

QUALITY DISTRIBUTION INC  
Form 10-K  
March 14, 2008  
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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, 2007

.. **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
<b>Common Stock (no par value per share)</b>	<b>NASDAQ Global Market</b>

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

Title of each class	Name of each exchange on which registered
<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 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, 2007 was \$86.9 million (based on the closing sale price of \$11.23 per share).

As of March 1, 2008, the registrant had 19,252,689 outstanding shares of Common Stock, no par value, outstanding.

Documents Incorporated by Reference: Portions of the Proxy Statement for the registrant's 2008 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, 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. These factors include:

general economic conditions,

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,

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

potential disruption at U.S. ports of entry could adversely affect our business, financial condition and results of operations,

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

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

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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,

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 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 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 (including plastics) and bulk dry and liquid food-grade products. We primarily transport a broad range of chemical products and provide our customers with tank wash facilities, ISO depot services, leasing, transloading 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, DuPont and PPG Industries, and we provide services to most of the top 100 chemical producers with U.S. operations.

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 we contract with 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.



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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.

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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.

### **Acquisition**

On December 18, 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.

Boasso is the leading provider of International Organization for Standardization, or ISO, tank container over-the-road transportation and depot services in North America. The ISO tank container transportation and depot services market has experienced significant recent growth as chemical manufacturers have moved toward greater utilization of standardized ISO tank containers to efficiently transport their products around the world via sea, land and air. Boasso's tank container depots, which provide transportation, cleaning, heating, testing, maintenance and storage services, are located at or near the ports of Chalmette, Louisiana; Houston, Texas; Charleston, South Carolina; Chicago, Illinois; Detroit, Michigan and Jacksonville, Florida. In addition to further enhancing our scope of services, we believe there are synergies to be achieved from the Boasso acquisition, including lower insurance cost for the Boasso business and reduction of duplicative overhead and facilities.

### **Our Industry**

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 2006. We specifically operate in the for-hire chemical and food grade bulk transport market (estimated at \$4.0 billion in 2006) where we believe, based on published reports, we have achieved leading market share (estimated at 18%), 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 2006 Annual Gross Revenue Report*, we operate the largest for-hire chemical bulk tank truck network comprising terminals, tractors and trailers in North America and therefore 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 (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.

As the chemical industry continues the recent trend towards the globalization of petro-chemical manufacturing capacity, greater quantities of chemicals are being imported into the United States. Consequently, the ISO tank container transportation and depot services business has seen double digit growth rates over the past five years and this growth is expected to continue for the foreseeable future. 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.

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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.

### **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.

As of March 1, 2008, affiliates of Apollo Management, L.P. ( Apollo ), owned or controlled approximately 54.7% of our common stock, and approximately 46.6% of our common stock on a fully diluted basis.

### **Market Opportunity**

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.

In addition, 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 rapidly 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 the bulk transportation 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 121 trucking terminals, 38 tank wash facilities and 10 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

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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.

### ***Capital Efficient 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 the overall growth of 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 have also begun installing 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 implemented 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.

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### **Our Growth Strategy**

We expect to grow as our customers continue to outsource more of their transportation management and logistics needs to full-service carriers. Beginning in 2005 under the direction of a new senior management team, we implemented several major strategic initiatives designed to enhance our operating flexibility, upgrade and standardize our business processes, improve customer service and increase profitability. During 2006 and 2007, 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.

#### ***Opportunistic Affiliate Conversions***

We intend to continue to focus on a less capital intensive business model based on affiliates and owner-operators. However, we continually evaluate our mix of affiliate and company terminals to optimize customer service, revenue growth, profitability and return on investment. In situations where we can more efficiently operate facilities than the relevant affiliate, we may endeavor to purchase this affiliate's business to enhance our profitability and position us for better growth in key markets. However, we are still able to maintain our asset-light structure through the use of owner-operators at company owned terminals.

#### ***Continued Focus on Safety and Training***

We have made safety the main focus of our organization. We have developed comprehensive programs to further focus our safety procedures and benchmark us against the best in the industry. Tangible results of this focus have already manifested themselves in decreasing at-fault accident frequencies. We also instituted a training program for terminal, field and headquarters personnel to augment our existing driver training and have begun providing extensive technical and interpersonal training to all dispatchers, terminal managers, and supervisors.

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<sup>®</sup> it is our goal to improve the quality of our service and the level of safety. Participation in Responsible Care<sup>®</sup> is mandatory for all ACC member companies. QDI maintains a Responsible Care<sup>®</sup> 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<sup>®</sup> 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 past four years we reduced driver turnover from 61% to approximately 49%, which we believe is well below the truckload industry average. We are committed to being a driver-focused company that provides both technical support and personal respect to these professionals. We offer competitive compensation, encourage input from our drivers when making business decisions, and utilize full-time customer service professionals who conduct both in-bound and out-bound calls 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

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rely on primary service transportation companies to provide value-added services such as intermodal, tank cleaning and logistics services. Two initiatives to expand our service capabilities include the following:

### *Strengthen our Tank Wash Business*

Over the past year, we have substantially improved our company owned tank wash facilities, installed new senior managers, trained staff and upgraded our safety program. We are focused on expanding this business by motivating our drivers, our affiliates' drivers and third-party carriers to utilize our tank wash facilities and lessen usage of third party tank wash businesses. In 2007, we acquired Brite Clean, a tank wash operation that is expected to contribute approximately \$12 million in revenue in 2008, for approximately \$2.5 million. This acquisition further strengthened our leading market position in the tank wash business.

### *Expand ISO Tank Container Business*

We currently participate in the ISO tank container business by providing transportation services and with the Boasso acquisition, we are now the 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 fast-growing segment which is being driven by the recent trend towards the globalization of petro-chemical manufacturing capacity.

### *Optimize Network*

We are in the process of implementing several initiatives expected to increase profitability by minimizing the number of empty miles driven by our drivers. We do this by encouraging our affiliates and owner-operators to pursue additional revenue opportunities in their respective markets thereby increasing asset utilization. For example, we intend to move our pricing towards a revenue per mile compensation structure with our owner-operators instead of the existing percentage of revenue structure. We believe this change will help align owner-operators' interests with ours and encourage them to increase load counts and improve backhaul rates resulting in increased revenue and operating income. Additionally, where necessary and when economically appropriate, we have expanded our company-owned transportation capacity by investing in new trailers through various methods, including purchases and leases.

### *Targeted Acquisitions*

Our industry is highly fragmented, providing us with the opportunity to grow our distribution network and further develop our tank wash business through acquisitions. Smaller chemical bulk transport operators are seeking to strengthen their competitive position by becoming part of a larger service network. We believe that we are favorably positioned to benefit from this trend. In early 2006, we acquired two transportation companies for \$4.1 million. In 2007, we acquired Brite Clean for \$2.5 million, a small tank truck carrier for \$0.5 million and Boasso for \$58.8 million. We expect these acquired businesses to generate approximately \$90.0 million in revenue in 2008. We intend to continue pursuing attractive acquisition opportunities that augment our position in key markets at attractive multiples.

## **Services Provided**

### *Bulk Transportation Service*

We are primarily engaged in the business of bulk transportation of liquid and dry chemical products through our subsidiary, QCI. Transportation services are provided through company and affiliate terminals. As of December 31, 2007, 66 of 121 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, 2007, 62% of the drivers in our network were owner-operators and another 19% were affiliate company employees. 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.

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***Affiliate Program***

Affiliates are established and maintained by their owners as independent companies with individualized, parochial 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 predominantly 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 highly 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.

***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 such operating expenses 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.

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### ***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.

### ***Boasso Services***

#### ***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.

#### ***Transportation Services***

Boasso utilizes its fleet of approximately 280 company-owned and independent owner-operated tractors, as well as a fleet of approximately 800 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.



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### **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, 2007, we utilized 3,486 drivers. Of this total, 2,149 were owner-operators, 666 were affiliate company employee drivers, and 671 were company employee drivers.

#### ***Company Personnel***

At December 31, 2007, we employed 1,892 personnel, including 671 company employee drivers.

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, 2007, we had 259 employees (122 drivers) in trucking, maintenance or tank wash facilities and approximately 30 drivers at three affiliate terminals who were members of the International Brotherhood of Teamsters.

#### ***Tractors and Trailers***

As of December 31, 2007, we managed a fleet of approximately 3,900 tractors and 7,500 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.

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The following table shows the age of trailers and tractors we managed as of December 31, 2007. All numbers are approximated as of such date:

TRAILERS (1)	LESS THAN	3-5	6-10	11-15	16-20	GREATER	TOTAL
	3 YEARS	YEARS	YEARS	YEARS	YEARS	THAN 20 YEARS	
Company	319	102	823	1,728	1,323	1,700	5,995
Affiliate	179	35	303	276	124	285	1,202
Owner-Operator			1	4	3	1	9
Shipper Owned	114	41	34	32	37	42	300
<b>Total</b>	<b>612</b>	<b>178</b>	<b>1,161</b>	<b>2,040</b>	<b>1,487</b>	<b>2,028</b>	<b>7,506</b>

(1) We also had 151 trailers that were held-for-sale.

TRACTORS (1)	LESS THAN	3-5	6-10	GREATER	TOTAL	
	3 YEARS	YEARS	YEARS	THAN 10 YEARS		
Company (2)		270	512	426	81	1,289
Affiliate		296	226	270	91	883
Owner-Operator		163	284	846	462	1,755
<b>Total</b>		<b>729</b>	<b>1,022</b>	<b>1,542</b>	<b>634</b>	<b>3,927</b>

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

(2) Included 230 sub-leased or lease/purchased to owner-operators or affiliates, leaving a net 1,059 available for use at company terminals.

**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 do not 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 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 operate a system for dispatching trucks that enhances our ability to track our drivers, tractors, trailers and manage the business at a tactical level. Our system handles order entry, resource planning, dispatch and communications through various mobile communications platforms including Qualcomm OmniTRACS®, through our proprietary system, EDGE, for communication and equipment location updates, and through TMW



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platforms for resource tracking. We are also in the process of deploying GPS tracking devices for our trailer fleet. We provide document imaging at all locations and incorporate data accessible through our website at [www.qualitydistribution.com](http://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 corporate sales staff concentrates on selling to a defined national account base. In addition, significant 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, 2007, we operated approximately 121 trucking terminals, 38 tank wash facilities and 10 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. During 2007, 2006 and 2005, Dow Chemical accounted for approximately 8.3%, 9.7%, and 10.2% of total revenue, respectively. In 2007, 2006, and 2005 our 10 largest customers accounted for 34.1%, 29.8%, and 31.2% respectively of total revenues.

## **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.

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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 \$5 million per incident deductible.

We currently maintain a \$1 million per incident deductible for workers' compensation insurance coverage. We are insured over our deductible up to the statutory requirement by state. 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. We conduct a number of safety programs 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 be in compliance 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. Our tank wash and terminal operations engage in the generation, storage, discharge and disposal of wastewater 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 or own and operate real property, 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.

Facility managers are responsible for environmental compliance at each operating location. Audits conducted by our staff assess operations, safety training and procedures, equipment and grounds maintenance, emergency response capabilities and waste management. We may also, if circumstances warrant, contract with

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independent environmental consulting firms to conduct periodic, unscheduled, compliance assessments that focus on unsafe conditions with the potential to result in releases of hazardous substances or petroleum, and that also include screening for evidence of past spills or releases. Our staff includes environmental professionals who develop guidelines and procedures, including audits of our terminals, tank cleaning facilities, and certain historical operations.

We have 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.

We are potentially subject to strict, joint and several liability for investigating and rectifying the consequences of spills and other environmental releases of such substances under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ( CERCLA ), the Resource Conservation and Recovery Act of 1976 ( RCRA ), the Superfund Amendments and Reauthorization Act of 1986, and comparable state and foreign laws. Under certain of these laws, we could also be subject to allegations of liability for the activities of our affiliates or owner-operators. 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 financial condition, results of operations or business reputation.

In addition, we may face liability for alleged personal injury or property damage due to exposure to chemicals and other hazardous substances at our facilities or as the result of accidents and spills. Although these types of claims have not historically had a material impact on our operations, a significant increase in these claims could have a material adverse effect on our business, financial condition, operating results or cash flow.

As the result of environmental studies conducted at our facilities or third party sites in conjunction with our environmental management program, we have identified environmental contamination at certain sites that will require remediation. In addition, we have been named a potentially responsible party at various sites under the CERCLA and other similar state statutes.

### *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 are necessarily imprecise due to such factors as the continuing evolution of 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 applicable statutes. As of December 31, 2007 and 2006, we had reserves in the amount of \$11.2 million and \$11.8 million, respectively, for all environmental matters discussed below.

### *Property Contamination Liabilities*

We have been named as (or are alleged to be) a potentially responsible party ( PRP ) under CERCLA and similar state laws at approximately 28 sites. At 17 of these sites, we are one of many parties with alleged liability and are negotiating with either Federal, State or private parties on the scope of our obligations, if any. For example, we have been notified of potential liabilities involving the Lower Passaic River Study Area in New Jersey, the Malone Superfund Site in Texas, and two Quanta Resources sites in New York. We will be participating in the initial studies of these sites to determine site remediation objectives, goals and technologies.

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Since our overall liability cannot be estimated at this time, we have set reserves for only the initial remedial investigation phase at the four sites. Of the 17 sites, we have explicitly denied any liability for three sites and since there has been no subsequent demand for payment we have not established a reserve for these matters. We have estimated future expenditures for these off-site multi-party environmental matters, to be in the range of \$1.7 million to \$3.8 million.

We and our predecessors have also been named in three civil actions related to property contamination. One of these matters has been settled, subject to a \$25,000 payment. The second matter involves plaintiffs seeking contribution for remediation at an offsite chemical distribution and re-packaging facility and the third matter involves claims for the remediation of and diminution in value of privately owned property near the Omega Chemical Superfund Site. However, we are seeking indemnification from the PRP Group in accordance with a previous de-minimis settlement agreement with the Omega PRP Group.

At eight sites, we are the only responsible party and are in the process of conducting investigations and/or remediation projects. Six of these projects relate to operations conducted by Chemical Leaman Corporation and its subsidiaries ( CLC ) prior to our acquisition of and merger with CLC in 1998. These six sites are: Bridgeport, New Jersey; William Dick, Pennsylvania; Charleston, West Virginia; Tonawanda, New York; Scary Creek, West Virginia; and East Rutherford, New Jersey. Each of these sites is discussed in more detail below. The remaining two investigations and remediations were triggered by the New Jersey Industrial Site Remediation Act ( ISRA ), which requires such investigations and remediations following the sale of industrial facilities. In addition to these eight sites, the current owner of one of our leased tank wash sites has agreed to take responsibility for complying with the investigation and remediation required by ISRA, and is currently investigating the site. We have estimated future expenditures for these eight properties to be in the range of \$8.8 million to \$16.7 million.

*Bridgeport, New Jersey*

QDI is required under the terms of two federal consent decrees to perform remediation at this operating truck terminal and tank wash site. CLC entered into consent orders with USEPA in May 1991 for the treatment of groundwater (operable unit one or OU1 ) and October 1998 for the removal of contamination in the wetlands ( OU3 ). In addition, we were required to assess the removal of contaminated soils ( OU2 ).

In connection with OU1, USEPA originally required us to construct a large treatment plant with discharge via a two mile pipeline to the Delaware River watershed with construction to be completed by the end of 2001. We have negotiated an alternative remedy with USEPA which would call for a significantly smaller treatment facility, in place treatment of groundwater contamination via in-situ treatment and a local discharge. The treatment facility has been approved and construction was completed in early 2007. The plant is going through the start-up phase. USEPA has also approved an OU3 remedy for approximately 2.5 acres of affected wetland. This reflects a reduction from an approximate seven acre area that had been under negotiation. Site mobilization for the OU3 work took place in late May 2004 but was delayed due to weather-related issues. Field work was re-started in May 2005 has been completed. Monitoring of the restoration work is on-going. Additional contamination has been identified since December 31, 2005. In regard to OU2, USEPA is now in the process of finalizing a Feasibility Study for the limited areas that show contamination and warrant additional investigation or work. USEPA also wants to include in OU2 the in-situ treatment previously described as part of OU1. The environmental projections for OU1 and OU2 have been changed to reflect the reallocation of the in-situ costs to OU2 and the proposed contract amount for the OU1 work. We have estimated expenditures to be in the range of \$4.8 million to \$8.5 million.

*William Dick, Pennsylvania*

CLC entered into a consent order with the Pennsylvania DEP ( PADEP ) and USEPA in October 1995 obligating it to provide a replacement water supply to area residents ( OU1 ), treat contaminated groundwater ( OU2 ), and perform remediation of contaminated soils ( OU3 ) at this former wastewater disposal site. OU1 is complete. With respect to OU2, PADEP and USEPA have approved an interim remedy, which involves the

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construction of a treatment facility and discharge locally. We began construction of this facility in November 2006 and the work was completed in the fourth quarter 2007. The plant is going through the start-up phase. Based on recent data showing reduction in site groundwater contamination due to natural attenuation and the more extensive handling and removal of contaminated soils, we believe that the groundwater project can be completed over the five-year term of this interim remedy. The agencies have approved an OU3 remedy, which requires both thermal treatment of contaminated soils and treatment of residuals via soil vapor extraction ( SVE ). The OU3 remedy expanded in April 2004 to off-site shipment of contaminated soils because these soils were found to be incompatible with the thermal treatment unit, which started full-scale operation in May 2004. In 2004, we also discovered buried drums and associated contaminated material and soils, which required off-site disposal. In the third quarter of 2004, we determined that a latex liner waste material was present in the third pond, which needed to be excavated and removed for disposal offsite. This work was completed in early 2005. We also determined that the soils in pond three needed to be excavated to determine if they will be suitable for the originally planned SVE treatment. We excavated the pond s soils into three discrete piles and determined the best approach to treat these soil piles. It was determined that most of the soil piles could be treated on site using SVE as originally planned. However, some modifications to the design had to be made in order to treat a limited number of soil piles. The SVE work began in 2006 and was completed in September 2007. Final site sampling will be conducted to determine if soil clean-up objectives have been achieved. We have estimated expenditures to be in the range of \$1.4 million to \$3.4 million.

### *Other Properties*

*Scary Creek, West Virginia:* CLC received a clean up notice from the State authority in August 1994 requiring remediation of contaminated soils and groundwater at this former wastewater disposal facility. However, 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 that is required to completely delineate the extent of site contamination. Upon completion of the site investigation phase, a remedial feasibility study and design will be prepared to address contaminated soils, and, if applicable, groundwater. The expectation is that a remedy utilizing primarily in-situ treatment with limited soil removal will be conducted.

*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 with the expectation that we will conduct a remedy that may include in-situ treatment, limited soil removal and monitored natural attenuation of the groundwater.

We have estimated future expenditures for Scary Creek and Tonawanda to be in the range of \$2.6 million to \$4.8 million.

*Charleston, West Virginia:* CLC completed a remediation of a former drum disposal area in 1995 at its active truck terminal and tank wash site under the terms of a State hazardous waste permit. The State has required supplemental groundwater monitoring in connection with the same permit. We have completed this work and believe that no additional remediation will be required.

*East Rutherford, New Jersey:* CLC entered into a Memorandum of Agreement with the State of New Jersey on June 11, 1996 obligating it to perform a Remedial Investigation and Remedial Action with respect to a subsurface loss of an estimated 7,000 gallons of fuel oil at this former truck terminal and tank wash site. We have completed the recovery of free product and conducted groundwater monitoring and are awaiting final approval of a plan to terminate further remedial action with some limited contamination left in place.



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*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 Industrial Sites Remediation Act, which requires such remediation following the sale of facilities after 1983. The former owner has agreed to take responsibility for one of the sites and the other two are in the process of remedial investigation with projections set in contemplation of limited soil remediation expense for contaminated areas.

There can be no assurance that additional issues or sites for which we are responsible will not be discovered, that violations by us of environmental laws or regulations will not be identified or occur in the future, or that environmental, health and safety laws and regulations will not change in a manner that could impose material costs on us.

## **MOTOR CARRIER REGULATION**

As a motor carrier, we are subject to regulation by the Federal Motor Carrier Safety Administration ( FMCSA ), and the Surface Transportation Board, or STB, both of which are units of the Department of Transportation ( 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 owner-operators. The STB has authority to resolve certain types of pricing disputes and authorize certain types of intercarrier agreements. 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 that may affect the economics of the industry by requiring changes in operating practices 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, mandatory onboard black box recorder devices or limits on vehicle weight and size. In addition, our tank wash facilities are subject to stringent local, state and federal environmental regulation.

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.

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 intra-state, 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 new Bureau of Customs and Border Protection. We believe that we will be able to comply with pending Bureau of Customs and Border Protection rules, which will require 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.

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**SEASONALITY**

Our business is subject to limited seasonality due to the nature of the business of our customers, with revenues generally declining slightly during winter months, namely the first and fourth fiscal quarters, and over holidays. Highway transportation can be adversely affected depending upon the severity of the weather in various sections of the country during the winter months. Our operating expenses also have been somewhat higher in the winter months, due primarily to decreased fuel efficiency, increased utility costs and increased maintenance costs of equipment in colder months.

**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. Any information on or linked from our website is not incorporated by reference into this Annual Report on Form 10-K.

**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,

changes in regulations concerning shipment of material we transport,

increases in fuel taxes and tolls,

interest rate fluctuations,

excess capacity in the tank trucking industry,

changes in license and regulatory fees,

potential disruptions at U.S. ports of entry,

downturns in customers' business cycles,

reduction in customers' shipping requirements, and

the U.S. economy generally.

As a result, we may experience periods of overcapacity, declining prices and lower profit margins 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 on behalf of those customers may decrease. The trucking industry has experienced a slowdown in recent months due to slowing economic conditions.

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

There is substantial competition for qualified drivers in the trucking industry. Furthermore, certain geographic areas have a greater shortage of qualified drivers than other areas. We operate in many of these geographic areas where there is a shortage of drivers and have turned down new business opportunities as a result

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of the lack of qualified new drivers. 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.

***Loss of affiliates and owner-operators could adversely affect our operations and profitability.***

We rely on participants in our affiliate program and independent owner-operators. A reduction in the number of 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 our more robust affiliates could adversely affect our profitability. Contracts with affiliates are for various terms and contracts with owner-operators may be terminated by either party on short notice. Although affiliates and 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. Conversely, a continued decline in the rates we pay to our affiliates and owner-operators could adversely affect our ability to maintain our existing affiliates and owner-operators and attract new affiliates, owner-operators and drivers.

***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,

cargo loss and damage, and

general liability claims.

We currently maintain insurance for:

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

workers compensation insurance coverage on our employees and company drivers, and

general liability claims.

Our insurance program includes a self insured deductible of \$5.0 million per incident for bodily injury and property damage and a \$1.0 million deductible for workers compensation. In addition, we currently maintain an umbrella insurance policy covering claims in excess of \$5 million, up to an aggregate loss of \$40 million per incident. The \$5 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, for cargo losses, and for non-trucking pollution legal liability and such self-insurance is not subject to any maximum limitation. We extend insurance coverage to our affiliates for (i) motor vehicle related bodily injury, (ii) property damage, (iii) general liability coverage, and (iv) cargo loss and damage. Under this extended coverage, affiliates 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.



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### ***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 Federal Motor Carrier Safety Administration, or FMCSA, and the U.S. Department of Transportation or DOT, and by various state, federal and provincial agencies. These regulatory authorities exercise broad powers governing activities 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. 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 or by changing the demand for common or contract carrier services or the cost of providing truckload services. Possible changes 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,

onboard black box recorder devices,

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, which may increase our costs or adversely impact the recruitment of drivers.

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

Although only approximately 4.4% of our driver workforce, including owner-operators and employees of affiliates, is currently subject to collective bargaining agreements, 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.

### ***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, those environmental laws address emissions to the air, discharges to land or 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 and potential criminal sanctions for violations. Environmental 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 or regulations 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.

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

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 chemical or wastewater spills and releases at our

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facilities or over the road, and, notwithstanding the existence of our environmental management program and insurance applicable to these risks, we expect that additional similar obligations will be incurred in the future. 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.

In addition, we have been named a potentially responsible party at various sites under the Comprehensive Environmental Response Compensation and Liability Act of 1980, as amended and other similar state statutes including the Lower Passaic River Study Area in New Jersey, the Malone Superfund Site in Texas, and at two Quanta Resources sites in New York. Our current reserves provided for these sites may prove insufficient, which would result in future charges against earnings. Further, we could be named a PRP 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 ISO tank containers to those ports where we do business would reduce the number of ISO tank containers that we transport, store, clean or maintain. This reduced activity may have a material adverse effect on our operations.

***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, 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 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, our results of operations may be adversely affected.

***Our substantial leverage and restrictions contained in our debt agreements, including our credit facility and our indentures, could hamper our operations.***

At December 31, 2007, we had consolidated long-term indebtedness, including current maturities of long-term debt, of \$353.7 million. The amount of our indebtedness could have important consequences, including the following:

using a portion of our cash flow to pay interest on our indebtedness 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 limits our ability in making strategic acquisitions or exploiting business opportunities, and

it limits our operational flexibility, including our ability to borrow additional funds.

Our variable interest rate debt was \$219.1 million as of December 31, 2007. Therefore, increases in market rates of interest will increase our interest expense, which would decrease our earnings. A 1% increase in the interest rate for our variable debt would increase our annual interest expense by approximately \$2.2 million.





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### ***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 approximately 34.1% of our total revenues during 2007. In particular, our largest customer, Dow Chemical Company, accounted for 8.3% of our total revenues during 2007. The loss of Dow Chemical Company or one or more of our other major customers, or a material reduction in services performed for such customers, may have a material adverse effect on our results of operations.

### ***Our business may be harmed by terrorist attacks, future war 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 a potential terrorist target, and we will be obligated to take measures, including possible capital expenditures, to harden 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.

### ***Although we expect the Boasso acquisition to be beneficial, its expected benefits may not be realized, in the time frame anticipated or at all, because of integration or other challenges and we may become liable for liabilities of which we are currently unaware.***

Achieving the expected benefits of the Boasso acquisition will depend on the timely and efficient integration of Boasso's operations, business culture, technology and personnel with our Company. The integration may not be completed as quickly as expected, and if we fail to effectively integrate the companies or the integration takes longer than expected, we may not achieve the expected benefits of the acquisition. The challenges involved in this integration include, among others:

potential disruption on our ongoing business and distraction of management,

unexpected loss of key employees or customers of Boasso,

conforming Boasso's standards, processes, procedures and controls with our operations,

hiring additional management and other critical personnel, and

increasing the scope, geographic diversity and complexity of our operations.

We conducted a due diligence investigation of Boasso's operations prior to agreeing to acquire Boasso. However, we cannot assure you that our efforts were sufficient to uncover all material information concerning such operations. As a result, we may be held liable for risks and liabilities (including for environmental-related costs or liabilities) as a result of such acquisition which we are not aware of at the present time, some of which may not have been discoverable from our due diligence efforts.

Boasso's operations also depend upon a limited number of large customers. For its fiscal year ended March 31, 2007, four customers accounted for approximately 42% of their total revenues. Boasso's largest customer, Stolt-Nielsen S.A. accounted for approximately 19% of its total revenues. The loss of Stolt-Nielsen S.A. or one or more of Boasso's other major customers, or a material reduction in services performed for such customers, may have a material adverse effect on Boasso's results of operations.

Boasso's ability to successfully implement its business strategy and to operate profitably depends in large part on the continued employment of its management team. If members of management become unable or unwilling to continue in their present capacity, our business or financial results could be adversely affected.



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### ***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.

### ***Interests of Apollo may conflict with your interests.***

At March 1, 2008, Apollo owned or controlled approximately 54.7% of our common stock and approximately 46.6% of our common stock on a fully diluted basis. 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 matter requiring a vote of shareholders. The interests of Apollo may conflict with your interests. For example, if we encounter financial difficulties, or are unable to pay our debts as they mature, Apollo may have an interest in pursuing acquisitions, divestitures, financings or other transactions that, in their judgment, could enhance their equity investment, even though these transactions might involve risk to our shareholders or debt holders. Similarly, if our financial performance and creditworthiness significantly improve in the future, Apollo may have an interest in pursuing reorganizations, restructurings, or other transactions that could increase our leverage or impair our creditworthiness or otherwise, in their judgment, enhance Apollo's equity investment in QDI, even though these transactions might involve risk to our shareholders or debtholders.

### ***We may be unable to identify or realize the intended benefits of other potential acquisition candidates***

As part of our business strategy, we will evaluate other potential 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 successfully received by customers or achieve their intended benefits. Often acquisitions are undertaken to improve operating results of either or both of the acquirer or 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 materially and adversely affect our business, financial condition or results of operations.

### **Risks Related to our Common Stock**

#### ***We have a majority 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, 2008, Apollo and its affiliated funds owned or controlled approximately 54.7% 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 matter requiring a vote of shareholders. This concentration of ownership could delay, defer or prevent a change in control of our Company or impede a merger, consolidation, takeover or other business combination which a shareholder, may otherwise view favorably.

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*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 of our common stock in the public market may depress our stock price.*

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, 2008, there are approximately 19.3 million shares of common stock outstanding. Approximately 11.1 million shares of common stock are either restricted securities or affiliate securities as defined in Rule 144 under the Securities Act of 1933. In addition, we have an effective shelf-registration statement on Form S-3 that would permit us to sell, from time to time, in a public offering up to 6 million newly issued shares of common stock and enables Apollo and other parties to publicly resell up to 10.5 million shares of the our common stock held by such parties.

In addition, as of March 1, 2008, we have 3.9 million shares of common stock registered for issuance under our stock option plan. Options representing 3.0 million shares were outstanding as of March 1, 2008.

*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 agreements and indentures governing our indebtedness restrict our ability to pay dividends. Accordingly, the price of our common stock must appreciate in order to realize a gain on your investment. This may not occur.

## **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. The lease for our corporate headquarters expires in December 2017. Boasso's corporate headquarters, located in Chalmette, Louisiana, consists of 20,000 square feet of office space. The lease expires April 2013.

We have no other location that is material to our operations. We engage in bulk transportation of liquid and dry chemical products through our subsidiary, QCI. Our tank wash business is operated through our subsidiary, QSI. Our ISO depot services are operated through our subsidiaries, Quality Container Services ( QCS ) and Boasso.

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As of December 31, 2007, our terminals and facilities consisted of the following:

	Terminals Operated	Physical Locations	Owned by QCI
QCI trucking terminals	66	63	21
QSI tank wash facilities	36	22	14
QCI Affiliate trucking terminals *	55	45	2
QSI Affiliate tank wash facilities	2	1	0
QCS ISO depot services	4	3	1
Boasso ISO depot services	6	6	0
Total	169	140	38

\* Affiliates operate 11 tank wash facilities as part of their operations.

In many instances, we operate different types of terminals out of the same physical location. For example, one terminal also operates a separate physical location as a sub-terminal. We have excluded from the above totals, three Company transload terminals (includes two separate physical locations of which we own one location) and three affiliate transload terminals.

In addition to the properties listed above, we also own property in Mobile, Alabama; Croydon, Pennsylvania; Downingtown, Pennsylvania; Parker, Pennsylvania; Greensboro, North Carolina; Chesnee, South Carolina and Port Houston, Texas.

In addition to the properties listed above, we also have properties held-for-sale in Syracuse, New York and Spartanburg, South Carolina.

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 and Note 17 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. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matter was submitted to a vote of security holders during the fourth quarter of fiscal year 2007.

**EXECUTIVE OFFICERS OF THE REGISTRANT**

Our executive officers, as of March 1, 2008 are as follows:

Name	Age	Position
Gary R. Enzor	45	President and Chief Executive Officer
Dennis R. Copeland	58	Senior Vice President Administration
Jonathan C. Gold	44	Senior Vice President, General Counsel and Secretary
Virgil T. Leslie	53	Executive Vice President Sales
Timothy B. Page	55	Senior Vice President and Chief Financial Officer

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**Gary R. Enzor** has served as our Chief Executive Officer since June 2007 and as President of QDI since November 2005. Mr. Enzor joined QDI in December 2004 as Executive Vice President and Chief Operating Officer. Prior to joining QDI, Mr. Enzor served as Executive Vice President and Chief Financial Officer of Swift Transportation Company, Inc. since August 2002. Prior to Swift, he served as the Vice President & Chief Financial Officer of Honeywell Aerospace Electronic Systems. Prior to Honeywell, Mr. Enzor worked for Dell Computer and Allied Signal.

**Dennis R. Copeland** has served as our Senior Vice President, Administration since April, 2001. He joined QDI in 1998 in connection with the acquisition of CLC, at which time he assumed the position of Vice President Labor Relations and Human Resources. From October 1988 until he joined QDI, Mr. Copeland served as Vice President of Human Resources and Labor Relations for CLC. Prior to that time, he held various management positions with Lukens Steel Company.

**Jonathan C. Gold** has served as QDI's Senior Vice President, General Counsel and Secretary since April 2007. Mr. Gold joined QDI in January 2005 as Vice President, Associate General Counsel and Assistant Secretary. Prior to his employment with the Company, Mr. Gold served as counsel with CSX Transportation Inc. (a transportation company that operates the largest railroad in the eastern United States) from February 2002 through January 2005. Prior to that, Mr. Gold served as Vice President, General Counsel and Secretary to Softmart Inc. and was in private practice in Washington, D.C. Mr. Gold also served as Judicial Clerk to the Honorable Harvey E. Schlesinger, Senior United States District Judge for the Middle District of Florida.

**Virgil T. Leslie** joined QDI in April 2000 and serves as QDI's Executive Vice President, Sales. Prior to joining QDI, he served as Vice President of Sales with Triple Crown Services in Ft. Wayne, Indiana. Mr. Leslie also spent 16 years with Roadway Express holding various sales and operating positions.

**Timothy B. Page** joined QDI in December 2004 as Senior Vice President and Chief Financial Officer. Prior to joining QDI, Mr. Page served as Chief Financial Officer of Perry Ellis International, Inc. since May 2001. From 1998 through 2001, Mr. Page was a private investor and entrepreneur in the telecommunications and industrial gas and specialty chemical industries. From 1989 through 1997, Mr. Page was a director of Farah, Inc., an apparel company, and served in various executive positions, including Executive Vice President and Chief Operational Officer.

**Table of Contents****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 QLTYS. 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>2007</b>		
1 <sup>st</sup> quarter	\$ 13.06	\$ 6.79
2 <sup>nd</sup> quarter	11.35	8.50
3 <sup>rd</sup> quarter	11.94	7.93
4 <sup>th</sup> quarter	9.18	3.95
<b>2006</b>		
1 <sup>st</sup> quarter	\$ 14.00	\$ 7.86
2 <sup>nd</sup> quarter	17.37	11.32
3 <sup>rd</sup> quarter	15.75	11.33
4 <sup>th</sup> quarter	17.73	11.86

As of March 1, 2008, there were approximately 99 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. Our ability to pay dividends is also restricted by our credit agreements and indentures. Future dividends, if any, will be determined by our Board of Directors.

**UNREGISTERED SALES OF EQUITY SECURITIES**

On December 18, 2007, we issued a promissory note in the principal amount of \$2.5 million (Boasso Note) for the benefit of Walter J. Boasso in connection with our acquisition of all the outstanding capital stock of Boasso as more fully described in Item 1 of Part 1. The Boasso Note has a term of two years, and the holder has the right to require that the Boasso Note be paid in full on the first anniversary of the acquisition. The Boasso Note is convertible into shares of our common stock following the first anniversary of the acquisition at the election of the holder at a price of \$4.47 per share (the closing price of the shares reported on NASDAQ on the day before the acquisition). If the conversion option is exercised, we have the right, instead of issuing shares to pay the holder a cash amount equal to the number of shares of common stock into which the Boasso Note is then convertible multiplied by the 10-day trailing average closing price for the common stock plus any accrued and unpaid interest. We issued the Boasso Note in reliance upon the exemption from registration in Section 4(2) of the Securities Act of 1933 for the offer and sale of securities not involving a public offering because, among other things, the Boasso Note was issued to a single, accredited, sophisticated investor on terms negotiated as an integral part of the terms that were negotiated for our acquisition of all capital stock of Boasso.



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**PERFORMANCE GRAPH**

The following graph depicts a comparison of cumulative total shareholder returns for us as compared to the NASDAQ Trucking & Transportation Index and the NASDAQ Stock Market (U.S.) Index. The graph assumes the investment of \$100 on November 7, 2003 (the date our stock began trading on the NASDAQ National Market) through December 31, 2007.

**Table of Contents****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 fiscal years ended December 31, 2007, 2006 and 2005 and the historical balance sheet data as of December 31, 2007 and 2006 are derived from our audited financial statements included under Item 8 of this report. The historical statements of operations data for the fiscal years ended December 31, 2004 and 2003 and the historical balance sheet data as of December 31, 2005, 2004 and 2003 are derived from our audited financial statements that are not included in this report.

In 2007, we changed our accounting policy for tires. The change was retroactively applied to prior period financial statements. Refer to Note 3 to the consolidated financial statements for the impact of the change for years 2005 through 2007. The impact to operating income and net loss were an increase of \$0.2 million and decrease of \$0.9 million for 2004 and 2003, respectively.

	YEAR ENDED DECEMBER 31				
	2007	2006 (As adjusted)	2005 (As adjusted)	2004 (As adjusted)	2003 (As adjusted)
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)					
<b>Statements of Operations Data</b>					
Operating revenues	\$ 751,558	\$ 730,159	\$ 678,076	\$ 622,015	\$ 565,440
Operating expenses:					
Purchased transportation	471,531	493,686	471,238	420,565	360,303
Depreciation and amortization	17,544	16,353	17,278	23,266	29,671
Other operating expenses	238,630	171,842	149,741	162,936	157,590
Operating income (1)	23,853	48,278	39,819	15,248	17,876
Interest expense, net	(30,524)	(29,388)	(26,712)	(22,343)	(29,984)
Transaction fees					(700)
Interest expense, preferred stock conversion					(59,395)
Gain on debt extinguishment					4,733