QUALITY DISTRIBUTION INC
Form 10-K/A
May 02, 2005
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K/A

(Amendment No.1)

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

For the fiscal year ended December 31, 2004

¨ **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)

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

3802 Corporex Park Drive

Tampa, Florida 33619

(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:

None

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

Title of each class	Name of each exchange on which registered
Common Stock (no par value per share)	**Nasdaq National Market**

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

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

Aggregate market value of voting stock held by non-affiliates as of June 30, 2004 was $92.3 million.

As of March 1, 2005, the registrant had 19,038,365 outstanding shares of Common Stock, no par value, outstanding.

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. ¨

Documents Incorporated by Reference: Portions of the Proxy Statement for the registrant s 2005 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

Table of Contents

Explanatory Note:

This amendment is being filed to include the entirety of Part II, Item 9A, as amended, in this Form 10-K/A, the integrated opinion on the audit of the financial statements and internal control over financial reporting from PricewaterhouseCoopers LLP, a paragraph concerning our projected benefit obligation in the Critical Accounting Policies included in Part II, Item 7, and new Exhibits 31.1, 31.2, 32.1 and 32.2, dated the date of the filing of this Form 10-K/A. We have also added exhibits 10.33 and 10.34 for two deferred compensation plans.

Table of Contents

TABLE OF CONTENTS

Table of Contents

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 and oral statements that are made on behalf of us contain 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 of 1933, as amended 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, c seeks, plans, intends, anticipates or scheduled to or the negatives of those terms, or other variations of those terms or comparable language, o 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 risks and other factors discussed under the section Risks Related to our Business and Risks Related to our Common Stock. 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 agreements, including our credit facility and our indentures,

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,

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

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

- our obligations under both historical and future environmental regulations and the increasing costs of environmental compliance,

- our ability or inability to reduce our claims exposure through insurance due to changing conditions and pricing in the insurance marketplace,

- with respect to the insurance irregularities at PPI, the non-approval of the settlement by the federal court and/or state court, the insurance carrier s failure to pay the agreed amount, or the settlement s termination before execution of a binding settlement agreement,

- the final outcome of state regulatory investigations into the insurance irregularities and any other governmental investigations or legal proceedings initiated against us and the reaction of our lenders, investors, drivers and affiliate or owner-operators to the insurance irregularities and restatements,

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

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

In addition, there may be other factors that could cause our actual results to be materially different from the results referenced in the forward-looking statements.

All forward-looking statements contained in this 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.

Risks Related to Our Business

Our business is subject to general economic and other factors that are largely beyond our control and could affect our operations and profitability.

Our business is dependent on various economic factors over which we have little control, such as the availability of qualified drivers, changes in fuel and insurance prices, including changes in fuel taxes, excess capacity in the trucking industry, changes in license and regulatory fees, toll increases, interest rate fluctuations, downturns in customers business cycles and the U.S. economy generally, and reduction in customers shipping requirements. As a result, we may experience periods of overcapacity, declining prices and lower profit margins in the future. Our revenues and operating income could be materially adversely affected if we are unable to pass through to our customers the full amount of increased transportation costs. 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 factors over which we have no control, the volume of freight transported by us on behalf of those customers may decrease and our operating results could be adversely affected.

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

We rely on participants in our affiliate program and independent owner-operators. A reduction in the number of affiliates or 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. Contracts with affiliates typically are for a term ranging from one to five years, 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, fuel 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. In addition, 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 company drivers.

Table of Contents

Increasing trucking regulations may increase costs.

As a motor carrier, we are subject to regulation by the U.S. Department of Transportation and by various state agencies. These regulatory authorities exercise broad powers, governing activities such as the authorization to engage in motor carrier operations, and regulatory safety, financial reporting and certain mergers, consolidations and acquisitions. There are additional regulations specifically relating to the trucking industry, including testing and specification of equipment and product handling requirements. 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 include increasingly stringent environmental regulations, 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, or limits on vehicle weight and size. In addition, our tank wash facilities are subject to strict local, state and federal environmental regulations.

Interstate motor carrier operations are subject to safety requirements prescribed by the Department of Transportation. 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 regulation. Department of Transportation regulations mandate drug testing of drivers.

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. We cannot predict whether, or in what form, any increase in such taxes applicable to us will be enacted.

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

Although only approximately 6% of our driver workforce, including owner-operators and employees of affiliates, are currently subject to collective bargaining agreements, unions such as the International Brotherhood of Teamsters have traditionally been active in the U.S. trucking industry. If our unionized workers were to engage in a strike, work stoppage or other slowdown in the future, we could experience a disruption of our operations, which could have a material adverse effect on us. In addition, our non-union workforce has been subject to unionization efforts from time to time, and we could be subject to future unionization efforts as our operations expand. Increased activity by the Teamsters or other unions could increase the possibility of unionization. Increased unionization of our workforce could result in compensation and working condition demands that could increase our operating costs or constrain our operating flexibility.

Operations involving hazardous materials could create environmental liabilities.

Our activities are subject to environmental, health and safety laws and regulation by U.S. federal, state and local agencies and Canadian federal and provincial governmental authorities. 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 creation, storage or discharge, and proper disposal of wastewater that may contain hazardous substances, and the control and discharge of storm-water from industrial sites. In addition, we may store diesel fuel and other petroleum products at these terminals. 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. We believe we are in substantial compliance with all applicable requirements. However, 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.

Table of Contents

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 either under the Comprehensive Environmental Response Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986 (CERCLA), the Resource Conservation and Recovery Act of 1976 (RCRA), the Superfund Amendments and Reauthorization Act of 1986, and comparable state and Canadian laws. From time to time, we have incurred remedial costs and regulatory penalties with respect to chemical or wastewater spills and releases at our facilities or over the road, and, notwithstanding the existence of our environmental management program, we cannot assure you that such obligations will not be incurred in the future, nor predict with certainty the extent of future liabilities and costs under environmental, health, and safety laws, nor that such liabilities will not result in a material adverse effect on our financial condition, results of operations or our 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 materially adversely affect our business, financial condition, operating results or cash flow.

As a result of environmental studies conducted at our facilities or at third party sites, in conjunction with our environmental management program, we have identified environmental contamination at certain sites that will require remediation.

We are currently responsible for remediating and investigating five properties under federal and state Superfund programs where we are the only responsible party. Each of these five remediation projects relates to operations conducted by Chemical Leaman Corporation (CLC) prior to our acquisition of and merger with CLC in 1998. We have also been named as a potentially responsible party, or have otherwise been alleged to have responsibility, under CERCLA or similar state laws for cleaning up off-site locations where our waste, or material transported by us, has allegedly been disposed of. We are currently investigating, remediating, or are subject to potential financial obligations at approximately 19 such waste disposal sites where we are one of several potentially responsible parties. We have incurred in the past and expect to continue to incur material expenses for the foreseeable future on environmental matters. We have from time to time received notices with respect to other sites. As of December 31, 2004, we had reserves in the amount of $25.6 million accrued for our environmental liabilities, including remediation costs. Our current reserve provides for an estimate of all known liabilities that are probable and estimable; however, such estimate may change as facts and circumstances develop.

We are self-insured and have exposure to certain claims and the costs of our insurance may not be adequately passed on to our customers.

The primary risks associated with our business are bodily injury and property damage, workers compensation claims and cargo loss and damage. We currently maintain liability insurance against (1) bodily injury and property damage claims, covering all employees, owner-operators and affiliates, and (2) workers compensation insurance coverage on our employees and company drivers. This insurance includes deductibles of $5.0 million per incident for bodily injury and property damage and a $1.0 million deductible for workers compensation. As such, we are subject to liability as a self-insurer to the extent of these deductibles under the applicable policy. The high deductible per incident could adversely affect our profitability. 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 also provide insurance coverage to our affiliates for (a) property damage and general liability coverage, subject to a deductible limit for such affiliates of $10,000 or $15,000 per incident, and (b) cargo loss and damage, subject to a deductible limit for such affiliates of $5,000 or $7,500 per incident.

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.

Table of Contents

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 28.8% of our total revenues during 2004. In particular, our largest customer, The Dow Chemical Company, accounted for 10.2% of our total revenues during 2004. The loss of The Dow Chemical Company or one or more of our other major customers, or a material reduction in services performed for such customers, would 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, 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. A decline in economic activity could adversely affect our revenues or restrict our future growth. Instability in the financial markets as a result of terrorism or war could also affect our ability to raise capital. In addition, the insurance premiums charged for some or all of the coverages currently maintained by us could increase dramatically or such coverages could be unavailable in the future.

Loss of qualified personnel could limit our growth and negatively affect operations.

There is substantial competition for qualified personnel, including 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 of the lack of qualified new drivers. Difficulty in attracting qualified personnel, particularly qualified drivers, could require us to limit our growth and could have a negative impact on our operations. In addition, we cannot assure you that we will be able to retain qualified personnel in the future.

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 led by Thomas L. Finkbiner. If Mr. Finkbiner or the other members of senior management become unable or unwilling to continue in their present positions, our business or financial results could be adversely affected.

Litigation in connection with irregularities at Power Purchasing, Inc. (PPI) may adversely affect our results of operations and financial position.

As disclosed in more detail under Item 3 Legal Proceedings, two putative class action lawsuits are pending against us, both of which contain allegations that stem from our previously announced discovery of irregularities at PPI. The plaintiffs in those putative classes are alleged holders of our common stock and allege that we violated various federal securities laws. As described in more detail under Item 3 Legal Proceedings, we have signed Memoranda of Understanding to settle these actions but the settlements remain contingent on several factors and there can be no guarantee they will become final. In addition to these lawsuits, we are also subject to the risk that claims may be brought by PPI s customers whose insurance policies were not renewed but from whom PPI collected insurance premiums. Moreover, new information and additional issues may come to our attention or the attention of our outside advisors in connection with the irregularities at PPI. The final outcome of these legal proceedings and any future legal proceedings initiated against us has not been determined and could have a material adverse effect on our results of operations and financial position. See Item 3 Legal Proceedings.

Table of Contents

Governmental investigations in connection with irregularities at PPI may adversely affect our results of operations and profitability.

The SEC and state government regulators are conducting informal inquiries into the PPI irregularities. While no formal regulatory or governmental investigation into the PPI irregularities has been initiated, it is possible that state and federal regulatory or governmental authorities could begin such formal investigations. The final outcome of the informal inquiries or any formal investigation that may be initiated (by the SEC or other regulatory or governmental authority) is impossible to determine at this time and could have a material adverse effect on our results of operations and financial position. See Item 3 Legal Proceedings.

Our management liability and company reimbursement insurance policies may not be sufficient to cover damages that may result from litigation in connection with irregularities at PPI.

We carry management liability and company reimbursement insurance policies for the relevant period, which provide for aggregate coverage of $20 million, and have notified our insurance carriers of the lawsuits relating to these irregularities at PPI. As described in more detail under Item 3 Legal Proceedings, we have signed Memoranda of Understanding to settle these actions but the settlements remain contingent on several factors and there can be no guarantee they will become final. In the event that the settlements do not become final, even if our insurance carriers cover liabilities arising out of PPI, the actual damages sought may exceed any applicable policies coverage limits. A final outcome cannot be determined at this time and could have a material adverse effect on our results of operations and financial position. See Item 3 Legal Proceedings.

Risks Related to our Common Stock

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

At March 1, 2005, the Apollo and its affiliated funds owned approximately 54.6% of our outstanding common stock. As a result, Apollo can and will be able to 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 supermajority 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.

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 thwart a takeover attempt;

- 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 stockholders 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

Table of Contents

additional equity securities at a time and price that we deem appropriate. As at March 1, 2005, there are approximately 19,038,365 shares of common stock outstanding. Approximately 11,012,311 shares of common stock are either restricted securities or affiliate securities as defined in Rule 144 under the Securities Act of 1933. These restricted securities may be sold in the future without registration to the extent permitted under Rule 144. In addition, shareholders holding approximately 10,684,448 outstanding shares of these restricted securities have registration rights, which could allow those holders to sell their shares freely through a registration statement filed under the Securities Act.

In addition, we have 3,277,316 shares of common stock reserved for issuance under our stock option and restricted stock plans, of which options to purchase 2,451,035 shares were outstanding as of December 31, 2004. In addition, 124,859 shares of restricted stock have been issued as of December 31, 2004 under the restricted stock plan, which shares are included in shares of common stock outstanding. We intend to file a registration statement on Form S-8 to register all of the shares of common stock issuable under our stock option and restricted stock plans.

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 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.

ADDITIONAL INFORMATION AVAILABLE ON COMPANY WEB-SITE

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.

PART I

ITEM 1. BUSINESS

Overview

We operate the largest dedicated bulk tank truck network in North America based on bulk service revenues, and we believe we have more than twice the revenue 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 items shipped by bulk tank truck carriers and consists primarily of the shipping of chemicals, gasoline and food-grade products. We transport a broad range of chemical products and provide our customers with value-added services, including intermodal, transloading, tank cleaning, dry-bulk hauling, leasing and other logistics services. We extensively utilize third-party affiliate terminals and owner-operator drivers in our core bulk service network. Our light-asset based operations enable us to minimize our capital investments and increase the flexibility of our cost structure, while providing superior localized customer service. We are a core carrier for many of the Fortune 500 companies engaged in chemical processing, including the Dow Chemical Company, Procter & Gamble Company, E.I. Dupont, and PPG Industries, and we provide services to most of the top 100 chemical producers in the world with U.S. operations. We expect to grow as our customers continue to outsource more of their logistics needs to full-service carriers. As a result of our leading market position, flexible business model and decentralized operating structure, we believe we are well positioned to benefit from current industry trends.

Table of Contents

Our Industry

We estimate, based on industry sources, that the for-hire North American bulk tank truck industry generated revenues of approximately $4.8 billion in 2003. We estimate that our primary chemical bulk transport market consists of a greater than $2.5 billion for-hire segment. We have achieved a leading market share of approximately 20%. Our competition in the for-hire segment includes more than 200 smaller, primarily regional carriers. In addition to the for-hire segment, we also compete for the private fleet segment of the market, which we estimate is an approximately $2.3 billion market, by targeting private fleet operators who would benefit from outsourcing their transportation needs to us. Because we operate the largest dedicated bulk tank truck network in North America, we believe we are well-positioned to expand our business by converting private fleets.

Industry growth is generally dependent on volume growth in the industrial chemical industry and on the rate at which chemical companies outsource their transportation needs. As competitive pressures force chemical companies to reduce costs and focus on their core businesses, we believe that chemical companies will continue to consolidate their shipping relationships and seek to outsource a greater portion of their transportation and logistics needs. We believe that large, national full-service carriers will benefit from this outsourcing trend and will be able to grow faster than the overall bulk tank truck industry.

Our industry is characterized by high barriers to entry such as (i) the time and cost required to develop the capabilities necessary to handle sensitive chemical cargo, (ii) the 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. As the cost and complexity of operating a bulk tank truck business increase and smaller competitors continue to exit the industry, we believe that large, well established carriers will increase market share and grow faster than the overall industry.

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, no par value.

As of March 1, 2005, investment funds related to Apollo Management, L.P. (Apollo) owned approximately 54.6% of our common stock, and approximately 48.4% on a fully diluted basis after giving effect to stock options and warrants.

Services Provided

Bulk Transportation Service

We are primarily engaged in the business of bulk transportation of liquid and dry chemical products. Business services are provided through company-owned and affiliate terminals. As of March 1, 2005, 74 of 172 locations were company operations and the remaining locations were affiliate operations. We rely heavily on owner-operators to fulfill driver and tractor needs at both company and affiliate terminals. 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. We do not expect any substantial changes to the number or mix of locations in the immediate future.

Table of Contents

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. In connection with our strategy of converting company-owned terminals to affiliate status, candidates are ordinarily selected from QCI s management/employee pool, thereby jump-starting the new business opportunity with an experienced, savvy owner/manager, significantly reducing ramp-up time, while simultaneously improving the chances for both operating and financial success.

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, combined with sophisticated marketplace/competitive research. 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 (TMW Systems, Incorporated (TMW) dispatch/billing platforms and Qualcomm en-route electronic linkage with each vehicle). 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 fuel, licenses and worker s compensation insurance. 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.

Our contracts with affiliates typically carry a term ranging from one to five years and thereafter renew on an annual basis, unless terminated by either party. Affiliate contracts uniformly contain restrictive covenants prohibiting the affiliate 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 engage and/or employ their own drivers and personnel. All affiliate personnel must meet QCI s operating standards/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. For an additional fee, our subsidiary, Power Purchasing Inc. (PPI), through a three-year outsourcing agreement with an unaffiliated insurance brokerage company, makes available additional insurance to affiliates for physical damage coverage, operating a tractor without a trailer, health care, and life insurance. In return, PPI receives a percentage of certain commissions, underwriting profits, administrative and other deferred revenues related to these outsourced insurance-related services.

Drivers and Owner-Operators

At March 28, 2005, we utilized 3,195 drivers. Of this total, 1,717 were owner-operators, 1,185 were affiliate company drivers, and 293 were company drivers. We do not expect any substantial changes to the number or mix of personnel in the future.

Table of Contents

Owner-Operators

QCI terminals and affiliates extensively utilize owner-operators. Owner-operators are independent contractors who, through an exclusive 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.

Owner-operators utilized by QCI or an affiliate must meet specified guidelines for driving experience, safety record, tank truck experience, and health in accordance with U.S. Department of Transportation (DOT) regulations. We emphasize safety to our independent contractors and their drivers and maintain driver safety programs including inspections, safety awards, terminal safety meetings and stringent driver qualifications.

Driver Recruitment and Retention

QCI and its affiliates dedicate significant resources to recruiting and retaining owner-operators and our own company drivers. Company drivers and owner-operators are hired in accordance with specific guidelines regarding safety records, driving experience and a personal evaluation by our staff. We employ only qualified drivers who meet our standards. These drivers are required to attend a rigorous training program conducted at one of our six safety schools.

Driver recruitment and retention is a primary focus for all operations personnel. 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. QCI also has a centralized recruiting department at our Tampa corporate office.

Other Personnel

At March 28, 2005, we employed 429 support personnel, including 247 employed at our corporate office in Tampa, Florida. Our field operations comprise 690 employees, including 46 mechanics, 170 tank cleaners and 182 other support, clerical and administrative personnel. We do not expect any substantial changes to the number or mix of personnel in the future.

Where appropriate, the field management is responsible for hiring mechanics, customer service staff, and tank wash personnel. We provide our employees with health, dental, vision, life, and other insurance coverages subject to certain premium-sharing and deductible provisions. Some of these and other insurance programs are available to affiliates and owner-operators for a fee.

Union Labor

At March 28, 2005, we had 212 employees (94 drivers) in trucking, maintenance, or cleaning facilities and approximately 134 employees of three affiliate terminals who were members of the International Brotherhood of Teamsters. We do not expect any substantial changes to the number or mix of personnel in the future.

Customer Service, Quality Assurance and Billing

Our Quality Assurance Program is designed to produce superior customer service through the development and implementation throughout our organization of Standardized Operating Procedures. The procedures provide

Table of Contents

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. This procedure collects non-conformance data so that all levels of the organization can better understand where processes break 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. The software handles order entry, resource planning, dispatch and communications, through Qualcomm OmniTRACS® integration and auto-rating of invoices. We also operate TMW for resource tracking, Qualcomm OmniTRACS® for communications and equipment location updates, document imaging at all locations and the incorporation of all of this data into our website at *http://www.qualitydistribution.com*. These systems add to the productivity of our employees and equipment, which we believe results in improved value to our customers.

Approximately 85% of our non-local, non-flammable tractor fleet, is equipped with the Qualcomm OmniTRACS® mobile satellite communications system, which helps to track load status, optimize the use of drivers and equipment and respond to emergency situations.

Leasing

We lease tractors and trailers to affiliates and other third parties, including shippers. Tractor lease terms range from 6 to 60 months and may include a purchase option. Trailer lease terms range from 1 to 84 months and do not include a purchase option. We have the largest stainless steel trailer fleet in North America and derive a portion of our income from leasing these units to customers and affiliates.

Tank Wash Operations

To maximize equipment utilization and efficiency we rely on 31 tank wash facilities owned and operated by our subsidiary, Quala Systems, Inc. (QSI), 2 tank wash facilities owned and operated by Transplastics, a division of our subsidiary, QCI, and 16 affiliate-owned tank wash facilities located throughout our operating network. These facilities allow us to generate additional tank washing fees from non-affiliated carriers and shippers. Management believes that the availability of these facilities enables us to provide an integrated service package to our customers and minimize the risk of cost escalation associated with reliance on third party tank wash vendors.

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.

In order to take advantage of the ever-changing balance of global chemical industry trade, QCI has developed the capability to operate inland trucking services for the transportation of liquid bulk containers on special chasses. Domestic intermodal operation is accomplished through the use of our drivers at both the origin and destination facilities, loading and unloading the product, while the linehaul portion of the trip is performed on rail intermodal train service. This allows shippers to combine a consistent service with an economical way to serve long-haul markets. Railcar to truck transloading service is another niche product that can provide the customer a cost-effective supply chain alternative for prepositioned inventory and serve end-customers that are not served by any railroad.

Table of Contents

Owner-Operator and Affiliate Services

Through a three-year outsourcing agreement between an unaffiliated insurance brokerage company and our subsidiary, PPI, we offer insurance products and other services both to our affiliates and to our owner-operators at favorable prices. In return, PPI receives a percentage of certain commissions, underwriting profits, administrative and other deferred revenues related to these outsourced insurance-related services. By offering purchasing programs to our affiliates and to our owner-operators that take advantage of our significant purchasing power for products and services such as fuel, tractors, and tires as well as physical damage, occupational, accidental and workers compensation insurance, we believe we strengthen our relationship with our owner-operators and improve driver recruitment.

Load Brokerage Services

We provide load brokerage services to enhance our ability to handle our customers requirements. To the extent that we do not have the equipment necessary to service a particular shipment, we will broker the load to another carrier, thereby meeting the customer s shipping needs and generating additional revenues for us. Through our relationship with over sixty independent bulk carriers, we can assure timely response to customer needs.

Tractors and Trailers

As of December 31, 2004, we managed a fleet of approximately 3,500 trucks and 8,000 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 to 7,000 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.

We acquire new tractors for an initial utilization period of five years. The useful life of a tractor may be extended if restoration or an overhaul is performed. As of December 31, 2004, we operated 3,550 tractors of which 714 were owned by us, 1,243 were operated by affiliate drivers, and 1,593 were operated by owner-operators.

Many of our terminals and our affiliate terminals provide 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 equipment owned by third parties. We also rely on unaffiliated repair shops for many major repairs.

The following table shows the age of trailers and tractors we managed as of December 31, 2004. All numbers are approximated as of such date:

TRAILERS (1,2)	LESS THAN 3 YEARS	3~5 YEARS	6~10 YEARS	11~15 YEARS	16~20 YEARS	GREATER THAN	TOTAL

						20 YEARS	
Company	1	168	1,738	784	1,690	1,313	5,694
Company held-for-sale	3		35	62	140	414	654
Affiliate	67	167	500	192	168	289	1,383
Owner Operator			3	2	2	4	11
Shipper Owned	24	64	41	52	54	54	289
Total	**95**	**399**	**2,317**	**1,092**	**2,054**	**2,074**	**8,031**

TRACTORS (1)	LESS THAN 3 YEARS	3~5 YEARS	6~10 YEARS	11~15 YEARS	16~20 YEARS	GREATER THAN 20 YEARS	TOTAL
Company	132	274	247	42	13	6	714
Affiliate	289	480	379	80	13	2	1,243
Owner Operator	121	357	850	202	51	12	1,593
Total	**542**	**1,111**	**1,476**	**324**	**77**	**20**	**3,550**

Table of Contents

(1) Age based upon original date of manufacture; tractor/trailer may be substantially refurbished or re-manufactured.
(2) During the fourth quarter, we conducted a review of our fleet requirements. As a result of that review, we have determined that there are a group of trailers which are in excess of our needs and which have been classified as held-for-sale. We believe the sale of such trailers will generate cash. We incurred a non-cash, pre-tax charge for impairment under the held-for-sale model, of approximately $2.5 million during the fourth quarter of 2004 and a $0.4 million impairment in the fourth quarter of 2004 for trailers not being utilized in our Mexican operations.

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 national accounts. These sales managers have extensive experience in marketing specialized tank truck transportation services. The corporate sales staff also concentrates on developing dedicated logistics opportunities. Our senior management is actively involved in the marketing process, especially in marketing to national accounts. In addition, significant portions of our marketing activities are conducted locally by 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.

CUSTOMERS

Our revenue base consists of customers located throughout North America, including many Fortune 500 companies such as the Dow Chemical Company, Procter & Gamble, PPG Industries, and E.I. Dupont. During 2004, 2003 and 2002, Dow Chemical accounted for approximately 10.2%, 11.3% and 12.8% of operating revenue, respectively. In 2004, our 10 largest customers accounted for 28.8% of operating revenues.

ADMINISTRATION

As of March 1, 2005, we operated 172 terminals throughout the United States, Canada and Mexico. Company-owned 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.

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 ensure the terminals remain in strict compliance with safety, maintenance, 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-owned and affiliate terminals, while simultaneously affording terminal managers the freedom to focus on generating business in their region.

COMPETITION

The tank truck business is extremely competitive and fragmented. We compete primarily with other tank truck carriers and private carriers in various 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 low fixed cost structure, overall fleet size, national terminal network, and tank wash facilities.

Our largest competitors are Trimac Transportation Services Ltd., Schneider National, Inc., and Superior Carriers, Inc. all of which are privately held 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 a sufficient number of qualified professional drivers and owner-operators. However, if we are unable to continue to recruit qualified drivers in an increasingly tough market, our growth plans would be adversely impacted by a shortage of qualified drivers.

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 bodily injury and property damage, workers compensation claims and cargo loss and damage. 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 and we also are self insured for non-trucking pollution legal liability.

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, a Substance Abuse Prevention Program, driver safety meetings, distribution of safety bulletins to drivers, and participation in national safety associations.

ENVIRONMENTAL MATTERS

It is our policy and the policy of each of our subsidiaries to be in compliance with all applicable environmental, safety, and health laws. We also are committed to the principles of Responsible Care®, an international chemical industry initiative to enhance the industry s responsible management of chemicals.

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 creation, storage or discharge and proper disposal of wastewater that may contain hazardous substances, and the control and discharge of storm-water from industrial sites. In addition, we may store diesel fuel and other petroleum products at our terminals. As such, we and others who operate in our industry, are subject to environmental, health and safety laws and regulation by U.S. federal, state and local agencies and Canadian federal and provincial 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

Table of Contents

response capabilities, and waste management. We may also, if circumstances warrant, contract with independent environmental consulting firms to conduct periodic, unscheduled, compliance assessments which focus on unsafe conditions with the potential to result in releases of hazardous substances or petroleum, and which also include screening for evidence of past spills or releases. Our staff includes environmental professionals who develop guidelines and procedures, including periodic audits of our terminals, tank cleaning facilities, and historical operations, in an effort to avoid circumstances that could lead to future environmental exposure.

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 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 Canadian laws. 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, nor predict with certainty the extent of future liabilities and costs under environmental, health, and safety laws, nor that such liabilities will not result in a material adverse effect on our financial condition, results of operations or our 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 materially adversely affect our business, financial condition, operating results or cash flow.

As the result of environmental studies conducted at our facilities or the third-party sites in conjunction with our environmental management program, we have identified environmental contamination at certain sites that will require remediation. See Risk Factors Risks Related to Our Business Operations involving hazardous materials could create environmental liabilities for a discussion of certain risks of our being associated with transporting hazardous substances.

We are currently responsible for remediating and investigating five properties under federal and state Superfund programs where we are the only responsible party. Each of these five remediation projects relates to operations conducted by CLC prior to our acquisition of and merger with CLC in 1998. The two most significant Superfund sites are:

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 or OU 1) and October 1998 for the removal of contamination in the wetlands (OU 3). 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 2 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 chemical injection (in-situ treatment) and a local discharge. The treatment facility has been approved with construction to commence in the second quarter of 2005. The in-situ remedy is in the pilot stage and must go through the design phases before final approval is obtained. USEPA has also approved an OU3 remedy for approximately 2.5 acres of affected wetland. This reflects a reduction from an approximate 7 acre area that had been under negotiation. Site mobilization for the OU3 work took place in late May 2004. However, due to the wet weather and problems with the equipment utilized, the project has been delayed. The existing remedial design may have to be modified to complete this work. In regard to OU2, USEPA is now requiring a Feasibility Study for the limited areas that show contamination and warrant additional investigation or work. USEPA also wants to include in OU2 the chemical

Table of Contents

injection (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 $11.4 million to $16.4 million.

William Dick, Pennsylvania

CLC entered into a consent order with the Pennsylvania DEP (PADEP) and USEPA in October 1995 obligating it provide 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. PADEP and USEPA had previously been unable to agree on the final interim remedy design for OU2; specifically the discharge location for the treated groundwater. We have projected an interim remedy, which involves the construction of a treatment facility and discharge locally. A preliminary engineering design, which includes a discharge to a local tributary, was submitted in August 2004 to USEPA and PADEP for their review and comment. 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 production in May 2004. We determined in June 2004 that we would incur increased expense due to the need to ship off-site additional contaminated soil that was found to be incompatible with the thermal treatment unit, the increased volume of soil subject to thermal treatment based on an increase in the lateral extent of contamination, and the discovery of 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. 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 are still in the process of excavating the pond three soils in discrete piles, analyzing and determining the best approach to treat these soil piles. We have estimated expenditures to be in the range of $5.0 million to $7.2 million.

Other Owned Property

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) and we are currently completing its originally planned remedial investigation. However, it appears that additional site investigation work will be 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 are currently preparing a feasibility study with the expectation that we will conduct a remedy utilizing in-situ treatment, limited soil removal and monitored natural attenuation of the groundwater.

Charleston, WV: 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 and we are performing the same and believe that no additional remediation will be required.

East Rutherford, NJ: 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 active 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 remedial action with contamination in place.

ISRA NJ 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.

UST Program: We have responsibility for ongoing remediation of former (closed) underground storage tanks (USTs) at current and former facilities. These projects typically involve removal of petroleum-contaminated soil and subsequent remediation of contaminated groundwater and groundwater monitoring. We do not expect to incur significant costs in connection with these projects.

We have estimated expenditures for these other owned properties to be in the range of $3.1 million to $7.2 million.

Other Environmental Matters

We have been named as a potentially responsible party (PRP) under CERCLA and similar state laws at 19 other multi-party sites.

We and our predecessors have been named in four civil actions seeking contribution for remediation at offsite treatment, storage and disposal facilities (TSDs) or privately owned properties. We have also received notices of potential liability at fifteen other TSDs and are negotiating with Federal, State and private parties on the scope of our obligations (if any) in connection with remedies at these sites. In addition, there are eight sites with respect to which we received information requests but have denied liability and there has been no demand for payment (considered inactive). Our financial projection is established with respect to those sites where a financial demand is made or an allocation of financial liability is reasonably ascertainable.

Recently, we were notified of potential liabilities involving the Lower Passaic River Study Area in New Jersey and the Malone Superfund Site in Texas. We will be participating in the studies of these two sites to determine site remediation objectives, goals and technologies. Since the overall liability cannot be estimated at this time, we have set reserves for only the remedial investigation phase at the two sites.

We were also recently notified of our potential liability for remedial measures to be undertaken by the EPA at the Mobile Tank Wash Facility Superfund Site in Mobile, Alabama. Liability cannot be estimated at this time. We have asserted claims against the site owner (currently in bankruptcy) and the owner s insurers.

We have estimated expenditures for these other environmental matters to be in the range of $1.2 million to $4.1 million.

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 remediation sites and the allocation of costs among the potentially responsible parties under applicable statutes. As of December 31, 2004 and 2003, we had reserves in the amount of $25.6 million and $29.2 million, respectively for all environmental matters discussed above.

There can be no assurance that additional sites for which we are responsible will not be discovered, nor 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.

Table of Contents

REGULATION

As a motor carrier, we are subject to considerable regulation. There are additional regulations specifically relating to the tank truck industry, including specifications for and testing 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. United States regulatory and legislative changes 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 may include increasingly stringent environmental regulations, changes in the hours-of-service regulations which govern the amount of time a driver may drive in any specific period of time, 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.

The Federal Motor Carrier Act of 1980 served to increase competition among motor carriers and limit the level of regulation in the industry. The Federal Motor Carrier Act also enabled applicants to obtain Interstate Commerce Commission (ICC) operating authority more readily and allowed interstate motor carriers such as ourselves greater freedom to change rates each year without ICC approval. The law also removed many route and commodity restrictions on the transportation of freight. A series of federal acts, including the Negotiated Rates Act of 1993, the Trucking Industry Regulatory Reform Act of 1994 and the ICC Termination Act of 1995, further reduced regulation applicable to interstate operations of motor carriers such as ourselves, and resulted in transfer of interstate motor carrier registration responsibility to the Federal Highway Administration of the DOT. On February 13, 1998, the Federal Highway Administration published proposed new rules governing registration to operate by interstate motor carriers. During 1999, the Federal Motor Carrier Safety Improvement Act of 1999 took effect establishing the Federal Motor Carrier Safety Administration effective January 1, 2000. This agency s principal assignment is to regulate and maintain safety within the ranks of motor carriers.

Interstate motor carriers are subject to safety requirements prescribed by 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 testing of drivers. Alcohol testing rules were adopted by the DOT in February 1994 and became effective in January 1995 for employers with 50 or more drivers. These rules require certain tests for alcohol levels in drivers and other safety personnel.

Title VI of The Federal Aviation Administration Authorization Act of 1994, which became effective on January 1, 1995, largely deregulated intrastate transportation by motor carriers. This Act 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 in or have obtained the necessary certification to continue to operate in those states. In states in which we were not previously authorized to operate intrastate, we have obtained certificates or permits allowing us to operate.

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. We cannot predict whether, or in what form, any increase in such taxes applicable to us will be enacted.

SEASONALITY

Our business is subject to limited seasonality due to the cyclical nature of the business of our customers, with revenues generally declining slightly during winter months, and over holidays. Highway transportation is adversely affected by severe winter weather. 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 revenue equipment in colder months.

Table of Contents

ITEM 2. PROPERTIES

As of March 1, 2005, our facilities were in the following locations:

QCI OPERATED

- Hoquiam, WA
- Albany, NY *
- Appleton, WI
- Jonesboro, GA
- Augusta, GA
- Becancour, QCP
- Brunswick, GA
- Calvert City, KY
- Channelview, TX
- Charleston, SC *
- Chester, SC *
- Columbus, OH
- Gibraltar, MI
- Follansbee, WV
- Fort Worth, TX *
- Freeport, TX
- St. Gabriel, LA *
- Jonesboro, GA
- Kalamazoo, MI *
- Ludington, MI *
- Midland, MI *
- Montreal, PQ
- Newark, NJ *
- Oakville, ON
- Saginaw, MI
- Santa Fe Springs, CA
- Sarnia, ON
- South Gate, CA *
- St. Augustin, QC
- St. Louis, MO
- Summit, IL
- Tonawanda, NY *
- Waterford, NY

QSI OPERATED

- Albany, NY *
- Jonesboro, GA
- Augusta, GA *
- Barberton, OH *
- Baton Rouge, LA
- Branford, CT *
- Bridgeport, NJ *
- Charleston, SC
- Chattanooga, TN *
- Clute, TX *
- Friendly, WV *
- St. Gabriel, LA
- Houston, TX *
- Institute, WV *
- Kalamazoo, MI *
- Kent, WA *
- Lansing, IL
- Midland, MI *
- Newark, NJ *
- Rahway, NJ
- Rock Hill, SC *
- Salt Lake City, UT *
- Richmond, CA *
- Saraland, AL*
- Sarnia, ON *
- Garden City, GA *
- South Gate, CA *
- Fairforest, SC *
- Sulphur, LA
- Vancouver, WA
- Wilmington, NC *

TPI OPERATED

- East Rutherford, NJ *
- Essexville, MI *
- Greer, SC
- Greer, SC
- Laredo, TX
- Montreal, PQ
- Ozark, AR
- Palmer, MA *
- Port Arthur, TX *
- Saddle Brook, NJ

AFFILIATE OPERATED

- Augusta, GA
- Bainbridge, MD
- Elkridge, MD
- Barberton, OH *
- Beaumont, TX
- Bessemer, AL
- Bowling Green, OH
- Branford, CT *
- Bridgeport, NJ *
- Bristol, WI
- Butler, MO
- Carteret, NJ
- Caseyville, IL
- Charlotte, NC
- Channelview, TX**
- Channelview, TX*
- Channelview, TX
- Chattanooga, TN *
- Chattanooga, TN
- Cincinnati, OH ***
- Columbus, OH ***
- Coteau du Lac, QC *
- Danville, IL
- Decatur, AL
- Delaware, OH *
- Dumfries, VA
- Fairfield, OH
- Fairforest, SC
- Fall River, MA
- Florence, VT
- Saginaw, TX *
- Clute, TX *
- Garden City, GA
- Gary, IN
- Glennmoore, PA
- Greenville, TX
- Hagerstown, MD
- Institute, WV *
- Jacksonville, FL
- Johnstown, NY
- Joliet, IL
- Kansas City, KS
- Kansas City, MO
- Kelso, WA
- Kent, WA *
- Lansing, IL
- Lima, OH

AFFILIATE OPERATED

- Luling, LA
- Madison, MS
- Mediapolis, IA
- Memphis, TN *
- Memphis, TN
- Memphis, TN
- Mobile, AL *
- Modesto, CA
- Morgantown, WV
- Nazareth, PA *
- North Charleston, SC
- Pittsburg, PA
- Bristol, DE
- New Castle, DE
- New Castle, DE
- Niagara Falls, NY
- Cheasapeake, VA *
- North Bay, ON
- Port Arthur, TX
- Owensboro, KY
- Pasadena, TX
- Pasadena, TX
- Narrows, VA *
- Pocatello, ID
- Pocatello, ID **
- Portland, OR
- Richmond, CA *
- Roanoke, VA
- Salisbury, NC
- Salt Lake City, UT *
- Sarnia, ON ***
- South Point, OH ***
- South Point, OH
- South Gate, CA
- Springfield, MO
- St. Gabriel, LA *
- Sulphur, LA
- Tacoma, WA
- Tampa, FL
- Thorofare, NJ
- Torrance, CA
- Torrance, CA
- Tracy, CA
- Triadelphia, WV
- Tucker, GA
- Vancouver, WA
- Walbridge, OH

Lima, OH	Williamsport, PA *
Louisville, KY	Wilmington, NC *

* Indicates the terminal is owned by us and is unencumbered.
** QSI facility operated by affiliate.
*** TPI facility operated by affiliate.

Table of Contents

In addition to the properties listed above, we also own property in Croydon, PA; Syracuse, NY; Downingtown, PA; Detroit, MI; Greensboro, NC; Lexington, NC; Chesnee, SC; Houston, TX; Oyster Creek, TX; Parker, PA and Hartford, WI. Our executive and administrative offices are leased and are located in Tampa, Florida.

ITEM 3. LEGAL PROCEEDINGS

On February 24, 2004, a putative class action lawsuit titled, *Meigs v. Quality Distribution, Inc., et al.*, was filed in the United States District Court for the Middle District of Florida, Tampa Division, against QDI, Thomas L. Finkbiner, QDI s President, Chief Executive Officer and Chairman of the Board, and Samuel M. Hensley, QDI s former Senior Vice President and Chief Financial Officer. The plaintiff purports to represent a class of purchasers of QDI s common stock traceable to its November 2003 initial public offering. The complaint alleges that, in connection with the IPO, QDI filed a registration statement with the SEC that incorporated a materially false or misleading prospectus. Specifically, the complaint alleges that the prospectus materially overstated QDI s financial results for the years ended December 31, 2001, December 31, 2002, and the nine months ended September 30, 2003. In addition, the complaint alleges that these financial statements were not prepared consistently with generally accepted accounting principles. Accordingly, it asserts claims (and seeks unspecified damages) against all defendants based on the alleged violations of Section 11 of the Securities Act of 1933 and against Mr. Finkbiner and Mr. Hensley as control persons, under the Securities Act s Section 15 by virtue of their positions at QDI.

On May 11, 2004, the Court consolidated *Meigs* with a substantially identical action titled *Cochran v. Quality Distribution, Inc.*, also pending in the United States District Court for the Middle District of Florida. On June 28, 2004, the Court appointed Jemmco Investment Management LLC as lead plaintiff under the Private Securities Litigation Reform Act of 1995.

A second suit, *Steamfitters Local 449 Pension & Retirement Security Funds v. Quality Distribution, Inc., et al.*, was filed in the Circuit Court for the Thirteenth Judicial Circuit in and for Hillsborough County, Florida, on March 26, 2004. In addition to QDI, Mr. Finkbiner and Mr. Hensley, the suit names as defendants the other signatories to the registration statement, namely QDI directors Anthony R. Ignaczak, Joshua J. Harris, Michael D. Weiner, Marc J. Rowan, Marc E. Becker, and Donald C. Orris, and three of QDI s IPO underwriters, Credit Suisse First Boston LLC, Bear, Stearns & Co. Inc., and Deutsche Bank Securities Inc. The *Steamfitters* complaint alleges substantially identical facts to those in the *Meigs* complaint and also includes the same claims, plus an additional claim for rescission or damages based on an alleged violation of Section 12 of the Securities Act.

The actions allegations stem from the disclosures in a Form 8-K that QDI filed on February 2, 2004, stating that QDI had discovered irregularities at Power Purchasing, Inc., a non-core subsidiary that, through its subsidiary, American Transinsurance Group, Inc. (collectively, PPI), primarily assisted independent contractors in obtaining various lines of insurance, for which PPI derived fees as an insurance broker.

On July 14, 2004, QDI s Board of Directors received a letter from a putative QDI shareholder demanding that we take steps to remedy alleged mismanagement, breach of fiduciary duty, and corporate waste arising from the PPI irregularities. The letter also demanded that we file a professional malpractice suit against our outside independent registered certified public accounting firm, PricewaterhouseCoopers LLP. By letter dated July 21, 2004, we requested certain information from the putative shareholder and have not received a response. We are conducting an investigation of the matters that are the subject of the July 14, 2004 letter.

On January 18, 2005, QDI signed Memoranda of Understanding to settle *Meigs* and *Steamfitters* and resolve the derivative demand. In exchange for broad releases from all claims that were or could have been asserted by shareholders in respect of QDI stock acquisitions, ownership or sales, and to eliminate the burden and expense of further litigation, QDI and its primary directors and officers liability insurer, on behalf of all defendants, agreed to pay the putative class $8.15 million, of which $5.875 million would be paid directly by the insurer and the remaining $2.275 million by QDI. QDI also agreed to pay the *Steamfitters* plaintiff s attorneys fees in an

Table of Contents

amount not to exceed $0.6 million. The *Meigs* and *Steamfitters* plaintiffs, together with the putative QDI shareholder who sent the July 14, 2004 demand letter, have conducted discovery to confirm the settlement amount s fairness and expect to sign formal stipulations of settlement and to submit the settlements for the federal and state courts approval.

During the fourth quarter of 2004, QDI recorded a pre-tax charge of $2.9 million to reflect the settlements.

The settlements remain contingent on several factors, including completing and executing formal stipulations of settlement and approval by the state and federal courts. No aspect of the settlements constitutes an admission or finding of wrongful conduct, acts, or omissions. There can be no assurance that failure to approve the settlement will not have a material adverse effect on us.

In response to our voluntary disclosure to SEC officials and various state government authorities and regulators in February 2004 concerning the irregularities at PPI, the SEC and certain state government regulators are conducting informal inquiries into those irregularities. While no formal regulatory or governmental investigation into the PPI irregularities has been initiated, it is possible that state and federal regulatory or governmental authorities could begin such a formal investigation. The final outcome of the informal inquiries or any formal investigation that may be initiated (by the SEC or other regulatory or governmental authority) is impossible to determine at this time.

On May 13, 2004, a complaint styled *Quality Food Grade Carriers, Inc., et al. v. Quality Carriers, Inc., et al.,* Case No. 04-4515-B, was filed in the Circuit Court for Hillsborough County, Florida, naming as defendants, QCI, our wholly owned subsidiary, and Thomas L. Finkbiner, QCI s President and Chief Executive Officer. On November 22, 2004, plaintiffs served a third amended complaint naming only QCI as a defendant alleging, among other things, that QCI breached a Fuel Consulting and Management Agreement with Quality Fuel Control, Inc. The third amended complaint seeks unspecified damages exceeding $15 thousand. QCI is preparing its response to the third amended complaint. We believe that the plaintiffs allegations are without merit, and we intend to contest the action vigorously. The action is at an early stage, and it is therefore impossible to determine the likelihood of any outcome or the amount or range of any loss or possible loss, if any.

On October 21, 2004, a complaint styled *Quality Food Grade Carriers, Inc., et al. v. Leon Black, et al.,* Case No. 04-9491-A, was filed in the Circuit Court for Hillsborough County, Florida, naming as defendants QCI, Leon Black, and Apollo Management, L.P. On October 26, 2004, Plaintiffs filed an amended complaint adding QDI as a defendant and alleging, among other things, that defendants fraudulently induced the last of a series of agreements with plaintiffs to pursue jointly a food transportation business. The amended complaint seeks unspecified damages exceeding $15 thousand. On November 18, 2004 QDI and QCI served their motion for attorney s fees pursuant to section 57.105, Florida Statutes, and on December 16, 2004, QDI and QCI filed their motion to dismiss plaintiffs amended complaint. Pursuant to a previously announced agreement between the parties, on January 14, 2005, Plaintiffs dismissed the action with prejudice and QDI and QCI did not seek sanctions against plaintiffs and their counsel on QDI s and QCI s motion pursuant to section 57.105, Florida Statutes.

On October 21, 2004, a complaint styled *Quality Food Grade Carriers, Inc., et al. v. Tropicana Products, Inc., et al.,* Case No. 53-2004CA-004215, was filed in the Circuit Court for Polk County, Florida, naming as defendants, among others, certain customers of QCI. The complaint alleges, among other things, that defendants interfered with plaintiffs agreement with QCI to lease certain trucks and trailers, and seeks unspecified damages exceeding $15 thousand. We and QCI agreed to indemnify certain defendants in the action. On October 26, 2004, QCI, as indemnitor of certain named defendants, served its motion for attorney s fees pursuant to section 57.105, Florida Statutes, and thereafter QDI and QCI through counsel filed motions to dismiss plaintiffs complaint on behalf of certain named defendants. Pursuant to a previously announced agreement between the parties, on January 19, 2005, Plaintiffs dismissed the action with prejudice and QCI did not seek sanctions against plaintiffs and their counsel on QCI s motion pursuant to section 57.105, Florida Statutes.

Table of Contents

On October 27, 2004, QDI and QCI, filed a complaint styled Quality Distribution, Inc. and Quality Carriers, Inc. v. Stephen Douglas Vaughan, Quality Food Grade Carriers, Inc., and Quality Fuel Control, Inc., Adversary Proceeding No. 04-0687, in the United States Bankruptcy Court for the Middle District of Florida, Tampa Division. The complaint alleges claims for injunctive relief, tortious interference, defamation, and extortion under Florida s Civil Remedies for Criminal Practices Act. On November 17, 2004, the Bankruptcy Court entered its order granting QDI s and QCI s motion for preliminary injunction enjoining, among others, Stephen Douglas Vaughan, Quality Food Grade Carriers, Inc. and Quality Fuel Control, Inc., from making or otherwise publishing false and defamatory statements regarding QDI and QCI, their customers and shareholders, interfering with QDI and QCI, their customers and business relationships, and threatening QDI and QCI, their customers and shareholders. The Bankruptcy Court scheduled the trial of the action for March 7, 2005. Pursuant to a previously announced agreement between the parties, on February 16, 2005, the Bankruptcy Court entered a final judgment awarding permanent injunctive relief, enjoining, among others, Stephen Douglas Vaughan, Quality Food Grade Carriers, Inc. and Quality Fuel Control, Inc., from making or otherwise publishing false and defamatory statements regarding QDI and QCI, their customers and shareholders, interfering with QDI and QCI, their customers and business relationships, and threatening QDI and QCI, their customers and shareholders. Pursuant to the agreement, we will dismiss the remaining claims in the action without prejudice.

In addition to the above lawsuits and those items disclosed under Note 20 to our consolidated financial statements contained herein, Commitments and Contingencies Environmental Matters, we are from time to time involved in routine litigation incidental to the conduct of our business. We believe that no such routine litigation currently pending against us or QDI, 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 2004.

EXECUTIVE OFFICERS OF THE REGISTRANT

Our executive officers, as of March 1, 2005 are as follows:

Name	Age	Position
Thomas L. Finkbiner	52	Chairman of the Board, President and Chief Executive Officer
Gary Enzor	42	Executive Vice President and Chief Operating Officer
Timothy B. Page	52	Senior Vice President and Chief Financial Officer
Virgil T. Leslie	50	Executive Vice President Sales
Dennis R. Copeland	55	Senior Vice President Administration
Robert J. Millstone	61	Senior Vice President, General Counsel and Secretary

Thomas L. Finkbiner has been employed by QDI since November 1999 as its President and Chief Executive Officer, and he has been a director of QDI since March 2000. Since May 14, 2002, Mr. Finkbiner has also served as President, Chief Executive Officer, and a member of the Board of Managers of Quality Distribution, LLC, and he became Chairman of Quality Distribution, LLC s on June 19, 2002. Prior to his employment by QDI, he was Vice President, Intermodal for Norfolk Southern Corporation from 1987-1999, Vice President of Marketing and Administration and Vice President of Sales for North American Van Lines (then an operating subsidiary of Norfolk Southern) from 1981-1987. Prior to these positions he held various sales and management positions with Airborne Freight Corporation and Roadway Express, Inc. from 1976-1981. Mr. Finkbiner serves as Chairman of the Board of Directors for Intermodal Transportation Institute, University of Denver. He is a director of Pacer

International, Inc.

Gary R. Enzor joined QDI in December 2004 as Executive Vice President and Chief Operating Officer. Mr. Enzor also serves as Executive Vice President and Chief Operating Officer of Quality Distribution, LLC

Table of Contents

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 from 1999 to 2001 in finance and as the General Manager of Dell s Higher Education business and from 1984 to 1999 at AlliedSignal in increasingly responsible information technology roles, and as chief financial officer and business development executive for various businesses.

Timothy B. Page joined QDI in December 2004 as Senior Vice President and Chief Financial Officer. Mr. Page also serves as Senior Vice President and Chief Financial Officer of Quality Distribution, LLC. 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.

Virgil T. Leslie joined QDI in April 2000 and serves as Executive Vice President of Sales of Quality Distribution, LLC. 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.

Dennis R. Copeland serves as QDI s Senior Vice President-Administration. Mr. Copeland also serves as Senior Vice President Administration of Quality Distribution, LLC. Mr. Copeland joined QDI in 1998 in connection with the acquisition of Chemical Leaman Corporation, 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 Chemical Leaman Corporation. Prior to that time, he held various management positions with Lukens Steel Company.

Robert J. Millstone joined QDI in September 2004 as Senior Vice President, General Counsel and Secretary. Mr. Millstone also serves as Senior Vice President, General Counsel and Secretary of Quality Distribution, LLC. Prior to his employment with QDI, Mr. Millstone served as Senior Vice President and General Counsel of Philip Services Corporation, an industrial outsourcing, byproducts recovery and metals recycling company since 2000. From 1998 to 2000, Mr. Millstone served as Vice President, General Counsel and Corporate Secretary for Lyondell Chemical Company and prior to that for ARCO Chemical Company.

Table of Contents

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER S PURCHASES OF EQUITY SECURITIES

Our common stock is listed and traded on The Nasdaq Stock Market s National Market (NASDAQ) under the symbol QLTY. The following table sets forth, the per share range of high and low bid information of our common stock as reported on NASDAQ since our initial public offering on November 5, 2003. Such quotations reflect inter-dealer prices, without retail markups, markdowns or commissions, and, therefore, may not represent actual transactions.

	Common Stock	
	High	Low
2004		
1st quarter	$ 20.50	$ 13.05
2nd quarter	15.59	6.97
3rd quarter	12.42	4.50
4th quarter	9.25	4.85
2003		
4th quarter	$ 20.36	$ 16.40

As of March 1, 2005, there were approximately 111 record holders 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. In addition, our ability to pay cash dividends is currently restricted under the terms of Quality Distribution, LLC s (QD LLC) credit agreement and the indentures governing QD LLC s senior floating rate notes and senior subordinated notes. Future dividends, if any, will be determined by our board of directors.

RECENT SALES OF SECURITIES

During fiscal year 2004, we issued 50,636 shares of restricted shares as compensation to various members of our management at a stock price ranging from $5.15 to $8.45. See Note 19 to the Consolidated Financial Statements.

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 and balance sheet data set forth below for the fiscal years ended December 31, 2004, 2003 and 2002 and the historical balance sheet data as of December 31, 2004 and 2003 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, 2001 and 2000 and the historical balance sheet data as of December 31, 2002, 2001 and 2000 are derived from our audited financial statements that are not included in this report.

	YEAR ENDED DECEMBER 31				
	2004	2003	2002	2001	2000
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)				
Statements of Operation Data					
Operating revenues	$ 622,015	$ 565,440	$ 516,760	$ 509,522	$ 555,816
Operating expenses:					
Purchased transportation (1)	420,565	360,303	301,921	298,688	320,943
Depreciation and amortization (2)	22,493	28,509	31,823	33,410	35,281
Other operating expenses	163,893	157,834	160,618	152,431	170,591
Operating income (3)	15,064	18,794	22,398	24,993	29,001
Interest expense, net					