

QUALITY DISTRIBUTION INC
Form 10-K
March 13, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

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

For the fiscal year ended December 31, 2008

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

For the transition period from to

COMMISSION FILE NUMBER 000-24180

Quality Distribution, Inc.

(Exact name of registrant as specified in its charter)

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Florida
(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:

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

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

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

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

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

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

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

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

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

Aggregate market value of voting stock held by non-affiliates as of June 30, 2008 was \$19.9 million (based on the closing sale price of \$2.42 per share).

As of March 6, 2009, the registrant had 19,644,470 outstanding shares of Common Stock, no par value, outstanding.

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Documents Incorporated by Reference: Portions of the Proxy Statement for the registrant's 2009 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

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INTRODUCTION

In this Annual Report on Form 10-K, unless the context otherwise indicates, (i) the terms "the Company," "Quality Distribution," "QDI," "we," "us" and "our" refer to Quality Distribution, Inc. and its consolidated subsidiaries and their predecessors and (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.

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 (the "Exchange Act"). 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" negatives of those terms, or other variations of those terms or comparable language, or by discussions of strategy or other intentions.

Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could cause the 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:

general economic conditions,

recent turmoil in credit and capital markets,

the availability of diesel fuel,

adverse weather conditions,

competitive rate fluctuations,

our substantial leverage and restrictions contained in our debt arrangements and interest rate fluctuations in our floating rate indebtedness,

the cyclical nature of the transportation industry due to various economic factors such as 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,

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changes in demand for our services due to the cyclical nature of our customers' businesses,

potential disruption at U.S. ports of entry,

our dependence on affiliates and owner-operators and our ability to attract and retain drivers,

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changes in the future, or our inability to comply with, governmental regulations and legislative changes affecting the transportation industry,

our material exposure to both historical and changing environmental regulations and the increasing costs relating to environmental compliance,

our liability as a self-insurer to the extent of our deductibles, as well as our ability or inability to reduce our claims exposure through insurance due to changing conditions and pricing in the insurance marketplace,

the cost of complying with existing and future anti-terrorism security measures enacted by federal, state and municipal authorities,

the potential loss of our ability to use net operating losses to offset future income due to a change of control,

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

changes in senior management,

our ability to successfully manage workforce restructurings,

our ability to successfully integrate acquired businesses and converted affiliates, and

interests of Apollo Management, our largest shareholder, which may conflict with your interests.

In addition, there may be other factors that could cause our actual results and financial condition 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.

PART I

ITEM 1. BUSINESS

Overview

We operate the largest for-hire chemical bulk tank truck network in North America based on bulk service revenues, and we believe we have more than twice the revenues of our closest competitor in our primary chemical bulk transport market in the U.S. The bulk tank truck market in North America includes all products shipped by bulk tank truck carriers and consists primarily of liquid and dry bulk chemicals (which includes plastics) and bulk dry and liquid food-grade products. We are primarily engaged in truckload transportation of bulk chemicals and also engaged in International Organization for Standardization, or ISO, tank container transportation and depot services, tank wash facility services, logistics and other value-added services. We are a core carrier for many of the Fortune 500 companies engaged in chemical processing, including Dow Chemical, Procter & Gamble, Arclin USA, PPG Industries and Ashland Chemical Company and we provide services to most of the top 100 chemical producers with U.S. operations.

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Our revenue is principally a function of the volume of shipments by the bulk chemical industry, the 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 other industries, including consumer and industrial products, automotive, paints and coatings and paper, and tends to vary with changing economic conditions. Economic conditions and differences among the laws and currencies of nations may impact the volume of shipments imported into the United States. Additionally, we provide leasing, tank cleaning, logistics and transloading services.

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Our bulk service network consists primarily of company operated terminals, independently owned third-party affiliate terminals and independent owner-operator drivers. Affiliates are independent companies with which we contract to operate trucking terminals and tank washes exclusively on our behalf in defined markets. The 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. Owner-operators are generally individual drivers who own or lease their tractors and agree to drive exclusively for us and our affiliate partners. We believe the use of affiliates and independent owner-operators provides the following key competitive advantages to us in the marketplace:

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

Affiliates and independent owner-operators are paid a fixed, contractual percentage of revenue for each load they transport creating a variable cost structure that provides protection against cyclical downturns.

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

We believe the most significant factors relevant to our future business growth are the ability to (i) obtain additional business from existing customers, (ii) add new customers and (iii) recruit and retain drivers. The trucking industry continued to experience a slowdown in 2008 due to a slowing general economy. In order to mitigate the impact of the economic downturn on our earnings, we have taken initiatives to improve our profitability, reduce costs and adjust our business model. In the longer term, while a number of our customers operate their own private tank truck fleets and 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 a flexible business model that can adjust to changing economic conditions, we believe we are well-positioned to operate in the current economy and still benefit from customers seeking consolidation of their shipping relationships and outsourcing.

Acquisitions

In December 2007, we acquired all of the outstanding capital stock of Boasso America Corporation (Boasso) for an aggregate purchase price of (i) \$58.8 million in cash less the outstanding long-term indebtedness of Boasso, subject to a working capital adjustment, and (ii) a \$2.5 million 7% promissory note with a two-year maturity for the benefit of Boasso's principal stockholder, Walter J. Boasso (the Boasso Note) excluding fees and direct costs. In April 2008, approximately \$1.3 million was refunded to us pursuant to a working capital adjustment, as provided for in the stock purchase agreement.

During 2008, we purchased two transportation companies and an affiliate for \$2.1 million, in the aggregate, of which \$1.4 million was paid in cash at closing and the remaining \$0.7 million is payable over future periods. Of the total \$2.1 million, we allocated \$1.0 million to property and equipment, \$0.9 million to goodwill, and \$0.2 million to other intangible assets such as non-compete agreements.

Restructuring

During the quarter ended June 30, 2008, we committed to a plan of restructure resulting in the termination of non-driver positions and the consolidation or closure of underperforming company terminals. We continued our plan of restructure throughout 2008 which resulted in a restructuring charge of \$5.3 million of which the majority related to our trucking segment. The total restructuring charge for 2008 represents \$2.0 million of severance costs, \$0.6 million in contract termination costs and \$2.7 million related to other exit costs. As of December 31, 2008, approximately \$0.8 million was accrued related to the restructuring charges, which is expected to be paid during 2009.

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Development of Our Company

Our company was formed in 1994 as a holding company known as MTL, Inc. and consummated its initial public offering on June 17, 1994. On June 9, 1998, MTL, Inc. was recapitalized through a merger with a corporation controlled by Apollo Investment Fund III, L.P. As a result of the recapitalization, MTL, Inc. became a private company. On August 28, 1998, we completed our acquisition of Chemical Leaman Corporation and its subsidiaries (CLC). Through the 1998 acquisition, we combined two of the then-leading bulk transportation service providers, namely, Montgomery Tank Lines, Inc. and Chemical Leaman Tank Lines, Inc., under one operating company, Quality Carriers, Inc. (QCI). In 1999, we changed our name from MTL, Inc. to Quality Distribution, Inc. On November 13, 2003, we consummated the initial public offering of 7,875,000 shares of our common stock. In December 2007, we acquired all of the stock of Boasso America Corporation (Boasso), a leading provider of ISO tank container transportation and depot services in North America.

As of March 6, 2009, Apollo Management, L.P. (Apollo) and its affiliated funds, owned or controlled approximately 53.6% of our outstanding common stock.

Financial Reporting Segments

Due to the acquisition of Boasso in December 2007, we have two reportable business segments for financial reporting purposes that are distinguished primarily on the basis of services offered:

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

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

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 Industry

Trucking

We estimate, based on industry sources, that the highly fragmented North American for-hire segment of the chemical bulk transport market generated revenues of approximately \$6.5 billion in 2007. We specifically operate in the for-hire chemical and food grade bulk transport market (estimated at \$4.0 billion in 2007) where we believe, based on published reports, we have achieved leading market share (estimated at 15%), based on revenues. Our competition in the for-hire segment is comprised of more than 200 smaller, primarily regional carriers. Based on revenues as reported in *Bulk Transporter's Tank Truck Carrier 2007 Annual Gross Revenue Report*, we operate the largest for-hire chemical bulk tank truck network comprising terminals, tractors and trailers in North America. We believe being a larger carrier facilitates customer service and lane density, and provides a better cost structure. As such, we are well-positioned to expand our business by increasing our market share.

The chemical bulk tank truck industry growth is generally dependent on (i) volume growth in the industrial chemical industry, (ii) the rate at which chemical companies outsource their transportation needs, (iii) the overall capacity of the rail system, and, in particular (iv) the extent to which chemical companies make use of the rail system for their bulk chemical transportation needs. As competitive pressures force chemical companies to reduce costs and focus on their core businesses, we believe that chemical companies will consolidate their shipping relationships and outsource a greater portion of their logistics needs to third-party tank truck carriers. We believe that large, national full-service carriers will benefit from any such consolidation of relationships and outsourcing of logistics needs and will be able to grow faster than the overall bulk tank truck industry. As a result of our leading market position, breadth of customer services, flexible business model and decentralized operating structure, we believe we are well positioned to benefit from current industry outsourcing trends.

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Container Services

The ISO tank container business generally provides services that facilitate the global movement of liquid and dry bulk chemicals, pharmaceuticals and food grade products. If the chemical industry continues the recent trend towards the globalization of petro-chemical manufacturing capacity, greater quantities of chemicals will be imported into the United States. Further, chemical manufacturers have sought to efficiently transport their products by utilizing ISO tank containers. Boasso is the market leader in the North American ISO tank container transportation and depot services business, which we estimate is a \$250 million market.

Competitive Barriers

Our industry is characterized by high barriers to entry such as (i) the time and cost required to develop the operational infrastructure necessary to handle sensitive chemical cargo, (ii) the financial and managerial resources required to recruit and train drivers, (iii) substantial industry regulatory requirements, and (iv) the significant capital investments required to build a fleet of equipment and establish a network of terminals. In addition, the industry continues to experience consolidation due to economic and competitive pressures, increasing operating costs for driver recruitment and insurance, and increasing capital investments for equipment and technology. As the cost and complexity of operating a bulk tank truck business increase, we believe that large, well-established carriers like ourselves will gain market share.

Market Opportunity

Trucking

We expect the complexities and operational challenges faced by chemical manufacturers to continue to grow as the chemical industry evolves. These complexities and challenges are driven by a variety of industry trends including customer demand for constantly lower prices, global import/export of bulk liquid products and the need to get product into the pipeline. In order to meet these challenges, we believe chemical producers will sell more through distribution as they look for ways to further reduce their costs by streamlining the supply chain. We believe supply chain efficiencies will be one of the necessary fundamentals for chemical manufacturers' competitiveness.

Container Services

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 ISO tank container market is a growing sector of the overall liquid bulk chemical transportation sector. The resulting demand for distributors that can offer a broad range of services within the supply chain will drive future industry growth in this sector.

Our Competitive Strengths

Following are our strengths that we believe will allow us to successfully exploit the market opportunities described above.

Largest Tank Truck Network in a Fragmented Industry

We provide our customers with access to the largest tractor and tank trailer network in the North American bulk tank truck industry. In addition, our nationwide network of 108 trucking terminals, 33 tank wash facilities and 8 ISO depot services terminals covers all major North American chemical markets and enables us to serve customers with international, national and regional shipping requirements. Our size allows us, our affiliates and our owner-operators to benefit from economies of scale in the purchasing of supplies and services, including fuel, tires and insurance coverage. Our greater network density allows us to create efficiencies by increasing utilization through reduced empty miles with more opportunities to generate backhaul loads. Our size also enables us to invest in new technologies that increase our operating efficiency, improve customer service and lower our costs.

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Asset Light Business Model

Our extensive use of affiliates and owner-operators results in a highly variable cost structure and significantly reduces our capital investment, thereby allowing us to increase our asset utilization. This model also contributes to the stability of our cash flow and margins and increases our return on capital. Affiliates are responsible for the necessary capital investments, the operating expenses related to their terminals, and most of the operating expenses related to the business they service. Typically, affiliates purchase or lease tractors for their business directly from the manufacturers and lease trailers from us. However, some affiliates purchase their own trailers or lease trailers from independent third parties. Owner-operators are independent contractors who supply one or more tractors and drivers for our own or our affiliates' exclusive use. As with affiliates, owner-operators are responsible for most of the operating expenses related to the business they transport (excluding costs related to the acquisition and maintenance of trailers). With our extensive use of owner-operators and affiliates, we can reduce the high capital costs of purchasing and maintaining tractors.

Core Carrier to Most Top 100 Chemical Companies

We provide services to most of the top 100 chemical producers with U.S. operations. 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 affiliate terminal operators and drivers. We expect to continue to benefit from our existing relationships with the largest chemical companies while targeting new revenue opportunities from smaller chemical companies and will continue to explore opportunities to expand the scope of services we offer.

Broad Menu of Complementary Services

Our ability to provide value-added services that complement our core service differentiates us from smaller competitors and enables us to gain market share, particularly with large customers that seek to use a limited number of core carriers. By increasing the number of services offered to our customers, we enhance our position as a leading national full-service provider in the industry. These services include storage and warehousing, vendor managed inventory, load tendering and managing private fleets.

Enhanced Productivity, Efficiency and Customer Service through Installed Technology

We are proactive in our utilization of technology aimed at improving our customer service and operating efficiency. In contrast to many of our smaller competitors, we have equipped our drivers with various mobile communications systems which 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. We also have satellite tracking devices on our trailers to enable us to increase trailer utilization. Our website allows our customers to view bills and generate customized service reports. We have a centralized order entry, dispatch and billing program system, which enhances our control over our equipment and drivers. This technology is increasingly important when transporting sensitive cargo in today's heightened security environment.

Our Operations Strategy

We are focused on operating our business more efficiently and building a solid infrastructure in order to position ourselves for growth once the economic environment starts to improve. Our cost initiatives implemented in 2008 and early 2009 are providing us with a competitive cost structure. We are pursuing less cyclical and less seasonal products and growing a more diversified portfolio of business. We are focusing on yield management by reviewing high volume lanes in order to identify opportunities for re-pricing or exiting business, determining which lanes are profitable for us and improving lane density on reloadable freight. Customer service is at the forefront and will be a differentiator for us in the long run. These initiatives as described below have gained momentum and have positioned us to leverage our strengths in order to capitalize on the market opportunities that lie ahead.

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Opportunistic Affiliate Conversions and Company Terminal Consolidations

We intend to continue to focus on a less capital intensive business model based on affiliates and owner-operators. We continually evaluate our mix of affiliate and company terminals to optimize customer service, revenue growth, profitability and return on investment. In situations where an efficient and profitable affiliate can absorb a less profitable company terminal, we may consolidate the two operations under the affiliate. In 2009, we expect to consolidate certain company-operated terminals, and to transition other company-operated terminals to affiliates. We expect these actions to result in a larger portion of our revenue being generated by affiliates. We believe these actions will reduce certain fixed costs and provide a more variable cost structure in our weakened economy.

Continued Focus on Safety and Training

We have made safety the main focus of our organization. We implemented several comprehensive process improvement programs to further identify and implement opportunities for sustainable safety improvement. Tangible results of this focus have already manifested themselves in a substantial decrease in preventable events and claim frequency. We also redesigned our driver training program and updated our online training system to make safety awareness training portable and available to the drivers, dispatchers and terminal managers via the internet.

QDI is committed to conduct its operations in a manner that protects our employees, surrounding communities, customers, and the environment. As a member of the American Chemistry Council (ACC) and partner of Responsible Care[®] it is our goal to improve the quality of our service and the level of safety. Participation in Responsible Care[®] is mandatory for all ACC member companies. QDI is only one of six bulk transportation service providers that have reported compliance with Responsible Care[®] Carrier Certification Management System, which determines applicability and addresses the requirements of laws, regulations, company and other requirements regarding the environmental, health, safety & security of its operations. 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.

Focus on Driver Recruitment and Retention

Our recruitment and retention effort is focused on providing drivers a welcoming opportunity with competitive compensation, an emphasis on professional development and an understanding that most drivers' first priority is getting home safely to their families. Over the four year period ended December 31, 2008, we have experienced a decline in driver turnover which we believe is half of the reported truckload industry average. We continue in our commitment to being a driver-focused company that provides both technical support and personal respect to drivers. We offer competitive compensation, encourage input from our drivers when making business decisions, and utilize full-time customer service professionals who field inbound calls and emails via our dedicated Ask Tampa link provided on each company-issued BlackBerry, to ensure driver satisfaction. Our driver organization contains field-based recruiters who augment the friendly, small business environment provided by our business model.

Expand Scope of Service Capabilities

We plan to continue to expand the scope of our service capabilities in order to serve the growing needs of our customer base. As our customers continue to focus on their core businesses, we believe that they will increasingly rely on primary service transportation companies to provide value-added services such as intermodal, tank cleaning and logistics services. We are a market leader in the ISO tank container transportation and depot services business in North America. We believe that growing our ISO tank container depot business offers us the opportunity to expand our service offerings to many of our existing customers and to capitalize on this growing segment which is being driven by the trend towards the globalization of petro-chemical manufacturing capacity.

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Optimize Network

We have implemented key initiatives expected to increase profitability by minimizing the number of empty miles driven by our drivers. We are increasing the visibility of reloadable freight to our affiliate and company terminals to maximize our reload potential. This allows terminals to increase the utilization of our combined assets and pursue additional revenue opportunities in their respective markets with competitive rates.

Trucking Services Provided

Bulk Transportation Service

We are primarily engaged in the business of bulk transportation of liquid and dry chemical products through our subsidiary, Quality Carriers, Inc. (QCI). Transportation services are provided through company and affiliate terminals. As of December 31, 2008, 54 of 108 locations were company operations and the remaining locations were affiliate operations. Owner-operators are heavily relied upon to fulfill driver and tractor needs at both company and affiliate terminals. At December 31, 2008, 54% of the drivers in our network were owner-operators and another 26% were affiliate drivers. We believe the combination of the affiliate program and the emphasis on the use of owner-operators results in an efficient and flexible operating structure that provides superior customer service.

Affiliate Program

Affiliates are established and maintained by their owners as independent companies with individualized, profit incentives designed to stimulate and preserve the entrepreneurial motivation common to small business owners. Each affiliate enters into a comprehensive contract with QCI pursuant to which the affiliate is required to operate its bulk tank truck enterprise exclusively for and on behalf of QCI, subject to limited exceptions. Each affiliate is supported by our corporate staff and is linked via computer to central management information systems located at our Tampa, Florida headquarters. Affiliates gain multiple benefits from their relationship with QCI, such as improved equipment utilization through access to our network of operating terminals, access to our broad national and local customer relationships, national driver recruitment, standardized safety training (for drivers, tankwashers and mechanics) and expanded marketing and sales resources. Affiliates gain further value from QCI's management information systems, which provide essential operating and financial reports while simplifying daily operating situations with system-wide technology support through TMW dispatch/billing platforms and various mobile communication technologies for en-route electronic linkage. Affiliates also derive significant financial benefit through our purchasing leverage on items such as insurance coverage, tractors, fuel and tires.

Affiliates operate under the marketing identity of QCI and typically receive a percentage of gross revenues from each shipment they transport. Affiliates are responsible for their own operating expenses, such as maintenance and workers' compensation insurance. This operating model creates a variable cost structure for QCI. We pay affiliates each week on the basis of completed billings to customers from the previous week. Our weekly settlement program deducts any amounts advanced to affiliates (and their individual drivers) for fuel, insurance, loans or other miscellaneous operating expenses, including rental charges for QCI's tank trailers. We reimburse affiliates for certain expenses billed back to customers, including fuel, tolls and scaling charges.

Affiliate contracts generally contain restrictive covenants prohibiting them from competing directly with QCI for a period of one year following termination of the contract. In addition, affiliates are required to meet all QCI standard operating procedures as well as being required to submit regular financial statements. Affiliates employ their own drivers and personnel as well as engage owner-operators who are contracted with QCI. All affiliate owner-operators and affiliate employee drivers must meet QCI's operating standards and requirements.

Affiliates are required to pay for and provide evidence of their own workers' compensation coverage, which must meet both company-established and statutory coverage levels. Affiliates are provided, as part of their contract, property damage and general liability insurance, subject to certain deductibles per incident. Expenses exceeding the prescribed deductible limits of the affiliate are the responsibility of QCI or its insurer.

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Owner-Operators

QCI terminals and affiliates extensively utilize owner-operators. Owner-operators are independent contractors who, through a contract with QCI, supply one or more tractors and drivers for QCI or affiliate use. QCI retains owner-operators under contracts generally terminable by either party upon short notice.

In exchange for the services rendered, owner-operators are normally paid a fixed percentage of the revenues generated for each load hauled or on a per mile rate. The owner-operator pays all tractor operating expenses such as fuel, physical damage insurance, tractor maintenance, fuel taxes and highway use taxes. However, we reimburse owner-operators for certain expenses passed through to our customers, such as fuel surcharges, tolls and scaling charges. QCI attempts to enhance the profitability of our owner-operators through purchasing programs offered by us directly or indirectly through outsourcing arrangements that take advantage of our significant purchasing power. These programs cover operating expenses such as tractors, fuel, tires, occupational accident insurance and physical damage insurance.

Drivers utilized by QCI or an affiliate must meet specified guidelines for driving experience, safety records, tank truck experience and physical examinations in accordance with DOT regulations. We emphasize safety to our owner-operators, affiliate drivers and employee drivers and maintain driver safety inspection programs, safety awards, terminal safety meetings and stringent driver qualifications.

Tank Wash Operations

To maximize equipment utilization and efficiency we rely on tank wash facilities owned and operated by our subsidiaries, Quality Services, Inc. (QSI) and Boasso, and affiliate-owned tank wash facilities located throughout our operating network. These facilities allow us to generate tank washing fees from owner-operators and affiliates as well as from other carriers and shippers. We believe that the availability of these facilities enables us to provide an integrated service package to our customers and minimizes the risk of cost escalation associated with sole reliance on third-party tank wash vendors.

Owner-Operator and Affiliate Services

We offer purchasing programs that take advantage of our significant purchasing power for products and services such as fuel, tractors, and tires as well as physical damage, occupational-accident and workers' compensation insurance. We believe that these programs strengthen our relationship with our owner-operators and improve driver recruitment.

Intermodal and Transloading

In support of our liquid and dry bulk truck operations, we offer our customers supplementary services in the areas of import/export container drayage to and from major port operations, domestic intermodal door-to-door service, and railcar to truck transloading services.

Container Services Provided

Intermodal Tank Container Services

In addition to intermodal ISO tank transportation services, Boasso provides tank cleaning, heating, testing, maintenance and storage services to customers in the rail, road and marine shipping industries, with particular focus on the chemical industry. Tank containers are among the most specially configured and regulated vessels in the intermodal industry, requiring experienced and specialized technicians for cleaning, inspection, repair, testing, modification and refurbishment. Boasso provides these services, plus product heating and storage services, at most of its container depots. Boasso has heavy lifting, transloading and other specialty equipment to provide a wide range of services for the tank container niche of the intermodal transportation industry.

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Transportation Services

Boasso utilizes its fleet of approximately 320 company-operated and independent owner-operated tractors, as well as a fleet of approximately 1,000 chassis to provide local and over-the-road trucking primarily within the proximity of the port cities where its depots are located, with a special emphasis on the handling of intermodal tank containers. Boasso uses radio dispatch to provide local transportation needs, at any time of the day, to meet its customers' production schedule and/or shipping departure requirements. We believe that our customers are attracted to Boasso's service offerings by its well maintained equipment, special training, safety programs and regulatory compliance.

Equipment Sales

Boasso's equipment sales division provides its customers with intermodal shipping containers, tank containers, special equipment or custom containers with different characteristics as to construction, sizes or types that its customers use for portable alternative storage or office space.

Operations

Driver Recruitment and Retention

QCI and its affiliates dedicate significant resources to recruiting and retaining owner-operators and employee drivers. Prospective employee drivers and owner-operators are subject to specific eligibility guidelines regarding safety records and driving experience as well as a personal evaluation by our staff. We utilize only qualified drivers who meet our standards. These drivers are required to attend a rigorous safety training program administered by the Company.

Driver recruitment and retention is a primary focus for all operations personnel. Each terminal manager has direct responsibility for hiring and retaining drivers. QCI also has centralized recruiting departments at our Tampa corporate office and regional field offices. We use many of the traditional methods of driver recruitment as well as using many newer methods of driver recruitment, including the use of the Internet.

From time to time, we facilitate driver recruitment by offering tractors through lease or purchase agreements. We also offer assistance to owner-operators and affiliate drivers to purchase the specialized equipment needed to handle liquid chemicals.

Drivers and Owner-Operators

At December 31, 2008, we utilized 3,053 drivers. Of this total, 1,636 were owner-operators, 782 were affiliate drivers, and 635 were company employee drivers.

Company Personnel

At December 31, 2008, we employed 1,673 personnel, approximately 12% fewer than at December 31, 2007.

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, 2008, we had 168 employees (97 drivers) in trucking, maintenance or tank wash facilities and approximately 24 drivers at three affiliate terminals who were members of the International Brotherhood of Teamsters.

Table of Contents*Tractors and Trailers*

As of December 31, 2008, we managed a fleet of approximately 3,200 tractors and 7,200 tank trailers. The majority of our tanks are single compartment, chemical-hauling trailers. The balance of the fleet is made up of multi-compartment trailers, dry bulk trailers, and special use 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. We acquire new tractors for an initial utilization period of seven years.

Many of our terminals and our affiliate terminals perform preventative maintenance and receive computer-generated reports that indicate when inspection and servicing of units are required. Our maintenance facilities are registered with the DOT and are qualified to perform trailer inspections and repairs for our fleet and for equipment owned by third parties. We also rely on unaffiliated repair shops for many major repairs

The following tables show the approximate number and age of trailers and tractors we managed as of December 31, 2008:

	LESS THAN 3 YEARS	3-5 YEARS	6-10 YEARS	11-15 YEARS	16-20 YEARS	GREATER THAN 20 YEARS	TOTAL
TRAILERS (1)							
Company	500	103	842	1,724	1,269	1,278	5,716
Affiliate	193	32	292	263	147	313	1,240
Owner-Operator			1	4	5	1	11
Shipper Owned	119	29	28	32	34	36	278
Total	812	164	1,163	2,023	1,455	1,628	7,245

	LESS THAN 3 YEARS	3-5 YEARS	6-10 YEARS	GREATER THAN 10 YEARS	TOTAL
TRACTORS (1)					
Company		362	482	25	936
Affiliate		358	241	52	877
Owner-Operator		153	252	357	1,423
Total		873	975	434	3,236

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

Leasing

We lease and sub-lease tractors to owner-operators and affiliates and also lease and sub-lease trailers to affiliates and other third parties, including shippers. Tractor lease and sub-lease terms range from 6 to 60 months and generally include a purchase option. Trailer lease and sub-lease terms range from 1 day to 84 months and may include a purchase option. We derive a portion of our income from leasing these units to owner-operators, customers and affiliates.

Customer Service, Quality Assurance and Billing

Our quality assurance program is designed to achieve superior customer service through the development and implementation of standardized operating procedures for each area within our Company. The procedures provide guidance in such areas as marketing, contracts, dispatch and terminal operations, driver hiring, safety and training, trailer operations, tractor operations, administrative functions, payroll, settlements, insurance, data processing and fuel tax administration. We also have an internal audit department that helps monitor and ensure

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compliance with company policies and procedures. We have also implemented a quality corrective action procedure to identify, document and correct safety and service non-conformance. We collect data on all incidents in order to better understand what occurred and, where appropriate, analyze where processes broke down, causing a non-conformance. This information is also reported back to many of our customers in the form of monthly service reports. Service reporting is required by an increasing number of chemical shippers.

Technology

We utilize mobile communications that enhance our ability to efficiently manage assets through dispatch and track our drivers and tractors. Our mobile systems handle order entry, resource planning, dispatch and communications through various network platforms including Qualcomm OmniTRACS®, EDGE (proprietary software), and SkyBitz trailer tracking. We tie all this information together using back-end operational software, PowerSuite by TMW, allowing terminals to effectively manage their resources. We utilize document imaging, enabling us to streamline business processes and make information accessible to customers through our website at www.qualitydistribution.com. Information contained on our website does not constitute a part of this Form 10-K. These systems add to the productivity of our employees and increase integration of our equipment, which we believe results in improved value to our customers.

SALES AND MARKETING

We conduct our marketing activities at both the national and local levels. We employ geographically dispersed sales managers who market our services primarily to regional accounts. These sales managers have extensive experience in marketing specialized tank truck transportation services. The national sales staff concentrates on selling to a defined national account base. In addition, portions of our marketing activities are conducted by regional sales directors in conjunction with our terminal managers and dispatchers who act as local customer service representatives. These managers and dispatchers maintain regular contact with shippers and are well-positioned to identify the changing transportation needs of customers in their respective geographic areas.

ADMINISTRATION

As of December 31, 2008, we operated approximately 108 trucking terminals, 33 tank wash facilities and 8 ISO depot services terminals throughout the United States as well as in Canada. Company and affiliate terminals operate as separate profit centers and terminal managers are responsible and accountable for most operational decisions. Effective supervision requires maximum personal contact with customers and drivers. Therefore, to accomplish mutually defined operating objectives, the functions of customer service, dispatch and general administration typically rest within each terminal. Cooperation and coordination is further encouraged by our backhaul program.

From the corporate offices in Tampa, Florida, management monitors each terminal's operating and financial performance, safety and training record, accounts receivable and customer service efforts. Terminal managers are responsible for ensuring their terminals remain in compliance with safety, maintenance, customer service and other operating procedures. Senior corporate executives, safety department personnel and audit department personnel conduct unannounced visits to verify terminal compliance. We strive to achieve uniform service and safety at all company and affiliate terminals, while simultaneously affording terminal managers the freedom to focus on generating business in their regions.

CUSTOMERS

Our revenue base consists of customers located throughout North America, including many Fortune 500 companies such as Dow Chemical Company, Procter & Gamble, PPG Industries, and DuPont. In 2008, 2007, and 2006 our 10 largest customers accounted for 30.9%, 34.1%, and 29.8%, respectively of total trucking revenues.

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COMPETITION

The tank truck business is competitive and fragmented. We compete primarily with other tank truck carriers and dedicated private fleets in various states within the United States and Canada. 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 freight transported by us is based primarily on rates and service. Management believes that we enjoy significant competitive advantages over other tank truck carriers because of our variable cost structure, overall fleet size, national terminal network and tank wash facilities.

Our largest competitors are Trimac Transportation Services Ltd., Superior Carriers, Inc., Groendyke Transport, Inc., Schneider National, Inc. and the Dana Companies. However, there are many other smaller recognized tank truck carriers, most of which are primarily regional operators.

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

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.

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 million, with a \$2 million per incident deductible.

QDI currently maintains a \$1 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