$ 297,663	\$ 308,769

*Debt Retirement*

The following is a schedule of our indebtedness at December 31, 2011 over the periods we are required to pay such indebtedness (in thousands):

	2012	2013	2014	2015	2016 and after	Total
Capital lease obligations	\$ 5,261	\$ 2,996	\$ 844	\$	\$	\$ 9,101
New ABL Facility					65,500	65,500
9.875% Second-Priority Senior Secured Notes, due 2018 (1)					225,000	225,000
Other Notes	4,139	2,678	994	866	266	8,943
Total	\$ 9,400	\$ 5,674	\$ 1,838	\$ 866	\$ 290,766	\$ 308,544

- (1) Amount does not include the remaining unamortized original issue discount of \$1.5 million.  
 The following is a schedule of our debt issuance costs for the year ended December 31 (in thousands):

	2010	Write-off of Debt Issuance Costs	Additional Debt Issuance Costs	Transfer Related to Refinancing	2011 Amortization Expense	2011
New ABL Facility	\$	\$	\$ 4,178	\$ 1,288	\$ (372)	\$ 5,094

Edgar Filing: QUALITY DISTRIBUTION INC - Form 10-K

Previous ABL Facility	3,015	(917)		(1,288)	(810)
11.75% Senior Subordinated PIK Notes, due 2013	410	(386)			(24)
9.875% Second-Priority Senior Secured Notes, due 2018	5,685		787		(912) 5,560
<b>Total</b>	<b>\$ 9,110</b>	<b>\$ (1,303)</b>	<b>\$ 4,965</b>	<b>\$</b>	<b>\$ (2,118) \$ 10,654</b>

---

**Table of Contents**

**Index to Financial Statements**

Amortization expense of deferred issuance costs was \$2.1 million, \$2.7 million, and \$2.8 million for the years ending December 31, 2011, 2010, and 2009, respectively, and is included in interest expense. We are amortizing these costs over the term of the debt instruments.

*The New ABL Facility*

On August 19, 2011, we entered into the New ABL Facility. The New ABL Facility provides for a revolving credit facility with a maturity of five years and a maximum borrowing capacity of \$250.0 million. The New ABL Facility includes borrowing capacity of up to \$150.0 million for letters of credit and up to \$30.0 million for swingline borrowings on same-day notice. The New ABL Facility replaced the Previous ABL Facility. The proceeds of the New ABL Facility were used to repay all outstanding indebtedness under our Previous ABL Facility, and to pay related fees and expenses. The New ABL Facility is available for general corporate purposes, including permitted acquisitions. At December 31, 2011, we had \$82.3 million of borrowing availability under the New ABL Facility.

Borrowings under the New ABL Facility bear interest at a rate equal to an applicable margin plus, at our option, either a base rate or LIBOR. The applicable margin at December 31, 2011 was 1.00% for base rate borrowings and 2.00% for LIBOR borrowings. The applicable margin for borrowings will be reduced or increased based on aggregate borrowing base availability under the New ABL Facility. The base rate is equal to the highest of the prime rate, the federal funds overnight rate plus 0.50% and 30-day LIBOR plus 1.00%. In addition to paying interest on outstanding principal under the New ABL Facility, we are required to pay an unutilized commitment fee to the lenders quarterly at a rate ranging from 0.25% to 0.50%, depending on the average utilization of the New ABL Facility. We also pay customary letter of credit fees quarterly. We may voluntarily repay outstanding loans under the New ABL Facility at any time without premium or penalty, other than customary breakage costs with respect to LIBOR loans. The interest rate on the New ABL Facility at December 31, 2011 was 2.3%.

The borrowing base for the New ABL Facility consists of eligible accounts receivable, inventory, tractor and trailer equipment, real property and certain other equipment.

We have \$5.5 million of debt issuance costs relating to the New ABL Facility, of which \$4.2 million related to the new issuance and \$1.3 million related to unamortized debt issuance costs of the Previous ABL Facility. We are amortizing the debt issuance costs over the remaining term of the New ABL Facility.

*The Previous ABL Facility*

Our Previous ABL Facility consisted of a current asset tranche in the amount of \$205.0 million and a fixed asset tranche in the amount of \$20.0 million. The Previous ABL Facility included a sublimit of up to \$150.0 million to issue letters of credit and was available for working capital needs and general corporate purposes, including permitted acquisitions.

The interest rate under the current asset tranche was based, at our option, on either the administrative agent's base rate plus 1.00% or on the Eurodollar LIBOR rate plus an applicable margin. The administrative agent's base rate was equal to the greater of the federal funds overnight rate plus 0.50% or the prime rate. The interest rate under the fixed asset tranche was based, at our option, on either the administrative agent's base rate plus 1.25% or on LIBOR plus an applicable margin. The applicable margin under either tranche was subject to increases or reductions based upon the amounts available for borrowing. The interest rate on the Previous ABL Facility at December 31, 2010 was 2.5% and at the time of retirement was 2.4%.

We incurred \$6.9 million in debt issuance costs relating to the Previous ABL Facility. Upon the refinancing of the Previous ABL Facility with the New ABL Facility, we wrote off \$0.9 million of unamortized debt issuance costs and the remaining unamortized debt issuance costs of \$1.3 million were allocated to the New ABL Facility.

**Table of Contents****Index to Financial Statements**

The refinancing of the Previous ABL Facility in August 2011 described above was partially treated as a debt modification and partially as a debt extinguishment in accordance with applicable FASB guidance.

*9.875% Second-Priority Senior Secured Notes Due 2018*

On November 3, 2010, we issued \$225.0 million aggregate principal amount of the 2018 Notes. With the proceeds of the issuance of the 2018 Notes, we repaid at maturity our 9% Notes, fully redeemed our 2012 Notes and our 2013 Senior Notes, redeemed \$47.5 million of our 2013 PIK Notes, and paid down a portion of our outstanding borrowings under the Previous ABL Facility.

Interest on the 2018 Notes is payable at a rate of 9.875% per annum, semiannually on May 1 and November 1 of each year. 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. The 2018 Notes are senior obligations of QD LLC and QD Capital and are secured by a second-priority lien on certain assets. Pursuant to an intercreditor agreement, the liens on the collateral securing the 2018 Notes rank junior in right of payment to the New ABL Facility and obligations under certain hedging agreements and cash management obligations and certain other first-lien obligations.

The 2018 Notes mature on November 1, 2018. Prior to November 1, 2014, we may redeem the 2018 Notes, in whole or in part, at a price equal to 100% of the principal amount of the 2018 Notes redeemed, plus accrued and unpaid interest to the redemption date, plus an additional make-whole premium intended to capture the value of holding 2018 Notes through November 1, 2014, but not less than 1%. During any twelve-month period prior to November 1, 2014, we may also redeem up to 10% of the original aggregate principal amount of the 2018 Notes at a redemption price of 103%, plus accrued and unpaid interest to the redemption date. Additionally, at any time prior to November 1, 2013, we may redeem up to 35% of the principal amount of the 2018 Notes at a redemption price of 109.875%, plus accrued and unpaid interest to the redemption date, with the net proceeds of one or more equity offerings so long as at least 50% of the aggregate original principal amount of the 2018 Notes remains outstanding afterwards. On or after November 1, 2014, we may redeem the 2018 Notes, in whole or in part, at the following prices (expressed as a percentage of principal amount), plus accrued and unpaid interest to the redemption date, if redeemed during the 12-month period commencing on November 1 of the years set forth below:

<b>Period</b>	<b>Redemption Price</b>
2014	104.938%
2015	102.469%
2016 and thereafter	100.000%

We recorded \$6.6 million in debt issuance costs relating to the 2018 Notes, of which \$6.4 million was related to the new issuance and \$0.2 million of unamortized debt issuance costs related to the 2013 Senior Notes. We are amortizing these costs over the term of the 2018 Notes.

*11.75% Senior Subordinated PIK Notes Due 2013*

On October 15, 2009, we issued \$80.7 million aggregate principal amount of the 2013 PIK Notes. The payment obligations of QD LLC and QD Capital under the 2013 PIK Notes were guaranteed by QDI and by all of its domestic subsidiaries other than immaterial subsidiaries. The 2013 PIK Notes were unsecured senior subordinated obligations of QD LLC and QD Capital. Interest was payable on the 2013 PIK Notes at 11.75% per annum, payable 9% in cash and 2.75% in the form of additional 2013 PIK Notes.

On December 3, 2010, we redeemed \$47.5 million of these notes plus accrued and unpaid interest, in conjunction with the issuance of the 2018 Notes. On December 10, 2010 and December 20, 2010, we repurchased \$2.2 million and \$0.3 million, respectively, of these notes plus accrued and unpaid interest. On

---

**Table of Contents**

**Index to Financial Statements**

January 20, 2011, we redeemed \$10.0 million of these notes plus accrued and unpaid interest. On March 11, 2011, we redeemed \$17.5 million of these notes plus accrued and unpaid interest. We redeemed the remaining \$5.8 million principal amount of our 2013 PIK Notes in July 2011.

We recorded \$1.5 million in debt issuance costs related to the 2013 PIK Notes, of which \$0.5 million of unamortized debt issuance costs related to the 9% Notes and \$1.0 million related to the new issuance. In addition, we recorded \$6.7 million in note issuance discount due to warrants issued concurrently with the issuance of the 2013 PIK Notes. The amount represented the fair market value of the warrants at time of issuance. In conjunction with the December 3, 2010 redemption and the December 10, 2010 and December 20, 2010 repurchases, we wrote off \$7.4 million of unamortized debt issuance costs and unamortized original issue discount in the fourth quarter of 2010. In connection with the January 20, 2011 and March 11, 2011 redemptions, we wrote off \$1.8 million of unamortized debt issuance costs and unamortized original issue costs in the first quarter of 2011. In conjunction with the July 20, 2011 final redemption, we wrote off the remaining \$0.3 million of unamortized debt issuance costs and unamortized original issue costs in the third quarter of 2011.

*10% Senior Notes Due 2013*

On October 15, 2009, we issued approximately \$134.5 million aggregate principal amount of the 2013 Senior Notes. On December 3, 2010, we fully redeemed the 2013 Senior Notes with a portion of the proceeds of the issuance of the 2018 Notes.

*Senior Floating Rate Notes Due 2012*

On January 28, 2005, we issued \$85.0 million aggregate principal amount of our 2012 Notes. On December 18, 2007, we issued a second series of 2012 Notes in the original principal amount of \$50.0 million. On December 3, 2010, we fully redeemed the remaining 2012 Notes with a portion of the proceeds of the issuance of the 2018 Notes.

*9% Senior Subordinated Notes Due 2010*

In 2003, we issued \$125.0 million aggregate principal amount of our 9% Notes. On November 15, 2010, we repaid at maturity the remaining \$16.0 million of 9% Notes with a portion of the proceeds of the issuance of the 2018 Notes. We incurred \$5.5 million in debt issuance costs relating to the issuance of the 9% Notes. Approximately \$0.5 million of unamortized debt issuance costs were included in debt issuance costs related to the 2013 Senior Notes. All remaining debt issuance costs have been fully amortized.

The note issuance and subsequent note redemptions in November 2010 described above were primarily treated as a debt extinguishment and partially a debt modification in accordance with applicable FASB guidance.

*Collateral, Guarantees and Covenants*

The New ABL Facility contains a fixed charge coverage ratio which only needs to be met if borrowing availability is less than \$20.0 million or \$25.0 million, depending upon the size of our borrowing base. The New ABL Facility contains a number of covenants that, among other things, restrict, subject to certain exceptions, our ability to sell assets; incur additional indebtedness; prepay other indebtedness, including the 2018 Notes; pay dividends and distributions or repurchase QDI's capital stock; create liens on assets; make investments; make certain acquisitions; engage in mergers or consolidations; engage in certain transactions with affiliates; amend certain charter documents and material agreements governing subordinated indebtedness, including the 2018 Notes; change our business; and enter into agreements that restrict dividends from QD LLC's subsidiaries. The New ABL Facility also contains certain customary affirmative covenants and events of default.

The indenture governing the 2018 Notes contains covenants that restrict, subject to certain exceptions, our ability to, among other things:

(i) incur additional debt or issue certain preferred shares; (ii) pay dividends on or

---

**Table of Contents**

**Index to Financial Statements**

make other distributions in respect of QDI's common stock or make other restricted payments; (iii) make certain investments; (iv) sell certain assets; (v) create or permit to exist dividend and/or payment restrictions affecting their restricted subsidiaries; (vi) create liens on certain assets to secure debt; (vii) consolidate, merge, sell or otherwise dispose of all or substantially all of their assets; (viii) enter into certain transactions with their affiliates; and (ix) designate their subsidiaries as unrestricted subsidiaries. The indenture also provides certain customary events of default, which, if any of them occur, may result in the principal, interest and any other monetary obligations on the then outstanding 2018 Notes becoming payable immediately.

The payment obligations under the New ABL Facility are senior secured obligations of QD LLC and QD Capital and are secured by a first-priority lien on certain assets and guaranteed by QDI and by all of its domestic restricted subsidiaries other than immaterial subsidiaries. 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. The 2018 Notes, and the guarantees thereof, are senior obligations of QD LLC and QD Capital and are secured by a second-priority lien on certain assets. Pursuant to an intercreditor agreement, the liens on the collateral securing the 2018 Notes rank junior in right of payment to the New ABL Facility and obligations under certain hedging agreements and cash management obligations and certain other first lien obligations. We believe that we were in compliance with the covenants under the ABL Facility and the 2018 Notes at December 31, 2011.

*Other Liabilities and Obligations*

As of December 31, 2011, we had \$10.1 million of environmental liabilities, \$22.6 million of pension plan obligations and \$18.4 million of insurance claim obligations. The timing of the cash payments for environmental liabilities and insurance claims fluctuates from quarter to quarter. We expect to incur additional environmental costs in the future for environmental studies and remediation efforts that we will be required to undertake related to legacy CLC sites.

As of December 31, 2011, we had \$29.4 million in outstanding letters of credit that may be drawn by third parties to satisfy some of the obligations described above and certain other obligations. We are required to provide letters of credit to our insurance administrator to ensure that we pay required claims. The letter of credit issued to our insurance administrator had a maximum draw amount of \$22.9 million as of December 31, 2011. If we fail to meet certain terms of our agreement, the insurance administrator may draw down the entire letter of credit. The remaining \$6.5 million of outstanding letters of credit as of December 31, 2011 relates to various other obligations.

*Other Issues*

While uncertainties relating to environmental, labor and other regulatory matters exist within the trucking industry, management is not aware of any trends or events likely to have a material adverse effect on liquidity or the accompanying financial statements. Our credit rating is affected by many factors, including our financial results, operating cash flows and total indebtedness.

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

**Table of Contents****Index to Financial Statements****ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are subject to market risks from (i) interest rates due to our variable interest rate indebtedness, (ii) foreign currency fluctuations due to our international operations and (iii) increased commodity prices due to the diesel consumption necessary for our operations. During the last three years, we have not held derivative instruments or engaged in other hedging transactions to reduce our exposure to such risks.

**Interest Rate Risk**

We are exposed to the impact of interest rate changes through our variable-rate borrowings under the New ABL Facility. With regard to the New ABL Facility at QD LLC's option, the applicable margin for borrowings at December 31, 2011 was 1.00% with respect to base rate borrowings and 2.00% with respect to LIBOR borrowings. The applicable margin for such borrowings will be reduced or increased based on aggregate borrowing base availability under the New ABL Facility over the life of the New ABL Facility. The base rate under the New ABL Facility is equal to the highest of the prime rate, the federal funds overnight rate plus 0.50%, and 30 day LIBOR plus 1.00%.

	<b>Balance at December 31, 2011 (\$ in 000s)</b>	<b>Interest Rate at December 31, 2011</b>	<b>Effect of 1% Increase (\$ in 000s)</b>
New ABL Facility	\$ 65,500	2.31%	\$ 655

At December 31, 2011, a 1% point increase in the current per annum interest rate would result in \$0.7 million of additional interest expense during the next year. The foregoing calculation assumes an instantaneous 1% point increase in the rates under the New ABL Facility and that the principal amount is the amount outstanding as of December 31, 2011. The calculation therefore does not account for the differences in the market rates upon which the interest rates of our indebtedness are based, our various options to elect the lower of different interest rates under our borrowings or other possible actions, such as prepayment, that we might take in response to any rate increase.

**Foreign Currency Exchange Rate Risk**

Operating in international markets involves exposure to the possibility of volatile movements in foreign exchange rates. The currencies in each of the countries in which we operate affect:

the results of our international operations reported in United States dollars; and

the value of the net assets of our international operations reported in United States dollars.

These exposures may impact future earnings or cash flows. Revenue from foreign locations (Canada and Mexico) represented approximately 6.1% of our consolidated revenue in 2011 and 5.5% of our consolidated revenue in 2010. The economic impact of foreign exchange rate movements is complex because such changes are often linked to variability in real growth, inflation, interest rates, governmental actions and other factors. These changes, if material, could cause us to adjust our financing and operating strategies. Therefore, to isolate the effect of changes in currency does not accurately portray the effect of these other important economic factors. As foreign exchange rates change, translation of the income statements of our international subsidiaries into U.S. dollars affects year-over-year comparability of operating results. While we may hedge specific transaction risks, we generally do not hedge translation risks because we believe there is no long-term economic benefit in doing so.

Assets and liabilities for our Canadian operations are matched in the local currency, which reduces the need for dollar conversion. Our Mexican operations use the United States dollar as their functional currency. Any foreign currency impact on translating assets and liabilities into dollars is included as a component of





---

**Table of Contents**

**Index to Financial Statements**

shareholders' deficit. Our revenue results for 2011 were positively impacted by a \$1.8 million foreign currency movement, primarily due to the strengthening of the Canadian dollar against the United States dollar.

Changes in foreign exchange rates that had the largest impact on translating our international operating profits for 2010 related to the Canadian dollar versus the United States dollar. We estimate that a 1% adverse change in the Canadian dollar foreign exchange rate would have decreased our revenues by approximately \$0.4 million in 2011, assuming no changes other than the exchange rate itself. Our inter-company loans are subject to fluctuations in exchange rates primarily between the United States dollar and the Canadian dollar. Based on the outstanding balance of our inter-company loans at December 31, 2011, a change of 1% in the exchange rate for the Canadian dollar would cause a change in our foreign exchange result of less than \$0.1 million.

**Commodity Price Risk**

The price and availability of diesel fuel are subject to fluctuations due to changes in the level of global oil production, seasonality, weather, global politics and other market factors. Historically, we have been able to recover a majority of fuel price increases from our chemical logistics and intermodal customers in the form of fuel surcharges. The price and availability of diesel fuel can be unpredictable as well as the extent to which fuel surcharges can be collected to offset such increases. In 2011 and 2010, a majority of fuel costs were covered through fuel surcharges.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Financial statements and exhibits filed under this item are listed in the index appearing in Item 15 of this report.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

Attached as exhibits to this Form 10-K are certifications of our Chief Executive Officer and Chief Financial Officer, which are required in accordance with Rule 13a-14 of the Securities Exchange Act. This Controls and Procedures section includes information concerning the controls and controls evaluation referred to in the certifications.

**Evaluation of Disclosure Controls and Procedures**

As required by Exchange Act Rules 13a-15(b) and 15d-15(b), management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on their evaluation, management concluded our disclosure controls and procedures (as defined in Securities Exchange Act Rules 13a-15(e) and 15d-15(e)) were effective as of December 31, 2011 to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and were effective as of December 31, 2011 to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

**Table of Contents**

**Index to Financial Statements**

**Management's Report on Internal Control over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(e) and 15d-15(e). Our internal control over financial reporting is a process designed under the supervision of the Chief Executive Officer and Chief Financial Officer and effected by the Board of Directors and management, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2011, using the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment and those criteria, management has determined that our internal control over financial reporting was effective as of December 31, 2011.

PricewaterhouseCoopers LLP, our independent registered public accounting firm, has audited the effectiveness of the Company's internal controls over financial reporting as of December 31, 2011, as stated in their report which is included herein.

**Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**

Not applicable.

**Table of Contents**

**Index to Financial Statements**

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Information with respect to the directors, the Audit Committee of the Board of Directors, the Nomination Committee of the Board of Directors (known as the Corporate Governance Committee), and the Audit Committee financial expert, will be contained in our 2012 Proxy Statement. The 2012 Proxy Statement is expected to be filed on or about April 25, 2012. Such information is incorporated herein by reference.

Information with respect to our executive officers who are not directors is located in Part I, Item 4 of this report.

**Code of Ethics**

We have adopted a Code of Conduct, which is applicable to all of our directors and employees, including our principal executive officer, our principal financial officer and our controller. A copy of the Code of Conduct can be found on our website at [www.qualitydistribution.com](http://www.qualitydistribution.com). Any possible future amendments to or waivers from the Code of Conduct will be posted on our website.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Information regarding compliance with Section 16(a) of the Exchange Act set forth under the heading **Section 16(a) Beneficial Ownership Reporting Compliance** will be in our 2012 Proxy Statement and is incorporated herein by reference.

**ITEM 11. EXECUTIVE COMPENSATION**

For information regarding our Executive Compensation, Compensation Committee Interlocks and Insider Participation, and our Compensation Committee Report, we direct you to the section entitled **Executive Compensation** that will be in the 2012 Proxy Statement. We are incorporating the information contained in that section of our Proxy Statement here by reference.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS**

Information regarding the security ownership of certain beneficial owners and management and related shareholder matters and equity compensation plans will be set forth under the heading **Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters** in our 2012 Proxy Statement and is incorporated herein by reference.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE**

The information required by this item will be incorporated by reference from our 2012 Proxy Statement under the headings **Certain Relationships and Related Party Transactions** and **Corporate Governance**.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information appearing in our 2012 Proxy Statement under the headings **Report of the Audit Committee of the Board of Directors**, **Appointment of the Independent Registered Certified Public Accounting Firm** and **Fees Paid to the Independent Registered Certified Public Accounting Firm in 2010 and 2011** is incorporated by reference.



**Table of Contents**

**Index to Financial Statements**

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) The documents filed as part of this report are as follows:

1. The consolidated financial statements and accompanying report of independent registered certified public accountants are listed in the Index to Financial Statements and are filed as part of this report.

All consolidated financial statement schedules are omitted because they are inapplicable, not required or the information is included elsewhere in the consolidated financial statements or the notes thereto.

2. Exhibits required by Item 601 of Regulation S-K are submitted as a separate section herein immediately following the Exhibit Index .

(b) Other Exhibits

No exhibits in addition to those previously filed or listed in item 15(a) (2) and filed herein.

(c) Not Applicable

**Table of Contents**

**Index to Financial Statements**

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

QUALITY DISTRIBUTION, INC.

March 5, 2012

/s/ GARY R. ENZOR  
GARY R. ENZOR

CHIEF EXECUTIVE OFFICER

(DULY AUTHORIZED OFFICER)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<b>DATE</b>	<b>SIGNATURE</b>	<b>TITLE</b>
March 5, 2012	/s/ Gary R. Enzor	
	Gary R. Enzor	Chief Executive Officer and Director (Principal Executive Officer)
March 5, 2012	/s/ Joseph J. Troy	
	Joseph J. Troy	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
March 5, 2012	*	
	Thomas M. White	Director and Chairman of the Board
March 5, 2012	*	
	Kevin E. Crowe	Director
March 5, 2012	*	
	Richard B. Marchese	Director
March 5, 2012	*	
	Thomas R. Miklich	Director
March 5, 2012	*	
	M. Ali Rashid	Director
March 5, 2012	*	
	Alan H. Schumacher	Director

\*By: /s/ Gary R. Enzor

Gary R. Enzor  
Attorney-in-fact



**Table of Contents**

**Index to Financial Statements**

**QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

	<b>Page(s)</b>
<u>Report of Independent Registered Certified Public Accounting Firm</u>	F-2
<u>Consolidated Statements of Operations for the Years Ended December 31, 2011, 2010 and 2009</u>	F-3
<u>Consolidated Statements of Comprehensive Income (Loss) for the Years Ended December 31, 2011, 2010 and 2009</u>	F-4
<u>Consolidated Balance Sheets as of December 31, 2011 and 2010</u>	F-5
<u>Consolidated Statements of Shareholders' Deficit for the Years Ended December 31, 2011, 2010 and 2009</u>	F-6 F-7
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2011, 2010 and 2009</u>	F-8
<u>Notes to Consolidated Financial Statements</u>	F-9 F-58

Table of Contents

Index to Financial Statements

**REPORT OF INDEPENDENT REGISTERED CERTIFIED PUBLIC ACCOUNTING FIRM**

To: Board of Directors and shareholders of Quality Distribution, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of shareholders' deficit and comprehensive income (loss) and of cash flows present fairly, in all material respects, the financial position of Quality Distribution, Inc. and its subsidiaries at December 31, 2011 and December 31, 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Tampa, Florida

March 5, 2012

**Table of Contents****Index to Financial Statements****QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****For the Years Ended December 31, 2011, 2010 and 2009****(In thousands, Except Per Share Data)**

	Years ended December 31,		
	2011	2010	2009
<b>OPERATING REVENUES:</b>			
Transportation	\$ 517,780	\$ 498,446	\$ 454,658
Service revenue	110,588	107,474	104,954
Fuel surcharge	117,583	80,678	53,997
<b>Total operating revenues</b>	<b>745,951</b>	<b>686,598</b>	<b>613,609</b>
<b>OPERATING EXPENSES:</b>			
Purchased transportation	522,866	471,792	369,460
Compensation	61,098	57,563	76,955
Fuel, supplies and maintenance	51,102	54,367	66,527
Depreciation and amortization	14,413	16,004	20,218
Selling and administrative	21,647	19,339	24,572
Insurance costs	14,042	15,546	14,119
Taxes and licenses	2,211	2,218	3,578
Communication and utilities	2,732	4,119	7,910
Gain on sale of tank wash assets			(7,130)
(Gain) loss on disposal of property and equipment	(1,318)	1,136	450
Impairment charge			148,630
Restructuring (credit) costs	(521)	7,779	3,496
<b>Total operating expenses</b>	<b>688,272</b>	<b>649,863</b>	<b>728,785</b>
Operating income (loss)	57,679	36,735	(115,176)
Interest expense	29,497	36,170	28,335
Interest income	(585)	(622)	(288)
Write-off of debt issuance costs	3,181	7,391	20
Gain on extinguishment of debt			(1,870)
Other expense	214	791	1,912
Income (loss) before income taxes	25,372	(6,995)	(143,285)
Provision for income taxes	1,941	411	37,249
<b>Net income (loss)</b>	<b>\$ 23,431</b>	<b>\$ (7,406)</b>	<b>\$ (180,534)</b>
<b>PER SHARE DATA:</b>			
<b>Net income (loss) per common share</b>			
Basic	\$ 1.01	\$ (0.36)	\$ (9.28)
Diluted	\$ 0.96	\$ (0.36)	\$ (9.28)

Edgar Filing: QUALITY DISTRIBUTION INC - Form 10-K

<b>Weighted-average number of shares</b>			
Basic	23,088	20,382	19,449
Diluted	24,352	20,382	19,449

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

F-3

**Table of Contents****Index to Financial Statements****QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****For the Years Ended December 31, 2011, 2010 and 2009****(In thousands)**

	<b>Years ended December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
Net income (loss)	\$ 23,431	\$ (7,406)	\$ (180,534)
Other comprehensive (loss) income:			
Adjustment to pension obligation	(5,213)	(520)	1,035
Translation adjustment	26	(87)	(134)
Total other comprehensive (loss) income	(5,187)	(607)	901
Comprehensive income (loss)	\$ 18,244	\$ (8,013)	\$ (179,633)

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

**Table of Contents****Index to Financial Statements****QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****December 31, 2011 and 2010****(In thousands)**

	<b>December 31, 2011</b>	<b>December 31, 2010</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 4,053	\$ 1,753
Accounts receivable, net	90,567	80,895
Prepaid expenses	7,849	6,911
Deferred tax asset, net	4,048	3,848
Other	3,858	4,891
Total current assets	110,375	98,298
Property and equipment, net	125,892	113,419
Goodwill	31,344	27,023
Intangibles, net	18,471	16,924
Other assets	16,313	15,671
Total assets	\$ 302,395	\$ 271,335
<b>LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND SHAREHOLDERS DEFICIT</b>		
Current liabilities:		
Current maturities of indebtedness	\$ 4,139	\$ 3,991
Current maturities of capital lease obligations	5,261	4,572
Accounts payable	7,571	7,200
Independent affiliates and independent owner-operators payable	9,795	11,059
Accrued expenses	25,327	24,363
Environmental liabilities	3,878	3,687
Accrued loss and damage claims	8,614	8,471
Total current liabilities	64,585	63,343
Long-term indebtedness, less current maturities	293,823	300,491
Capital lease obligations, less current maturities	3,840	8,278
Environmental liabilities	6,222	7,255
Accrued loss and damage claims	9,768	10,454
Other non-current liabilities	30,342	26,060
Total liabilities	408,580	415,881
Commitments and contingencies Note 20		
Redeemable noncontrolling interest		1,833
<b>SHAREHOLDERS DEFICIT</b>		
Common stock, no par value; 49,000 shares authorized; 24,207 issued and 23,940 outstanding at December 31, 2011 and 21,678 issued and 21,458 outstanding at December 31, 2010.	393,859	371,288
Treasury stock, 267 shares at December 31, 2011 and 220 shares at December 31, 2010.	(1,878)	(1,593)

Edgar Filing: QUALITY DISTRIBUTION INC - Form 10-K

Accumulated deficit	(278,543)	(301,974)
Stock recapitalization	(189,589)	(189,589)
Accumulated other comprehensive loss	(31,381)	(26,194)
Stock purchase warrants	1,347	1,683
<b>Total shareholders' deficit</b>	<b>(106,185)</b>	<b>(146,379)</b>
Total liabilities, redeemable noncontrolling interest and shareholders' deficit	\$ 302,395	\$ 271,335

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

F-5

**Table of Contents****Index to Financial Statements****QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF SHAREHOLDERS DEFICIT****For the Years Ended December 31, 2011, 2010 and 2009 (In thousands)**

	Shares of Common Stock	Shares of Treasury Stock	Common Stock	Treasury Stock	Accumulated Deficit	Stock Recapitalization	Accumulated Other Comprehensive Loss	Stock Purchase Warrants	Stock Subscription Receivables	Total Shareholders Equity (Deficit)
Balance, December 31, 2008	19,754	(205)	\$ 362,945	\$ (1,580)	\$ (114,034)	\$ (189,589)	\$ (26,488)	\$	\$ (234)	\$ 31,020
Net loss					(180,534)					(180,534)
Issuance of restricted stock	543									
Forfeiture of restricted stock		(15)								
Amortization of restricted stock			388							388
Amortization of stock options			713							713
Forgiveness of stock subscription receivable									80	80
Issuance of stock purchase warrants								6,696		6,696
Translation adjustment, net of tax							(134)			(134)
Adjustment to pension obligation, net of tax							1,035			1,035
Balance, December 31, 2009	20,297	(220)	\$ 364,046	\$ (1,580)	\$ (294,568)	\$ (189,589)	(25,587)	\$ 6,696	\$ (154)	\$ (140,736)
Net loss					(7,406)					(7,406)
Issuance of restricted stock	69									
Forfeiture of restricted stock										
Amortization of restricted stock			923							923
Amortization of stock options			1,350							1,350
Stock warrant exercise	1,311		5,013					(5,013)		
Stock option exercise	1		3							3
Forgiveness of stock subscription receivable									21	21
Satisfaction of stock subscription receivables			(47)	(13)					60	
Other stock transactions									73	73
Translation adjustment, net of tax							(87)			(87)
Adjustment to pension obligation, net of tax							(520)			(520)
Balance, December 31, 2010	21,678	(220)	\$ 371,288	\$ (1,593)	\$ (301,974)	\$ (189,589)	\$ (26,194)	\$ 1,683	\$	\$ (146,379)



Edgar Filing: QUALITY DISTRIBUTION INC - Form 10-K

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

F-6

Table of ContentsIndex to Financial Statements

## QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS DEFICIT

For the Years Ended December 31, 2011, 2010 and 2009 (In thousands) continued

	Shares of Common Stock	Shares of Treasury Stock	Common Stock	Treasury Stock	Accumulated Deficit	Stock Recapitalization	Accumulated Other Comprehensive Loss	Stock Purchase Warrants	Total Shareholders Deficit
Balance, December 31, 2010	21,678	(220)	\$ 371,288	\$ (1,593)	\$ (301,974)	\$ (189,589)	\$ (26,194)	\$ 1,683	\$ (146,379)
Net income					23,431				23,431
Issuance of restricted stock	93								
Forfeiture of restricted stock		(42)		(272)					(272)
Amortization of restricted stock			1,097						1,097
Amortization of stock options			1,777						1,777
Stock warrant exercise	88		336				(336)		
Stock option exercise	348	(1)	1,781	(13)					1,768
Proceeds from equity offering, net of transaction costs	2,000		17,580						17,580
Satisfaction of stock subscription receivables		(4)							
Translation adjustment, net of tax							26		26
Adjustment to pension obligation, net of tax							(5,213)		(5,213)
Balance, December 31, 2011	24,207	(267)	\$ 393,859	\$ (1,878)	\$ (278,543)	\$ (189,589)	\$ (31,381)	\$ 1,347	\$ (106,185)

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

**Table of Contents****Index to Financial Statements****QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****For the Years Ended December 31, 2011, 2010 and 2009****(In thousands)**

	<b>Years Ended December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income (loss)	\$ 23,431	\$ (7,406)	\$ (180,534)
Adjustments to reconcile to net cash and cash equivalents provided by (used in) operating activities:			
Deferred income tax provision (benefit)	8,500	(2,792)	(4,234)
Depreciation and amortization	14,413	16,004	20,218
Bad debt (recoveries) expense	(800)	(1,279)	1,838
Gain on sale of tank wash assets			(7,130)
(Gain ) loss on disposal of property and equipment	(1,318)	1,136	450
Impairment charge			148,630
PIK interest on Senior Subordinated Notes	196	2,027	469
Gain on extinguishment of debt			(1,870)
Financing costs		174	2,323
Unconsummated stock offering costs		735	
Write-off of deferred financing costs	1,468	2,946	20
Write-off of bond discount	1,713	4,445	
Stock-based compensation	2,874	2,273	1,101
Amortization of deferred financing costs	2,118	2,742	2,826
Amortization of bond discount	333	2,231	1,358
Noncontrolling interest dividends	38	145	145
(Benefit from) provision for deferred tax asset valuation allowance	(8,500)	2,792	41,577
Changes in assets and liabilities:			
Accounts receivables	(7,738)	(9,155)	9,945
Prepaid expenses	2,793	4,212	5,254
Other assets	1,021	(3,458)	2,776
Accounts payable	(743)	579	(2,844)
Accrued expenses	(1,881)	3,202	(4,150)
Environmental liabilities	(843)	(705)	794
Accrued loss and damage claims	(543)	(471)	(2,124)
Independent affiliates and independent owner-operators payable	(1,264)	1,325	2,085
Other liabilities	(852)	(782)	233
Current income taxes	983	151	600
Net cash provided by operating activities	35,399	21,071	39,756
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Capital expenditures	(38,340)	(11,184)	(8,221)
Acquisition of Greenville Transport Company	(8,594)		
Acquisition purchase price adjustment			266
Proceeds from sale of tank wash assets			10,000
Proceeds from sales of property and equipment	16,476	10,105	7,532
Net cash (used in) provided by investing activities	(30,458)	(1,079)	9,577
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from issuance of long-term debt		223,479	
Principal payments on long-term debt	(38,075)	(205,615)	(9,829)
Principal payments on capital lease obligations	(4,532)	(5,162)	(7,913)

Edgar Filing: QUALITY DISTRIBUTION INC - Form 10-K

Proceeds from revolver	175,457	59,200	28,600
Payments on revolver	(148,457)	(88,700)	(47,600)
Payments on acquisition notes	(632)	(917)	(966)
Financing costs		(174)	(2,323)
Deferred financing costs	(4,965)	(5,594)	(2,554)
Unconsummated stock offering costs		(735)	
Change in book overdraft	1,085	441	(7,785)
Noncontrolling interest dividends	(38)	(145)	(145)
Redemption of noncontrolling interest	(1,833)		
Proceeds from equity offering, net of transaction costs	17,580		
Proceeds from exercise of stock options	1,768	43	
<b>Net cash used in financing activities</b>	<b>(2,642)</b>	<b>(23,879)</b>	<b>(50,515)</b>
Effect of exchange rate changes on cash	1	7	28
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>2,300</b>	<b>(3,880)</b>	<b>(1,154)</b>
Cash and cash equivalents, beginning of year	1,753	5,633	6,787
<b>Cash and cash equivalents, end of year</b>	<b>\$ 4,053</b>	<b>\$ 1,753</b>	<b>\$ 5,633</b>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid during the year for:			
Interest	\$ 26,535	\$ 29,427	\$ 22,704
Income Taxes	949	494	182

SUPPLEMENTAL DISCLOSURES OF NON-CASH FLOW INFORMATION:

Minimum pension liability accrual, net of tax	\$ 6,484	\$ 1,813	\$ 248
Original and amended capital lease obligations and lease residual guarantees	2,153	846	1,280
Notes payable (receivable) for purchase (sale) of business assets	497	784	(3,000)
Notes payable insurance fundings	2,062	1,582	1,879
Warrant discount on notes issuance			6,696
Liabilities assumed with acquisition of Greenville	821		

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

**Table of Contents**

**Index to Financial Statements**

**Quality Distribution, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**For the Years Ended December 31, 2011, 2010 and 2009**

**1. BUSINESS ORGANIZATION**

Quality Distribution, Inc. (the Company, QDI, or we) and its subsidiaries are engaged primarily in transportation of bulk chemicals in North America. We are the largest provider of intermodal ISO tank container and depot services in North America through our wholly owned subsidiary, Boasso America Corporation (Boasso), which also includes Greenville Transport Company (Greenville). In 2011, we entered the gas and oil frac shale energy markets, providing logistics services to these markets through our wholly owned subsidiaries, QC Energy Resources, Inc. and QC Energy Resources, LLC, collectively (QCER). We conduct a significant portion of our business through a network of independent affiliates and independent owner-operators. Independent affiliates are companies which enter into various term contracts with the Company. Independent affiliates are responsible for paying for their own power equipment (including debt service), fuel and other operating costs. Most of the independent affiliates lease trailers from us. Independent owner-operators are independent contractors, who, through a contract with us, supply one or more tractors and drivers for our 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.

**2. SIGNIFICANT ACCOUNTING POLICIES**

*Basis of Presentation*

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States using U.S. dollars as the reporting currency as the majority of our business is in the U.S. The consolidated financial statements include the accounts of QDI and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Redeemable noncontrolling interest in 2010 reflected outstanding preferred stock of Chemical Leaman Corp. (CLC), a wholly-owned subsidiary of QDI, which was fully redeemed in 2011.

An amount of \$1.1 million related to an insurance premium refund received was identified as a prior period error which was corrected and recorded during the fourth quarter of 2011. We concluded that this adjustment was not material to our interim and annual consolidated financial statements for 2011 or the financial statements for any prior period based on our consideration of quantitative and qualitative factors.

*Reclassification*

Certain prior period amounts have been reclassified amongst operating expense line items to conform to the current year presentation.

*Cash and Cash Equivalents*

We consider all highly liquid investments with original maturities of three months or less to be cash equivalents. Book overdrafts are included in accounts payable.

*Allowance for Uncollectible Receivables*

We have established a reserve for uncollectible receivables based on a combination of historical data, cash payment trends, specific customer issues, write-off trends, general economic conditions and other factors. We charge uncollectible amounts to our allowance based on various issues, including cash payment trends and specific customer issues. These factors are continuously monitored by our management to arrive at the estimate for the amount of accounts receivable that may be ultimately uncollectible. The receivables analyzed include trade receivables, as well as loans and advances made to independent affiliates and independent owner-operators.



**Table of Contents****Index to Financial Statements****Quality Distribution, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****For the Years Ended December 31, 2011, 2010 and 2009***Tires*

We capitalize the cost of tires mounted on tractors and trailers that we acquire as a part of the total equipment cost and depreciate the cost over the useful life of the related equipment. Subsequent replacement tires are expensed at the time those tires are placed in service similar to other repairs and maintenance costs.

*Property and Equipment and Impairment on Long-Lived Assets*

Property and equipment expenditures, including tractor and trailer rebuilds that extend the useful lives of such equipment, are capitalized and recorded at cost. For financial statement purposes, these assets are depreciated using the straight-line method over the estimated useful lives of the assets to an estimated salvage value.

The asset lives used are presented in the following table:

	<b>Average Lives (in years)</b>
Buildings and improvements	10 - 25
Tractors and terminal equipment	5 - 7
Trailers	15 - 20
Energy market equipment	4 - 15
Furniture and fixtures	3 - 5
Other equipment	3 - 10

Tractor and trailer rebuilds, which are recurring in nature and extend the lives of the related assets, are capitalized and depreciated over the period of extension, generally 3 to 10 years, based on the type and extent of these rebuilds. Maintenance and repairs are charged directly to expense as incurred. Major improvements that extend the lives of the assets are capitalized. Management estimates the useful lives of these assets based on historical trends and the age of the assets when placed in service, and any changes in the actual lives could result in material changes in the periodic depreciation and resulting net book value of these assets. Additionally, we estimate the salvage values of these assets based on historical sales of disposals, and any changes in the actual salvage values could also affect the periodic depreciation and resulting net book value of these assets.

Furthermore, we evaluate the recoverability of our long-lived assets whenever adverse events or changes in the business climate indicate that the expected undiscounted future cash flows from the related asset may be less than previously anticipated. If the net book value of the related asset exceeds the undiscounted future cash flows of the asset, the carrying amount would be reduced to fair value and an impairment loss would be recognized. This analysis requires us to make significant estimates and assumptions in projecting future cash flows, and changes in facts and circumstances could result in material changes in the amount of any write-offs for impairment.

*Goodwill and Intangible Assets* We evaluate goodwill and indefinite-lived intangible assets for impairment at least annually during the second quarter with a measurement date of June 30, and more frequently if indicators of impairment arise, in accordance with Financial Accounting Standards Board ( FASB ) guidance on goodwill and other intangible assets. We evaluate goodwill for impairment by determining the fair value for each reporting unit to which our goodwill relates. At June 30, 2011, our intermodal segment was our only reporting unit that contained goodwill. Our intermodal segment contains goodwill and other identifiable intangible assets associated with our Boasso acquisition in December 2007 and our Greenville acquisition in November 2011.

## Edgar Filing: QUALITY DISTRIBUTION INC - Form 10-K

The methodology applied in the analysis performed at June 30, 2011 was consistent with the methodology applied in prior years, but was based on updated assumptions, as appropriate. As a result of our analysis, we concluded no impairment had occurred as of June 30, 2011 and 2010. As a result of our analysis at June 30,

F-10



**Table of Contents**

**Index to Financial Statements**

**Quality Distribution, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**For the Years Ended December 31, 2011, 2010 and 2009**

2009, a total impairment charge to goodwill of \$146.2 million was necessary, of which \$144.3 million was related to our chemical logistics segment, eliminating 100% of the carrying amount of goodwill of that segment, and \$1.9 million was related to our intermodal segment.

We continued to evaluate indicators of impairment quarterly following our annual goodwill impairment test at June 30, 2011 through year end 2011, including the quarter ended December 31, 2011. There were no indications that a triggering event had occurred as of December 31, 2011. As of December 31, 2011, we had total goodwill of \$31.3 million, all of which was allocated to our intermodal segment. As of December 31, 2011, we had total intangibles of \$18.5 million, of which \$17.9 million was allocated to our intermodal segment and \$0.6 million was allocated to our chemical logistics segment.

**Goodwill**

Under the FASB guidance, the process of evaluating the potential impairment of goodwill involves a two-step process and requires significant judgment at many points during the analysis. In the first step, we determine whether there is an indication of impairment by comparing the fair value of a reporting unit to its carrying amount, including goodwill. If, based on the first step, we determine that there is an indication of goodwill impairment, we assess the impairment in step two in accordance with the FASB guidance.

In the first step, we determine the fair value for each reporting unit using a combination of two valuation approaches: the market approach and the income approach. The market approach uses a guideline company methodology which is based upon a comparison of us to similar publicly-traded companies within our industry. We derive a market value of invested capital or business enterprise value for each comparable company by multiplying the price per share of common stock of the publicly traded companies by their total common shares outstanding and adding each company's current level of debt. We calculate a business enterprise multiple based on revenue and earnings from each company then apply those multiples to each reporting unit's revenue and earnings to conclude a reporting unit business enterprise value. Assumptions regarding the selection of comparable companies are made based on, among other factors, capital structure, operating environment and industry. As the comparable companies were typically larger and more diversified than our reporting units, multiples were adjusted prior to application to our reporting units' revenues and earnings to reflect differences in margins, long-term growth prospects and market capitalization.

The income approach uses a discounted debt-free cash flow analysis to measure fair value by estimating the present value of future economic benefits. To perform the discounted debt-free cash flow analysis, we develop a pro forma analysis of each reporting unit to estimate future available debt-free cash flow and discounting estimated debt-free cash flow by an estimated industry weighted average cost of capital based on the same comparable companies used in the market approach. Per the FASB guidance, the weighted average cost of capital is based on inputs (e.g., capital structure, risk, etc.) from a market participant's perspective and not necessarily from the reporting unit or QDI's perspective. Future cash flow is projected based on assumptions for our economic growth, industry expansion, future operations and the discount rate, all of which require significant judgments by management.

After computing a separate business enterprise value under the income approach and market approach, we apply a weighting to them to derive the business enterprise value of the reporting unit. The income approach and market approach were both weighted 50% in the analysis performed at June 30, 2011. The weightings are evaluated each time a goodwill impairment assessment is performed and give consideration to the relative reliability of each approach at that time. Given that the business enterprise value derived from the market approach supported what was calculated in the income approach, we believed that both approaches should be equally weighted. Based on these weightings we calculated a business enterprise value for the reporting unit. We

---

**Table of Contents**

**Index to Financial Statements**

**Quality Distribution, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**For the Years Ended December 31, 2011, 2010 and 2009**

then add debt-free liabilities of the reporting unit to the calculated business enterprise value to derive an implied fair value of the reporting unit. The implied fair value is then compared to the reporting unit's carrying value of total assets. Upon completion of the analysis in step one, we determined that the fair value of our intermodal reporting unit exceeded its carrying value. As such, a step two analysis was not required.

**Intangible assets**

To determine the implied fair value of our indefinite-lived intangible assets, we utilize the relief from royalty method, pursuant to which those assets are valued by reference to the amount of royalty income they would generate if licensed in an arm's length transaction. Under the relief from royalty method, similar to the discounted cash flow method, estimated net revenues expected to be generated by the asset during its life are multiplied by a benchmark royalty rate and then discounted by the estimated weighted average cost of capital associated with the asset. The resulting capitalized royalty stream is an indication of the value of owning the asset. Based upon management's review of the value of the indefinite-lived intangible assets in our intermodal segment, we determined that the implied fair value exceeded its carrying value.

If there are changes to the methods used to allocate carrying values, if management's estimates of future operating results change, if there are changes in the identified reporting units or if there are changes to other significant assumptions, the estimated carrying values for each reporting unit and the estimated fair value of our goodwill could change significantly, and could result in future impairment charges, which could materially impact our results of operations and financial condition.

*Other Assets - Deferred Loan Costs*

Costs incurred to issue debt are deferred and amortized as a component of interest expense over the estimated term of the related debt using the effective interest rate method.

*Taxation*

We use the liability method of accounting for income taxes. If, on the basis of available evidence, it is more likely than not that all or a portion of the deferred tax asset will not be realized, the asset must be reduced by a valuation allowance. Any change in the actual future results of operations could impact the valuation of the net deferred tax asset.

A valuation allowance has been maintained for 100% of our net deferred tax asset as we believe it does not meet the more likely than not criteria. Our judgments regarding future taxable income may change due to changes in market conditions, changes in tax laws or other factors. If any of the assumptions and related estimates changes in the future, it may impact the valuation allowance and related income tax expense in the same period.

During the second quarter of 2009, an impairment charge of \$148.6 million was recorded and as a result the Company determined that it was in a cumulative loss position. We based this analysis on a rolling thirty-six month calculation of U.S. earnings along with other criteria at each reporting date. As a result of this negative evidence, we determined that it was more likely than not that the Company's net deferred tax asset was not realizable. For purposes of assessing realizability of the deferred tax assets, cumulative losses in recent years were considered significant negative evidence and caused us to conclude that the Company would not fully realize the deferred tax assets. This evidence was weighed against positive evidence such as positive forecasted earnings and when our net operating loss carryforward will expire. The negative evidence outweighed the positive evidence and as a result, a \$41.2 million deferred tax valuation allowance was recorded.

---

**Table of Contents**

**Index to Financial Statements**

**Quality Distribution, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**For the Years Ended December 31, 2011, 2010 and 2009**

At December 31, 2011 we had an estimated \$77.0 million in federal net operating loss carryforwards, \$3.0 million of unrecognized federal operating loss carryforwards related to excess stock compensation deductions and uncertain tax position deductions, \$2.4 million in alternative minimum tax credit carryforwards and \$4.8 million in foreign tax credit carryforwards. The net operating loss carryforwards will expire in the years 2018 through 2030, while the alternative minimum tax credits may be carried forward indefinitely and the foreign tax credits may be carried forward for 10 years. We do not have a history of net operating loss or tax credit carryforwards expiring unused; however, we have determined based on the weight of available evidence that it is more likely than not that some or all of the carryforwards may expire.

We continue to evaluate quarterly, the positive and negative evidence regarding the realization of net deferred tax assets in accordance with FASB guidance for income taxes. Included in this assessment are estimates of projected future taxable income, our measurement of whether there are cumulative losses in recent years, and certain other criteria. Significant management judgment is required in this process and based on our assessment as of December 31, 2011, we concluded that realization is not assured and it is more likely than not that our deferred tax asset will not be realized. Therefore, we maintain a 100% valuation allowance against the deferred tax asset.

Under FASB guidance, we account for uncertain tax positions using a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as we have to determine the probability of various possible outcomes. We re-evaluate these uncertain tax positions on a quarterly basis. This evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit, and new audit activity. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision.

*Environmental liabilities*

We have reserved for potential environmental liabilities based on the best estimates of potential clean-up and remediation for known environmental sites. We employ a staff of environmental professionals to administer all phases of our environmental programs and use outside experts where needed. These professionals develop estimates of potential liabilities at these sites based on projected and known remediation costs. These cost projections are determined through previous experiences with other sites and through bids from third-party contractors. Management believes current reserves are reasonable based on current information, but estimates of environmental reserves and exposures may be affected by information subsequently received.

*Accrued Loss and Damage Claims*

We currently maintain liability insurance for bodily injury and property damage claims, covering all employees, independent owner-operators and independent affiliates, and workers' compensation insurance coverage on our employees and company drivers. This insurance includes deductibles of \$2.0 million per incident for bodily injury and property damage and \$1.0 million for workers' compensation. As such, we are subject to liability as a self-insurer to the extent of these deductibles under the policy. We are self-insured for damage to the equipment we own or lease and for cargo losses. As of December 31, 2011, we had \$22.9 million in an outstanding letter of credit to our insurance administrator to guarantee the self-insurance portion of our liability. If we fail to meet certain terms of our agreement, the insurance administrator may draw down the letter

**Table of Contents****Index to Financial Statements****Quality Distribution, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****For the Years Ended December 31, 2011, 2010 and 2009**

of credit. In developing liability reserves, we rely on professional third party claims administrators, insurance company estimates and the judgment of our own safety department personnel, and independent professional actuaries and attorneys. The most significant assumptions used in the estimation process include determining the trends in loss costs, the expected consistency in the frequency and severity of claims incurred but not yet reported to prior-year claims, and expected costs to settle unpaid claims. Management believes reserves are reasonable given known information, but as each case develops, estimates may change to reflect the effect of new information.

*Redeemable Noncontrolling Interest*

Shares of Series C preferred stock of our subsidiary, CLC, were held by two shareholders that were affiliated with us. These shareholders were entitled to dividends on each of their shares of Series C preferred stock, payable quarterly, at a rate of 8.0% (or \$480 per preferred share) per annum. At December 31, 2010, all 302 shares were outstanding, fully redeemable and carried at a maximum aggregate redemption value of \$1.8 million in accordance with FASB guidance. In 2009, we adopted FASB guidance that required us to report the noncontrolling interest as a temporary equity item. On March 3, 2011, we fully redeemed all 302 shares for \$1.8 million plus accrued dividends through the redemption date.

*Foreign Currency Translation*

The translation from Canadian dollars to U.S. dollars is performed for balance sheet accounts using exchange rates in effect at the balance sheet date and for revenue and expense accounts using a weighted-average exchange rate in effect during the period. The gains or losses, net of income taxes, resulting from such translation are included in shareholders' deficit as a component of accumulated other comprehensive loss. Gains or losses from foreign currency transactions are included in other expense.

*Accumulated Other Comprehensive Loss*

The components of accumulated other comprehensive loss are as follows as of December 31 (in thousands):

	<b>2011</b>	<b>2010</b>
Unrecognized loss and prior service costs	\$ 30,244	\$ 25,031
Foreign currency translation adjustment	1,137	1,163
	<b>\$ 31,381</b>	<b>\$ 26,194</b>

*Revenue Recognition*

Transportation revenue, including fuel surcharges and related costs, is recognized on the date freight is delivered. Service revenue consists primarily of rental revenues (primarily tractor and trailer rental), intermodal and depot revenues, tank wash revenues and insurance related administrative services. Rental revenues from independent affiliates, independent owner-operators and third parties are recognized ratably over the lease period. Intermodal and depot revenues, consisting primarily of repair and storage services, are recognized when the services are rendered. During the periods that we operated our tank wash business, tank wash revenues were recognized when the wash was completed. Insurance related administrative service revenues are recorded ratably over the service period. We recognize all revenues on a gross basis as the principal and primary obligor with risk of loss in relation to our responsibility for completion of services as contracted with our customers.



**Table of Contents****Index to Financial Statements****Quality Distribution, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****For the Years Ended December 31, 2011, 2010 and 2009***Service Revenue*

The components of service revenue are as follows for the year ended December 31 (in thousands):

	<b>2011</b>	<b>2010</b>	<b>2009</b>
Rental revenue	\$ 50,726	\$ 53,911	\$ 42,115
Intermodal and depot revenues	42,169	37,004	31,161
Tank wash revenue			19,530
Other revenue	17,693	16,559	12,148
	<b>\$ 110,588</b>	<b>\$ 107,474</b>	<b>\$ 104,954</b>

*Share-Based Compensation*

Under the FASB guidance, we apply the Black-Scholes valuation model in determining the fair value of share-based payments to employees and directors. The resulting compensation expense is recognized over the requisite service period, which is generally the option vesting term of two to four years. Please refer to Note 19 for further discussion regarding stock-based compensation.

*Leased Assets*

We have both capital and operating leases. The initial leases for most of our tractors and trailers have terms that range from four to six years. Some leases require us to pay the lessor a minimum residual amount at the end of the lease. For operating leases, we accrue this residual by recording a prepaid rent amount and amortizing a monthly amount as rental expense and also record a liability that is increased every year by recognizing interest expense. This residual amount is recorded in the balance sheet category Other non-current liabilities. For capital leases, the residual is included as part of the cost of the capitalized leased asset.

*Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Net Income (Loss) Per Common Share*

Basic net income (loss) per common share is calculated based on the weighted-average common shares outstanding during each period. Diluted income (loss) per common share includes the dilutive effect, if any, of common equivalent shares outstanding during each period.

*New Accounting Pronouncements*

In December 2010, FASB issued amended guidance to clarify the acquisition date that should be used for reporting pro forma financial information for business combinations. If comparative financial statements are presented, the pro forma revenue and earnings of the combined entity for the comparable prior reporting period should be reported as though the acquisition date had been completed as of the beginning of the

Edgar Filing: QUALITY DISTRIBUTION INC - Form 10-K

comparable prior annual reporting period. The amendments in this guidance are effective prospectively for business combinations for which the acquisition date is on or after January 1, 2011.

F-15

**Table of Contents**

**Index to Financial Statements**

**Quality Distribution, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**For the Years Ended December 31, 2011, 2010 and 2009**

In December 2010, the FASB also issued amendments to the guidance on goodwill impairment testing. The amendments modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In making that determination, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. These amendments are effective for fiscal years and interim periods beginning January 1, 2011. Adoption of these amendments did not have an impact on the Company's financial position, results of operations or cash flows.

In June 2011, the FASB updated its guidance on comprehensive income. This accounting update eliminates the option to present the components of other comprehensive income as part of the statement of shareholders' equity. Instead, the Company must report comprehensive income in either a single continuous statement of comprehensive income which contains two segments, net income and other comprehensive income, or in two separate but consecutive statements. This amendment is effective for public companies during the interim and annual periods beginning after December 15, 2011 with early adoption permitted. The Company adopted this amended guidance for its fiscal year ending December 31, 2011 by presenting a separate statement of comprehensive income.

In September 2011, the FASB issued additional amendments to the guidance on goodwill testing for impairment by permitting an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. This amendment is effective for fiscal years beginning after December 31, 2011, with early adoption permitted in limited circumstances. Adoption of this amendment is not expected to have an impact on the Company's financial position, results of operations or cash flows.

In September 2011, the FASB issued amended guidance that requires employers to provide additional separate disclosures for multi-employer pension plans and multi-employer other postretirement benefit plans. The additional quantitative and qualitative disclosures will provide users with more detailed information about an employer's involvement in multi-employer pension plans. The new disclosure requirements are required for fiscal years ending after December 15, 2011. The Company adopted this amended guidance for its fiscal year ending December 31, 2011.

**3. VARIABLE INTEREST ENTITIES**

At December 31, 2011, we hold 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 contract with the VIE, the operating structure of the VIE and our role with the VIE that we do not have the power to direct activities that most significantly impact its economic performance. Therefore, we are not required to consolidate the operations of this VIE.

The VIE is an independent affiliate that is directly engaged in the dry bulk business through the management of three trucking terminals in the North East region of the U.S. As such, this business is highly seasonal. We are involved with 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 \$2.6 million at December 31, 2011. These loans are secured by a second priority lien on assets of the VIE.



**Table of Contents****Index to Financial Statements****Quality Distribution, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****For the Years Ended December 31, 2011, 2010 and 2009**

Severe winter weather in the fourth quarter of 2010 and the first quarter of 2011 created cash flow constraints for this VIE in the first quarter of 2011. While the VIE's business and cash flow improved throughout the remainder of 2011, as expected, we remain reliant on collateral for the repayment of our loans. During the first quarter of 2011, we recorded a \$0.5 million reserve against our \$2.6 million of loans receivable. This reserve was reversed during the fourth quarter of 2011 based on an assessment of the VIE's improved business performance and the Company's improved collateral position.

**4. FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

Level 1 Quoted prices for identical instruments in active markets;

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

Level 3 Instruments whose significant inputs are unobservable.

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

***Fair Value Measurements on a Nonrecurring Basis******Long-term indebtedness***

The fair value of our long-term indebtedness is based on level 2 quoted market prices. As of December 31, 2011, the carrying value and fair value are as follows (in thousands):

	Carrying Value	Fair Value
9.875% Second-Priority Senior Secured Notes, due 2018	\$ 225,000	\$ 231,188

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

The carrying amounts reported in the accompanying 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.



**Table of Contents****Index to Financial Statements****Quality Distribution, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****For the Years Ended December 31, 2011, 2010 and 2009****5. EARNINGS (LOSS) PER COMMON SHARE**

A reconciliation of the numerators and denominators of the basic and diluted earnings (loss) from continuing operations to earnings (loss) per share computations follows (in thousands except per share amounts):

	December 31, 2011			December 31, 2010			December 31, 2009		
	Earnings from continuing operations (numerator)	Shares (denominator)	Per-share amount	Loss from continuing operations (numerator)	Shares (denominator)	Per-share amount	Loss from continuing operations (numerator)	Shares (denominator)	Per-share amount
<b>Basic earnings (loss) available to common shareholders:</b>									
Earnings (loss)	\$ 23,431	23,088	\$ 1.01	\$ (7,406)	20,382	\$ (0.36)	\$ (180,534)	19,449	\$ (9.28)
<b>Effect of dilutive securities:</b>									
Stock options		635							
Unvested restricted stock		200							
Unexercised stock warrants		429							
<b>Diluted earnings (loss) available to common shareholders:</b>									
Earnings (loss)	\$ 23,431	24,352	\$ 0.96	\$ (7,406)	20,382	\$ (0.36)	\$ (180,534)	19,449	\$ (9.28)

The effect of our stock options, restricted stock and stock warrants which represent the shares shown in the table above are included in the computation of diluted earnings per share for each year. There is no effect of our stock options, restricted stock and stock warrants in the computation of diluted earnings per share for the years ended December 31, 2010 and 2009 due to a net loss in both periods.

**Table of Contents****Index to Financial Statements****Quality Distribution, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****For the Years Ended December 31, 2011, 2010 and 2009**

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

	For the years ended December 31,		
	2011	2010	2009
Stock options	1,573	2,126	2,171
Restricted stock	134	313	610
Warrants	1	1	1,747

**6. ACQUISITIONS AND DISPOSITIONS**

On November 1, 2011, Boasso acquired all of the outstanding stock of Greenville Transport Company ( Greenville ). The purchase price was \$8.6 million, paid in cash, with an additional \$0.5 million to be paid in cash, subject to Greenville meeting certain future operating performance criteria. An additional \$0.4 million will be paid in cash for a 338(h)(10) tax election. Greenville is headquartered in Chesapeake, Virginia and is a leading provider of ISO tank container and depot services with access to ports in Virginia, Maryland and South Carolina. For its fiscal year ended December 31, 2010, Greenville had revenues of approximately \$8.0 million. Proforma information for the acquisition has not been presented as the acquisition was not significant.

During 2010, we did not complete any acquisitions or dispositions of businesses.

On October 10, 2009, we sold substantially all of the operating assets of our tank wash subsidiary, Quala Systems, Inc. ( QSI ), for \$13.0 million, of which \$10.0 million was paid in cash and the remaining \$3.0 million in a subordinated note. The subordinated note is a five year non-amortizing note which matures on December 31, 2014. The principal is payable in a lump sum at maturity. Interest is payable quarterly at 7% per annum commencing December 31, 2009. In connection with the sale, QSI entered into various agreements with the purchaser, which is not affiliated with us, including long-term leases of real estate used in the tank wash business and various operating agreements. The assets sold had a net book value of \$4.9 million, which included \$4.3 million of equipment, \$0.4 million of inventory, and \$0.2 million of intangible assets. The sold QSI business generated approximately \$19.5 million of revenue in 2009 from tank wash and related operations. Following the sale of the QSI business, we have purchased tank wash services (which were previously provided by QSI) from the acquirer of QSI's tank wash assets and we expect to continue to do so in the future. Since we expect these continuing cash outflows to be significant, the sold QSI business did not qualify as a discontinued operation under FASB guidance. Therefore, we recorded a pre-tax gain of \$7.1 million in the fourth quarter of 2009 as part of our operating income.

Table of ContentsIndex to Financial Statements

## Quality Distribution, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (Continued)

## For the Years Ended December 31, 2011, 2010 and 2009

## 7. SELECTED QUARTERLY FINANCIAL DATA (Unaudited) (In thousands, except per share data)

	Quarter Ended			
	March 31	June 30	September 30	December 31
<b>2011</b>				
Operating revenues	\$ 177,910	\$ 189,993	\$ 199,298	\$ 178,750
Operating income	12,193	16,939	15,286	13,261
Net income	2,722	9,046	6,187	5,476
Income per share basic	0.12	0.39	0.26	0.23
Income per share diluted	0.12	0.37	0.25	0.22
<b>2010</b>				
Operating revenues	\$ 161,333	\$ 177,552	\$ 181,948	\$ 165,765
Operating income	8,684	11,223	9,837	6,991
Net income (loss)	798	2,056	421	(10,681)
Income (loss) per share basic	0.04	0.10	0.02	(0.51)
Income (loss) per share diluted	0.04	0.09	0.02	(0.51)

In 2011, we recognized a restructuring credit of \$0.5 million in the first quarter. Results for the first quarter of 2011 include a write-off of debt issuance costs of \$1.8 million related to the partial redemption of our 2013 PIK Notes. Results for the third quarter of 2011 include a write-off of debt issuance costs of \$0.3 million related to the final redemption of our 2013 PIK Notes and a write-off of debt issuance costs of \$0.9 million related to the refinancing of our Previous ABL Facility.

In 2010, we recognized \$7.8 million in restructuring costs. Results for the fourth quarter of 2010 include a \$7.4 million write-off of debt issuance costs related to the issuance of our 2018 Notes and subsequent redemption of other notes.

## 8. RESTRUCTURING

We account for restructuring costs associated with one-time termination benefits, costs associated with lease and contract terminations and other related exit activities in accordance with FASB's guidance. We previously made estimates of the costs to be incurred as part of a restructuring plan developed during 2008 and concluded at the end of 2010. The restructuring plan consisted of various actions including termination of approximately 380 non-driver positions and the consolidation, closure or affiliation of underperforming company 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 December 31, 2011, \$2.8 million was accrued related to the restructuring charges which are expected to be paid through 2017. This amount reflects a reduction of \$0.5 million recorded in the second quarter of 2011, due to lower than anticipated costs to discharge our withdrawal liability from one multi-employer pension plan.

In the year ended December 31, 2011, we had the following activity in our restructuring accrual (in thousands):

	Balance at December 31, 2010	Additions	Payments	Reductions	Balance at December 31, 2011
Restructuring accrual	\$ 5,449	\$	\$ (2,146)	\$ (521)	\$ 2,782



**Table of Contents****Index to Financial Statements****Quality Distribution, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****For the Years Ended December 31, 2011, 2010 and 2009****9. SEGMENT REPORTING***Reportable Segments*

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

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

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

Energy Logistics, which consists primarily of the transportation of fresh water, disposal water and oil for the energy logistics markets, primarily through 2 independent affiliates; and

Intermodal, which consists solely of Boasso and Greenville's International Organization for Standardization or intermodal ISO tank container transportation and depot services supporting the international movement of bulk liquids.

Segment revenues and operating income include fuel surcharge to the chemical logistics and intermodal segments. The operating income reported in our segments excludes amounts such as gains and losses on disposal of property and equipment, restructuring costs, impairment charge, corporate and other unallocated amounts. Corporate and unallocated amounts include depreciation and amortization and other gains and losses, and are included in our chemical logistics segment. Although these amounts are excluded from the business segment results, they are included in reported consolidated earnings. In 2009, revenues contained in the other segment represent revenues from our tank wash business which was sold during the fourth quarter of 2009. 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 (loss) before income taxes for the years ended December 31 follows (in thousands):

	December 31, 2011				
	Chemical Logistics	Energy Logistics	Intermodal	Other	Total
Operating Revenues:					
Transportation	\$ 429,769	\$ 29,432	\$ 58,579	\$	\$ 517,780
Service revenue	67,414	1,006	42,168		110,588
Fuel surcharge	103,487	64	14,032		117,583
Total operating revenues	600,670	30,502	114,779		745,951

Edgar Filing: QUALITY DISTRIBUTION INC - Form 10-K

Segment operating income	48,444	3,081	18,728	70,253
Depreciation & amortization	10,418	785	3,210	14,413
Other income	(1,684)		(155)	(1,839)
Operating income	39,710	2,296	15,673	57,679
Interest expense	23,447		6,050	29,497
Interest income	(585)			(585)
Other expense	2,329		1,066	3,395
Income before income taxes	\$ 14,519	\$ 2,296	\$ 8,557	\$ 25,372

F-21



**Table of Contents****Index to Financial Statements****Quality Distribution, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****For the Years Ended December 31, 2011, 2010 and 2009**

	December 31, 2010				Total
	Chemical Logistics	Energy Logistics	Intermodal	Other	
Operating Revenues:					
Transportation	\$ 442,576	\$	\$ 55,870	\$	\$ 498,446
Service revenue	70,470		37,004		107,474
Fuel surcharge	72,053		8,625		80,678
Total operating revenues	585,099		101,499		686,598
Segment operating income	44,791		16,863		61,654
Depreciation & amortization	13,033		2,971		16,004
Other expense (income)	8,901		14		8,915
Operating income	22,857		13,878		36,735
Interest expense	30,105		6,065		36,170
Interest income	(622)				(622)
Other expense	7,033		1,149		8,182
(Loss) income before income taxes	\$ (13,659)	\$	\$ 6,664	\$	\$ (6,995)

	December 31, 2009				Total
	Chemical Logistics	Energy Logistics	Intermodal	Other	
Operating Revenues:					
Transportation	\$ 411,213	\$	\$ 43,445	\$	\$ 454,658
Service revenue	58,433		31,161	15,360	104,954
Fuel surcharge	49,104		4,893		53,997
Total operating revenues	518,750		79,499	15,360	613,609
Segment operating income	36,961		11,287	2,240	50,488
Depreciation & amortization	16,028		2,790	1,400	20,218
Impairment charge (1)	144,306		4,324		148,630
Other expense (income)	3,972		11	(7,167)	(3,184)
Operating (loss) income	(127,345)		4,162	8,007	(115,176)
Interest expense	22,250		6,085		28,335
Interest income	(241)			(47)	(288)

Edgar Filing: QUALITY DISTRIBUTION INC - Form 10-K

Other (income) expense	(1,377)		1,427	12	62
(Loss) income before income taxes	\$ (147,977)	\$	\$ (3,350)	\$ 8,042	\$ (143,285)

- (1) Includes an impairment charge of \$144.3 million related to our chemical logistics segment and an impairment charge of \$4.3 million related to our intermodal segment related to goodwill and intangible assets.

F-22

**Table of Contents****Index to Financial Statements****Quality Distribution, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****For the Years Ended December 31, 2011, 2010 and 2009****10. GEOGRAPHIC SEGMENTS**

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

	<b>2011</b>		
	<b>U.S.</b>	<b>International</b>	<b>Consolidated</b>
Total operating revenues	\$ 700,641	\$ 45,310	\$ 745,951
Operating income	50,083	7,596	57,679
Long-term identifiable assets (1)	119,879	6,013	125,892

	<b>2010</b>		
	<b>U.S.</b>	<b>International</b>	<b>Consolidated</b>
Total operating revenues	\$ 648,634	\$ 37,964	\$ 686,598
Operating income	32,086	4,649	36,735
Long-term identifiable assets (1)	106,148	7,271	113,419

	<b>2009</b>		
	<b>U.S.</b>	<b>International</b>	<b>Consolidated</b>
Total operating revenues	\$ 576,405	\$ 37,204	\$ 613,609
Operating (loss) income	(119,288)	4,112	(115,176)
Long-term identifiable assets (1)	119,340	7,989	127,329

(1) Includes property and equipment.

**11. ACCOUNTS RECEIVABLE**

Accounts receivable consisted of the following at December 31 (in thousands):

	<b>2011</b>	<b>2010</b>
Trade accounts receivable	\$ 86,092	\$ 73,527
Independent affiliate and independent owner-operator receivables	2,487	6,893
Other receivables	2,662	1,317
	91,241	81,737
Less allowance for doubtful accounts	(674)	(842)
	\$ 90,567	\$ 80,895

Edgar Filing: QUALITY DISTRIBUTION INC - Form 10-K

The activity in the allowance for doubtful accounts for the years ended December 31 is as follows (in thousands):

	<b>2011</b>	<b>2010</b>
Balance, beginning of period	\$ (842)	\$ (1,804)
Adjustment to bad debt expense	800	1,279
Write-offs, net of recoveries	(632)	(317)
Balance, end of period	\$ (674)	\$ (842)

F-23

**Table of Contents****Index to Financial Statements****Quality Distribution, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****For the Years Ended December 31, 2011, 2010 and 2009****12. PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at December 31 (in thousands):

	2011	2010
Land and improvements	\$ 13,462	\$ 12,907
Buildings and improvements	26,903	24,851
Revenue equipment	190,175	203,279
Other equipment	31,946	24,281
<b>Total property and equipment</b>	<b>262,486</b>	<b>265,318</b>
Accumulated depreciation	(136,594)	(151,899)
<b>Property and equipment, net</b>	<b>\$ 125,892</b>	<b>\$ 113,419</b>

Depreciation expense was \$13.0 million, \$14.5 million and \$18.6 million for the years ending December 31, 2011, 2010 and 2009, respectively. At December 31, 2011 and 2010, we had \$17.6 million and \$19.2 million of capitalized cost and \$2.8 million and \$3.2 million of accumulated depreciation of equipment under capital leases, respectively, included in revenue equipment in the above schedule.

**13. GOODWILL AND INTANGIBLE ASSETS***Goodwill*

Under the FASB guidance, goodwill and indefinite-lived intangible assets are subject to an annual impairment test as well as impairment assessments when certain triggering events occur. We evaluate goodwill for impairment by determining the fair value based on criteria in the FASB guidance for each reporting unit to which our goodwill relates. These reporting units may contain goodwill and other identifiable intangible assets as a result of previous business acquisitions. Our annual impairment test is performed during the second quarter with a measurement date of June 30. The methodology applied in the analysis performed at June 30, 2011 was consistent with the methodology applied in prior years, but was based on updated assumptions, as appropriate. As a result of our analysis, we concluded no impairment had occurred as of June 30, 2011 and 2010. As a result of our analysis as of June 30, 2009, we recorded a total impairment charge to goodwill of \$146.2 million, of which \$144.3 million was related to our chemical logistics segment, eliminating 100% of the carrying amount of goodwill of that segment, and \$1.9 million was related to our intermodal segment.

As the result of the June 30, 2009 impairment, we determined that we were in a cumulative loss position. Based on this negative evidence we concluded that it was no longer more likely than not that our net deferred tax asset was realizable. For purposes of assessing realizability of the deferred tax assets, this cumulative financial reporting loss position is considered significant negative evidence we will not be able to fully realize the deferred tax assets in the future. As a result, a \$41.2 million deferred tax valuation allowance was recorded in 2009. Our judgments regarding future taxable income may change due to changes in market conditions, changes in tax laws, operating results or other factors. If any of these factors and related estimates changes in the future, it may increase or decrease the valuation allowance and related income tax expense in the same period.

Under the FASB guidance, the process of evaluating the potential impairment of goodwill requires significant judgment at many points during the analysis and involves a two-step process. In the first step, we determine whether there is an indication of impairment by comparing the fair

Edgar Filing: QUALITY DISTRIBUTION INC - Form 10-K

value of a reporting unit to its carrying amount, including goodwill. If, based on the first step, we determine that there is an indication of goodwill impairment, the Company will measure any identified goodwill impairment in accordance with the FASB guidance.

F-24

Table of ContentsIndex to Financial Statements**Quality Distribution, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****For the Years Ended December 31, 2011, 2010 and 2009**

In the first step, we determine the fair value for our reporting units using a combination of two valuation approaches: the market approach and the income approach. The market approach uses a guideline company methodology which is based upon a comparison of us to similar publicly-traded companies within our industry. We derive a market value of invested capital or business enterprise value for each comparable company by multiplying the price per share of common stock of the publicly traded companies by their total common shares outstanding and adding each company's current level of debt. We calculate a business enterprise multiple based on revenue and earnings from each company, then apply those multiples to each reporting unit's revenue and earnings to conclude a reporting unit business enterprise value. Assumptions regarding the selection of comparable companies are made based on, among other factors, capital structure, operating environment and industry. As the comparable companies were typically larger and more diversified than our reporting units, multiples were adjusted prior to application to our reporting units' revenues and earnings to reflect differences in margins, long-term growth prospects and market capitalization.

The income approach uses a discounted debt-free cash flow analysis to measure fair value by estimating the present value of future economic benefits. To perform the discounted debt-free cash flow analysis, we develop a pro forma analysis of each reporting unit to estimate future available debt-free cash flow and discount estimated debt-free cash flow by an estimated industry weighted average cost of capital based on the same comparable companies used in the market approach. Per the FASB guidance, the weighted average cost of capital is based on inputs (e.g., capital structure, risk, etc.) from a market participant's perspective and not necessarily from the reporting unit or QDI's perspective. Future cash flow is projected based on assumptions for our economic growth, industry expansion, future operations and the discount rate, all of which require significant judgments by management.

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

	2009	2010	Addition Acquisition of Greenville	2011
Intermodal	\$ 27.0	\$ 27.0	\$ 4.3	\$ 31.3

*Intangible Assets*

Intangible assets at December 31, 2011 are as follows (in thousands):

	Gross book value	Accumulated amortization	2011 Additions	Net book value	Average lives (in years)
Tradename	\$ 7,400	\$	\$	\$ 7,400	Indefinite
Customer relationships	11,900	(4,000)	2,360	10,260	12
Non-compete agreements	2,593	(2,409)	627	811	3 - 5
	\$ 21,893	\$ (6,409)	\$ 2,987	\$ 18,471	

Of the total intangibles of \$18.5 million at December 31, 2011, \$17.9 million was allocated to our intermodal segment and \$0.6 million was allocated to our chemical logistics segment.





**Table of Contents****Index to Financial Statements****Quality Distribution, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****For the Years Ended December 31, 2011, 2010 and 2009**

Amortization expense for the years ended December 31, 2011, 2010, and 2009 was \$1.4 million, \$1.5 million and \$1.6 million, respectively. Estimated amortization expense for intangible assets is as follows (in thousands):

2012	\$ 1,594
2013	1,385
2014	1,346
2015	1,214
2016 and after	5,532

**14. ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

Accounts payable includes \$1.6 million and \$0.5 million of book overdrafts at December 31, 2011 and 2010, respectively.

Accrued expenses include the following at December 31 (in thousands):

	<b>2011</b>	<b>2010</b>
Salaries, wages and benefits	\$ 5,519	\$ 4,824
Accrued interest	4,184	4,080
Claims and deposits	4,538	4,326
Taxes	2,185	1,328
Other	8,901	9,805
	\$ 25,327	\$ 24,363

**15. LONG-TERM INDEBTEDNESS**

Long-term debt consisted of the following at December 31 (in thousands):

	<b>2011</b>	<b>2010</b>
Capital lease obligations	\$ 9,101	\$ 12,850
New ABL Facility	65,500	
Previous ABL Facility		38,500
11.75% Senior Subordinated PIK Notes, due 2013		33,184
9.875% Second-Priority Senior Secured Notes, due 2018	225,000	225,000
Other Notes	8,943	11,327
Long-term debt, including current maturities	308,544	320,861
Discount on Notes	(1,481)	(3,529)

Edgar Filing: QUALITY DISTRIBUTION INC - Form 10-K

	307,063	317,332
Less current maturities of long-term debt (including capital lease obligations)	(9,400)	(8,563)
Long-term debt, less current maturities (including capital lease obligations)	\$ 297,663	\$ 308,769

F-26

---

**Table of Contents**

**Index to Financial Statements**

**Quality Distribution, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**For the Years Ended December 31, 2011, 2010 and 2009**

*The New ABL Facility*

On August 19, 2011, we entered into the New ABL Facility. The New ABL Facility provides for a revolving credit facility with a maturity of five years and a maximum borrowing capacity of \$250.0 million. The New ABL Facility includes sub-limit capacity of up to \$150.0 million for letters of credit and up to \$30.0 million for swingline borrowings on same-day notice. The New ABL Facility replaced the Previous ABL Facility. The proceeds of the New ABL Facility were used to repay all outstanding indebtedness under our Previous ABL Facility, and to pay related fees and expenses. The New ABL Facility is available for general corporate purposes, including permitted acquisitions. At December 31, 2011, we had \$82.3 million of borrowing availability under the New ABL Facility.

Borrowings under the New ABL Facility bear interest at a rate equal to an applicable margin plus, at our option, either a base rate or LIBOR. The applicable margin at December 31, 2011 was 1.00% for base rate borrowings and 2.00% for LIBOR borrowings. The applicable margin for borrowings will be reduced or increased based on aggregate borrowing base availability under the New ABL Facility. The base rate is equal to the highest of the prime rate, the federal funds overnight rate plus 0.50% and 30-day LIBOR plus 1.00%. In addition to paying interest on outstanding principal under the New ABL Facility, we are required to pay an unutilized commitment fee to the lenders quarterly at a rate ranging from 0.25% to 0.50%, depending on the average utilization of the New ABL Facility. We also pay customary letter of credit fees quarterly. We may voluntarily repay outstanding loans under the New ABL Facility at any time without premium or penalty, other than customary breakage costs with respect to LIBOR loans. The interest rate on the New ABL Facility at December 31, 2011 was 2.3%.

The borrowing base for the New ABL Facility consists of eligible accounts receivable, inventory, tractor and trailer equipment, real property and certain other equipment.

We have \$5.5 million of debt issuance costs relating to the New ABL Facility, of which \$4.2 million related to the new issuance and \$1.3 million related to unamortized debt issuance costs of the Previous ABL Facility. We are amortizing the debt issuance costs over the remaining term of the New ABL Facility.

*The Previous ABL Facility*

Our Previous ABL Facility consisted of a current asset tranche in the amount of \$205.0 million and a fixed asset tranche in the amount of \$20.0 million. The Previous ABL Facility included a sublimit of up to \$150.0 million to issue letters of credit and was available for working capital needs and general corporate purposes, including permitted acquisitions.

The interest rate under the current asset tranche was based, at our option, on either the administrative agent's base rate plus 1.00% or on the Eurodollar LIBOR rate plus an applicable margin. The administrative agent's base rate was equal to the greater of the federal funds overnight rate plus 0.50% or the prime rate. The interest rate under the fixed asset tranche was based, at our option, on either the administrative agent's base rate plus 1.25% or on LIBOR plus an applicable margin. The applicable margin under either tranche was subject to increases or reductions based upon the amounts available for borrowing. The interest rate on the Previous ABL Facility at December 31, 2010 was 2.5%.

We incurred \$6.9 million in debt issuance costs relating to the Previous ABL Facility. Upon the refinancing of the Previous ABL Facility with the New ABL Facility, we wrote off \$0.9 million of unamortized debt issuance costs and the remaining unamortized debt issuance costs of \$1.3 million were allocated to the New ABL Facility.

**Table of Contents****Index to Financial Statements****Quality Distribution, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****For the Years Ended December 31, 2011, 2010 and 2009**

The refinancing of the Previous ABL Facility in August 2011 described above was treated partially as a debt modification and partially as a debt extinguishment in accordance with applicable FASB guidance.

*9.875% Second-Priority Senior Secured Notes Due 2018*

On November 3, 2010 we issued \$225.0 million aggregate principal amount of the 2018 Notes. With the proceeds of the issuance of the 2018 Notes, we repaid at maturity our 9% Notes, fully redeemed our 2012 Notes and our 2013 Senior Notes, redeemed \$47.5 million of our 2013 PIK Notes, and paid down a portion of our outstanding borrowings under the Previous ABL Facility.

Interest on the 2018 Notes is payable at a rate of 9.875% per annum, semiannually on May 1 and November 1 of each year. 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. The 2018 Notes are senior obligations of QD LLC and QD Capital and are secured by a second-priority lien on certain assets. Pursuant to an intercreditor agreement, the liens on the collateral securing the 2018 Notes rank junior in right of payment to the New ABL Facility and obligations under certain hedging agreements and cash management obligations and certain other first-lien obligations.

The 2018 Notes mature on November 1, 2018. Prior to November 1, 2014, we may redeem the 2018 Notes, in whole or in part, at a price equal to 100% of the principal amount of the 2018 Notes redeemed, plus accrued and unpaid interest to the redemption date, plus an additional make-whole premium intended to capture the value of holding 2018 Notes through November 1, 2014, but not less than 1%. During any twelve-month period prior to November 1, 2014, we may also redeem up to 10% of the original aggregate principal amount of the 2018 Notes at a redemption price of 103%, plus accrued and unpaid interest to the redemption date. Additionally, at any time prior to November 1, 2013, we may redeem up to 35% of the principal amount of the 2018 Notes at a redemption price of 109.875%, plus accrued and unpaid interest to the redemption date, with the net proceeds of one or more equity offerings so long as at least 50% of the aggregate original principal amount of the 2018 Notes remains outstanding afterwards. On or after November 1, 2014, we may redeem the 2018 Notes, in whole or in part, at the following prices (expressed as a percentage of principal amount), plus accrued and unpaid interest to the redemption date, if redeemed during the 12-month period commencing on November 1 of the years set forth below:

<b>Period</b>	<b>Redemption Price</b>
2014	104.938%
2015	102.469%
2016 and thereafter	100.000%

We recorded \$6.6 million in debt issuance costs relating to the 2018 Notes, of which \$6.4 million was related to the new issuance and \$0.2 million of unamortized debt issuance costs related to the 2013 Senior Notes. We are amortizing these costs over the term of the 2018 Notes.

*11.75% Senior Subordinated PIK Notes Due 2013*

On October 15, 2009, we issued \$80.7 million aggregate principal amount of the 2013 PIK Notes. The payment obligations of QD LLC and QD Capital under the 2013 PIK Notes were guaranteed by QDI and by all of its domestic subsidiaries other than immaterial subsidiaries. The 2013 PIK Notes were unsecured senior

**Table of Contents**

**Index to Financial Statements**

**Quality Distribution, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**For the Years Ended December 31, 2011, 2010 and 2009**

subordinated obligations of QD LLC and QD Capital. Interest was payable on the 2013 PIK Notes at 11.75% per annum, payable 9% in cash and 2.75% in the form of additional 2013 PIK Notes.

On December 3, 2010 we redeemed \$47.5 million of these notes plus accrued and unpaid interest, in conjunction with the issuance of the 2018 Notes. On December 10, 2010 and December 20, 2010, we repurchased \$2.2 million and \$0.3 million, respectively, of these notes plus accrued and unpaid interest. On January 20, 2011, we redeemed \$10.0 million of these notes plus accrued and unpaid interest. On March 11, 2011, we redeemed \$17.5 million of these notes plus accrued and unpaid interest. We redeemed the remaining \$5.8 million of principal amount of our 2013 PIK Notes in July 2011.

We recorded \$1.5 million in debt issuance costs related to the 2013 PIK Notes, of which \$0.5 million of unamortized debt issuance costs related to the 9% Notes and \$1.0 million related to the new issuance. In addition, we recorded \$6.7 million in note issuance discount due to warrants issued concurrently with the issuance of the 2013 PIK Notes. The amount represented the fair market value of the warrants at time of issuance. In conjunction with the December 3, 2010 redemption and the December 10, 2010 and December 20, 2010 repurchases, we wrote off \$7.4 million of unamortized debt issuance costs and unamortized original issue discount in the fourth quarter of 2010. In conjunction with the January 20, 2011 and March 11, 2011 redemptions, we wrote off \$1.8 million of unamortized debt issuance costs and unamortized original issue costs in the first quarter of 2011. In conjunction with the July 20, 2011 final redemption, we wrote off the remaining \$0.3 million of unamortized debt issuance costs and unamortized original issue costs in the third quarter of 2011.

*10% Senior Notes Due 2013*

On October 15, 2009, we issued approximately \$134.5 million aggregate principal amount of the 2013 Senior Notes. On December 3, 2010, we fully redeemed the 2013 Senior Notes with a portion of the proceeds of the issuance of the 2018 Notes.

*Senior Floating Rate Notes Due 2012*

On January 28, 2005, we issued \$85.0 million aggregate principal amount of our 2012 Notes. On December 18, 2007, we issued a second series of 2012 Notes in the original principal amount of \$50.0 million. On December 3, 2010, we fully redeemed the remaining 2012 Notes with a portion of the proceeds of the issuance of the 2018 Notes.

*9% Senior Subordinated Notes Due 2010*

In 2003, we issued \$125.0 million aggregate principal amount of our 9% Notes. On November 15, 2010, we repaid at maturity the remaining \$16.0 million of 9% Notes with a portion of the proceeds of the issuance of the 2018 Notes. We incurred \$5.5 million in debt issuance costs relating to the issuance of the 9% Notes. Approximately \$0.5 million of unamortized debt issuance costs were included in debt issuance costs related to the 2013 Senior Notes. All remaining debt issuance costs have been fully amortized.

*Accounting Treatment of 2010 Issuance of 2018 Notes*

The issuance of the 2018 Notes, and the subsequent redemption of our 2012 Notes and our 2013 Senior Notes was treated primarily as a debt extinguishment and partially as a debt modification in accordance with

**Table of Contents**

**Index to Financial Statements**

**Quality Distribution, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**For the Years Ended December 31, 2011, 2010 and 2009**

applicable FASB guidance. Under applicable FASB guidance, costs incurred in connection with a modification and any existing unamortized discount are amortized as an adjustment to interest expense over the remaining term of the modified debt instruments using the effective interest method. Accordingly a pro-rata share of the existing unamortized deferred financing costs and original issue discount related to the 2012 Notes and the 2013 Senior Notes were aggregated with the debt issuance costs and original issue discount related to the 2018 Notes, and are being amortized over the remaining term of the new notes.

The portion of the 2013 PIK Notes which were redeemed and repaid was treated as an extinguishment of debt. We did not recognize a gain or loss on the extinguishment as the notes were redeemed and repaid at par.

*Accounting Treatment of 2009 Note Exchanges and Redemption of Notes for Cash*

The exchanges of a portion of the 9% Notes and 2012 Notes for 2013 PIK Notes and 2013 Senior Notes (collectively, the 2013 Notes), respectively, described above were treated as a debt modification in accordance with applicable FASB guidance. We did not recognize a gain or loss on the modification since the exchanges were a par for par exchange.

The portion of the 9% Notes redeemed for cash was treated as an extinguishment of debt resulting in a gain on extinguishment of \$1.1 million.

Under applicable FASB guidance, costs incurred in connection with a modification and any existing unamortized discount are amortized as an adjustment to interest expense over the remaining term of the modified debt instruments using the effective interest method. Accordingly, a pro-rata share of the existing unamortized deferred financing costs and original issue discount related to the 9% Notes and the 2012 Notes that were exchanged were aggregated with the debt issuance costs and original issue discount related to the 2013 Notes, and were being amortized over the remaining term of the new notes.

The remaining 9% Notes, which were fully repaid at maturity in 2010, were not exchanged and continued to be accounted for in the same manner prior to the exchange, as the original terms related to the remaining balances did not change. The unamortized deferred financing costs associated with the remaining 9% Notes continued to be amortized over the original term of the 9% Notes.

*Collateral, Guarantees and Covenants*

The New ABL Facility contains a fixed charge coverage ratio which only needs to be met if borrowing availability is less than \$20.0 million or \$25.0 million, depending upon the size of our borrowing base. The New ABL Facility contains a number of covenants that, among other things, restrict, subject to certain exceptions, our ability to sell assets; incur additional indebtedness; prepay other indebtedness, including the 2018 Notes; pay dividends and distributions or repurchase QDI's capital stock; create liens on assets; make investments; make certain acquisitions; engage in mergers or consolidations; engage in certain transactions with affiliates; amend certain charter documents and material agreements governing subordinated indebtedness, including the 2018 Notes; change our business; and enter into agreements that restrict dividends from QD LLC's subsidiaries. The New ABL Facility also contains certain customary affirmative covenants and events of default.

The indenture governing the 2018 Notes contains covenants that restrict, subject to certain exceptions, our ability to, among other things: (i) incur additional debt or issue certain preferred shares; (ii) pay dividends on or make other distributions in respect of QDI's common stock or make other restricted payments; (iii) make certain

**Table of Contents****Index to Financial Statements****Quality Distribution, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****For the Years Ended December 31, 2011, 2010 and 2009**

investments; (iv) sell certain assets; (v) create or permit to exist dividend and/or payment restrictions affecting their restricted subsidiaries; (vi) create liens on certain assets to secure debt; (vii) consolidate, merge, sell or otherwise dispose of all or substantially all of their assets; (viii) enter into certain transactions with their affiliates; and (ix) designate their subsidiaries as unrestricted subsidiaries. The indenture also provides certain customary events of default, which, if any of them occurs, may result in the principal, interest and any other monetary obligations on the then outstanding 2018 Notes becoming payable immediately.

The payment obligations under the New ABL Facility are senior secured obligations of QD LLC and QD Capital and are secured by a first-priority lien on certain assets and guaranteed by QDI and by all of its domestic restricted subsidiaries other than immaterial subsidiaries. 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. The 2018 Notes, and the guarantees thereof, are senior obligations of QD LLC and QD Capital and are secured by a second-priority lien on certain assets. Pursuant to an intercreditor agreement, the liens on the collateral securing the 2018 Notes rank junior in right of payment to the New ABL Facility and obligations under certain hedging agreements and cash management obligations and certain other first lien obligations. We believe that we were in compliance with the covenants under the ABL Facility and the 2018 Notes at December 31, 2011.

*Debt Retirement*

The following is a schedule of our indebtedness at December 31, 2011 over the periods we are required to pay such indebtedness (in thousands):

	2012	2013	2014	2015	2016 and after	Total
Capital lease obligations	\$ 5,261	\$ 2,996	\$ 844	\$	\$	\$ 9,101
New ABL Facility					65,500	65,500
9.875% Second-Priority Senior Secured Notes, due 2018 (1)					225,000	225,000
Other Notes	4,139	2,678	994	866	266	8,943
<b>Total</b>	<b>\$ 9,400</b>	<b>\$ 5,674</b>	<b>\$ 1,838</b>	<b>\$ 866</b>	<b>\$ 290,766</b>	<b>\$ 308,544</b>

(1) Amount does not include the remaining unamortized original issue discount of \$1.5 million.

The following is a schedule of our debt issuance costs for the year ended December 31 (in thousands):

	2010	Write-off of Debt Issuance Costs	Additional Debt Issuance Costs	Transfer Related to Refinancing	2011 amortization expense	2011
New ABL Facility	\$	\$	\$ 4,178	\$ 1,288	\$ (372)	\$ 5,094
Previous ABL Facility	3,015	(917)		(1,288)	(810)	
11.75% Senior Subordinated PIK Notes, due 2013	410	(386)			(24)	
9.875% Second-Priority Senior Secured Notes, due 2018	5,685		787		(912)	5,560

Edgar Filing: QUALITY DISTRIBUTION INC - Form 10-K

Total	\$ 9,110	\$ (1,303)	\$ 4,965	\$	\$ (2,118)	\$ 10,654
-------	----------	------------	----------	----	------------	-----------

F-31



**Table of Contents****Index to Financial Statements****Quality Distribution, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****For the Years Ended December 31, 2011, 2010 and 2009**

Amortization expense of deferred issuance costs was \$2.1 million, \$2.7 million, and \$2.8 million for years ending December 31, 2011, 2010, and 2009, respectively, and is included in interest expense. We are amortizing these costs over the term of the debt instruments.

*Liquidity*

We believe that, based on current operations and anticipated growth, our cash flow from operations, together with other available sources of liquidity, will be sufficient to fund anticipated capital expenditures, operating expenses and our other anticipated liquidity needs for the next twelve months. Anticipated debt maturities in 2016, the acquisition of another business or other events that we do not foresee may require us to seek alternative financing, such as restructuring or refinancing our long-term debt, selling assets or operations or selling additional debt or equity securities. If these alternatives were not available in a timely manner or on satisfactory terms or were not permitted under any of our debt agreements and we default on our obligations, our debt could be accelerated and our assets might not be sufficient to repay in full all of our obligations.

**16. INCOME TAXES**

For financial reporting purposes, income (loss) before income taxes includes the following components (in thousands):

	2011	2010	2009
Domestic	\$ 24,535	\$ (8,153)	\$ (144,136)
Mexico	855	1,052	637
Canada	(18)	106	214
	\$ 25,372	\$ (6,995)	\$ (143,285)

The components of the provision for income tax for the years ended December 31 are as follows (in thousands):

	2011	2010	2009
<b>Current taxes:</b>			
Federal	\$ 146	\$ 13	\$ (792)
State	998	794	486
Mexico	(45)	(414)	92
Canada	842	18	120
	1,941	411	(94)
<b>Deferred taxes:</b>			
Federal	7,529	(2,743)	(3,609)
State	971	(49)	(625)
Mexico			
Canada			

Edgar Filing: QUALITY DISTRIBUTION INC - Form 10-K

	8,500	(2,792)	(4,234)
Valuation Allowance			
Federal	(7,529)	2,743	38,131
State	(971)	49	3,446
Mexico			
Canada			
	(8,500)	2,792	41,577
Provision for income taxes	\$ 1,941	\$ 411	\$ 37,249

F-32

**Table of Contents****Index to Financial Statements****Quality Distribution, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****For the Years Ended December 31, 2011, 2010 and 2009**

The net deferred tax asset (liability) consisted of the following at December 31 (in thousands):

	2011	2010
Deferred tax assets:		
Environmental reserve	\$ 7,482	\$ 7,875
Tax credit carryforwards	7,294	6,006
Self-insurance reserves	7,241	7,577
Allowance for doubtful accounts	261	325
Pension	8,998	7,382
Net operating loss carryforwards	29,378	36,625
Stock Compensation	2,178	2,141
Other accruals	3,688	4,098
Accrued losses and damage claims	52	67
	66,572	72,096
Less valuation allowance	(39,540)	(46,025)
	\$ 27,032	\$ 26,071
Deferred tax liabilities:		
Property and equipment basis differences	(21,706)	(22,927)
Accrued interest and original issue discount	(3,089)	(845)
Intangible basis differences	(2,237)	(2,299)
Net deferred tax asset	\$	\$
Comprised of:		
Current deferred tax asset	\$ 4,048	\$ 3,848
Long-term deferred tax liability	(4,048)	(3,848)
Net deferred tax asset	\$	\$

We have established a 100% valuation allowance against net deferred tax assets as it is more likely than not that the deferred asset will not be realized. This determination is based on the weight of available evidence which includes cumulative historical losses in recent years. The valuation allowance against net deferred tax assets decreased by \$6.5 million from 2010 to 2011. If we determine in a future reporting period that we will be able to use some or all of our deferred tax assets, the adjustment to reduce or eliminate the valuation allowance would reduce our tax expense and increase net income. Changes in deferred tax assets and valuation allowance are reflected in the Provision for income taxes line in our consolidated statements of operations.

Our effective tax rate differs from the federal statutory rate. The reasons for those differences are as follows for the years ended December 31 (in thousands):

Edgar Filing: QUALITY DISTRIBUTION INC - Form 10-K

	2011	2010	2009
Tax expense (benefit) at the statutory rate	\$ 8,880	\$ (2,448)	\$ (50,150)
State income taxes (benefit), net of federal benefit	1,625	408	(225)
Uncertain tax position adjustments	(252)	(384)	(937)
Goodwill impairment			46,688
Restricted stock	278		154
Foreign taxes	435	(167)	(86)
Valuation allowance	(8,500)	2,792	41,577
Work Opportunity Tax Credit	234	(10)	(206)
IRC Section 956 income	219	240	419
Foreign tax credit	(1,367)	(253)	(190)
Other	389	233	205
Provision for income taxes	\$ 1,941	\$ 411	\$ 37,249

F-33

Table of ContentsIndex to Financial Statements**Quality Distribution, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****For the Years Ended December 31, 2011, 2010 and 2009**

At December 31, 2011 we had an estimated \$77.0 million in federal net operating loss carryforwards, \$3.0 million of unrecognized federal operating loss carryforwards related to excess stock compensation deductions and uncertain tax position deductions, \$2.4 million in alternative minimum tax credit carryforwards and \$4.8 million in foreign tax credit carryforwards. We do not have a history of net operating loss or tax credit carryforwards expiring unused; however, we have determined based on the weight of available evidence that it is more likely than not that some or all of the carryforwards may expire. As a result, we have a 100% valuation allowance of \$39.5 million against our deferred tax asset. The net operating loss carryforwards will expire in the years 2018 through 2030 while the alternative minimum tax credits may be carried forward indefinitely and the foreign tax credits may be carried forward for ten years. We have approximately \$37.3 million in state net operating loss carryforwards, which expire over the next 1 to 20 years.

Significant judgment is required in determining our provision for income taxes. In the ordinary course of an international business, there are many transactions for which the ultimate tax outcome is uncertain. We review our tax contingencies on a regular basis and make appropriate accruals as needed. As of December 31, 2011, U.S. taxes were not provided on income of our foreign subsidiaries, as we have invested or expect to invest the undistributed earnings indefinitely.

Rollforward of valuation allowance (in thousands):

	<b>2011</b>	<b>2010</b>
Beginning balance	\$ (46,025)	\$ (43,032)
(Increase)/decrease attributable to current year operations	2,775	(2,584)
(Increase)/decrease attributable to other comprehensive income	(2,015)	(201)
(Increase)/decrease attributable to AMT & foreign tax credit carryforwards	(1,523)	(179)
(Increase)/decrease attributable to Federal & State NOL carryforwards	7,248	(29)
Ending balance	\$ (39,540)	\$ (46,025)

At December 31, 2011 and 2010, we had approximately \$1.6 million and \$1.6 million, respectively, of total gross unrecognized tax benefits. Of the total gross unrecognized tax benefits at December 31, 2011, \$1.2 million (net of federal benefit on state tax issues) represents the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in any future periods.

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

	<b>2011</b>	<b>2010</b>
Total unrecognized tax benefits as of January 1,	\$ 1,585	\$ 1,776
Increases in tax positions taken during prior period	425	160
Decreases in tax positions taken during prior period		
Increases in tax positions taken during the current period		
Settlements with taxing authorities		
Decrease due to lapse of applicable statute of limitations	(382)	(351)

Total unrecognized tax benefits as of December 31,	\$ 1,628	\$ 1,585
--	----------	----------

F-34

**Table of Contents****Index to Financial Statements****Quality Distribution, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****For the Years Ended December 31, 2011, 2010 and 2009**

Our continuing practice is to recognize interest and/or penalties related to income tax matters in income tax expense. For the year ended December 31, 2011, we recognized additional expense of \$0.2 million of interest and penalties in the provision for income taxes. As of January 1, 2011 we had accrued interest of \$0.6 million (net of federal benefit) and \$0.2 million accrued for penalties. At December 31, 2011 we had accrued interest of \$0.5 million (net of federal benefit) and \$0.2 million accrued for penalties.

We are subject to the income tax jurisdiction of the U.S., Canada, and Mexico, as well as multiple state jurisdictions. We believe we are no longer subject to U.S. federal income tax examinations for the years before 2007, to international examinations for years before 2006 and, with few exceptions, to state examinations before 2007.

**17. 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 31 measurement date for both of our plans.

We follow the recognition and disclosure requirements under the FASB guidance that require us to recognize the funded status of our postretirement benefit plans in the consolidated statement of financial position at December 31, 2011, with a corresponding adjustment to accumulated other comprehensive income. The funded status is the difference between the fair value of plan assets and the benefit obligation. The adjustment to accumulated other comprehensive income represents the net unrecognized actuarial gains or losses and unrecognized prior service costs. Future actuarial gains or losses that are not recognized as net periodic benefit cost in the same periods will be recognized as a component of other comprehensive income (in thousands):

	<b>2011</b>
Items not yet recognized as a component of net periodic cost:	
Unrecognized net actuarial loss	\$ 33,982
Unamortized prior service cost	416
Unrecognized loss and prior service costs recorded as a component of accumulated other comprehensive loss	\$ 34,398
Items to be recognized in 2012 as a component of net periodic cost:	
Net actuarial loss	\$ 1,459
Prior service cost	94
Net periodic cost to be recorded in 2012 as a component of accumulated other comprehensive income	\$ 1,553

**Table of Contents****Index to Financial Statements****Quality Distribution, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****For the Years Ended December 31, 2011, 2010 and 2009***Obligations and Funded Status*

The following table sets forth the change in the projected benefit obligation, change in plan assets and unfunded status of the two plans at 2011 and 2010 (in thousands):

	2011	2010
<b>Change in Projected Benefit Obligation</b>		
Benefit obligation at January 1,	\$ 48,630	\$ 47,302
Service cost	176	203
Interest cost	2,420	2,575
Actuarial loss	3,785	1,965
Benefits and expenses paid	(3,454)	(3,415)
 Benefit obligation at December 31,	 \$ 51,557	 \$ 48,630

	2011	2010
<b>Change in Plan Assets</b>		
Fair value of plan assets at January 1,	\$ 29,947	\$ 28,489
Actual (loss) return on plan assets	(400)	2,312
Contributions by company	2,820	2,561
Benefits and expenses paid	(3,455)	(3,415)
 Fair value of plan assets at December 31,	 \$ 28,912	 \$ 29,947

	2011	2010
<b>Unfunded Status of Plans</b>		
Projected benefit obligation	\$ (51,557)	\$ (48,630)
Fair value of plan assets	28,912	29,947
 Unfunded status as of December 31,	 \$ (22,645)	 \$ (18,683)

The accumulated benefit obligation for both defined benefit pension plans equaled the projected benefit obligations of \$51.6 million and \$48.6 million at December 31, 2011 and 2010, respectively.

*Accumulated Other Comprehensive Loss (in thousands)*



Edgar Filing: QUALITY DISTRIBUTION INC - Form 10-K

	2011	2010	2009
Net actuarial (loss) gain, net of tax of \$0, \$0 and \$0, respectively	\$ (5,307)	\$ (614)	\$ 941
Prior service cost	94	94	94
Adjustment to pension benefit obligation	\$ (5,213)	\$ (520)	\$ 1,035

We had an accumulated net pension equity charge (after-tax) of \$5.2 million at December 31, 2011 and an accumulated net pension equity charge (after-tax) of \$0.5 million at December 31, 2010.

F-36

**Table of Contents****Index to Financial Statements****Quality Distribution, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****For the Years Ended December 31, 2011, 2010 and 2009***Periodic Pension Costs*

The components of net periodic pension cost are as follows for the years ended December 31 (in thousands):

	2011	2010	2009
Service cost	\$ 176	\$ 203	\$ 203
Interest cost	2,420	2,575	2,752
Amortization of loss	1,177	1,200	1,154
Amortization of prior service cost	94	94	94
Expected return on plan assets	(2,298)	(2,161)	(2,003)
Net periodic pension cost	\$ 1,569	\$ 1,911	\$ 2,200

*Assumptions*

Weighted average assumptions used to determine benefit obligations at December 31:

	2011	2010	2009
Discount rate	4.20%	5.08%	5.60%

Weighted average assumptions used to determine net periodic benefit cost at December 31:

	2011	2010	2009
<b>TTWU Plan</b>			
Discount rate	4.90%	5.50%	6.30%
Expected long-term rate of return on plan assets	7.00%	7.00%	7.00%
<b>CLC Plan</b>			
Discount rate	5.25%	5.70%	6.25%
Expected long-term rate of return on plan assets	8.00%	8.00%	8.00%

The discount rate is based on a model portfolio of AA-rated bonds with a maturity matched to the estimated payouts of future pension benefits. The TTWU Plan's expected return on plan assets is based on our expectation of the long-term average rate of return on assets in the pension funds, which is based on the allocation of assets and includes approximately 10.5% of the assets being held in a low return insurance company annuity. The CLC Plan's expected return on plan assets is based on historical and future returns of the multiple asset classes from which a weighted average was developed based on the asset allocation of the Plan.

**Table of Contents****Index to Financial Statements****Quality Distribution, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****For the Years Ended December 31, 2011, 2010 and 2009***Asset Mix*

Our pension plan weighted-average asset allocations by asset category at December 31 are as follows:

	2011	2010
<b>TTWU Plan</b>		
Equity securities and mutual funds	46.2%	59.4%
Debt securities	30.2%	14.4%
Other investments	20.9%	22.7%
Cash and cash equivalents	2.7%	3.5%
<b>CLC Plan</b>		
Equity securities and mutual funds	51.8%	70.9%
Debt securities	36.0%	16.1%
Other investments	9.7%	9.7%
Cash and cash equivalents	2.5%	3.3%

*Plan Assets*

Our investment policy is that plan assets will be managed utilizing an investment philosophy and approach characterized by all of the following, but listed in priority order: (1) emphasis on total return, (2) emphasis on high-quality securities, (3) sufficient income and stability of income, (4) safety of principal with limited volatility of capital through proper diversification and (5) sufficient liquidity. None of our equity or debt securities are included in plan assets.

Our retirement plans' assets were accounted for at fair value and are classified in their entirety based on the lowest level of any input that is significant to the fair value measurement. For a description of the fair value hierarchy, see Note 4.

Our actual retirement plans' asset allocations by level within the fair value hierarchy at December 31, 2011, are presented in the table below (in thousands):

	TTWU Plan					CLC Plan				
	Level 1	Level 2	Level 3	Total	% Total	Level 1	Level 2	Level 3	Total	% Total
Cash & cash equivalents	\$ 185	\$	\$	\$ 185	2.7%	\$ 559	\$	\$	\$ 559	2.5%
Equity securities	2,928			2,928	43.4%	10,798			10,798	48.7%
Mutual funds	188			188	2.8%	683			683	3.1%
Corporate bonds		1,462		1,462	21.7%		5,975		5,975	27.0%
Asset-backed securities		579		579	8.5%		1,993		1,993	9.0%
Other investments		311	1,097	1,408	20.9%		1,051	1,103	2,154	9.7%
<b>Total assets</b>	<b>\$ 3,301</b>	<b>\$ 2,352</b>	<b>\$ 1,097</b>	<b>\$ 6,750</b>	<b>100.0%</b>	<b>\$ 12,040</b>	<b>\$ 9,019</b>	<b>\$ 1,103</b>	<b>\$ 22,162</b>	<b>100.0%</b>



**Table of Contents****Index to Financial Statements****Quality Distribution, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****For the Years Ended December 31, 2011, 2010 and 2009**

Our actual retirement plans asset allocations by level within the fair value hierarchy at December 31, 2010, are presented in the table below (in thousands):

	TTWU Plan					CLC Plan				
	Level 1	Level 2	Level 3	Total	% Total	Level 1	Level 2	Level 3	Total	% Total
Cash & cash equivalents	\$ 249	\$	\$	\$ 249	3.5%	\$ 748	\$	\$	\$ 748	3.3%
Equity securities	2,073			2,073	28.9%	6,949			6,949	30.5%
Mutual funds	2,192			2,192	30.5%	9,195			9,195	40.4%
Corporate bonds		503		503	7.0%		1,895		1,895	8.3%
Asset-backed securities		530		530	7.4%		1,772		1,772	7.8%
Other investments		324	1,313	1,637	22.7%		1,096	1,108	2,204	9.7%
<b>Total assets</b>	<b>\$ 4,514</b>	<b>\$ 1,357</b>	<b>\$ 1,313</b>	<b>\$ 7,184</b>	<b>100.0%</b>	<b>\$ 16,892</b>	<b>\$ 4,763</b>	<b>\$ 1,108</b>	<b>\$ 22,763</b>	<b>100.0%</b>

Level 1 includes investments in common stock and open-ended mutual funds. Fair values for these investments are measured using unadjusted quoted prices in active markets.

Level 2 includes investments in corporate bonds and asset-backed securities that are measured based on quoted prices for similar assets in active markets; quoted prices for identical or similar assets in inactive markets; inputs other than quoted prices that are observable for the asset; and inputs that are derived principally from or corroborated by observable market data by correlation or other means. The fair values for Level 2 assets are generally obtained from third-party broker quotes, independent pricing services and exchanges.

Level 3 includes investments in an insurance annuity contract and an interval fund containing a lock-up period that are valued using unobservable inputs. Valuation may be performed using a financial model with estimated inputs entered into the model.

The following is a reconciliation of assets in Level 3 of the fair value hierarchy (in thousands):

	TTWU	CLC
Beginning balance at January 1, 2010	\$ 1,514	\$ 1,061
Return on plan assets	52	47
Expenses	(253)	
Balance at December 31, 2010	\$ 1,313	\$ 1,108
Return on plan assets	24	(5)
Expenses	(240)	
Ending balance at December 31, 2011	\$ 1,097	\$ 1,103



**Table of Contents****Index to Financial Statements****Quality Distribution, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****For the Years Ended December 31, 2011, 2010 and 2009***Cash Flows*

We expect to contribute \$1.0 million to the TTWU pension plan and \$3.1 million to the CLC pension plan during the year ending December 31, 2012.

The following benefit payments are expected to be paid (in thousands):

2012	\$ 3,575
2013	3,529
2014	3,523
2015	3,541
2016	3,532
2017 2021	17,178

In 2001, we established a Deferred Compensation Plan for our executives and other key employees. The plan is a non-qualified deferral plan that allows participants to contribute a portion of their wages on a pre-tax basis and includes a death benefit. No contributions were made in 2011, 2010 and 2009. Effective December 31, 2010, this plan was frozen and no future contributions will be made to the plan.

Substantially all of our U.S. employees are entitled to participate in our profit sharing plan established under Section 401(k) of the U.S. Internal Revenue Code. Employees are eligible to contribute voluntarily to the plan after 90 days of employment. At our discretion, we may also contribute to the plan. Employees are always vested in their contributed balance and become fully vested in our contributions after four years of service. The expenses related to contributions to the plan for the years ended December 31, 2011 and 2010 were approximately \$0.2 million and \$0.3 million, respectively. In 2009, we did not contribute to the plan.

***Multi-employer pension plans***

We contribute to multi-employer pension plans under the terms of collective bargaining agreements that cover union-represented employees. The risk of participating in these multi-employer pension plans are different from a single-employer pension plan in the following aspects: (a) assets contributed to a multi-employer pension plan by one employer may be used to provide benefits to employees of other participating employers; (b) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers; and (c) if an employer chooses to stop participating in a plan, it may be required to pay those plans an amount based on the unfunded status of the plan, referred to as a withdrawal liability.

At December 31, 2011, we contributed to three separate multi-employer pension plans for employees under collective bargaining agreements. These agreements cover approximately 2.7% 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.

**Table of Contents****Index to Financial Statements****Quality Distribution, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****For the Years Ended December 31, 2011, 2010 and 2009**

Our participation in these plans is outlined in the table below (contributions in thousands):

Pension Plan	EIN/Pension Plan Number (1)	Pension Protection Act Zone Status (2)		FIP/RP Status Pending/Implemented (3)	Contributions by us			Expiration Date of Collective-Bargaining Agreement
		2011	2010		2011	2010	2009	
Employer-Teamsters Local Nos. 175 & 505 Pension Trust Fund	55-6021850	Green	Green	No RP	\$ 113	\$ 109	\$ 113	2/8/2013
New York State Teamsters Conference Pension and Retirement Fund	16-6063585	Red	Red	Adopted	87	75	74	7/14/2014
Central States Southeast and Southwest Areas Pension Fund	36-6044243	Red	Red	RP Adopted	2,435	2,366	2,055	8/31/2012 to 12/31/14
					\$ 2,635	\$ 2,550	\$ 2,242	

- (1) The EIN/Pension Plan Number column provides the Employee Identification Number (EIN) and the three-digit plan number, if applicable.
- (2) Unless otherwise noted, the most recent Pension Protection Act zone status available in 2011 and 2010 is for the plan's year-end at December 31, 2010 and December 31, 2009, respectively. The zone status is based on information that we received from the plan. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded.
- (3) The FIP/RP Status Pending/Implemented column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. No surcharge has been imposed for any of these plans.

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

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

**18. CAPITAL STOCK***Authorized Capital Stock*

In accordance with our Amended and Restated Articles of Incorporation dated November 4, 2003, the Company is authorized to issue 50 million shares of capital stock, which includes 49 million shares of no par value common stock and 1 million shares of no par value preferred stock.





**Table of Contents**

**Index to Financial Statements**

**Quality Distribution, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**For the Years Ended December 31, 2011, 2010 and 2009**

Our New ABL Facility and indenture governing the 2018 Notes contain restrictions on QDI's ability to pay dividends on its common stock.

*Preferred Stock*

Of the 1 million shares of preferred stock authorized, 600,000 shares were designated as convertible preferred stock, of which 510,000 were issued and outstanding prior to the initial public offering of shares of our common stock, when they were converted into shares of common stock pursuant to our Amended and Restated Articles of Incorporation. The remaining shares of preferred stock may be issued from time to time in one or more classes or series, with such relative rights, preferences, qualifications, and limitations as our Board of Directors may adopt by resolution.

*Warrants*

On October 15, 2009 in conjunction with the issuance of our 2013 PIK Notes, we issued 1,752,895 aggregate amount of warrants to purchase shares of the Company's common stock at an exercise price of \$0.01 per share. The warrants are exercisable during the period beginning April 16, 2010 and ending November 1, 2013. The warrants were accounted for at their fair value on October 15, 2009, which is based on the closing price of our common stock on that date. Approximately \$6.7 million representing the fair value of the warrants was recorded to stock purchase warrants within shareholders' deficit, with a corresponding discount on the 2013 PIK Notes. The discount was being amortized over the term of the 2013 PIK Notes until July 2011 when the remaining unamortized discount was written off in conjunction with the final redemption of the 2013 PIK Notes. As of December 31, 2011, we had warrants outstanding of approximately \$1.3 million representing approximately 354,000 shares of our common stock. As of December 31, 2010, we had warrants outstanding of approximately \$1.7 million representing approximately 442,000 shares of our common stock.

*Treasury Stock*

As of December 31, 2011 and 2010, we had approximately 267,000 and 220,000 treasury shares, respectively, carried at a cost of approximately \$1.9 million and \$1.6 million, respectively. These shares were acquired pursuant to our initial public offering, the return of shares under limited recourse secured loans to shareholders, forfeitures and share withholdings.

**19. STOCK COMPENSATION PLANS**

We account for our equity compensation plans and expense related to all stock option awards granted under the FASB guidance. 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.

*Performance Incentive Plans*

As of December 31, 2011, we have two active stock-based compensation plans.

*2003 Stock Option Plan*

On November 5, 2003, our Board of Directors approved the 2003 Stock Option Plan in connection with our IPO which expires ten years from the approval date. The 2003 Stock Option Plan was amended on May 13, 2005.



Table of ContentsIndex to Financial Statements**Quality Distribution, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****For the Years Ended December 31, 2011, 2010 and 2009**

It provides for the grant of nonqualified stock options that become exercisable, with limited exceptions, in 25% increments on each of the first four anniversaries of the date upon which the options are granted or vest 50% in the third and 50% in the fourth year after issuance of the grant. The contractual term of each grant is ten years. The number of shares available for issuance under this plan automatically increases on January 1 of each year commencing with January 1, 2004 unless otherwise determined by the Board of Directors. The current year increase is 2.5% of the outstanding shares as of December 31 of the prior year. No more than 6,500,000 shares of common stock may be issued under the 2003 Stock Option Plan.

The 2003 Stock Option Plan activity for the year ended December 31, 2011 is as follows (in thousands, except per share data):

	Number of Shares Outstanding	Weighted Average Exercise Price Per Share	Weighted Average Remaining contractual Term (in years)	Aggregate Intrinsic Value (in thousands) (a)
Options outstanding at December 31, 2010	2,356	\$ 4.97		
2011 option activity:				
Granted	233	\$ 9.70		
Exercised (b)	(348)	\$ 5.11		
Canceled	(34)	\$ 4.56		
Options outstanding at December 31, 2011	2,207	\$ 5.45		
Options exercisable at December 31, 2011	1,303	\$ 5.45	5.63	\$ 7,898

(a) The intrinsic value of a stock option is the amount by which the market value of the underlying stock as of December 31, 2011 exceeds the exercise price of the option multiplied by the number of shares represented by such option.

(b) Shares issued upon the exercise of stock options were treated as newly issued shares.

During the years ended December 31, 2011, 2010 and 2009 (in thousands, except per share data):

the weighted-average grant date fair value per share of stock-based compensation granted to employees was \$6.19, \$4.19 and \$1.96, respectively;

the total intrinsic value of stock options exercised in 2011 was \$2.4 million. The total intrinsic value of stock options exercised in 2010 was de minimus. There were no options exercised in 2009; and

the total fair value of stock options that vested during the three periods above was \$1,229, \$1,223 and \$344, respectively. During the year ended December 31, 2011, cash was not used to settle any equity instruments previously granted.

*1998 Stock Option Plan*

Until adoption of the 2003 Stock Option Plan, we administered the 1998 Stock Option Plan pursuant to which a total of 377,400 shares of our common stock were available for grant at an exercise price of \$23.53. The maximum term of granted options was ten years. Fifty percent of each new option granted vested in equal increments over four years. The remaining fifty percent of each new option vested in nine years from grant date.

F-43

Table of ContentsIndex to Financial Statements**Quality Distribution, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****For the Years Ended December 31, 2011, 2010 and 2009**

subject to acceleration if certain per-share equity value targets were achieved or in the event of a sale of the Company. Vesting of the new options occurred only during an employee's term of employment. The new options became fully vested in the event of a termination of employment without cause or for good reason within nine months following a sale of the Company. The remaining outstanding shares of the 1998 Stock Option Plan expired in 2010.

*2003 Restricted Stock Incentive Plan*

On November 5, 2003, our Board of Directors approved the 2003 Restricted Stock Incentive Plan, in connection with our IPO, which expires ten years from the approval date. The 2003 Restricted Stock Incentive Plan was amended on May 13, 2005 and again on May 25, 2010. The vesting periods for grant recipients are at the discretion of the Compensation Committee of the Board of Directors. In subsequent years following the May 25, 2010 amendment, participants in the plan may be granted an annual aggregate amount of up to \$1 million in shares, valued at our common stock closing price at the date of grant, at the direction of the Board of Directors. No more than 1,700,000 shares of common stock may be issued under this plan, and no more than \$21.3 million of stock may be issued under this plan.

The 2003 Restricted Stock Incentive Plan activity for the year ended December 31, 2011 is as follows (in thousands, except per share data):

	Number of Shares Outstanding	Weighted Average Grant Date Fair Value Per Share	Aggregate Intrinsic Value
Restricted stock unvested at December 31, 2010	479	\$ 3.90	
2011 activity:			
Granted	93	\$ 9.39	
Vested	(220)	\$ 4.12	
Canceled	(17)	\$ 4.93	
Restricted stock unvested at December 31, 2011	335	\$ 5.22	\$ 3,766

*Accounting for Stock-Based Compensation*

Compensation expense is recognized only for those options expected to vest, with forfeitures estimated based on our historical experience and future expectations.

The fair value of options granted during 2011, 2010 and 2009 was based upon the Black-Scholes option-pricing model. The expected term of the options represents the estimated period of time until exercise giving consideration to the contractual terms, vesting schedules and expectations of future employee behavior. Expected stock price volatility is based on the historical volatility of our common stock, which began trading on November 13, 2003. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant with an equivalent remaining term. The Company has not paid dividends in the past and does not currently plan to pay any dividends in the foreseeable future. The Black-Scholes model was used with the following weighted-average assumptions:

Edgar Filing: QUALITY DISTRIBUTION INC - Form 10-K

	2011	2010	2009
Risk free rate	2.00%	1.95%	2.05%
Expected life	5 years	5 years	5 years
Volatility	78%	77%	79%
Expected dividend	nil	nil	nil

F-44

**Table of Contents****Index to Financial Statements****Quality Distribution, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****For the Years Ended December 31, 2011, 2010 and 2009**

Restricted stock awards are measured at fair value at time of issuance and recognized on a straight line basis over the vesting period.

Stock-based compensation expense recognized during the years ended December 31, 2011, 2010 and 2009 for each of the types of stock-based awards was (in thousands):

	2011	2010	2009
Stock options	\$ 1,777	\$ 1,351	\$ 713
Restricted stock	1,097	922	388
<b>Total stock-based compensation expense</b>	<b>\$ 2,874</b>	<b>\$ 2,273</b>	<b>\$ 1,101</b>

All stock-based compensation expense is classified within Compensation on the Consolidated Statements of Operations. None of the stock-based compensation was capitalized during 2011. Fourteen of our employees and three members of our Board of Directors participated in an option exchange (the Option Exchange) on March 11, 2009. Prior to the Option Exchange, the Compensation Committee recognized that due to the historically low trading prices of our common stock, many options previously granted under the 2003 Stock Option Plan ceased to satisfy their intended purpose. As such, the Option Exchange was initiated and certain stock option grants were canceled and new stock options were issued covering shares of our common stock at an exercise price equal to the closing price of our common stock on March 11, 2009. All options issued in the Option Exchange vest in four equal annual installments on the anniversary of grant. In connection with the Option Exchange, an incremental cost of less than \$0.1 million was recognized in 2009.

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 December 31, 2011 (in thousands):

		Remaining years
Stock options	\$ 2,095	2.4
Restricted stock	1,085	1.8
	<b>\$ 3,180</b>	

These amounts do not include the cost of any additional awards that may be granted in future periods nor any changes in our forfeiture rate. These amounts do not include the cost of any additional options or restricted stock that may be granted in future periods or any changes in the Company's forfeiture rate.



**Table of Contents****Index to Financial Statements****Quality Distribution, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****For the Years Ended December 31, 2011, 2010 and 2009****20. COMMITMENTS AND CONTINGENCIES***Operating Leases*

We are obligated under various noncancelable operating leases for our office facilities, office equipment, revenue equipment and vehicles. Future noncancelable lease commitments (excluding any sublease income) as of December 31, 2011, are as follows (in thousands):

2012	\$ 12,343
2013	9,464
2014	7,196
2015	6,505
2016	6,605
2017 and after	2,728
<b>Total</b>	<b>\$ 44,841</b>

We expect that some of our operating lease commitments for tractors and trailers will be partially offset by rental revenue from subleasing the tractors to independent affiliates and independent owner-operators and subleasing trailers to independent affiliates. Rent expense under operating leases was \$13.3 million, \$16.8 million and \$21.6 million for the years ended December 31, 2011, 2010 and 2009, respectively.

*Environmental Matters*

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

We are potentially subject to strict, joint and several liability for investigating and rectifying the consequences of spills and other releases of such substances. From time to time, we have incurred remedial costs and regulatory penalties with respect to chemical or wastewater spills and releases at our facilities and on the road, and, notwithstanding the existence of our environmental management program, we cannot assure that such



---

**Table of Contents**

**Index to Financial Statements**

**Quality Distribution, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**For the Years Ended December 31, 2011, 2010 and 2009**

obligations will not be incurred in the future, predict with certainty the extent of future liabilities and costs under environmental, health, and safety laws, or assure that such liabilities will not result in a material adverse effect on our business, financial condition, operating results or cash flow. We have established reserves for remediation expenses at known contamination sites when it is probable that such efforts will be required of us and the related expenses can be reasonably estimated. We have also incurred in the past, and expect to incur in the future, capital and other expenditures related to environmental compliance for current and planned operations. Such expenditures are generally included in our overall capital and operating budgets and are not accounted for separately. However, we do not anticipate that compliance with existing environmental laws in conducting current and planned operations will have a material adverse effect on our capital expenditures, earnings or competitive position.

*Reserves*

Our policy is to accrue remediation expenses when it is probable that such efforts will be required and the related expenses can be reasonably estimated. Estimates of costs for future environmental compliance and remediation may be impacted by such factors as changes in environmental laws and regulatory requirements, the availability and application of technology, the identification of currently unknown potential remediation sites and the allocation of costs among the potentially responsible parties under the applicable statutes. Our reserves for environmental compliance and remediation are adjusted periodically as remediation efforts progress or as additional technical or legal information becomes available. As of December 31, 2011 and 2010, we had reserves in the amount of \$10.1 million and \$10.9 million, respectively, for all environmental matters, of which the most significant are discussed below.

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

*Property Contamination Liabilities*

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

At 8 of the 26 sites, we are the only responsible party and are in the process of conducting investigations and/or remediation projects. Five of these projects relate to operations conducted by our subsidiary, CLC, and its subsidiaries prior to our acquisition of CLC in 1998. These five sites are: (1) Bridgeport, New Jersey; (2) William Dick, Pennsylvania; (3) Tonawanda, New York; (4) Scary Creek, West Virginia; and (5) Charleston, West Virginia. The remaining three sites relate to investigations and potential remediation that were triggered by the New Jersey Industrial Site Recovery Act ( ISRA ), which requires such investigations and remediation following the sale of industrial facilities. Each of these sites is discussed in more detail below. We have estimated future expenditures over the next five years for these eight properties to be in the range of \$7.9 million to \$16.7 million.

**Table of Contents**

**Index to Financial Statements**

**Quality Distribution, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**For the Years Ended December 31, 2011, 2010 and 2009**

*Bridgeport, New Jersey*

QDI is required under the terms of three federal consent decrees to construct remediation at this operating truck terminal and tank wash site. CLC entered into consent orders with the U.S. Environmental Protection Agency ( USEPA ) in May 1991 for the treatment of groundwater and in October 1998 for the removal of contamination in the wetlands. In addition, we entered into a third federal consent decree with USEPA in 2010 to assess and remediate contaminated soils at the site.

The groundwater treatment remedy negotiated with USEPA required us to construct a treatment facility for in-place treatment of groundwater contamination and a local discharge which was completed in early 2007. After various start-up issues, the treatment facility began initial operations in June 2010. The plant experienced issues with the treatment of vapor phase emissions and operation was suspended in July 2010. After an engineering re-design process including an effective pilot treatability study, the plant was modified to address the treatment of the vapor phase emissions. The plant resumed operations in July 2011 and is now in the operations and maintenance phase. The plant appears to be performing in accordance with its design criteria and meeting permit requirements. Wetlands contamination has been remediated with localized restoration completed. Monitoring of the restored wetlands is required by USEPA to continue until September 2012. In regard to contaminated soils, USEPA finalized the feasibility study and issued a record of decision in 2009 for the limited areas that show contamination and warrant additional investigation or work. We entered a consent order with USEPA in 2010 to perform the remediation work, which will consist of in-place thermal treatment. This work is currently in the remedial design phase. However, additional site investigation work is required by USEPA. We have aggregate estimated expenditures for the Bridgeport location over the next five years to be in the range of \$5.3 million to \$8.5 million.

*William Dick, Pennsylvania*

CLC entered into a consent order with the Pennsylvania DEP and USEPA in October 1995 obligating it to provide a replacement water supply to area residents, treat contaminated groundwater, and perform remediation of contaminated soils at this former wastewater disposal site. The replacement water supply is complete. We completed construction of a treatment facility with local discharge for groundwater treatment in the fourth quarter of 2007. Plant start-up issues were resolved and the treatment facility began operations in June 2010. The plant experienced issues with the liquid phase carbon treatment process and the operation was suspended in August 2010. After some modification work, the plant was re-started at the end of 2010 and continues to operate. The agencies approved a contaminated soils remedy, which required both thermal treatment of contaminated soils and treatment of residuals via soil vapor extraction. The remedy expanded to include off-site shipment of contaminated soils. Soil treatment was completed in September 2007. Site sampling has been conducted and the results indicate that the soil clean-up objectives have not been fully achieved. Negotiations are on-going with USEPA over further remedial actions that may be needed at the site. We have estimated aggregate expenditures for the William Dick location over the next five years to be in the range of \$0.9 million to \$3.4 million.

*Other Properties*

*Tonawanda, New York:* CLC entered into a consent order with the New York Department of Environmental Conservation on June 22, 1999 obligating it to perform soil and groundwater remediation at this former truck terminal and tank wash site. We have completed a remedial investigation and a feasibility study. The state issued a record of decision in May 2006. The remedial design work plan was completed and submitted to the agency in the fourth quarter of 2011. The remedial action phase is expected to begin in the third quarter of 2012.

**Table of Contents**

**Index to Financial Statements**

**Quality Distribution, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**For the Years Ended December 31, 2011, 2010 and 2009**

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

*ISRA New Jersey Facilities:* We are obliged to conduct investigations and remediation at three current or former New Jersey tank wash and terminal sites pursuant to the state's ISRA, which requires such remediation following the sale of facilities after 1983. Two of the sites are in the process of remedial investigation with projections set in contemplation of limited soil remediation expense for contaminated areas. One site has completed the investigation phase and a final report was submitted to NJDEP. In accordance with the report findings and with the concurrence of the NJDEP, remedial efforts included the excavation of a limited number of soil hot spots at the facility. Additional planned efforts include deed recordation, placement of clean fill and the designation of a Classification Exception Area (CEA) for the groundwater.

*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. The state environmental authority has requested some additional sampling to close the site under the state's voluntary clean-up program. The negotiations are on-going with the state to finalize the agreement to enter the voluntary clean-up program.

We have estimated aggregate future expenditures over the next five years for Tonawanda, Scary Creek, ISRA New Jersey and Charleston to be in the range of \$1.7 million to \$4.8 million.

***Other Legal Matters***

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

**21. TRANSACTIONS WITH RELATED PARTIES**

At March 1, 2012 and December 31, 2011, Apollo and its affiliated funds owned or controlled approximately 32.3% and 32.9%, respectively, of QDI's outstanding common stock. As a result, Apollo can influence substantially all matters requiring shareholder approval, including the election of directors, the approval of significant corporate transactions, such as acquisitions and the ability to block an unsolicited tender offer.

One of our customers (Momentive Specialty Chemical) is controlled by Apollo. Revenues from this customer were \$16.3 million in 2011. In 2010 and 2009, two of our customers (Hexion Specialty Chemicals and Momentive Specialty Chemical) were controlled by Apollo. Revenues from these two customers were \$15.0 million and \$12.6 million in 2010 and 2009, respectively. All pricing with the companies controlled by Apollo was based on market rates, including such factors as total expected revenue to be generated by the customer, number of loads to be hauled and the number of miles to be driven.

**Table of Contents**

**Index to Financial Statements**

**Quality Distribution, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**For the Years Ended December 31, 2011, 2010 and 2009**

**22. GUARANTOR SUBSIDIARIES**

At and during the year ended December 31, 2011, there were outstanding our 2018 Notes, which were issued by our subsidiaries, QD LLC and QD Capital. The payment obligations of QD LLC and QD Capital under the 2018 Notes are fully and unconditionally guaranteed by QDI and by all of its domestic subsidiaries other than immaterial subsidiaries as further described below.

The 2018 Notes are our subsidiaries, QD LLC and QD Capital, senior obligations and are secured by a subordinated, second-priority lien on assets that secure our New 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 New ABL Facility and obligations under certain hedging agreements and cash management obligations and certain other first-lien obligations. Decisions regarding the maintenance and release of the collateral secured by the collateral agreement are made by the lenders under our New ABL Facility and neither the indenture trustee nor the holders of the 2018 Notes have control of decisions regarding the release of the collateral. The 2018 Notes are also fully and unconditionally guaranteed, subject to certain customary release provisions on a second-priority senior secured basis, jointly and severally, by QDI, our other subsidiary guarantors, and certain of our future U.S. restricted subsidiaries.

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

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

QDI has no significant restrictions on its ability to receive funds from its subsidiaries. The New ABL Facility and the indenture governing our 2018 Notes contains 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 New ABL Facility and the 2018 Notes.

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

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

Condensed consolidating balance sheets at December 31, 2011 and 2010 and condensed consolidating statements of operations and of cash flows for each of the three years ended December 31, 2011, 2010 and 2009.

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

**Table of Contents****Index to Financial Statements****Quality Distribution, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****For the Years Ended December 31, 2011, 2010 and 2009****Condensed Consolidating Statement of Operations****For the Year Ended December 31, 2011****(in thousands)**

	<b>QDI</b>	<b>QD LLC &amp; QD Capital</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Operating revenues:						
Transportation	\$	\$	\$ 517,780	\$	\$	\$ 517,780
Other service revenue			110,064	524		110,588
Fuel surcharge			117,583			117,583
<b>Total operating revenues</b>			<b>745,427</b>	<b>524</b>		<b>745,951</b>
Operating expenses:						
Purchased transportation			522,866			522,866
Compensation			61,098			61,098
Fuel, supplies and maintenance			51,102			51,102
Depreciation and amortization			14,413			14,413
Selling and administrative		120	21,445	82		21,647
Insurance costs			14,025	17		14,042
Taxes and licenses			2,211			2,211
Communication and utilities			2,732			2,732
Gain on disposal of property and equipment			(1,318)			(1,318)
Restructuring credit			(521)			(521)
<b>Operating (loss) income</b>		<b>(120)</b>	<b>57,374</b>	<b>425</b>		<b>57,679</b>
Interest (income) expense, non-related party, net	(15)	28,012	923	(8)		28,912
Interest (income) expense, related party, net		(28,012)	28,427	(415)		
Write off of debt issuance costs		3,181				3,181
Other expense		2	201	11		214
<b>Income (loss) before income taxes</b>	<b>15</b>	<b>(3,303)</b>	<b>27,823</b>	<b>837</b>		<b>25,372</b>
Provision for (benefit from) income taxes	126		1,860	(45)		1,941
Equity in earnings of subsidiaries	23,542	26,845			(50,387)	
<b>Net income</b>	<b>\$ 23,431</b>	<b>\$ 23,542</b>	<b>\$ 25,963</b>	<b>\$ 882</b>	<b>\$ (50,387)</b>	<b>\$ 23,431</b>





**Table of Contents****Index to Financial Statements****Quality Distribution, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****For the Years Ended December 31, 2011, 2010 and 2009****Condensed Consolidating Statement of Operations****For the Year Ended December 31, 2010**

(in thousands)

	QDI	QD LLC & QD Capital	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenues:						
Transportation	\$	\$	\$ 498,446	\$	\$	\$ 498,446
Service revenue			106,893	581		107,474
Fuel surcharge			80,678			80,678
Total operating revenues			686,017	581		686,598
Operating expenses:						
Purchased transportation			471,792			471,792
Compensation			57,563			57,563
Fuel, supplies and maintenance			54,366	1		54,367
Depreciation and amortization			16,004			16,004
Selling and administrative	33	195	19,015	96		19,339
Insurance costs			15,525	21		15,546
Taxes and licenses			2,218			2,218
Communication and utilities			4,119			4,119
Loss (gain) on disposal of property and equipment			1,141	(5)		1,136
Restructuring costs			7,779			7,779
Operating (loss) income	(33)	(195)	36,495	468		36,735
Interest expense (income), non-related party, net	37	34,221	1,339	(49)		35,548
Interest (income) expense, related party, net		(34,226)	34,652	(426)		
Write-off of debt issuance costs		7,391				7,391
Other expense (income)	735	174	96	(214)		791
(Loss) income before income taxes	(805)	(7,755)	408	1,157		(6,995)
Provision for (benefit from) income taxes	3		822	(414)		411
Equity in (loss) earnings of subsidiaries	(6,598)	1,157			5,441	
Net (loss) income	\$ (7,406)	\$ (6,598)	\$ (414)	\$ 1,571	\$ 5,441	\$ (7,406)

**Table of Contents****Index to Financial Statements****Quality Distribution, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****For the Years Ended December 31, 2011, 2010 and 2009****Condensed Consolidating Statement of Operations****For the Year Ended December 31, 2009****(in thousands)**

	<b>QDI</b>	<b>QD LLC &amp; QD Capital</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Operating revenues:						
Transportation	\$	\$	\$ 454,658	\$	\$	\$ 454,658
Service revenue			104,716	238		104,954
Fuel surcharge			53,997			53,997
<b>Total operating revenues</b>			<b>613,371</b>	<b>238</b>		<b>613,609</b>
Operating expenses:						
Purchased transportation			369,460			369,460
Compensation			76,955			76,955
Fuel, supplies and maintenance			66,527			66,527
Depreciation and amortization			20,218			20,218
Selling and administrative		268	24,259	45		24,572
Insurance costs			14,096	23		14,119
Taxes and licenses			3,578			3,578
Communication and utilities			7,910			7,910
Gain on sale of tank wash assets			(7,130)			(7,130)
Loss on disposal of property and equipment			450			450
Impairment charge			148,630			148,630
Restructuring costs			3,496			3,496
<b>Operating (loss) income</b>		(268)	<b>(115,078)</b>	<b>170</b>		<b>(115,176)</b>
Interest (income) expense, non-related party, net	(5)	25,689	2,412	(49)		28,047
Interest (income) expense, related party, net		(25,689)	26,116	(427)		
Gain on extinguishment of debt		(1,870)				(1,870)
Other expense (income)		2,343	(206)	(205)		1,932
<b>Income (loss) before income taxes</b>	<b>5</b>	<b>(741)</b>	<b>(143,400)</b>	<b>851</b>		<b>(143,285)</b>
Provision for income taxes	119		37,038	92		37,249
Equity in loss of subsidiaries	(180,420)	(179,679)			360,099	
<b>Net (loss) income</b>	<b>\$ (180,534)</b>	<b>\$ (180,420)</b>	<b>\$ (180,438)</b>	<b>\$ 759</b>	<b>\$ 360,099</b>	<b>\$ (180,534)</b>

Table of ContentsIndex to Financial Statements

## Quality Distribution, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (Continued)

## For the Years Ended December 31, 2011, 2010 and 2009

## Consolidating Balance Sheet, December 31, 2011

(in thousands)

	QDI	QD LLC and QD Capital	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>ASSETS</b>						
Current Assets:						
Cash and cash equivalents	\$	\$	\$ 3,540	\$ 513	\$	\$ 4,053
Accounts receivable, net			90,509	58		90,567
Prepaid expenses		31	7,818			7,849
Deferred tax asset, net			4,048			4,048
Other	307		3,551			3,858
Total current assets	307	31	109,466	571		110,375
Property and equipment, net			125,892			125,892
Goodwill			31,344			31,344
Intangibles, net			18,471			18,471
Investment in subsidiaries	(138,028)	382,191	27,964		(272,127)	16,313
Other assets		10,655	5,658			16,313
Total assets	\$ (137,721)	\$ 392,877	\$ 318,795	\$ 571	\$ (272,127)	\$ 302,395
<b>LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND SHAREHOLDERS (DEFICIT) EQUITY</b>						
Current Liabilities:						
Current maturities of indebtedness	\$	\$	\$ 4,139	\$	\$	\$ 4,139
Current maturities of capital lease obligations			5,261			5,261
Accounts payable			7,579	(8)		7,571
Intercompany	(30,870)	237,702	(171,982)	(6,886)	(27,964)	
Affiliates and independent owner-operators payable			9,795			9,795
Accrued expenses	341	4,184	20,751	51		25,327
Environmental liabilities			3,878			3,878
Accrued loss and damage claims			8,614			8,614
Total current liabilities	(30,529)	241,886	(111,965)	(6,843)	(27,964)	64,585
Long-term indebtedness, less current maturities		289,019	4,804			293,823
Capital lease obligations, less current maturities			3,840			3,840
Environmental liabilities			6,222			6,222
Accrued loss and damage claims			9,768			9,768
Other non-current liabilities	(1,007)		31,306	43		30,342

Edgar Filing: QUALITY DISTRIBUTION INC - Form 10-K

Total liabilities	(31,536)	530,905	(56,025)	(6,800)	(27,964)	408,580
Shareholders (deficit) equity:						
Common Stock	393,859	354,963	399,757	4,833	(759,553)	393,859
Treasury stock	(1,878)					(1,878)
Accumulated (deficit) retained earnings	(278,543)	(273,840)	4,938	3,627	265,275	(278,543)
Stock recapitalization	(189,589)	(189,589)		(55)	189,644	(189,589)
Accumulated other comprehensive loss	(31,381)	(30,909)	(29,875)	(1,034)	61,818	(31,381)
Stock purchase warrants	1,347	1,347			(1,347)	1,347
Total shareholders (deficit) equity	(106,185)	(138,028)	374,820	7,371	(244,163)	(106,185)
Total liabilities, redeemable noncontrolling interest and shareholders (deficit) equity	\$ (137,721)	\$ 392,877	\$ 318,795	\$ 571	\$ (272,127)	\$ 302,395

F-54

Table of ContentsIndex to Financial Statements

## Quality Distribution, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (Continued)

## For the Years Ended December 31, 2011, 2010 and 2009

## Consolidating Balance Sheet, December 31, 2010

(in thousands)

	QDI	QD LLC and QD Capital	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>ASSETS</b>						
Current Assets:						
Cash and cash equivalents	\$	\$	\$ 1,174	\$ 579	\$	\$ 1,753
Accounts receivable, net			80,791	104		80,895
Prepaid expenses		231	6,664	16		6,911
Deferred tax asset, net			3,848			3,848
Other	(192)		5,134	(51)		4,891
Total current assets	(192)	231	97,611	648		98,298
Property and equipment, net			113,419			113,419
Goodwill			27,023			27,023
Intangibles, net			16,924			16,924
Investment in subsidiaries	(156,047)	451,537	18,967		(314,457)	
Other assets		9,110	6,561			15,671
Total assets	\$ (156,239)	\$ 460,878	\$ 280,505			