

QUALITY DISTRIBUTION INC
Form 10-K
March 31, 2005
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

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

For the fiscal year ended December 31, 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

59-3239073

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(State or other jurisdiction of
incorporation or organization)

(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:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
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 NO

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes 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

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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

TABLE OF CONTENTS

<u>INTRODUCTION</u>	1
<u>FORWARD-LOOKING STATEMENTS AND CERTAIN CONSIDERATIONS</u>	1
<u>ADDITIONAL INFORMATION AVAILABLE ON COMPANY WEB-SITE</u>	6
<u>PART I</u>	6
ITEM 1. <u>BUSINESS</u>	6
ITEM 2. <u>PROPERTIES</u>	17
ITEM 3. <u>LEGAL PROCEEDINGS</u>	18
ITEM 4. <u>SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u>	20
<u>PART II</u>	21
ITEM 5. <u>MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER'S PURCHASES OF EQUITY SECURITIES</u>	21
ITEM 6. <u>SELECTED FINANCIAL DATA</u>	21
ITEM 7. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	24
ITEM 7A. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	37
ITEM 8. <u>FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>	38
ITEM 9. <u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	38
ITEM 9A. <u>CONTROLS AND PROCEDURES</u>	38
ITEM 9B. <u>OTHER INFORMATION</u>	40
<u>PART III</u>	40
ITEM 10. <u>DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT</u>	40
ITEM 11. <u>EXECUTIVE COMPENSATION</u>	41
ITEM 12. <u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT</u>	41
ITEM 13. <u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</u>	41
ITEM 14. <u>PRINCIPAL ACCOUNTING FEES AND SERVICES</u>	41
<u>PART IV</u>	42
ITEM 15. <u>EXHIBITS, FINANCIAL STATEMENT SCHEDULES</u>	42
<u>SIGNATURES</u>	43
<u>REPORT OF INDEPENDENT REGISTERED CERTIFIED PUBLIC ACCOUNTANTS</u>	F - 2
<u>CONSOLIDATED STATEMENTS OF OPERATIONS</u>	F - 3
<u>CONSOLIDATED BALANCE SHEETS</u>	F - 4
<u>CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT AND COMPREHENSIVE LOSS</u>	F - 5
<u>CONSOLIDATED STATEMENTS OF CASH FLOWS</u>	F - 6

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, could, seeks, plans, intends, anticipates or scheduled to or the negatives of those terms, or other variations of those terms or comparable language, or 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,

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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.

Table of Contents

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.

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

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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.

Table of Contents

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.

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.

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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.

Table of Contents

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.

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

Table of Contents

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.

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.

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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

Table of Contents

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 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.

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.

Table of Contents

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.

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.

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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.

Table of Contents

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 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.

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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.

Table of Contents

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.

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

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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.

Table of Contents

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)	GREATER						TOTAL
	LESS THAN	3 ~ 5	6 ~ 10	11 ~ 15	16 ~ 20	THAN	
	3 YEARS	YEARS	YEARS	YEARS	YEARS	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)	GREATER						TOTAL
	LESS THAN	3 ~ 5	6 ~ 10	11 ~ 15	16 ~ 20	THAN	
	3 YEARS	YEARS	YEARS	YEARS	YEARS	20 YEARS	
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

- (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

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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.

Table of Contents

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 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

Table of Contents

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 injection (in-situ treatment) previously described as part of OU1. The environmental projections for OU1 and OU2

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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

Table of Contents

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.

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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.

Table of Contents

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.

REGULATION

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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.

Table of Contents

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	QSI OPERATED	AFFILIATE OPERATED	AFFILIATE OPERATED
Hoquiam, WA	Albany, NY *	Augusta, GA	Luling, LA
Albany, NY *	Jonesboro, GA	Bainbridge, MD	Madison, MS
Appleton, WI	Augusta, GA *	Elkridge, MD	Mediapolis, IA
Jonesboro, GA	Barberton, OH *	Barberton, OH *	Memphis, TN *
Augusta, GA	Baton Rouge, LA	Beaumont, TX	Memphis, TN
Becancour, QCP	Branford, CT *	Bessemer, AL	Memphis, TN
Brunswick, GA	Bridgeport, NJ *	Bowling Green, OH	Mobile, AL *
Calvert City, KY	Charleston, SC	Branford, CT *	Modesto, CA
Channelview, TX	Chattanooga, TN *	Bridgeport, NJ *	Morgantown, WV
Charleston, SC *	Clute, TX *	Bristol, WI	Nazareth, PA *
Chester, SC *	Friendly, WV *	Butler, MO	North Charleston, SC
Columbus, OH	St. Gabriel, LA	Carteret, NJ	Pittsburg, PA
Gibraltar, MI	Houston, TX *	Caseyville, IL	Bristol, DE
Follansbee, WV	Institute, WV *	Charlotte, NC	New Castle, DE
Fort Worth, TX *	Kalamazoo, MI *	Channelview, TX**	New Castle, DE
Freeport, TX	Kent, WA *	Channelview, TX*	Niagara Falls, NY
St. Gabriel, LA *	Lansing, IL	Channelview, TX	Cheasapeake, VA *
Jonesboro, GA	Midland, MI *	Chattanooga, TN *	North Bay, ON
Kalamazoo, MI *	Newark, NJ *	Chattanooga, TN	Port Arthur, TX
Ludington, MI *	Rahway, NJ	Cincinnati, OH ***	Owensboro, KY
Midland, MI *	Rock Hill, SC *	Columbus, OH ***	Pasadena, TX
Montreal, PQ	Salt Lake City, UT *	Coteau du Lac, QC *	Pasadena, TX
Newark, NJ *	Richmond, CA *	Danville, IL	Narrows, VA *
Oakville, ON	Saraland, AL*	Decatur, AL	Pocatello, ID
Saginaw, MI	Sarnia, ON *	Delaware, OH *	Pocatello, ID **
Santa Fe Springs, CA	Garden City, GA *	Dumfries, VA	Portland, OR
Sarnia, ON	South Gate, CA *	Fairfield, OH	Richmond, CA *
South Gate, CA *	Fairforest, SC *	Fairforest, SC	Roanoke, VA
St. Augustin, QC	Sulphur, LA	Fall River, MA	Salisbury, NC
St. Louis, MO	Vancouver, WA	Florence, VT	Salt Lake City, UT *
Summit, IL	Wilmington, NC *	Saginaw, TX *	Sarnia, ON ***
Tonawanda, NY *		Clute, TX *	South Point, OH ***
Waterford, NY		Garden City, GA	South Point, OH
	TPI OPERATED	Gary, IN	South Gate, CA
	East Rutherford, NJ *	Glennmoore, PA	Springfield, MO
	Essexville, MI *	Greenville, TX	St. Gabriel, LA *
	Greer, SC	Hagerstown, MD	Sulphur, LA
	Greer, SC	Institute, WV *	Tacoma, WA
	Laredo, TX	Jacksonville, FL	Tampa, FL
	Montreal, PQ	Johnstown, NY	Thorofare, NJ
	Ozark, AR	Joliet, IL	Torrance, CA
	Palmer, MA *	Kansas City, KS	Torrance, CA
	Port Arthur, TX *	Kansas City, MO	Tracy, CA
	Saddle Brook, NJ	Kelso, WA	Triadelphia, WV
		Kent, WA *	Tucker, GA
		Lansing, IL	Vancouver, WA
		Lima, OH	Walbridge, OH

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Lima, OH
Louisville, KY

Williamsport, PA *
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

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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 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

Table of Contents

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.

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

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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.

Table of Contents**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:

<u>Name</u>	<u>Age</u>	<u>Position</u>
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 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. 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.

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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		
1 st quarter	\$ 20.50	\$ 13.05
2 nd quarter	15.59	6.97
3 rd quarter	12.42	4.50
4 th quarter	9.25	4.85
2003		
4 th 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.

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.

Table of Contents

	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	22,343	29,984	33,970	40,389	40,605
Transaction fees		700	10,077		
Interest expense, preferred stock conversion		59,395			
Gain on debt extinguishment		(4,733)			
Other expense (income)	857	649	6	(143)	(393)
Loss before taxes	(8,136)	(67,201)	(21,655)	(15,253)	(11,211)
Provision (benefit) for income taxes (4)	2,421	(99)	1,443	1,135	31,225
Loss from continuing operations, before discontinued operations and cumulative change in accounting principle	(10,557)	(67,102)	(23,098)	(16,388)	(42,436)
Income (loss) from discontinued operations, net of tax			(2,913)	(359)	56
Cumulative effect of a change in accounting principle (5)			(23,985)		
Net loss	(10,557)	(67,102)	(49,996)	(16,747)	(42,380)
Preferred stock dividends and accretions	(145)	(4,540)	(6,021)	(2,762)	(1,745)
Net loss attributable to common stockholders	\$ (10,702)	\$ (71,642)	\$ (56,017)	\$ (19,509)	\$ (44,125)
Loss from continuing operations per share (6)					
Basic	\$ (0.57)	\$ (12.51)	\$ (8.64)	\$ (5.59)	\$ (12.89)
Diluted	(0.57)	(12.51)	(8.64)	(5.59)	(12.89)
Weighted average common shares outstanding					
Basic	18,910,000	5,729,000	3,369,000	3,422,000	3,427,000
Diluted	18,910,000	5,729,000	3,369,000	3,422,000	3,427,000

Table of Contents

	YEAR ENDED DECEMBER 31				
	2004	2003	2002	2001	2000
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)					
Other Data					
Net cash provided by operating activities	\$ 15,467	\$ 17,349	\$ 25,832	\$ 7,468	\$ 41,282
Net cash used in investing activities	(7,603)	(12,381)	(7,169)	(34,936)	(18,721)
Net cash (used in) provided by financing activities	(6,070)	(4,733)	(19,998)	27,263	(20,171)
Number of terminals at end of period	166	164	153	148	152
Number of trailers operated at end of period	7,377	8,253	7,565	7,737	7,526
Number of tractors operated at end of period	3,550	3,473	3,363	3,394	3,491
Balance Sheet Data at Period End:					
Working capital	\$ 12,424	\$ 7,748	\$ 13,804	\$ 32,482	\$ 37,223
Total assets	379,298	374,379	381,586	445,243	452,480
Total indebtedness, including current maturities	276,550	279,509	397,613	443,856	416,939
Redeemable securities (7)			62,675	17,092	15,092
Cash dividends declared (and paid) per common share					
Stockholders' deficit	(34,100)	(20,671)	(200,709)	(140,152)	(112,264)

- (1) Does not include purchased transportation from discontinued operations of \$1.4 million and \$1.7 million in 2001 and 2000, respectively.
- (2) Does not include depreciation and amortization from discontinued operations of \$1.7 million and \$1.8 million in 2001 and 2000, respectively.
- (3) For the years ended December 31, 2003, 2002, 2001 and 2000, operating income includes charges of \$3.0 million, \$4.1 million, \$3.4 million and \$9.9 million, respectively, relating to expenses or losses attributable to our operations prior to the 1998 acquisition of CLC for insurance claims and restructuring charges.
- (4) The provision for income taxes for the year ended December 31, 2000 includes the establishment of a valuation reserve of \$32.6 million, which was a non-cash charge.
- (5) Adoption of SFAS Statement 142, Goodwill and Other Intangible Assets, resulted in a \$24.0 million non-cash impairment loss related to goodwill as a cumulative effect of a change in accounting principle.
- (6) Loss from continuing operations per share and weighted average common shares outstanding for all periods presented gives effect to the 1.7 for 1 stock split effected on November 4, 2003.
- (7) Redeemable securities of QDI on a consolidated basis consisted of \$51.0 million of mandatorily redeemable preferred stock and accrued dividends on this stock of \$11.9 million at December 31, 2002 and are net of \$0.2 million in shareholder loans.

Table of Contents

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

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

OVERVIEW

We operate the largest dedicated bulk tank truck network in North America based on bulk service revenues, and we believe we have more than twice the revenues of our closest competitor in our primary chemical bulk transport market in the U.S. The bulk tank truck market in North America includes all 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.

Following the merger in 1998 of our predecessor companies, Chemical Leaman Corporation (CLC) and Montgomery Tank Lines (MTL), we began assembling a management team to guide the integration of CLC and MTL and position us for profitable future growth. Our management team undertook several major initiatives designed to enhance our operating flexibility, upgrade and standardize our business processes, improve our customer service and increase our profitability as reflected in our revenue growth from \$565.4 million in 2003 to \$622.0 million in 2004.

We significantly expanded the use of affiliate terminals and owner-operator drivers in our transformation to a more light-asset based business model. Revenues from our affiliate partners and owner-operator drivers accounted for 92.3%, 90.6% and 87.2% of our transportation revenues in 2004, 2003 and 2002, respectively.

We installed a new order entry, dispatch and billing system, a new decision-support system and a new mobile satellite communication system.

We established new standard operating procedures for customer service and safety and implemented a new field operating structure.

We added several terminals and tank wash facilities in strategic locations to fill out our core bulk network.

We began offering additional complementary, value-added services that offer attractive growth potential, including intermodal services and third-party logistics.

We implemented a new yield management system and other profit improvement initiatives.

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We sold a non-core petroleum and mining trucking business, as well as the assets for the glass trucking business of Levy Transport, Ltd.

We sold certain assets of PPI.

We have strengthened our senior management team in 2004, including adding a new chief operating officer, chief financial officer and general counsel.

We have realized, and believe that we will continue to realize, significant additional financial benefits from these and other strategic initiatives.

Our revenue is principally a function of the volume of shipments by the bulk chemical industry, our market share, and the amount spent on tank truck transportation as opposed to other modes of transportation such as rail. The volume of shipments of chemical products are, in turn, affected by many other industries, including consumer and industrial products,

Table of Contents

automotive, paint and coatings, and paper, and tend to vary with changing economic conditions. Additionally, we also provide leasing, tank cleaning, transloading and warehousing, which are presented as other service revenue. We also broker insurance products for drivers and affiliates through an independent third party.

The principal components of our operating costs include purchased transportation, salaries, wages, benefits, annual tractor and trailer maintenance costs, insurance, technology infrastructure and fuel costs. We believe our use of affiliates and owner-operators provides a more flexible cost structure, increases our asset utilization and increases our return on invested capital. The expanded use of affiliates and owner-operator drivers results in a more variable operating cost business since affiliates and owner-operators are paid fixed, contracted percentages of revenue, which affords us some protection against a business decline and lower pricing. We believe that the entrepreneurial nature of our affiliate and owner-operator model enables us to achieve higher productivity and better cost control on an overall basis when compared to company-owned operations.

We have historically focused on maximizing cash flow and return on invested capital. Our affiliate program has greatly reduced the amount of capital needed for us to maintain and grow our terminal network. In addition, the extensive use of owner-operators reduces the amount of capital needed to operate our fleet of tractors, which have shorter economic lives than trailers.

We believe the most significant factors to achieving future business growth are the ability to (a) recruit and retain drivers, especially given the new hours-of-service regulations effective during 2004, (b) add new affiliates, and (c) further expand our existing network by adding new customers and obtaining additional business from existing customers. Since the end of 2002, we have added ten new affiliates that manage 15 terminals. Excluding the converted company terminals, these new affiliates provided incremental revenues of \$20.4 million for the twelve months ended December 31, 2004.

On November 13, 2003, we consummated our initial public offering of 7,875,000 shares of our common stock at \$17.00 per share. On this date, we sold an additional 25,000 shares of common stock to an existing shareholder for \$11.63 per share as a result of the exercise of his preemptive rights in connection with the conversion of our 13.75% Mandatorily Redeemable Preferred Stock (Redeemable Preferred Stock) to common stock. Our subsidiary, QD LLC concurrently consummated (a) the private offering of \$125 million aggregate principal amount of the 9% Senior Subordinated Notes, and (b) the entry into the credit facility consisting of a \$140 million delayed draw term loan facility, a \$75.0 million revolving credit facility, and a \$20.0 million pre-funded letter of credit facility. We utilized the proceeds from these transactions to repay all of our previous debt, except for \$7.5 million of floating interest rate notes, our \$5.0 million overdraft line of credit facility, and our outstanding capital leases. During 2004 and going forward, we expect our interest expense to decrease from historical levels due to the reduction of outstanding debt and the reduction of interest rates from the previously outstanding debt. We believe that our capital structure provides us the flexibility necessary to continue expanding our scope of service capabilities, providing us the ability to be a full-service provider to companies looking to outsource their logistics needs.

On July 13, 2004, we sold certain assets of PPI including accounts, customer lists and insurance contracts. These assets were related to the business of offering insurance to individuals who are not owner-operators, affiliates and fleet owners doing business regularly with us (QDI Persons). The sales price was \$0.6 million with \$0.5 million paid at closing and the remaining \$0.1 million to be paid in equal monthly installments over twelve months. We may receive an additional amount of up to \$0.4 million in September of 2006 based on the excess of the buyer's annual revenues from this business, as defined in the sales agreement, over \$0.5 million. We recorded a loss of \$0.2 million related to this transaction in the third quarter of 2004.

For the retained business, which encompasses the on-going transactions with QDI Persons, we entered into a three-year outsourcing agreement whereby the outside insurance brokerage company provides the administrative responsibilities for insurance-related services offered to QDI Persons. We receive a percentage of certain commissions, underwriting profits, administrative and other defined revenues related to the

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outsourced administrative responsibilities for insurance-related services. We are retaining certain assets and liabilities of PPI including the reserves established on the uninsured policies identified during the investigation of irregularities at PPI.

Additionally, on August 15, 2004, we sold our orange juice transportation operations. On August 30, 2004, we sold certain assets, primarily tractors and trailers related to the glass transportation business of Levy Transport, Ltd., for \$1.5 million. We recorded a loss of \$1.1 million on the sale of these assets, as well as additional tax expense of \$0.5 million in the third quarter of 2004.

Table of Contents

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Property and Equipment - Property and equipment expenditures, including tractor and trailer rebuilds that extend the useful lives of such equipment, are capitalized and recorded at cost. For financial statement purposes, these assets are depreciated using the straight-line method over the estimated useful lives of the assets to an estimated salvage value. Annual depreciable lives are 10-25 years for buildings and improvements, 5-15 years for tractors and trailers, 7 years for terminal equipment, 3-5 years for furniture and fixtures and 3-10 years for other equipment. Tractor and trailer rebuilds, which are recurring in nature and extend the lives of the related assets, are capitalized and depreciated over the period of extension, generally 5 to 10 years, based on the type and extent of these rebuilds. Maintenance and repairs are charged directly to expense as incurred. Management estimates the useful lives of these assets based on historical trends and the age of the assets when placed in service, and any changes in the actual lives could result in material changes in the net book value of these assets. Additionally, we estimate the salvage values of these assets based on historical sales of disposals, and any changes in the actual salvage values could also affect the net book value of these assets.

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

Goodwill Goodwill and other intangibles are reviewed for impairment annually and whenever events or circumstances indicate that the book value of the asset may not be recoverable. We periodically evaluate whether events or circumstances indicate possible impairment. We identified three reporting units: transportation operations, insurance operations and Mexican operations. We allocated goodwill to the transportation operation as it principally resulted from the acquisition of CLC in 1998. If the fair value of the reporting unit is less than its carrying amount, an impairment loss is recorded to the extent the carrying amount of the goodwill within the reporting unit is greater than the implied fair value of goodwill. We performed our annual assessment during the second quarter of 2004. We used a combination of discounted cash flows and valuation of our capital structure to estimate the fair value. Projections for future cash flows were based on our recent operating trends. If actual cash flows turn out to be significantly less than projections, then the impairment analysis could change, possibly resulting in future impairment charges.

Deferred tax assets We use the liability method of accounting for income taxes. If, on the basis of available evidence, it is more likely than not that all or a portion of the deferred tax asset will not be realized, the asset must be reduced by a valuation allowance. Since realization is not assured as of December 31, 2004, management has deemed it appropriate to establish a valuation allowance against the net deferred tax assets. Any change in the actual future results of operations could impact the valuation of the net deferred tax asset.

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

Accident claims reserves We currently maintain liability insurance for bodily injury and property damage claims, covering all employees, owner-operators and affiliates, and workers' compensation insurance coverage on our employees and company drivers. This insurance includes deductibles of \$5 million per incident for property damage and \$1 million for workers' compensation for periods after September 15, 2002. As such, we are subject to liability as a self-insurer to the extent of these deductibles under the policy. We are self-insured for damage to the equipment we own or lease, for cargo losses, and for pollution legal liability. In developing liability reserves, we rely on professional third party claims administrators, insurance company estimates and the judgment of our own safety department personnel, and independent professional actuaries and attorneys. The most significant assumptions used in the estimation process include determining the trends in loss costs, the expected consistency in the frequency and severity of claims incurred but not yet reported to prior year claims and expected costs to settle unpaid claims. Management believes reserves are reasonable given known information, but as each case develops, estimates may change to reflect the effect of new information.

Table of Contents

Revenue recognition Transportation revenues, including fuel surcharges, and related costs are recognized on the date the freight is delivered. Other service revenues, consisting primarily of lease revenues from affiliates, owner-operators and third parties, are recognized ratably over the lease period. Tank wash revenues are recognized when the wash is performed. Insurance brokerage revenues are recorded as a contractual percentage of premiums received ratably over the period that the insurance covers. As a result of the irregularities at PPI, we have recognized all revenues, including the premiums for the insurance policies that were not renewed with third-party insurance carriers in connection with the restatement at PPI, on a gross basis as the principal and primary obligor with risk of loss in relation to our responsibility for completion of services as contracted by our customers.

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

Pension Plans We maintain two noncontributory defined-benefit plans resulting from a prior acquisition that cover certain full-time salaried employees and certain other employees under a collective bargaining agreement. Both plans are frozen and, as such, no future benefits accrue. We record annual amounts relating to these plans based on calculations specified by generally accepted accounting principles, which include various actuarial assumptions such as discount rates (5.5%) and assumed rates of return (7.50%). Material changes in pension costs may occur in the future due to changes in these assumptions. Future annual amounts could be impacted by changes in the discount rate, changes in the expected long-term rate of return, changes in the level of contributions to the plans and other factors.

The discount rate is based on a model portfolio of AA rated bonds with a maturity matched to the estimated payouts of future pension benefits. The expected return on plan assets is based on our expectation of the long-term rates of return on each asset class based on the current asset mix of the funds, considering the historical returns earned on the type of assets in the funds, plus an assumption of future inflation. The current investment policy target asset allocation is 60% equities and 40% bonds, and the current inflation assumption is 2.5%. We review our actuarial assumptions on an annual basis and make modifications to the assumptions based on current rates and trends when appropriate. As required by GAAP in the United States, the effects of the modifications are amortized over future periods. Based on the information provided by our independent actuaries and other relevant sources, we believe that the assumptions used are reasonable.

NEW ACCOUNTING PRONOUNCEMENTS

On October 22, 2004, the American Jobs Creation Act of 2004 was signed into law. This legislation contains a number of changes to the Internal Revenue Code that may affect us. We are in the process of analyzing the law in order to determine its effects, if any, on our consolidated financial position and results of operations.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payments. SFAS No. 123(R) would require the Company to measure all employee stock-based compensation awards using a fair-value method and record such expense in its consolidated financial statements. The adoption of SFAS No. 123(R) will require additional accounting related to the income tax effects and additional disclosure regarding the cash flow effects resulting from share-based payment arrangements. SFAS No. 123(R) is effective beginning in the quarter ending September 30, 2005. The effect of the adoption of SFAS No. 123(R) is expected to be comparable to the effect disclosed on a pro forma basis as a result of applying the current fair-value recognition provisions of SFAS No. 123 as shown in Note 2 to the Consolidated Financial Statements.

Table of Contents**RESULTS OF OPERATIONS**

During the second quarter of 2002, we sold the Levy petroleum trucking division and closed the Levy mining trucking operation, as well as closed Bulknet, our internet-based load brokerage subsidiary. Revenue and operating expenses in the following discussion have been adjusted to remove the revenues and expenses associated with the operations of these divisions as such amounts are reported as discontinued operations on the statement of operations.

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

	Year Ended December 31,		
	2004	2003	2002
OPERATING REVENUES:			
Transportation	83.7%	84.8%	85.5%
Other service revenue	11.4	12.4	13.3
Fuel surcharge	4.9	2.8	1.2
Total operating revenues	100.0	100.0	100.0
OPERATING EXPENSES:			
Purchased transportation	67.6	63.7	58.4
Compensation	9.4	10.7	13.4
Fuel, supplies and maintenance	5.4	6.2	7.7
Depreciation and amortization	3.6	5.1	6.2
Selling and administrative	4.0	2.8	3.3
Insurance claims	3.7	5.7	3.6
Taxes and licenses	0.5	0.8	0.8
Communication and utilities	1.1	1.2	1.5
Loss on disposal of property and equipment	0.4		
Impairment on property and equipment	0.5		
CLC expenses		0.4	0.4
PPI class action settlement and related expenses	1.4		
Restructuring charges		0.1	0.4
Total operating expenses	97.6	96.7	95.7
Operating income	2.4	3.3	4.3
Interest expense, net	(3.6)	(5.3)	(6.6)
Interest expense, transaction fees		(0.1)	(1.9)
Interest expense, preferred stock conversion		(10.5)	
Gain on early debt extinguishment		0.8	
Other (expense)	(0.1)	(0.1)	
Loss before income taxes	(1.3)	(11.9)	(4.2)
(Provision) benefit for income taxes	(0.4)		(0.3)

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Loss from continuing operations	(1.7)	(11.9)	(4.5)
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The following table sets forth for the periods indicated the number of terminals, tractors and trailers utilized in our business:

	2004	2003	2002
Terminals	166	164	153
Tractors	3,550	3,473	3,363
Trailers	7,377	8,253	7,565
Trailers - Held-for-Sale	654		

Table of Contents

YEAR ENDED DECEMBER 31, 2004 COMPARED TO YEAR ENDED DECEMBER 31, 2003

Total revenues for 2004 were \$622.0 million, an increase of \$56.6 million or 10.0%, compared to 2003 revenues. Transportation revenue increased by \$41.2 million or 8.6% compared to 2003. At the end of 2003, we acquired the liquid tank business of one of our competitors, which provided \$8.5 million of additional revenue for 2004. Since the end of 2003, five new affiliates, representing ten terminals, joined us providing approximately \$9.1 million of revenues in 2004. However, one of these new affiliates, which generated \$2.7 million in revenue was associated with the orange juice business that was sold in 2004. Additionally, the five affiliates that joined us during 2003, generated \$11.3 million of incremental business in 2004 as compared with 2003. The remainder of the increase is attributable to stronger demand from existing customers, additional new business secured during the past twelve months and rate increases. The revenue per mile change accounted for \$9.7 million of the transportation increase. The increased demand from existing customers is a reflection of the gradual strengthening of the chemical industry as evidenced by a 6.2% increase in 2004 revenue from 2003 generated by our ten largest 2004 customers. Other service revenue increased by \$0.5 million or 0.7% in 2004 versus 2003. This increase was primarily due to a \$4.6 million increase in tractor, trailer and other rental revenues as a result of our converting company-owned terminals to affiliates and a \$1.1 million increase in tank washing revenue. These increases were offset by a \$5.5 million decrease in PPI revenues due to a decline in business volume after the irregularities were disclosed as well as the sale of certain PPI assets in July 2004. Fuel surcharge revenue increased \$14.9 million or 95.3% from 2003 as a result of higher fuel prices and volume increases.

We operated a total of 7,377 trailers and 3,550 tractors at the end of 2004 compared to 8,253 trailers and 3,473 tractors at December 31, 2003. The decrease in trailers is largely due to identifying 654 trailers that are no longer being utilized by us and are being held-for-sale.

Operating expenses, totaled \$607.0 million in 2004, an increase of \$60.3 million or 11.0% from 2003. The increase in operating expenses was primarily attributable to higher purchased transportation resulting from increased revenue and the impact of several conversions of company terminals to affiliates during 2003 and 2004. As terminals are converted, we reduce overhead expense as well as fuel, supplies and maintenance expense and increase purchased transportation expense, representing the affiliates' percentage of revenues. This also accounts for the reduction in fuel, supplies and maintenance expense. Additionally, \$2.5 million of start-up costs and operating losses related to our recently divested orange juice transportation operations were included in purchased transportation.

Compensation expense decreased \$2.0 million, or 3.2%. The reduction is primarily due to a decrease of \$3.6 million as a result of converting company-owned terminals to affiliates and the sale of the Levy glass division. This reduction was offset by an increase of \$0.3 million in pension expense related to the two non-contributory defined benefit plans and the multi-employer plans. The decrease was further offset by an increase of \$1.4 million of overhead compensation.

Depreciation and amortization expense decreased \$6.0 million, or 21.1%, as a result of a large group of assets becoming fully depreciated at the end of 2003. We also reclassified 654 trailers in 2004 from operating assets to held-for-sale, which resulted in no depreciation being charged for those assets.

Selling and administrative expenses increased \$9.2 million, or 57.8%. This increase is attributable to the recording of \$4.9 million in environmental expenses including a \$4.1 million increase in our reserve for the West Caln Township, PA site. The increase for the West Caln Township, PA site was the result of the discovery of additional contaminated soils requiring more extensive remediation than previously projected. Also included in selling and administrative expenses is an increase of \$1.5 million in professional fees related to the implementation of Section 404 of the Sarbanes-Oxley Act of 2002, \$1.1 million of additional legal costs incurred in defending against legal proceedings, a \$1.0 million increase in accounting related professional fees, a \$1.0 million increase in executive search and relocation related expenses, and a \$0.6 million increase in bad debt expenses.

Insurance expense decreased \$9.4 million, or 29.2% due to a \$15.8 million decrease in PPI expenses since 2003 (including expenses in 2003 for the establishment of PPI reserves on uninsured claims as well as fines and penalties). We reduced our exposure to self-insurance losses related to PPI shortly after the discovery of the irregularities and disposed of the majority of the PPI assets and customer lists in July 2004. This decrease was offset in part by an increase in insurance expense of \$7.0 million recorded in the second quarter of 2004 resulting from adverse developments of insurance claims. The \$3.0 million reserve for fines and penalties established in the fourth quarter of 2003 was reduced by \$0.3 million in the second quarter of 2004 and by \$1.9 million in the fourth quarter of 2004 due to the settlement with certain states and customers.

Loss on disposal of property and equipment and impairment loss on property and equipment were \$2.4 million and \$2.9 million, respectively. The \$2.4 million loss on disposal of property and equipment consisted of a \$1.1 million loss on the sale of the Levy glass division, a \$0.2 million loss related to the sale of the PPI business, losses on other equipment disposals, and

Table of Contents

a gain of \$0.3 million related to the sale of the orange juice business. A \$2.5 million impairment loss was taken in the fourth quarter of 2004 on 654 trailers held-for-sale as well as a \$0.4 million impairment loss on non-utilized assets at our Mexican subsidiary.

PPI class action settlement and related expenses, which included professional fees, fines and penalties and the settlement of a related class action lawsuit, was \$8.3 million.

Operating income decreased \$3.7 million or 19.8% compared to 2003. The operating margin for 2004 was 2.4% compared to 3.3% for 2003 as a result of the above items.

Interest expense decreased by \$8.3 million or 27.2% in 2004 compared to 2003 as a result of the reduction of debt from the IPO and concurrent debt refinancing.

The provision for income taxes increased by \$2.5 million in 2004 compared to 2003 primarily due to Canadian taxes, including those related to the sale of the Levy Glass assets. The provision also includes state franchise and foreign taxes.

Our net loss was \$10.6 million for 2004 versus \$67.1 million for 2003 for the reasons outlined above and due to the non-recurrence of the CLC expenses and other issues (including the \$59.4 million interest expense on the preferred stock conversion and the \$4.7 million gain on early debt extinguishment) that occurred in 2003.

YEAR ENDED DECEMBER 31, 2003 COMPARED TO YEAR ENDED DECEMBER 31, 2002

Total revenues for 2003 were \$565.4 million, an increase of \$48.7 million or 9.4%, compared to 2002 revenues. Transportation revenue increased by \$37.9 million or 8.6% compared to 2002. The increase in transportation revenue is partially attributable to the addition of five new affiliates throughout 2003, which provided an incremental revenue increase of \$8.4 million during 2003. The insurance surcharge revenue increased \$0.7 million from 2002. The remaining increase in transportation revenue is the result of increased demand from existing customers and the addition of new customers. The increased demand from existing customers is a reflection of the gradual strengthening of the chemical industry as evidenced by an \$11.2 million increase in 2003 revenue from 2002 generated by our ten largest 2003 customers. Other service revenue increased by \$1.2 million or 1.8% in 2003 versus 2002 primarily due to an increase of \$2.2 million in trailer rental revenues as a result of our converting company owned terminals to affiliates. Fuel surcharge increased \$9.6 million from 2002 as a result of higher fuel prices and volume increases.

We operated a total of 8,253 trailers and 3,473 tractors at the end of 2003 compared to 7,565 trailers and 3,363 tractors at December 31, 2002. The increase in tractors is largely due to the addition of new affiliates who provided their own tractors. The increase in trailers is also due to the addition of new affiliates that previously ran independently and, thus, already owned trailers and to the acquisition of new business that had been serviced by in-house fleets where the customer provided its own trailers. Additionally, we acquired 174 trailers on December 31, 2003 from a competitor who decided to discontinue its bulk tank truck business. The increases were partially offset by sales of older trailers.

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Operating expenses, totaled \$546.6 million in 2003, an increase of \$52.3 million or 10.6% from 2002. The increase in operating expenses was primarily attributable to higher purchased transportation and insurance costs, offset by decreases in compensation; fuel, supplies and maintenance; and depreciation and amortization. The increase in purchased transportation of \$58.4 million, or 19.3%, is primarily the result of higher revenues and the conversion of 15 company terminals to affiliates. As terminals are converted, we increase our purchased transportation expense, which represents the affiliates' percentage share of revenues, and decrease our overhead expenses. The decrease in compensation expense of \$8.7 million, or 12.5%, from 2002 is a result of the conversion of company terminals to affiliates, which reduces the number of company employees as these individuals are subsequently employed by the affiliate. As a direct result of these conversions, company drivers decreased from 2002 to 2003, which caused a \$3.4 million decrease in driver compensation during 2003. Fuel, supplies and maintenance decreased \$4.6 million, or 11.7%, as company terminals were converted to affiliates, and these costs were assumed by the affiliates. Additionally, the number of company-owned tractors decreased from 793 at December 31, 2002 to 663 at December 31, 2003, thereby reducing the maintenance expenses for which we are responsible. Depreciation and amortization decreased \$3.3 million, or 10.4%, as we reduced the number of company-owned tractors and as trailers acquired in the merger with CLC became fully depreciated during 2003.

Table of Contents

The decreases in operating expenses, other than purchased transportation, were primarily offset by a \$13.8 million increase in insurance claims expense, which was primarily related to the irregularities at PPI, including an accrual of \$3.0 million to record estimated costs relating to the state insurance regulatory proceedings, compared to \$4.9 million of expenses recorded in 2002 in connection with the insurance irregularities identified at PPI. The remaining increase in our insurance claims expense of \$4.9 million is the result of higher insurance claims than in the previous year relating to our transportation business.

Our operating expenses have been impacted by several additional charges in both 2003 and 2002. We have incurred severance, benefits and other related expenses from cost cutting measures and consolidating terminals that resulted in charges of \$0.7 million and \$1.8 million in 2003 and 2002, respectively. In addition, we had charges related to the prior operations of CLC of \$2.3 million in both 2003 and 2002 related to insurance claims associated with the operations of predecessor companies incurred prior to the merger in 1998.

Our operating margin decreased to 3.3% in 2003 versus 4.3% in 2002 primarily as a result of the charges recorded from the insurance irregularities identified at PPI. The charges were larger in 2003 compared to 2002 because we recorded the accrual for costs relating to the state insurance regulatory proceedings, additional policies were not renewed with third-party insurance carriers during 2003, thus increasing costs, and we established reserves for all of the policies that had no underlying third-party insurance.

Interest expense was \$30.0 million in 2003 versus \$34.0 million during 2002. The reduction in interest expense was the result of reductions in debt, lower interest rates and the amortization of deferred gains on the 2002 debt restructuring. On July 1, 2003, we adopted SFAS 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity, which increased our interest expense by \$3.5 million for the Redeemable Preferred Stock dividends recorded since adoption of the standard through November 13, 2003, the date the Redeemable Preferred Stock was converted to common stock. In connection with an exchange offer consummated during 2002, we recorded \$10.1 million in transaction fees, including the write-off of existing unamortized fees from prior credit amendments. In 2003, we recorded \$0.7 million in transaction fees incurred in a proposed debt offering that was not consummated. Additionally, we recorded \$59.4 million in interest expense upon converting our outstanding Redeemable Preferred Stock into 7,654,235 shares of common stock at a conversion price of \$11.63 per share upon consummation of the offering of our common stock on November 13, 2003. The interest charge was calculated as the difference between the carrying value of the preferred stock, including accrued dividends, at the date of conversion and the conversion price of \$17.00 per share times the number of converted shares of common stock.

We recorded a \$4.7 million net gain on debt extinguishment as we used the proceeds from our IPO and QD LLC's offering of 9% Senior Subordinated Notes and entering into a new credit facility to pay all of our and QD LLC's existing long-term debt other than \$7.5 million of our floating interest rate notes. The gain consisted of a \$13.1 million gain from the write-off of bond-carrying values on debt instruments that were extinguished, a \$5.6 million loss from the write-off of deferred financing costs previously recorded for debt that was extinguished and a \$2.8 million loss for redemption fees paid to bondholders to redeem the debt before maturity.

Discontinued operations accounted for a \$1.4 million loss in 2002. The discontinued operations consisted of the sale and disposal of the Canadian petroleum and mining trucking divisions of Levy, and the closure of Bulknet, our internet-based load brokerage subsidiary. We incurred a \$1.5 million loss on the ultimate disposition of the operations, due largely to the write-off of goodwill, sale of assets associated with the Canadian petroleum and mining trucking divisions and write down of all software and development costs at Bulknet.

During 2002, there was a change in accounting principle to recognize the impairment of goodwill relating to implementation of SFAS 142 of \$24.0 million. See Note 12 to the consolidated financial statements for further discussion.

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Income taxes for 2003 were a benefit of \$0.1 million versus a provision of \$1.4 million for 2002. This expense mainly represents state franchise and foreign taxes.

Our net loss was \$67.1 million for 2003 versus \$50.0 million for 2002 for the reasons outlined above.

Table of Contents

EXCHANGE RATES

We operate in Canada and Mexico. Fluctuations in exchange rates between the United States dollar and the currencies in each of the countries in which we operate affect:

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

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

Our results of operations are affected by the relative strength of currencies in the countries where we operate. Approximately 7.1%, 7.3% and 1.7% of our revenue in fiscal year 2004, 2003 and 2002, respectively, was generated outside the United States.

In comparing the average exchange rates between fiscal 2004 and the year-ago period, the Canadian dollar appreciated against the United States dollar by approximately 7.5% while the Mexican peso declined against the United States dollar by approximately 4.4%. The change in exchange rates positively impacted revenue by approximately \$3.0 million. The appreciation of the Canadian dollar since December 31, 2003 was the primary reason for the \$0.7 million increase in cumulative currency translation gains in shareholders' equity for fiscal year 2004.

Our inter-company loans are subject to fluctuations in exchange rates primarily between the United States dollar and the Canadian dollar. Based on the outstanding balance of our inter-company loans at December 31, 2004, a change of 1% in the exchange rate for the Canadian dollar would cause a change in our foreign exchange result of less than \$0.1 million.

Our results of operations and financial condition have been, and in the future may be, adversely affected by the fluctuations in foreign currencies and by translation of the financial statements of our non-United States subsidiaries, including our Canadian and Mexican subsidiaries, from local currencies to the dollar. Generally, we do not hedge our exposure against changes in foreign currency. Gains and losses included in the consolidated statements of operations from foreign currency transactions included a \$0.8 million loss in fiscal year 2004, a \$0.9 million loss in fiscal year 2003 and no effect in fiscal year 2002.

LIQUIDITY AND CAPITAL RESOURCES

The following summarizes our cash flows for fiscal years 2004, 2003 and 2002 as reported in our Consolidated Statements of Cash Flows in the accompanying Consolidated Financial Statements:

(In Thousands)	Year Ended December 31,		
	2004	2003	2002

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Net cash provided by operating activities	\$ 15,467	\$ 17,349	\$ 25,832
Net cash used in investing activities	(7,603)	(12,381)	(7,169)
Net cash used in financing activities	(6,070)	(4,733)	(19,998)
	<u> </u>	<u> </u>	<u> </u>
Net increase/(decrease) in cash	1,794	235	(1,335)
Effect of exchange rates	(49)	59	(216)
Cash at beginning of period	955	661	2,212
	<u> </u>	<u> </u>	<u> </u>
Cash at end of period	\$ 2,700	\$ 955	\$ 661
	<u> </u>	<u> </u>	<u> </u>

Historically, our primary source of liquidity has been cash flow from operations and borrowing availability under our credit agreement. Our revolving credit agreement is due in November of 2008. Our primary cash needs consist of capital expenditures and debt service including our variable term loan due in 2009, our 9% senior subordinated notes due 2010 (Senior Subordinated Notes) and our Senior Floating Rate Notes due 2012 (Senior Floating Rate Notes) (which were issued in January 2005 and were used to pay off our revolving credit facility, our Series B floating interest rate notes and to pay down our term loan). We incur capital expenditures for the purpose of replacing older tractors and trailers, purchasing new tractors and trailers, and maintaining and improving infrastructure. We have accrued \$25.6 million for environmental claims and \$38.6 million for loss and damage claims and the timing of the cash payment for such claims is uncertain. If our net cash provided by operating activities is insufficient to cover the payment of such claims then it may be necessary to use our revolving credit facility.

We generated \$15.5 million, \$17.3 million and \$25.8 million from operating activities in 2004, 2003 and 2002, respectively. The decrease in cash provided by operating activities in 2004 is primarily attributable to a decrease in our operating income

Table of Contents

and a decrease in cash generated from our receivables resulting from a slowing of our collection efforts offset in part by an increase in our accrued expenses resulting from an increase for loss and damage claims and the accrual of the PPI class action settlement. The decrease in cash generated from operating activities for 2003 was primarily driven by a reduction in owner-operators settlement resulting from the timing of payments.

Net cash used in investing activities in 2004, 2003 and 2002 was \$7.6 million, \$12.4 million and \$7.2 million, respectively. Capital expenditures totaled \$9.9 million, \$8.9 million and \$15.3 million in 2004, 2003 and 2002, respectively. In 2002, capital was used to complete the purchase of our new dispatch system and other computer infrastructure, new tractors and a tank wash facility. In 2004 and 2003, all capital expenditures were used to maintain our current asset level. In 2003, we paid \$6.1 million to purchase a line of business of one of our competitors. In 2002, we recognized proceeds of approximately \$4.3 million in connection with our disposal of the petroleum and mining trucking divisions of Levy.

Net cash used in financing activities was \$6.1 million, \$4.7 million and \$20.0 million in 2004, 2003 and 2002, respectively. In 2004 we made a conscious effort to pay down some of our long-term debt and reduce our book overdrafts. In 2003, we used the proceeds from our IPO, the offering of the Senior Subordinated Notes and our new credit agreement to pay substantially all of our then existing credit agreement and long-term debt (discussed below). Additionally, we made periodic payments on our revolver and term loan prior to the IPO. The use of cash in 2002 is a result of paying down our revolving debt and transaction fees associated with the exchange offer.

Off-Balance Sheet Arrangements

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

Contractual Obligations and Commitments

The following is a schedule of our long-term contractual commitments, including the current portion of our long-term indebtedness at December 31, 2004, over the periods we expect them to be paid (dollars in thousands):

	TOTAL	LESS THAN 1 YEAR	1 3 YEARS	3 5 YEARS	AFTER 5 YEARS
Operating leases (1)	\$ 11,535	\$ 4,687	\$ 4,550	\$ 1,077	\$ 1,221
Unconditional purchase commitment (2)	3,095	3,095			
Total indebtedness	276,550	1,400	10,300	139,850	125,000
Interest on indebtedness (3)	116,742	21,575	42,453	40,604	12,110
Total	\$ 407,922	\$ 30,757	\$ 57,303	\$ 181,531	\$ 138,331

(1) These obligations represent the minimum rental commitments under all non-cancelable operating leases. See Note 20 of the Note to the Consolidated Financial Statements.

(2) These obligations represent firm purchase commitments for the purchase of trailers.

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- (3) Amounts presented for interest payments assume that all long-term debt obligations outstanding as of December 31, 2004 will remain outstanding until maturity and interest rates on variable-rate debt in effect as of December 31, 2004 will remain in effect until maturity.

Additionally, we have \$25.6 million of environmental liabilities, \$13.6 million of pension plan obligations, \$4.9 million of other long term insurance claim obligations we expect to pay out over the next five to seven years. We also have \$32.3 million in outstanding letters of credit.

Term Loan

On November 13, 2003, Quality Distribution LLC (QD LLC), issued a private offering of \$125 million aggregate principal amount of Senior Subordinated Notes and entered into a new credit facility consisting of a \$140 million delayed drawn term loan (the Term Loan), a \$75 million revolving credit facility and a \$20 million pre-funded letter of credit facility, (the Revolver) (Note 1). On March 10, 2005, we completed the conversion of the Senior Subordinated Notes from private debt to public debt.

Table of Contents

The Term Loan bears interest at our option at (a) 2.00% in excess of the defined Base Rate or (b) 3.00% in excess of the Eurodollar rate for Eurodollar Loans, in each case, subject to adjustment based upon the achievement of certain financial ratios. The Term Loan matures on November 12, 2009. The interest rate on the Term Loan at December 31, 2004 and 2003 was 5.07% and 4.16%, respectively. The weighted average interest rate during fiscal year 2004 and 2003 was 4.68% and 4.16%, respectively.

We incurred \$2.9 million in debt issuance costs relating to the Term Loan. We are amortizing these costs over the term of the Term Loan to interest expense using the effective interest method. The balance of these debt issuance costs as of December 31, 2004 was \$2.2 million.

Revolving Credit Facility

As of December 31, 2004, we had a \$75.0 million revolving credit facility, which may include letters of credit, available until November 12, 2008 to be used for, among other things, working capital and general corporate purposes, including permitted acquisitions. We had a \$20.0 million pre-funded letter of credit facility, available until November 12, 2009 in addition to \$31.0 million of letters of credit outstanding. At December 31, 2004, we had \$69.2 million available under the revolving credit facility.

Interest on the revolving credit facility is, at our option, (a) 2.50% in excess of the Base Rate (as defined in the credit agreement) or (b) 3.50% in excess of the Eurodollar rate for Eurodollar Loans, in each case, subject to adjustments based upon the achievement of certain financial ratios. The interest rate on the revolving credit facility at December 31, 2004 and 2003 was 7.75% and 6.5%, respectively. The weighted average interest rate on the revolving credit facility during fiscal year 2004 and 2003 was 7.3% and 6.5%, respectively.

The credit agreement provides for payment by us in respect of outstanding letters of credit of an annual fee equal to the spread over the Eurodollar rate for Eurodollar Loans under the revolving credit facility from time to time in effect on the aggregate outstanding stated amounts of such letters of credit and a fronting fee equal to $\frac{1}{4}$ of 1.0% on the aggregate outstanding stated amounts of such letters of credit. We pay a commitment fee equal to $\frac{1}{2}$ of 1.0% per annum on the undrawn portion of the available commitment under the revolving credit facility, subject to decreases based on the achievement of certain financial ratios.

Voluntary prepayments and commitment reductions will be permitted in whole or in part, subject to minimum prepayment or reduction requirements, without premium or penalty, provided that voluntary prepayments of Eurodollar Loans on a date other than the last day of the relevant interest period will be subject to payment of customary breakage costs, if any.

We incurred \$1.5 million in debt issuance costs in fiscal year 2004 relating to the Revolving Credit Facility. We are amortizing these costs over the term of the revolver. The balance of the debt issuance costs as of December 31, 2004 was \$1.3 million.

9% Senior Subordinated Notes

The Senior Subordinated Notes are unsecured obligations guaranteed on a senior subordinated basis by us and all of our direct and indirect domestic subsidiaries. The guarantees are full, unconditional, joint and several obligations of the guarantors.

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We incurred \$5.3 million in debt issuance costs relating to the Senior Subordinated Notes. We are amortizing these costs over the term of the Senior Subordinated Notes. The balance of the debt issuance costs as of December 31, 2004 was \$4.4 million.

We may redeem the Senior Subordinated Notes, in whole or in part from time to time, upon not less than 30 nor more than 60 days notice at the following redemption prices, expressed as percentages of the principal amount thereof, if redeemed during the twelve-month period commencing on November 15 of the year set forth below, plus, in each case, accrued and unpaid interest thereon, if any, to the date of redemption:

<u>Year</u>	<u>Percentage</u>
2007	104.50%
2008	102.25
2009 and thereafter	100.00

Table of Contents

Series B Notes

The Series B Floating Interest Rate Subordinated Term Securities due 2006 (the Series B Notes) are unsecured obligations guaranteed on a senior subordinated basis by all of our direct and indirect domestic subsidiaries. The guarantees are full, unconditional, joint and several obligations of the guarantors. The interest rate on the Series B Notes at December 31, 2004 and 2003 was 7.3% and 6.04%, respectively. The weighted average interest rate on the Series B Notes during fiscal year 2004 and 2003 was 6.6% and 6.1%, respectively.

We may redeem the Series B floating interest rate notes, in whole or in part from time to time on or after June 15, 2002, upon not less than 30 nor more than 60 days notice at a redemption price equal to 100% of the principal amount thereof, plus, in each case, accrued and unpaid interest thereon, if any, to the date of redemption.

We redeemed \$18.1 million principal amount of Series B floating rate notes on December 15, 2003 at a redemption price of 102.5% of the principal amount outstanding, plus accrued and unpaid interest to the date of redemption. The redemption price paid included \$0.9 million of accrued interest and a redemption premium of \$0.5 million. The redemption premium was recorded as a part of the net gain on debt extinguishment. The remaining \$7.5 million of Series B floating rate notes were redeemed on February 28, 2005.

Collateral, Guarantees and Covenants

The loans and letters of credit under the revolving credit agreement are guaranteed by all of our existing and future direct and indirect domestic subsidiaries (collectively, the subsidiary guarantors). Our obligations and subsidiary guarantors are collateralized by a first priority perfected lien on substantially all of our properties and assets and the subsidiary guarantors, now owned or subsequently acquired, including a pledge of all capital stock and notes owned by us and the subsidiary guarantors, subject to certain exceptions; provided that, in certain cases, no more than 65.0% of the stock of our foreign subsidiaries are required to be pledged. Such assets pledged also collateralize certain interest rate protection and other hedging agreements permitted by the credit facility that may be entered into from time to time by us.

Under the terms of our credit agreement, we are required to maintain, among other restrictions, minimum net worth levels, debt to net worth ratios and debt service coverage ratios. In addition, the credit agreement and the indenture governing the Series B notes contain restrictions on debt incurrence, investments, transactions with affiliates, creation of liens, asset dispositions redeemable common stock and preferred stock issuance, capital expenditures and the payment of dividends. At December 31, 2004, we were in compliance with all debt covenants.

The credit facility includes financial covenants, which require certain ratios to be maintained. These ratios include the interest coverage ratio, the ratio of Consolidated EBITDA (as defined in the credit agreement) to consolidated interest expense, and the consolidated total leverage ratio, which is the ratio of consolidated total debt to Consolidated EBITDA (as defined in the credit agreement). As of December 31, 2004, Quality Distribution, LLC was in compliance with the financial covenants in the credit agreement.

Debt Retirement

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The following is a schedule of our indebtedness at December 31, 2004 over the periods we are required to pay such indebtedness (dollars in thousands):

(in 000 s)	2005	2006	2007	2008	2009 and after	Total
Variable term loan due 2009	\$ 1,400	\$ 1,400	\$ 1,400	\$ 1,400	\$ 132,650	\$ 138,250
9% senior subordinated notes, due 2010					125,000	125,000
Revolving credit facility				5,800		5,800
Series B floating interest rate subordinate notes, principal due 2006		7,500				7,500
Total	\$ 1,400	\$ 8,900	\$ 1,400	\$ 7,200	\$ 257,650	\$ 276,550

January 2005 Transaction

On January 28, 2005, we consummated the private offering of \$85 million in new Senior Floating Rate Notes issued by QD LLC and QD Capital and guaranteed by QDI and domestic subsidiaries at 98% of the face value of the notes due January 15, 2012, which will pay interest quarterly on January 15, April 15, July 15, and October 15. Interest will accrue at a floating rate per annum, reset quarterly, equal to LIBOR plus 4.5%. The net proceeds

Table of Contents

were used to repay approximately \$70 million of the term borrowings under our credit facility and a distribution to QDI, which in turn used such proceeds to redeem all outstanding \$7.5 million principal amount of outstanding Series B Notes and the balance was used for general corporate purposes, including the repayment of indebtedness under the revolving credit portion of our credit facility. The credit facility was amended to incorporate this reduction in the term loan portion of the facility and to modify the covenants.

The following is a schedule of our indebtedness, including our capital lease obligations at December 31, 2004, as adjusted to give effect to the Offering for \$85 million of Senior Floating Rate Notes due 2012 and the application of the net proceeds thereof over the periods we are required to pay such indebtedness (dollars in thousands):

	2005	2006	2007	2008	2009 and after	Total
(in 000 s)						
Variable term loan due 2009	\$ 691	\$ 691	\$ 691	\$ 691	\$ 65,486	\$ 68,250
9% senior subordinated notes, due 2010					125,000	125,000
Revolving credit facility						
Senior Floating Rate Notes due 2012					85,000	85,000
Total	\$ 691	\$ 691	\$ 691	\$ 691	\$ 275,486	\$ 278,250

The above table does not include original issue discount of \$1.7 million relating to the Senior Floating Rate Notes.

QD LLC has the ability to incur additional debt, subject to limitations imposed by the credit facility and the indenture governing the Senior Subordinated Notes. Under the indentures governing the QD LLC Notes (which includes the Senior Subordinated Notes and the Senior Floating Rate Notes), in addition to specified permitted indebtedness QD LLC will be able to incur additional indebtedness so long as on a pro forma basis QD LLC's consolidated fixed charge coverage ratio (the ratio of Consolidated EBITDA (as defined in the respective indentures for the QD LLC Notes) to consolidated fixed charges) is 2.0 to 1.0 or greater.

We believe that based on current operations and anticipated growth, our cash flow from operations, together with available sources of liquidity, including borrowings under the revolving credit facility, will be sufficient to fund anticipated capital expenditures and make required payments of principal and interest on our debt, including obligations under our credit agreement and satisfy other long-term contractual commitments for the next twelve months.

However, for periods extending beyond 12 months, if our operating cash flow and borrowings under the revolving credit facility are not sufficient to satisfy our capital expenditures, debt service and other long-term contractual commitments, we will be required to seek alternative financing. These alternatives would likely include another restructuring or refinancing of our long-term debt, the sale of a portion or all of our assets or operations or the sale of additional debt or equity securities. If these alternatives are not available in a timely manner or on satisfactory terms, or are not permitted under our existing agreements, we may default on some or all of our obligations. If we default on our obligations, including our financial covenants required to be maintained under the credit facility, and the debt under the indenture for the new notes were to be accelerated, our assets may not be sufficient to repay in full all of our indebtedness, and we may be forced into bankruptcy.

Other Issues

We have historically sought to acquire smaller local operators as part of our program of strategic growth. We continue to evaluate potential accretive acquisitions in order to capitalize on the consolidation occurring in the industry and expect to fund such acquisitions from available sources of liquidity, including borrowings under the revolving credit facility.

Management does not expect to incur any additional expenses in connection with the irregularities discovered at PPI discussed in the Explanatory Note in the Introduction to this report that could have a material adverse effect on our liquidity during 2005.

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

As a holding company with no significant assets other than ownership of 100% of QD LLC's membership units, we also depend upon QD LLC's cash flows to service our debt. QD LLC's ability to make distributions to us is restricted by the covenants contained in the credit facility and the indentures governing the QD LLC Notes. However, Apollo as our controlling stockholder, may have an interest in pursuing reorganizations, restructurings or other transactions involving us that, in their

Table of Contents

judgment, could enhance their equity investment even though those transactions might involve increasing QD LLC's leverage or impairing QD LLC's creditworthiness in order to decrease QDI's leverage. While the restrictions in the indenture governing the QD LLC Notes cover a wide variety of arrangements that have traditionally been used to effect highly leveraged transactions, the indentures governing the QD LLC Notes may not afford the holders of the notes protection in all circumstances from the adverse aspects of a highly leveraged transaction, reorganization, restructuring, merger or similar transaction. Although QDI has no current intention to engage in these types of transactions, there can be no assurance it will not do so in the future if permitted under the terms of the credit facility and the indentures governing the QD LLC Notes.

Severance Costs

During 2003, 2002 and 2001, we initiated cost cutting measures as part of a company-wide reorganization. The costs associated with this reorganization include severed employees' wages and benefits. We accrued \$0.7 million in 2003, \$1.8 million in 2002 and \$1.0 million in 2001. Cash outlays for the employee severance during fiscal year 2004 were \$0.5 million. We expect severance costs to be fully paid out by December 31, 2005. The remaining liability of the restructuring charge is categorized within Accrued expenses and other current liabilities. The reconciliation of the activity is as follows (in thousands):

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Beginning Balance	\$ 500	\$ 990	\$ 471
Additions		725	1,804
Payments	(489)	(1,215)	(1,285)
Ending Balance	<u>\$ 11</u>	<u>\$ 500</u>	<u>\$ 990</u>

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**Interest Rate Risk**

From time to time, we utilize derivative financial instruments to reduce our exposure to market risk from changes in interest rates and foreign exchange rates. The instruments primarily used to mitigate these risks are interest rate swaps and foreign exchange contracts. All derivative instruments held by us are designated as hedges, and, accordingly, the gains and losses from changes in derivative fair values are recognized as comprehensive income as required by SFAS 133. Gains and losses upon settlement are recognized in the statement of operations or recorded as part of the underlying asset or liability as appropriate. We are exposed to credit related losses in the event of nonperformance by counterparties to these financial instruments; however, counterparties to these agreements are major financial institutions; and the risk of loss due to nonperformance is considered by management to be minimal. We do not hold or issue interest rate swaps or foreign exchange contracts for trading purposes.

We had approximately \$294 million of variable interest debt outstanding at December 31, 2002. We entered into interest rate swap agreements designated as a partial hedge of our portfolio of variable rate debt during 2001. The purpose of these swaps is to fix interest rates on variable rate debt and reduce certain exposures to interest rate fluctuation. As of December 31, 2004 and 2003, there were no outstanding interest rate swaps.

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We are exposed to the impact of interest rate changes primarily through our variable-rate borrowings under QD LLC's credit facility. Interest rates for the revolving credit facility are based, at QD LLC's option, on either the administrative agent's base rate plus 2.50% or upon the Eurodollar rate plus 3.50%, and interest rates for the term loan are based, at QD LLC's option, upon the administrative agent's base rate plus 2.0% or upon the Eurodollar rate plus 3.0%, in each case subject to reductions in the applicable margins for the revolving credit facility and term loan only if we reduce our total consolidated leverage below certain levels. Additionally, we have \$7.5 million of floating interest rate subordinated term notes with interest rates of LIBOR plus 4.81%.

	Balance at December 31, 2004	Interest Rate at December 31, 2004	Effect of 1% Change
	\$ in 000s		\$ in 000s
Revolver	\$ 5,800	7.75%	\$ 58
Term Loan	138,250	5.07%	1,383
Subordinated Term Notes	7,500	7.30%	75
Total	\$ 151,550		\$ 1,516

Table of Contents

At December 31, 2004, a 1% point change in the current per annum interest rate would result in \$1.5 million of additional interest expense.

Foreign Currency Exchange Rate Risk

Operating in international markets involves exposure to the possibility of volatile movements in foreign exchange rates. These exposures may impact future earnings and/or cash flows. Revenue from foreign locations (Canada and Mexico) represented approximately 7.1% of our consolidated revenue in 2004 and 7.3% of our consolidated revenue in 2003. The economic impact of foreign exchange rate movements is complex because such changes are often linked to variability in real growth, inflation, interest rates, governmental actions and other factors. These changes, if material, could cause us to adjust our financing and operating strategies. Therefore, to isolate the effect of changes in currency does not accurately portray the effect of these other important economic factors. As foreign exchange rates change, translation of the income statements of our international subsidiaries into U.S. dollars affects year-over-year comparability of operating results. While we may hedge specific transaction risks, we generally do not hedge translation risks because we believe there is no long-term economic benefit in doing so.

At December 31, 2004, we had no outstanding forward contracts or option contracts to buy or sell foreign currency. For the three-year period ended December 31, 2004, there were no gains or losses included in our consolidated statements of operations on forward contracts and option contracts.

Assets and liabilities for our Canadian operations are matched in the local currency, which reduces the need for dollar conversion. Our Mexican operations use the United States dollar as their functional currency. Any foreign currency impact on translating assets and liabilities into dollars is included as a component of shareholders' equity. Our revenue results for fiscal year 2004 were positively impacted by a \$3.0 million foreign currency movement, primarily due to the strengthening of the Canadian dollar against the United States dollar.

Changes in foreign exchange rates that had the largest impact on translating our international operating profits for 2004 related to the Canadian dollar versus the U.S. dollar. We estimate that a 1% adverse change in the Canadian dollar foreign exchange rate would have decreased our revenues by approximately \$0.4 million in 2004, assuming no changes other than the exchange rate itself. As discussed above, this quantitative measure has inherent limitations.

Commodity Price Risk

The price and availability of diesel fuel are subject to fluctuations due to changes in the level of global oil production, seasonality, weather, global politics and other market factors. Historically, we have been able to recover a majority of fuel price increases from our customers in the form of fuel surcharges. The price and availability of diesel fuel can be unpredictable as well as the extent to which fuel surcharges could be collected to offset such increases. As of December 31, 2004, we had no derivative financial instruments to reduce our exposure to fuel price fluctuations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

ITEM 9A. CONTROLS AND Procedures

Attached as exhibits to this Form 10-K are certifications of our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), which are required in accordance with Rule 13a-14 of the Securities Exchange Act of 1934, as amended (the Exchange Act). This Controls and Procedures section includes information concerning the controls and controls evaluation referred to in the certifications.

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our chief executive officer (CEO) and our chief financial officer (CFO), we evaluated the effectiveness of our disclosure controls and procedures; as such term is defined in Rule 13a-15(e) promulgated under the Exchange Act. Based upon that evaluation, our principal executive officer and our principal accounting officer have concluded that our disclosure controls and procedures were not effective as of December 31, 2004 because of the material weaknesses discussed below. To address the material weaknesses described below, we performed additional analysis and other post-closing procedures to ensure our consolidated financial statements are prepared in accordance with generally accepted accounting principles. Accordingly, management believes that the financial statements included in this report fairly present in all material respects our financial condition, results of operations and cash flows for the periods presented.

Status of Management's Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with established policies or procedures may deteriorate.

We are in the process of conducting an evaluation of our internal control over financial reporting as of December 31, 2004. In making our assessment of internal control over financial reporting, management is using the criteria described in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Table of Contents

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. As of December 31, 2004, management identified control deficiencies in the accounting for insurance deposits and self insurance reserves which individually, represent material weaknesses. These control deficiencies resulted in material adjustments to our financial statements for the fourth quarter of 2004. Additionally, both of these control deficiencies could result in a material misstatement to our annual or interim financial statements that would not be prevented or detected. Accordingly, management has determined that both of these control deficiencies represent material weaknesses. Because of these material weaknesses, management will be unable to conclude that we maintained effective internal control over financial reporting as of December 31, 2004, based on the criteria in the *Internal Control - Integrated Framework*. Accordingly, our independent registered public accounting firm expects to issue an adverse opinion on the effectiveness of our internal control over financial reporting.

Our evaluation of our internal control over financial reporting as of December 31, 2004 is not complete. However, management has identified three control deficiencies that may, after completing our evaluation, be classified as material weaknesses. These three control deficiencies relate to: the consolidation process; segregation of duties within the purchasing cycle; and fixed asset accounting. There can be no assurance that, as a result of the ongoing evaluation of internal control over financial reporting, additional control deficiencies will not be identified or that any control deficiencies identified, either alone or in combination with others, will not be considered a material weakness.

On November 30, 2004, the SEC issued an exemptive order providing many companies, including us, the right to a 45-day extension for the filing of management's report on our internal control and the attestation of our independent auditor regarding management's assessment. We are exercising the 45-day extension, and, therefore, this Annual Report on Form 10-K does not include these reports. We are required to disclose in this Annual Report on Form 10-K management's evaluation of our disclosure controls and procedures and identify any material weaknesses in our internal control over financial reporting that management or our independent registered public accounting firm have already identified. We expect to file in April 2005 an amended Form 10-K that includes our management's report on internal control over financial reporting and the report of our independent registered public accounting firm on their audit of our internal control over financial reporting.

The material weaknesses identified will result in an adverse opinion by our independent registered public accounting firm on the effectiveness of our internal control over financial reporting.

Changes in Internal Control over Financial Reporting

As discussed above, management has not completed its assessment of the Company's internal control over financial reporting, but is aware of the material weaknesses listed above. Accordingly, there have been changes in the Company's internal control over financial reporting during the quarter ended December 31, 2004 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

We are in the process of developing a plan to remediate the identified material weaknesses. Several elements of our remediation plan can only be accomplished over time, but we expect to begin implementing all elements of our remediation plan once management completes its evaluation of the Company's internal control over financial reporting. In connection with our remedial efforts, we plan to hire six additional professionals to add to our accounting function. These professionals would all be located at our headquarters. Additionally, we expect to identify, install, test and implement new accounting software this year.

Prior to the filing of our management's report on the effectiveness of internal control over financial reporting, we may identify additional control deficiencies, some of which may constitute material weaknesses either individually or when taken into account with other identified control

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deficiencies, in our internal control over financial reporting. We may also identify additional remedial actions necessary to address material weaknesses already identified or identified prior to the filing of management's report on internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Not Applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information with respect to the directors, the Audit Committee of the Board of Directors, the Nomination Committee of the Board of Directors (known as the Corporate Governance Committee), and the Audit Committee financial expert, is contained in our Proxy Statement. The 2005 Proxy Statement is expected to be filed on or about April 12, 2005. Such information is incorporated herein by reference. Our Board of Directors has a separately-designated standing Audit Committee established in accordance with section 3(a)(58)(A) of the Exchange Act. The members of that Audit Committee are identified in our Proxy Statement under the section captioned "Board Meetings and Committees". Such information is incorporated herein by reference.

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

Code of Ethics

We have adopted a Code of Conduct (the "Code of Ethics"), which is applicable to all of our directors and employees, including our principal executive officer, our principal financial officer and our controller. A copy of the Code of Ethics can be found on our website at www.qualitydistribution.com. Any possible future amendments to or waivers from the Code of Conduct will be posted on our website and disclosed on a Form 8-K to be filed with the SEC.

Section 16(a) Beneficial Ownership Reporting Compliance

Information regarding compliance with Section 16(a) of the Exchange Act is set forth under the heading "Section 16(a) Beneficial Ownership Reporting Compliance" in our 2005 Proxy Statement and is incorporated herein by reference.

Material Changes for Director Nominee Procedures

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Since the date of our 2004 Proxy Statement, our Board of Directors has not made any material changes to the procedures by which shareholders of the company may recommend nominees to our Board of Directors.

Audit Committee and Audit Committee Financial Expert

Information regarding the Audit Committee and the Audit Committee's Financial Expert is set forth under the heading "Board Meetings and Committees" in our 2005 Proxy Statement and is incorporated herein by reference.

Table of Contents**ITEM 11. EXECUTIVE COMPENSATION**

Information regarding executive compensation is set forth under the heading "Executive Compensation" in our 2005 Proxy Statement and is incorporated herein by reference. Information regarding director compensation is set forth under the heading "Director Compensation" in our 2005 Proxy Statement and is incorporated herein by reference. Information regarding employment contracts, termination of employment and change in control agreements is set forth under the heading "Employment Agreements" in our 2005 Proxy Statement and is incorporated herein by reference. Information regarding compensation committee interlocks is set forth under the heading "Compensation Committee Interlocks and Insider Participation" in our 2005 Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information regarding the security ownership of certain beneficial owners and management is set forth under the heading "Security Ownership of Certain Beneficial Owners and Management" in our 2005 Proxy Statement and is incorporated herein by reference.

EQUITY COMPENSATION PLAN INFORMATION

We maintain three equity-based compensation plans – the 1998 Stock Option Plan, the 2003 Stock Option Plan and the 2003 Restricted Incentive Stock Plan. The 2003 Stock Option Plan and the 2003 Restricted Incentive Stock Plan have each been approved by our stockholders. The following table sets forth the number of shares of our common stock subject to outstanding options and rights under these plans, the weighted-average exercise price of outstanding options, and the number of shares remaining available for future award grants under these plans as of December 31, 2004 (in thousands, except exercise price):

Plan Category	Equity Compensation Plan Information		
	(a)	(b)	(c)
	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders (1)	2,483	\$ 13.78	417 ⁽³⁾
Equity compensation plans not approved by security holders (2)	93	23.53	284
Total	2,576	14.13	701

(1) Consists of the 2003 Stock Option Plan and the 2003 Restricted Incentive Stock Plan, both of which were approved by stockholders prior to our initial public offering.

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- (2) Consists of the 1998 Stock Option Plan.
- (3) Consists of 41,615 options issuable under the 2003 Stock Option Plan and 375,141 shares of common stock issuable under the 2003 Restricted Incentive Stock Plan.

A description of all three equity based compensation plans can be found in footnote 19 of the Notes to Consolidated Financial Statements.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information appearing in our 2005 Proxy Statement under the heading "Certain Relationships and Related Transactions" is incorporated by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information appearing in our 2005 Proxy Statement under the headings "Report of the Audit Committee of the Board of Directors," "Ratification of the Independent Registered Certified Public Accounting Firm" and "Fees Paid to the Independent Registered Certified Public Accounting Firm in 2004" is incorporated by reference.

Table of Contents

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

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

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

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

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

(b) Other Exhibits

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

(c) Other Financial Statements Scheduling

Table of Contents

SIGNATURES

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

QUALITY DISTRIBUTION, INC.

March 31, 2005

/S/ THOMAS L. FINKBINER

THOMAS L. FINKBINER, PRESIDENT AND

CHIEF EXECUTIVE OFFICER

(DULY AUTHORIZED OFFICER)

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

<u>DATE</u>	<u>SIGNATURE</u>	<u>TITLE</u>
March 31, 2005	<u>/s/ Thomas L. Finkbiner</u> Thomas L. Finkbiner	President, Chief Executive Officer, Chairman of the Board and Director (Principal Executive Officer)
March 31, 2005	<u>/s/ Timothy B. Page</u> Timothy B. Page	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
March 31, 2005	<u>*</u> Marc E. Becker	Director
March 31, 2005	<u>*</u> Joshua J. Harris	Director
March 31, 2005	<u>*</u> Anthony R. Ignaczak	Director
March 31, 2005	<u>*</u> Richard B. Marchese	Director
March 31, 2005	<u>*</u>	Director

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March 31, 2005	Donald C. Orris * _____	Director
March 31, 2005	Eric L. Press * _____	Director
March 31, 2005	Marc J. Rowan * _____	Director
March 31, 2005	Alan H. Schumacher * _____	Director
March 31, 2005	Michael D. Weiner	Director

* By: /s/ Thomas L. Finkbiner

Thomas L. Finkbiner

Attorney-in-fact

Table of Contents

QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	<u>Page(s)</u>
<u>Report of Independent Registered Certified Public Accounting Firm</u>	F-2
<u>Consolidated Statements of Operations for the Years Ended December 31, 2004, 2003 and 2002</u>	F-3
<u>Consolidated Balance Sheets as of December 31, 2004 and 2003</u>	F-4
<u>Consolidated Statements of Stockholders' Deficit and Comprehensive Loss for the Years Ended December 31, 2004, 2003 and 2002</u>	F-5
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2004, 2003 and 2002</u>	F-6
<u>Notes to Consolidated Financial Statements</u>	F-7 F-42

F-1

Table of Contents

REPORT OF INDEPENDENT REGISTERED CERTIFIED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Quality Distribution, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of stockholders' deficit and comprehensive loss and of cash flows present fairly, in all material respects, the financial position of Quality Distribution, Inc. and its subsidiaries at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 17 to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity, as of July 1, 2003.

As discussed in Note 12 to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, as of January 1, 2002.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP

Tampa, Florida
March 31, 2005

F-2

Table of Contents**QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS**

For the Years Ended December 31, 2004, 2003 and 2002

(In 000 s) Except Per Share Data

	<u>2004</u>	<u>2003</u>	<u>2002</u>
OPERATING REVENUES:			
Transportation	\$ 520,916	\$ 479,719	\$ 441,867
Other service revenue	70,607	70,110	68,862
Fuel surcharge	30,492	15,611	6,031
	<u>622,015</u>	<u>565,440</u>	<u>516,760</u>
OPERATING EXPENSES:			
Purchased transportation	420,565	360,303	301,921
Compensation	58,702	60,660	69,364
Fuel, supplies and maintenance	33,480	34,912	39,555
Depreciation and amortization	22,493	28,509	31,823
Selling and administrative	25,053	15,876	16,994
Insurance claims	22,793	32,209	18,427
Taxes and licenses	3,241	4,267	4,231
Communication and utilities	6,945	6,925	7,479
Loss on disposal of property and equipment	2,442	10	486
Impairment on property and equipment	2,923		
PPI class action settlement and related expenses	8,314		
CLC expenses		2,250	2,278
Restructuring charges		725	1,804
	<u>606,951</u>	<u>546,646</u>	<u>494,362</u>
Operating income	15,064	18,794	22,398
Interest expense, net	22,343	29,984	33,970
Interest expense, transaction fees		700	10,077
Interest expense, preferred stock conversion		59,395	
Gain on early debt extinguishment		(4,733)	
Other expense	857	649	6
	<u>(8,136)</u>	<u>(67,201)</u>	<u>(21,655)</u>
Loss before income taxes	(8,136)	(67,201)	(21,655)
Provision (benefit) for income taxes	2,421	(99)	1,443
	<u>(10,557)</u>	<u>(67,102)</u>	<u>(23,098)</u>
Loss from continuing operations	(10,557)	(67,102)	(23,098)
Discontinued operations:			
Loss from operations of discontinued divisions			(1,386)
Loss on disposal of discontinued divisions			(1,527)
	<u> </u>	<u> </u>	<u> </u>

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Loss before cumulative effect of change in accounting principle	(10,557)	(67,102)	(26,011)
Cumulative effect of change in accounting principle			(23,985)
	<u> </u>	<u> </u>	<u> </u>
Net loss	(10,557)	(67,102)	(49,996)
Preferred stock and minority stock dividends	(145)	(4,540)	(6,021)
	<u> </u>	<u> </u>	<u> </u>
Net loss attributable to common stockholders	\$ (10,702)	\$ (71,642)	\$ (56,017)
	<u> </u>	<u> </u>	<u> </u>
PER SHARE DATA:			
Basic:			
Net loss from continuing operations per common stockholder	\$ (0.57)	\$ (12.51)	\$ (8.64)
Loss on discontinued operations			(0.87)
Cumulative effect of change in accounting principle			(7.12)
	<u> </u>	<u> </u>	<u> </u>
Net loss per common stockholders	\$ (0.57)	\$ (12.51)	\$ (16.63)
	<u> </u>	<u> </u>	<u> </u>
Diluted:			
Net loss from continuing operations per common stockholder	\$ (0.57)	\$ (12.51)	\$ (8.64)
Loss on discontinued operations			(0.87)
Cumulative effect of change in accounting principle			(7.12)
	<u> </u>	<u> </u>	<u> </u>
Net loss per common stockholders	\$ (0.57)	\$ (12.51)	\$ (16.63)
	<u> </u>	<u> </u>	<u> </u>
Weighted average number of shares basic	18,910	5,729	3,369
Weighted average number of shares diluted	18,910	5,729	3,369

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

Table of Contents

QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2004 and 2003

(In 000 s)

	<u>2004</u>	<u>2003</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,700	\$ 955
Accounts receivable, net	100,836	78,032
Current maturities of notes receivable from affiliates	839	676
Prepaid expenses		