QUALITY DISTRIBUTION INC
Form 10-K
March 13, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

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

For the fiscal year ended December 31, 2008

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

For the transition period from to

COMMISSION FILE NUMBER 000-24180

Quality Distribution, Inc.

(Exact name of registrant as specified in its charter)

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

4041 Park Oaks Boulevard, Suite 200

Tampa, Florida 33610

(Address of principal executive offices) (zip code)

Registrant s telephone number, including area code:

813-630-5826

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

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

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

Title of each class	Name of each exchange on which registered

None

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

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

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

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

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

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

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

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

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

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

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INTRODUCTION

In this Annual Report on Form 10-K, unless the context otherwise indicates, (i) the terms the Company, Quality Distribution, QDI, we, us ar our refer to Quality Distribution, Inc. and its consolidated subsidiaries and their predecessors and (ii) the terms Quality Distribution, LLC and QD LLC refer to our wholly owned subsidiary, Quality Distribution, LLC, a Delaware limited liability company, and its consolidated subsidiaries and their predecessors.

FORWARD-LOOKING STATEMENTS AND CERTAIN CONSIDERATIONS

This report, along with other documents that are publicly disseminated by us, contains or might contain forward-looking statements within the meaning of the Securities Exchange Act of 1934, as amended (the Exchange Act). All statements included in this report and in any subsequent filings made by us with the SEC other than statements of historical fact, that address activities, events or developments that we or our management expect, believe or anticipate will or may occur in the future are forward-looking statements. These statements represent our reasonable judgment on the future based on various factors and using numerous assumptions and are subject to known and unknown risks, uncertainties and other factors that could cause our actual results and financial position to differ materially. We claim the protection of the safe harbor for forward-looking statements provided in the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act and Section 21E of the Exchange Act. Examples of forward-looking statements include: (i) projections of revenue, earnings, capital structure and other financial items, (ii) statements of our plans and objectives, (iii) statements of expected future economic performance, and (iv) assumptions underlying statements regarding us or our business. Forward-looking statements can be identified by, among other things, the use of forward-looking language, such as believes, expects, estimates, may, will, should, could, seeks, plans, intends, anticipates negatives of those terms, or other variations of those terms or comparable language, or by discussions of strategy or other intentions.

Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could cause the actual results to differ materially from those contemplated by the statements. The forward-looking information is based on various factors and was derived using numerous assumptions. Important factors that could cause our actual results to be materially different from the forward-looking statements include the following risks and other factors discussed under the Item -1A Risk Factors in this Annual Report on Form 10-K. These factors include:

- general economic conditions,
- recent turmoil in credit and capital markets,
- the availability of diesel fuel,
- adverse weather conditions,
- competitive rate fluctuations,
- our substantial leverage and restrictions contained in our debt arrangements and interest rate fluctuations in our floating rate indebtedness,
- the cyclical nature of the transportation industry due to various economic factors such as excess capacity in the industry, the availability of qualified drivers, changes in fuel and insurance prices, interest rate fluctuations, and downturns in customers business cycles and shipping requirements,

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

potential disruption at U.S. ports of entry,

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

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

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

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

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

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

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

- changes in senior management,

- our ability to successfully manage workforce restructurings,

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

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

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

All forward-looking statements contained in this Annual Report on Form 10-K are qualified in their entirety by this cautionary statement. Forward-looking statements speak only as of the date they are made, and we do not intend to update or otherwise revise the forward-looking statements to reflect events or circumstances after the date of this Annual Report on Form 10-K or to reflect the occurrence of unanticipated events.

PART I

ITEM 1. BUSINESS

Overview

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

Our revenue is principally a function of the volume of shipments by the bulk chemical industry, the number of miles driven per load, our market share and the allocation of shipments between tank truck transportation and other modes of transportation such as rail. The volume of shipments of chemical products is, in turn, affected by many other industries, including consumer and industrial products, automotive, paints and coatings and paper, and tends to vary with changing economic conditions. Economic conditions and differences among the laws and currencies of nations may impact the volume of shipments imported into the United States. Additionally, we provide leasing, tank cleaning, logistics and transloading services.

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

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

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

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

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

Acquisitions

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

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

Restructuring

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

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Development of Our Company

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

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

Financial Reporting Segments

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

- Trucking, which consists of truckload transportation of bulk chemicals, and
- Container Services, specifically ISO tank container transportation and depot services.

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

Our Industry

Trucking

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

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

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Container Services

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

Competitive Barriers

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

Market Opportunity

Trucking

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

Container Services

The proliferation of global import/export of bulk liquid chemicals has driven the movement of basic manufacturing out of the United States and has resulted in an increase in chemical plant infrastructure to service these off-shore industries. Driven by this globalization, the ISO tank container market is a growing sector of the overall liquid bulk chemical transportation sector. The resulting demand for distributors that can offer a broad range of services within the supply chain will drive future industry growth in this sector.

Our Competitive Strengths

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

Largest Tank Truck Network in a Fragmented Industry

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

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Asset Light Business Model

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

Core Carrier to Most Top 100 Chemical Companies

We provide services to most of the top 100 chemical producers with U.S. operations. Our ability to maintain these business relationships reflects our service performance and commitment to safety and reliability. We have established long-term customer relationships with these clients, which help us attract and retain experienced affiliate terminal operators and drivers. We expect to continue to benefit from our existing relationships with the largest chemical companies while targeting new revenue opportunities from smaller chemical companies and will continue to explore opportunities to expand the scope of services we offer.

Broad Menu of Complementary Services

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

Enhanced Productivity, Efficiency and Customer Service through Installed Technology

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

Our Operations Strategy

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

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Opportunistic Affiliate Conversions and Company Terminal Consolidations

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

Continued Focus on Safety and Training

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

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

Focus on Driver Recruitment and Retention

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

Expand Scope of Service Capabilities

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

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Optimize Network

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

Trucking Services Provided

Bulk Transportation Service

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

Affiliate Program

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

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

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

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

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Owner-Operators

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

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

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

Tank Wash Operations

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

Owner-Operator and Affiliate Services

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

Intermodal and Transloading

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

Container Services Provided

Intermodal Tank Container Services

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

Transportation Services

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

Equipment Sales

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

Operations

Driver Recruitment and Retention

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

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

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

Drivers and Owner-Operators

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

Company Personnel

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

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

Union Labor

At December 31, 2008, we had 168 employees (97 drivers) in trucking, maintenance or tank wash facilities and approximately 24 drivers at three affiliate terminals who were members of the International Brotherhood of Teamsters.

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Tractors and Trailers

As of December 31, 2008, we managed a fleet of approximately 3,200 tractors and 7,200 tank trailers. The majority of our tanks are single compartment, chemical-hauling trailers. The balance of the fleet is made up of multi-compartment trailers, dry bulk trailers, and special use equipment. The chemical transport units typically have a capacity between 5,000 and 7,800 gallons and are designed to meet DOT specifications for transporting hazardous materials. Each trailer is designed for a useful service life of 15 to 20 years, though this can be extended through upgrades and modifications. Each tractor is designed for a useful life of five to seven years, though this can be extended through upgrades and modifications. We acquire new tractors for an initial utilization period of seven years.

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

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

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

TRACTORS (1)	LESS THAN 3 YEARS	3~5 YEARS	6~10 YEARS	GREATER THAN 10 YEARS	TOTAL
Company	362	482	67	25	936
Affiliate	358	241	226	52	877
Owner-Operator	153	252	661	357	1,423
Total	**873**	**975**	**954**	**434**	**3,236**

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

Leasing

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

Customer Service, Quality Assurance and Billing

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

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

Technology

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

SALES AND MARKETING

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

ADMINISTRATION

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

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

CUSTOMERS

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

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COMPETITION

The tank truck business is competitive and fragmented. We compete primarily with other tank truck carriers and dedicated private fleets in various states within the United States and Canada. With respect to certain aspects of our business, we also compete with intermodal transportation and railroads. Intermodal transportation has increased in recent years.

Competition for the freight transported by us is based primarily on rates and service. Management believes that we enjoy significant competitive advantages over other tank truck carriers because of our variable cost structure, overall fleet size, national terminal network and tank wash facilities.

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

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

Competition from non-trucking modes of transportation and from intermodal transportation would likely increase if state or federal fuel taxes were to increase without a corresponding increase in taxes imposed upon other modes of transportation.

RISK MANAGEMENT, INSURANCE AND SAFETY

The primary insurable risks associated with our business are motor vehicle related bodily injury and property damage, workers compensation and cargo loss and damage (which includes spills and chemical releases). We maintain insurance against these risks and are subject to liability as a self-insurer to the extent of the deductible under each policy. We currently maintain liability insurance for bodily injury and property damage with an aggregate limit on the coverage in the amount of $40 million, with a $2 million per incident deductible.

QDI currently maintains a $1 million per incident deductible for workers compensation insurance coverage. We are insured over our deductible up to the statutory requirement by state and we are self-insured for damage or loss to the equipment we own or lease and for cargo losses.

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

ENVIRONMENTAL MATTERS

It is our policy to comply with all applicable environmental, safety, and health laws. We also are committed to the principles of Responsible Care®, an international chemical industry initiative to enhance the industry s responsible management of chemicals. We have obtained independent certification that our management system is in place and functions according to professional standards and we continue to evaluate and continuously improve our Responsible Care® Management System performance.

Our activities involve the handling, transportation and storage of bulk chemicals, both liquid and dry, many of which are classified as hazardous materials or hazardous substances. Our tank wash and terminal operations engage in the generation, storage, discharge and disposal of wastewater that may contain hazardous substances, the inventory and use of cleaning materials that may contain hazardous substances and the control and discharge

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of storm-water from industrial sites. In addition, we may store diesel fuel, materials containing oil and other hazardous products at our terminals. As such, we and others who operate in our industry are subject to environmental, health and safety laws and regulation by U.S. federal, state and local agencies as well as foreign governmental authorities. Environmental laws and regulations are complex, and address emissions to the air, discharge onto land or water, and the generation, handling, storage, transportation, treatment and disposal of waste materials. These laws change frequently and generally require us to obtain and maintain various licenses and permits. Environmental laws have tended to become more stringent over time, and most provide for substantial fines and potential criminal sanctions for violations. Some of these laws and regulations are subject to varying and conflicting interpretations. Under certain of these laws, we could also be subject to allegations of liability for the activities of our affiliates or owner-operators.

We are potentially subject to strict, joint and several liability for investigating and rectifying the consequences of spills and other releases of such substances. From time to time, we have incurred remedial costs and regulatory penalties with respect to chemical or wastewater spills and releases at our facilities and on the road, and, notwithstanding the existence of our environmental management program, we cannot assure that such obligations will not be incurred in the future, predict with certainty the extent of future liabilities and costs under environmental, health, and safety laws, or assure that such liabilities will not result in a material adverse effect on our business, financial condition, operating results or cash flow. We have established reserves for remediation expenses at known contamination sites when it is probable that such efforts will be required of us and the related expenses can be reasonably estimated. Additional information about our reserves, our estimates underlying them and the known contamination sites may be found at Note 18 to our consolidated financial statements contained herein, Commitments and Contingencies Environmental Matters.

We have also incurred in the past, and expect to incur in the future, capital and other expenditures related to environmental compliance for current and planned operations. Such expenditures are generally included in our overall capital and operating budgets and are not accounted for separately. However, we do not anticipate that compliance with existing environmental laws in conducting current and planned operations will have a material adverse effect on our capital expenditures, earnings or competitive position.

Reserves

Our policy is to accrue remediation expenses when it is probable that such efforts will be required and the related expenses can be reasonably estimated. Estimates of costs for future environmental compliance and remediation may be adversely affected by such factors as changes in environmental laws and regulatory requirements, the availability and application of technology, the identification of currently unknown potential remediation sites and the allocation of costs among the potentially responsible parties under the applicable statutes. The recorded liabilities are adjusted periodically as remediation efforts progress or as additional technical or legal information becomes available. As of December 31, 2008 and December 31, 2007, we had reserves in the amount of $10.9 million and $11.2 million, respectively, for all environmental matters of which the more significant are discussed below.

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

Property Contamination Liabilities

We have been named as (or are alleged to be) a potentially responsible party under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (CERCLA) and similar state laws at approximately 27 sites. At two of the 27 sites, we will be participating in the initial studies to determine site remediation objectives. Since our overall liability cannot be estimated at this time, we have set reserves for

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only the initial remedial investigation phase. At 21 of the 27 sites, we are one of many parties with alleged liability and are negotiating with Federal, State or private parties on the scope of our obligations, if any. At four of the 21 sites, we have explicitly denied any liability and since there has been no subsequent demand for payment we have not established a reserve for these matters. At two of the 21 sites, we have recently settled our obligations. We have estimated future expenditures for these off-site multi-party environmental matters to be in the range of $2.6 million to $3.8 million.

At six sites, we are the only responsible party and are in the process of conducting investigations and/or remediation projects. Four of these projects relate to operations conducted by Chemical Leaman Corporation and its subsidiaries (CLC) prior to our acquisition of and merger with CLC in 1998. These four sites are: (1) Bridgeport, New Jersey; (2) William Dick, Pennsylvania; (3) Tonawanda, New York; and (4) Scary Creek, West Virginia. The remaining two investigations and potential remediation were triggered by the New Jersey Industrial Site Remediation Act (ISRA), which requires such investigations and remediation following the sale of industrial facilities. Each of these sites is discussed in more detail below. We have estimated future expenditures for these six properties to be in the range of $8.3 million to $16.7 million.

Bridgeport, New Jersey

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

The groundwater treatment remedy negotiated with USEPA calls for a treatment facility for in-place treatment of groundwater contamination and a local discharge. Treatment facility construction was completed in early 2007. After various start-up issues, we expect the treatment facility to begin operating in 2009. Wetlands contamination has been remediated with localized restoration expected to be completed in 2009. In regard to contaminated soils, we believe that USEPA is now in the process of finalizing a feasibility study for the limited areas that show contamination and warrant additional investigation or work. We have estimated expenditures to be in the range of $5.1 million to $8.5 million.

William Dick, Pennsylvania

CLC entered into a consent order with the Pennsylvania DEP and USEPA in October 1995 obligating it to provide a replacement water supply to area residents, treat contaminated groundwater, and perform remediation of contaminated soils at this former wastewater disposal site. The replacement water supply is complete. We completed construction of a treatment facility with local discharge for groundwater treatment in the fourth quarter of 2007. Plant start-up issues are on-going. The agencies have approved a contaminated soils remedy, which requires both thermal treatment of contaminated soils and treatment of residuals via soil vapor extraction. The remedy expanded to include off-site shipment of contaminated soils. Soil treatment was completed in September 2007. Site sampling has been conducted and the results indicate that the soil clean-up objectives have not been fully achieved. Negotiations are on-going with USEPA over further remedial actions that may be needed at the site. We have estimated expenditures to be in the range of $0.7 million to $3.4 million.

Other Properties

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

Tonawanda, New York: CLC entered into a consent order with the New York Department of Environmental Conservation on June 22, 1999 obligating it to perform soil and groundwater remediation at this former truck terminal and tank wash site. We have completed a remedial investigation and a feasibility study. The State issued a record of decision in May 2006. The site is currently in Remedial Design phase.

ISRA New Jersey Facilities: We are obliged to conduct investigations and remediation at two 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. These sites are in the process of remedial investigation with projections set in contemplation of limited soil remediation expense for contaminated areas. The former owner of a third site has agreed to take responsibility for it so we are not currently taking action under ISRA for the site.

We have estimated future expenditures for Scary Creek, Tonawanda and ISRA to be in the range of $2.5 million to $4.8 million.

OTHER LEGAL MATTERS

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

MOTOR CARRIER REGULATION

As a motor carrier, we are subject to regulation by the Federal Motor Carrier Safety Administration (FMCSA), and the Surface Transportation Board, or STB, both of which are units of the Department of Transportation (DOT). The FMCSA enforces comprehensive trucking safety regulations and performs certain functions relating to such matters as motor carrier registration, cargo and liability insurance, extension of credit to motor carrier customers, and leasing of equipment by motor carriers from owner-operators. The STB has authority to resolve certain types of pricing disputes and authorize certain types of intercarrier agreements. There are additional regulations specifically relating to the tank truck industry, including testing and specifications of equipment and product handling requirements. We may transport most types of freight to and from any point in the United States over any route selected by us. The trucking industry is subject to possible regulatory and legislative changes that may affect the economics of the industry by requiring changes in operating practices or by changing the demand for common or contract carrier services or the cost of providing truckload services. Some of these possible changes may include increasingly stringent environmental regulations, increasing control over the transportation of hazardous materials, changes in the hours-of-service regulations which govern the amount of time a driver may drive in any specific period of time, mandatory onboard black box recorder devices or limits on vehicle weight and size. In addition, our tank wash facilities are subject to stringent local, state and federal environmental regulation.

Interstate motor carrier operations are subject to safety requirements prescribed by the DOT. To a large degree, intrastate motor carrier operations are subject to safety and hazardous material transportation regulations that mirror federal regulations. Such matters as weight and dimension of equipment are also subject to federal and state regulations. DOT regulations mandate drug and alcohol testing of drivers and other safety personnel.

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

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

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

SEASONALITY

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

ADDITIONAL INFORMATION AVAILABLE ON COMPANY WEBSITE

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

ITEM 1A. RISK FACTORS

Risks Related to Our Business

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

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

- the availability of qualified drivers,
- access to the credit and capital markets,
- changes in regulations concerning shipment and storage of material we transport and depot,
- increases in fuel taxes and tolls,
- interest rate fluctuations,
- excess capacity in the tank trucking industry,

changes in license and regulatory fees,

potential disruptions at U.S. ports of entry,

downturns in customers business cycles,

reductions in customers shipping requirements, and

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the U.S. economy generally.

As a result, we may experience periods of overcapacity, declining prices, lower profit margins, and less availability of cash in the future. We have a large number of customers in the chemical-processing and consumer-goods industries. If these customers experience fluctuations in their business activity due to an economic downturn, work stoppages or other industry conditions, the volume of freight transported by us or container services provided by us on behalf of those customers may decrease. The trucking industry has recently experienced a slowdown due to lower demand resulting from slowing economic conditions.

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

At December 31, 2008, we had consolidated long-term indebtedness and capital lease obligations, including current maturities, of $362.6 million. The amount of our indebtedness could have important consequences, including the following:

- using a portion of our cash flow to pay interest on our indebtedness will reduce the availability of our cash flow to fund working capital, capital expenditures and other business activities,
- it increases our vulnerability to adverse economic and industry conditions,
- it limits our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate,
- it limits our ability to exploit business opportunities, and
- it limits our operational flexibility, including our ability to borrow additional funds.

In addition, covenants in our debt agreements limit the use of proceeds from our ordinary operations and from extraordinary transactions. These limits may require us to apply proceeds in a certain manner or prohibit us from utilizing the proceeds in our operations or from prepaying or retiring indebtedness that we desire.

Our variable interest rate debt was $222.0 million as of December 31, 2008. Therefore, increases in market rates of interest will increase our interest expense, which would decrease our earnings. A 1% increase in the interest rate for our variable debt would increase our annual interest expense by approximately $2.2 million.

Recent turmoil in the credit and capital markets and in the financial services industry may increase our borrowing costs and may negatively impact our liquidity.

Recently, the credit markets, capital markets and the financial services industry have been experiencing a period of unprecedented turmoil and upheaval characterized by the bankruptcy, failure, collapse or sale of various financial institutions and an unprecedented level of intervention from the United States federal government. While the ultimate outcome of these events cannot be predicted, they may have a material adverse effect on our liquidity and financial condition if our ability to borrow money to finance our operations from our existing lenders under our bank credit agreements or obtain credit from trade creditors were to be impaired. We may also be unable to refinance existing indebtedness in the capital markets if we desire or to do so only at unfavorable rates as a result of capital markets turmoil. In addition, the recent economic crisis could also adversely impact our customers ability to finance their operations, which may negatively impact our business and results of operations.

One consequence of these upheavals has been sudden and dramatic changes in LIBOR. At December 31, 2008, $222.0 million in principal amount of our outstanding borrowings have interest based solely or alternatively on a margin over LIBOR. Increases in LIBOR could therefore materially increase the cost of our borrowings. In addition, capital markets have recently experienced significant volatility and disruption. A

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majority of our existing indebtedness was sold through capital markets transactions. We anticipate that the capital markets could be a source of refinancing of our existing indebtedness in the future. This source of refinancing may not be available if capital markets volatility and disruption continues, which could have a material adverse effect on our liquidity.

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

We rely on participants in our affiliate program and independent owner-operators. A reduction in the number of owner-operators, whether due to capital requirements related to the expense of obtaining, operating and maintaining equipment or for other reasons, could have a negative effect on our operations and profitability. Similarly the loss of our more robust affiliates could adversely affect our profitability. Contracts with affiliates are for various terms and contracts with owner-operators may be terminated by either party on short notice. Although affiliates and owner-operators are responsible for paying for their own equipment and other operating costs, significant increases in these costs could cause them to seek a higher percentage of the revenue generated if we are unable to increase our rates commensurately. Conversely, a continued decline in the rates we pay to our affiliates and owner-operators could adversely affect our ability to maintain our existing affiliates and owner-operators and attract new affiliates, owner-operators and drivers.

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

The primary accident risks associated with our business are:

- motor-vehicle related bodily injury and property damage,
- workers compensation claims,
- cargo loss and damage, and
- general liability claims.

We currently maintain insurance for:

- motor-vehicle related bodily injury and property damage claims, covering all employees, owner operators and affiliates,
- workers compensation insurance coverage on our employees and company drivers, and
- general liability claims.

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

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

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

As a motor carrier, we are subject to regulation by the Federal Motor Carrier Safety Administration, or FMCSA, and the U.S. Department of Transportation or DOT, and by various state, federal and provincial agencies. These regulatory authorities exercise broad powers governing activities such as operating authority, safety, hours of service, hazardous materials transportation, financial reporting and acquisitions. There are additional regulations specifically relating to the trucking industry, including testing and specification of equipment, product-handling requirements and drug testing of drivers. The trucking industry is subject to possible regulatory and legislative changes that may affect the economics of the industry by requiring changes in operating practices or by changing the demand for common or contract carrier services or the cost of providing truckload services. Possible changes include:

- increasingly stringent environmental regulations,
- increasing control over the transportation of hazardous materials,
- changes in the hours-of-service regulations, which govern the amount of time a driver may drive in any specific period,
- onboard black box recorder devices,
- requirements leading to accelerated purchases of new trailers,
- mandatory limits on vehicle weight and size, and
- mandatory regulations imposed by the Department of Homeland Security.

From time to time, various legislative proposals are introduced, including proposals to increase federal, state, or local taxes, including taxes on motor fuels, which may increase our costs or adversely impact the recruitment of drivers.

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

Although only approximately 4.0% of our driver workforce, including owner-operators and employees of affiliates, were subject to collective bargaining agreements at December 31, 2008, unions such as the International Brotherhood of Teamsters have traditionally been active in the U.S. trucking industry. Unionized workers could disrupt our operations by strike, work stoppage or other slowdown. In addition, our non-union workforce has been subject to unionization efforts in the past, and we could be subject to future unionization. Increased unionization of our workforce could result in higher compensation and working condition demands that could increase our operating costs or constrain our operating flexibility.

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

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

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

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have incurred remedial costs and regulatory penalties for chemical or wastewater spills and releases at our facilities or over the road, and, notwithstanding the existence of our environmental management program and insurance applicable to these risks, we expect that additional similar obligations will be incurred in the future. As a result of environmental studies conducted at our facilities or at third party sites, we have identified environmental contamination at certain sites that will require remediation and we are currently conducting investigation and remediation projects at eight of our facilities. Future liabilities and costs under environmental, health, and safety laws are not easily predicted, and such liabilities could result in a material adverse effect on our financial condition, results of operations or business reputation.

In addition, we have been named a potentially responsible party at various sites under the Comprehensive Environmental Response Compensation and Liability Act of 1980. Our current reserves provided for these sites may prove insufficient, which would result in future charges against earnings. Further, we could be named a potentially responsible party at other sites in the future and the costs associated with such future sites could be material.

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

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

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

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

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

During periods of high trucking volumes, there is substantial competition for qualified drivers in the trucking industry. Furthermore, certain geographic areas have a greater shortage of qualified drivers than other areas. We operate in many of the geographic areas where there have been driver shortages in the past and have turned down new business opportunities as a result of the lack of qualified new drivers. Difficulty in attracting qualified personnel, particularly qualified drivers, could require us to increase driver compensation, forego available customer opportunities and underutilize the tractors and trailers in our network. These actions could result in increased costs and decreased revenues. In addition, we may not be able to recruit other qualified personnel in the future.

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 30.9% of our total revenues during 2008. In particular, our largest customer, Dow Chemical Company, accounted for 6.5% of our total QCI revenues during 2008. The loss of Dow Chemical Company or one or more of our other major customers, or a material reduction in services performed for such customers, may have a material adverse effect on our results of operations.

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

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

We depend on members of our senior management.

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

Our long-lived assets are subject to potential asset impairment

A significant portion of our assets consist of goodwill and other intangible assets, the carrying value of which may be reduced if we determine that those assets are impaired. At December 31, 2008, goodwill and other intangible assets represented approximately $196.2 million, or approximately 39.1% of our total assets. In addition, net property and equipment totaled approximately $148.7 million, or approximately 29.6% of our total assets.

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

The annual goodwill impairment review performed in June 2008 indicated no goodwill impairments. No impairment charges were recorded during 2008.

If actual results differ from estimates used in these calculations, the Company could incur future (unanticipated) impairment charges.

Our restructuring involves risks to our business operations and may not reduce our costs.

During 2008, we eliminated non-driver positions, consolidated and closed under-performing company terminals and implemented certain contract terminations. These steps have placed, and will continue to place, pressures on our management, administrative and operational infrastructure as well as on our results of operations. Employees that departed in connection with the restructuring possessed knowledge of our business, skills and relationships with our customers, affiliates, drivers and other employees that were not replaced. As a result, our remaining employees may be required to serve new operational roles in which they have limited experience, which may reduce employee satisfaction and productivity. New relationships may also reduce customer, affiliate or driver satisfaction. Additionally, our restructuring plans and related efforts may divert management s and other employee s attention from other business concerns.

Due to the restructuring, we took pre-tax charges in 2008 which represent severance-related costs and costs associated with lease and contract terminations. The majority of these costs were cash expenditures paid during

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2008 or costs that we expect to pay in the future. Actual costs may exceed our estimates. Furthermore, we have formulated this restructuring plan with the goal of reducing our future operating expenses. Our future operating expenses may not be reduced as we expect, or reductions may be offset in the future by other expenses.

In addition, risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially adversely affect our business, financial condition and/or operating results.

Interests of Apollo may conflict with your interests.

At March 6, 2009, Apollo and its affiliated funds owned or controlled approximately 53.6% of our outstanding common stock. As a result, Apollo can influence substantially all matters requiring shareholder approval, including the election of directors, the approval of significant corporate transactions, such as acquisitions, the ability to block an unsolicited tender offer and any other matter requiring a vote of shareholders. The interests of Apollo may conflict with your interests. For example, if we encounter financial difficulties, or are unable to pay our debts as they mature, Apollo may have an interest in pursuing acquisitions, divestitures, financings or other transactions that, in their judgment, could enhance their equity investment, even though these transactions might involve risk to our shareholders or debt holders. Similarly, if our financial performance and creditworthiness significantly improve in the future, Apollo may have an interest in pursuing reorganizations, restructurings, or other transactions that could increase our leverage or impair our creditworthiness or otherwise, in their judgment, enhance Apollo s equity investment in QDI, even though these transactions might involve risk to our shareholders or debtholders.

We may be unable to identify potential acquisition candidates or realize the intended benefits of consummated acquisitions.

We evaluate potential acquisitions from time to time, some of which could be material, and engage in discussions with acquisition candidates. We cannot assure you that suitable acquisition candidates will be identified and acquired in the future, that the financing of any such acquisition will be available on satisfactory terms, that we will be able to complete any such acquisition or that we will be able to accomplish our strategic objectives as a result of any such acquisition. Nor can we assure you that our past acquisitions, including our acquisition of Boasso, will be successfully received by customers or achieve their intended benefits. Often acquisitions are undertaken to improve operating results of either or both of the acquirer or the acquired company, and we cannot assure you that we will be successful in this regard. We may be held liable for risks and liabilities (including for environmental-related costs or liabilities) as a result of acquisitions which we are not aware of at the present time, some of which may not have been discoverable from our due diligence efforts. We will encounter various risks in acquiring other companies, including the possible inability to integrate an acquired business into our operations, diversion of management s attention and unanticipated problems or liabilities, some or all of which could materially and adversely affect our business, financial condition or results of operations.

Risks Related to our Common Stock

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

As of March 6, 2009, Apollo and its affiliated funds owned or controlled approximately 53.6% of our outstanding common stock. As a result, Apollo can influence substantially all matters requiring shareholder approval, including the election of directors, the approval of significant corporate transactions, such as acquisitions, the ability to block an unsolicited tender offer and any other matter requiring a vote of shareholders. This concentration of ownership could delay, defer or prevent a change in control of our Company or impede a merger, consolidation, takeover or other business combination which a shareholder, may otherwise view favorably.

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

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

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

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

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

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

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

The market price of our common stock could decline as a result of sales by our existing shareholders of a large number of shares of our common stock. These sales might also make it more difficult for us to sell additional equity securities at a time and price that we deem appropriate. As of March 6, 2009, there are approximately 19.6 million shares of common stock outstanding. Approximately 11.3 million shares of common stock are restricted securities as defined in Rule 144 under the Securities Act of 1933 or are held by affiliates.

In addition, as of March 6, 2009, we have 4.3 million shares of common stock registered for issuance under our stock option plan. Options representing 2.2 million shares were outstanding as of March 6, 2009.

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

We do not expect to pay dividends on our common stock in the foreseeable future. In addition, the agreements and indentures governing our indebtedness restrict our ability to pay dividends. Accordingly, the price of our common stock must appreciate in order to realize a gain on one s investment. This may not occur.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Currently we lease approximately 68,000 square feet for our administrative and corporate office headquarters in Tampa, Florida. The lease for our corporate headquarters expires in December 2017. The corporate headquarters, for our subsidiary, Boasso, is located in Chalmette, Louisiana, and consists of 20,000 square feet of office space. The lease expires April 2013.

We have no other location that is material to our operations. We engage in bulk transportation of liquid and dry chemical products through our subsidiary, QCI. Our tank wash business is operated through our subsidiary, QSI. Our container services are operated through our subsidiary, Boasso.

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As of December 31, 2008, our terminals and facilities consisted of the following:

	Terminals Operated	Segment
QCI trucking terminals	54	Trucking
QSI tank wash facilities	30	Other
QCI Affiliate trucking terminals	54	Trucking
QSI Affiliate tank wash facilities	3	Other
Boasso container services	8	Container Services
Total	149	

In many instances, we operate different types of terminals out of the same physical location. For example, one physical location may contain both a trucking and tank was facility.

We currently own 44 properties from which we operate our trucking, tank wash and container services terminals.

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

ITEM 3. LEGAL PROCEEDINGS

In addition to those items disclosed under Item 1. Business Environmental Matters and Note 18 to our consolidated financial statements contained herein, Commitments and Contingencies Environmental Matters, we are from time to time involved in routine litigation incidental to the conduct of our business. We believe that no such routine litigation currently pending against us, if adversely determined, would have a material adverse effect on our consolidated financial position, results of operations or cash flows.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of security holders during the fourth quarter of fiscal year 2008.

EXECUTIVE OFFICERS OF THE REGISTRANT

Our executive officers, as of March 6, 2009 are as follows:

Name	Age	Position
Gary R. Enzor	46	President and Chief Executive Officer
Stephen R. Attwood	57	Senior Vice President and Chief Financial Officer
Dennis R. Copeland	59	Senior Vice President Administration
Jonathan C. Gold	45	Senior Vice President, General Counsel and Secretary

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

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

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

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

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PART II

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

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

	Common Stock	
	High	Low
2008		
1st quarter	$ 5.17	$ 2.57
2nd quarter	4.00	2.42
3rd quarter	4.90	2.22
4th quarter	4.28	1.22
2007		
1st quarter	$ 13.06	$ 6.79
2nd quarter	11.35	8.50
3rd quarter	11.94	7.93
4th quarter	9.18	3.95

As of March 6, 2009, there were approximately 91 holders of record of our common stock.

DIVIDEND POLICY

We have not declared cash dividends on our common stock for the periods presented above and have no present intention of doing so. We currently intend to retain our future earnings, if any, to repay debt or to finance the further expansion and continued growth of our business. Our ability to pay dividends is also restricted by our credit agreements and indentures. Future dividends, if any, will be determined by our Board of Directors.

UNREGISTERED SALES OF EQUITY SECURITIES

None

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PERFORMANCE GRAPH

The following graph depicts a comparison of cumulative total shareholder returns for us as compared to the NASDAQ Trucking & Transportation Index and the NASDAQ Stock Market (U.S.) Index. The graph assumes the investment of $100 on December 31, 2003 through December 31, 2008.

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ITEM 6. SELECTED FINANCIAL DATA

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

The consolidated statements of operations data set forth below for the years ended December 31, 2008, 2007 and 2006 and the historical balance sheet data as of December 31, 2008 and 2007 are derived from our audited financial statements included under Item 8 of this report. The historical statements of operations data for the years ended December 31, 2005 and 2004 and the historical balance sheet data as of December 31, 2006, 2005 and 2004 are derived from our audited financial statements that are not included in this report.

	YEAR ENDED DECEMBER 31				
	2008	2007	2006	2005	2004
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)				
Statements of Operations Data					
Operating revenues	$ 815,290	$ 751,558	$ 730,159	$ 678,076	$ 622,015
Operating expenses:					
Purchased transportation	466,823	471,531	493,686	471,238	420,565
Depreciation and amortization	21,002	17,544	16,353	17,278	23,266
Other operating expenses	294,487	238,630	171,842	149,741	162,936
Operating income	32,978	23,853	48,278	39,819	15,248
Interest expense, net	35,120	30,524	29,388	26,712	22,343
Write-off of debt issuance costs	283	2,031		1,110	
Gain on extinguishment of debt	(16,532)				
Other (income) expense	(2,945)	940	888	(222)	857
Income (loss) before taxes	17,052	(9,642)	18,002	12,219	(7,952)
Provision for (benefit from) income taxes	4,940	(2,079)	(38,168)	352	2,421
Net income (loss)	12,112	(7,563)	56,170	11,867	(10,373)
Preferred stock dividends					(145)
Net income (loss) attributable to common shareholders	$ 12,112	$ (7,563)	$ 56,170	$ 11,867	$ (10,518)
Net income (loss) per common share:					
Basic	$ 0.63	$ (0.39)	$ 2.97	$ 0.63	$ (0.56)
Diluted	0.62	(0.39)	2.87	0.61	(0.56)
Weighted average common shares outstanding:					
Basic	19,379	19,336	18,920	18,934	18,910
Diluted	19,539	19,336	19,571	19,301	18,910

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	YEAR ENDED DECEMBER 31				
	2008	2007	2006	2005	2004
	(DOLLARS IN THOUSANDS, EXCEPT TERMINAL, TRAILER AND TRACTOR DATA)				
Other Data					
Net cash provided by operating activities	$ 19,593	$ 14,052	$ 28,236	$ 9,039	$ 15,945
Net cash used in investing activities	(8,524)	(63,399)	(10,591)	(16,063)	(8,081)
Net cash (used in) provided by financing activities	(13,485)	52,194	(12,474)	5,858	(6,070)
Number of terminals at end of period (1)	149	169	165	165	161
Number of trailers operated at end of period	7,245	7,506	7,769	7,461	7,377
Number of tractors operated at end of period	3,236	3,927	3,829	3,539	3,550
Balance Sheet Data at Year End:					
Working capital	$ 44,967	$ 67,093	$ 59,673	$ 43,079	$ 4,926
Total assets	502,103	493,976	417,873	377,053	373,952
Total indebtedness, including current maturities	362,586	349,271	279,122	289,116	276,550
Shareholders equity (deficit)	31,020	27,300	31,774	(27,462)	(39,446)

(1) Excludes transload facilities.

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

Our revenue is principally a function of the volume of shipments by the bulk chemical industry, the number of miles driven per load, our market share, and the allocation of shipments between tank truck transportation and other modes of transportation such as rail. The volume of shipments of chemical products is, in turn, affected by many other industries, including consumer and industrial products, automotive, paints and coatings, and paper, and tends to vary with changing economic conditions. Economic conditions and differences among the laws and currencies of nations may impact the volume of shipments imported into the United States. Additionally, we provide leasing, tank cleaning, logistics and transloading services.

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

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

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

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

In 2009, we expect to consolidate certain company-operated terminals, and to transition other company-operated terminals to affiliates. We expect these actions to result in a larger portion of our revenue being generated by affiliates. We believe these actions will reduce certain fixed costs and provide a more variable cost structure in our weakened economy.

We believe the most significant factors relevant to our future business growth are the ability to (i) obtain additional business from existing customers, (ii) add new customers and (iii) recruit and retain drivers. While a number of our customers operate their own private tank truck fleets and many of our customers source some of

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their logistics needs with rail, we expect our customers to continue to outsource a greater proportion of their logistics needs to full service tank truck carriers. As a result of our leading market position, strong customer relationships and flexible business model, we believe we are well-positioned to benefit from customers seeking consolidation of their shipping relationships and those opting to outsource a greater portion of their logistics needs to third-party tank truck carriers.

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

Boasso is the leading provider of International Organization for Standardization, or ISO, tank container transportation and depot services in North America. The ISO tank container business generally provides services that facilitate the global movement of liquid and dry bulk chemicals, pharmaceuticals and food grade products. The ISO tank container transportation market has experienced significant recent growth as chemical manufacturers move towards greater utilization of ISO tank containers to efficiently transport their products around the world via sea, land and air.

Our Operations Strategy

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

Opportunistic Affiliate Conversions and Company Terminal Consolidations. We intend to continue to focus on a less capital intensive business model based on affiliates and owner-operators. We continually evaluate our mix of affiliate and company terminals to optimize customer service, revenue growth, profitability and return on investment. In situations where an efficient and profitable affiliate can absorb a less profitable company terminal, we may consolidate the two operations under the affiliate.

Continued Focus on Safety and Training. We have made safety the main focus of our organization. We implemented several comprehensive process improvement programs to further identify and implement opportunities for sustainable safety improvement. Tangible results of this focus have already manifested themselves in a substantial decrease in preventable events and claim frequency. We also redesigned our driver training program and updated our online training system to make safety awareness training portable and available to the driver s, dispatchers and terminal managers via the internet. QDI is committed to conduct its operations in a manner that protects our employees, surrounding communities, customers, and the environment. As a member of the American Chemistry Council (ACC) and partner of Responsible Care® it is our goal to improve the quality of our service and the level of safety. Participation in Responsible Care® is mandatory for all ACC member companies. QDI is only one of six bulk transportation service providers that have reported compliance with Responsible Care® Carrier Certification Management System, which determines applicability and addresses the requirements of laws, regulations, company and other requirements regarding the environmental, health, safety and security of its operations. We have obtained independent certification that our management system is in place and functions according to professional standards and we continue to evaluate and continuously improve our Responsible Care® Management System performance.

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

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

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

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.

The asset lives used are presented in the following table:

	Average Lives (in years)
Buildings and improvements	10 - 25
Tractors and terminal equipment	5 - 7
Trailers	15 - 20
Furniture and fixtures	3 - 5
Other equipment	3 - 10

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

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

Goodwill We evaluate goodwill for impairment at least annually during the second quarter with a measurement date of June 30, or more frequently if indicators of impairment arise, in accordance with the provisions of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (SFAS 142). We have identified three reporting units: trucking, container services and other. Our evaluation of goodwill is measured through a two-step impairment test. The first step compares the fair value of a reporting unit to its carrying amount, including goodwill. Fair value is determined using two valuation approaches: a market approach and an income approach. The market approach considers our financial condition and operating performance relative to those of publicly traded companies operating in the same or similar lines of business. The income approach expresses value in terms of the present value of future anticipated income discounted for risk. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired, thus the second step of the impairment test is unnecessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test shall be performed to measure the amount of impairment loss. The second step compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss must be recognized in an amount equal to the excess. The loss recognized cannot exceed the carrying amount of goodwill. After a goodwill impairment loss is recognized, the adjusted carrying amount of goodwill will be its new accounting basis. Subsequent reversal of a previously recognized goodwill impairment loss is prohibited once the measurement of that loss is completed. We determined no impairment to have occurred as of June 30, 2008, since the calculated fair value exceeded the carrying amount.

Deferred Tax Asset We use the liability method of accounting for income taxes as prescribed by SFAS No. 109. Significant management judgment is required in determining the provision for income taxes and, in particular, any valuation allowance that is recorded or released against our deferred tax assets.

During 2006, we released approximately $45.8 million of our deferred tax valuation allowance based on our assessment that it was more likely than not that those deferred tax assets will be realizable based on income projections of future taxable income and the expiration dates and amounts of net operating loss carryforwards. These estimates of projected taxable income include price and volume increases as well as expected expansion of market share. These projections are based on assumptions which management believes to be reasonable and consistent with current operating results although the actual results achieved may differ materially from these projections.

We continue to evaluate quarterly, the positive and negative evidence regarding the realization of net deferred tax assets in accordance with SFAS No. 109, Accounting for Income Taxes. Included in this assessment are estimates of projected future taxable income. Significant management judgment is required in this process and although realization is not assured, based on our assessment, we concluded it is more likely than not, such assets will continue to be realized.

At December 31, 2006 positive evidence included having achieved profitability for financial reporting purposes for eight consecutive quarters beginning with the first quarter of fiscal 2005. Additionally, we were no longer in a U.S. cumulative loss position at the third quarter of fiscal 2006. We determine cumulative losses on a rolling thirty-six months basis.

We project both aggregate U.S. pre-tax income as well as aggregate U.S. taxable income for the years 2009 through 2012 sufficient to absorb the $98.0 million existing net operating loss carryforwards. At December 31, 2008 we had an estimated $98.0 million in federal net operating loss carryforwards, $2.3 million in alternative minimum tax credit carryforwards and $2.9 million in foreign tax credit carryforwards. The net operating loss carryforwards will expire in the years 2018 through 2027, while the alternative minimum tax credits may be carried forward indefinitely and the foreign tax credits may be carried forward for ten years. We do not have a history of net operating loss or tax credit carryforwards expiring unused; however, we have determined based on the weight of available evidence that it is more likely than not that some portion of our $2.9 million foreign tax credits may not be realized. As a result we have established a valuation allowance of $1.8 million against our foreign tax credit deferred tax asset.

We continue to believe it is more likely than not that the net deferred tax assets will be realizable because we are projecting positive future taxable income through 2012 sufficient to absorb the $98.0 million net operating loss carryforwards. We will continue to review our forecast quarterly in relation to actual results and expected trends on an ongoing basis. Failure to achieve our operating income targets may change our assessment regarding the recoverability of our net deferred tax assets and such change could result in a valuation allowance being recorded against some or all of our deferred tax assets. Any increase in a valuation allowance would result in additional income tax expense.

Uncertain Income Tax Positions We account for FASB Interpretation No. 48 Accounting for Uncertainty in Income Taxes an Interpretation of FASB No. 109 (FIN 48), using a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as we have to determine the probability of various possible outcomes.

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

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 $2.0 million per incident for bodily injury and property damage and $1.0 million for workers compensation for periods after March 31, 2008. From September 15, 2002 to March 30, 2008, our insurance deductible was $5.0 million per incident for bodily injury and property damage. 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 non-trucking 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.

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 completed. Service revenues on insurance policies are recorded as a contractual percentage of premiums received ratably over the period that the insurance covers. We have recognized all revenues on a gross basis as the principal and primary obligor with risk of loss in relation to our responsibility for completion of services as contracted 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.

Stock compensation plans Stock compensation is determined by the assumptions required under Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (SFAS 123(R)). The fair values of stock option grants are based upon the Black-Scholes option-pricing model and amortized as compensation expense on a straight-line basis over the vesting period of the grants. Restricted stock awards are issued and measured at market value on the date of grant and related compensation expense is recognized over time using graded vesting, which accelerates compensation expense into the first two years of the four year vesting period. Stock-based compensation expense related to stock options and restricted stock was $1.0 million and $0.3 million, respectively, for fiscal year 2008. As of December 31, 2008, there was approximately $2.5 million of total unrecognized compensation cost related to the unvested portion of our stock-based awards. The recognition period for the remaining unrecognized stock-based compensation cost is approximately four years. For further discussion on stock-based compensation, see Note 17 of Notes to Consolidated Financial Statements included in Item 15 of this report.

Pension plans We maintain two noncontributory defined-benefit plans resulting from a prior acquisition that cover certain 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 GAAP, which include various actuarial assumptions such as discount rates (6.00% to 6.25%) and assumed rates of return (7.50% to 8.00%) depending on the pension plan. Material changes in pension costs may occur in the future due to changes in these assumptions. Future annual amounts could be impacted by changes in the discount rate, changes in the expected long-term rate of return, changes in the level of contributions to the plans and other factors.

We had an accumulated net pension equity charge (after-tax) of $9.7 million and $1.6 million at December 31, 2008 and 2007, respectively. The higher equity charge in 2008 reflects the decline in our funded status as a result of significant negative asset returns during 2008. Total asset returns for both pension plans were negative approximately 36% in 2008.

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 differs between our two plans, but it is between 50% to 67% for equities and 33% to 50% for bonds. The current inflation assumption is 3.00%. We review our actuarial assumptions on an annual basis and make modifications to the assumptions based on current rates and trends when appropriate. The effects of the modifications are amortized over future periods.

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Assumed discount rates and expected return on plan assets have a significant effect on the amounts reported for the pension plan. At December 31, 2008, our projected benefit obligation (PBO) was $45.6 million. Our projected 2008 net periodic pension expense is $2.2 million. A 1.0% decrease in our assumed discount rate would increase our PBO to $50.3 million and increase our 2008 net periodic pension expense less than $0.1 million. A 1.0% increase in our assumed discount rate would decrease our PBO to $41.8 million and decrease our 2008 net periodic pension expense to $2.1 million. A 1.0% decrease in our assumed rate of return would not change our PBO but would increase our 2008 net periodic pension expense to $2.4 million. A 1.0% increase in our assumed rate of return would not change our PBO but would decrease our 2008 net periodic pension expense to $1.9 million.

Restructuring We account for restructuring costs associated with one-time termination benefits, costs associated with lease and contract terminations and other related exit activities in accordance with SFAS No. 146 Accounting for Costs Associated with Exit or Disposal Activities. We have made estimates of the costs to be incurred as part of our restructuring plan. During the quarter ended June 30, 2008, we committed to a plan of restructure resulting in the termination of non-driver positions and the consolidation or closure of underperforming company terminals. We continued our plan of restructure throughout 2008 which resulted in a restructuring charge of $5.3 million of which the majority related to our trucking segment. The total restructuring charge for 2008 represents $2.0 million of severance costs, $0.6 million in contract termination costs and $2.7 million related to other exit costs. As of December 31, 2008, approximately $0.8 million was accrued related to the restructuring charges, which is expected to be paid during 2009.

NEW ACCOUNTING PRONOUNCEMENTS

Refer to Note 2, Significant Accounting Policies New Accounting Pronouncements and Adoption of Statement of Financial Accounting Standards No. 157 and No. 159, in the Notes to Consolidated Financial Statements for discussion of recent accounting pronouncements and for additional discussion surrounding the adoption of accounting standards.

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RESULTS OF OPERATIONS

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

	Year Ended December 31,		
	2008	2007	2006
OPERATING REVENUES:			
Transportation	69.4%	77.3%	79.1%
Other service revenue	12.8	10.1	9.1
Fuel surcharge	17.8	12.6	11.8
Total operating revenues	100.0	100.0	100.0
OPERATING EXPENSES:			
Purchased transportation	57.3	62.7	67.6
Compensation	13.4	11.4	10.0
Fuel, supplies and maintenance	14.0	10.8	7.3
Depreciation and amortization	2.6	2.3	2.2
Selling and administrative	4.4	4.2	3.3
Insurance claims	1.8	3.2	1.8
Taxes and licenses	0.6	0.5	0.5
Communication and utilities	1.6	1.5	1.2
(Gain) loss on disposal of property and equipment	(0.4)	0.1	(0.7)
Restructuring costs	0.7		
Total operating expenses	96.0	96.7	93.2
Operating income	4.0	3.3	6.8
Interest expense, net	4.3	4.1	4.0
Write-off of debt issuance costs		0.3	
Gain on extinguishment of debt	(2.0)		
Other (income) expense	(0.4)	0.1	0.2
Income (loss) before income taxes	2.1	(1.2)	2.6
Provision for (benefit from) income taxes	0.6	(0.3)	(5.2)
Net income (loss)	1.5	(0.9)	7.8

The following table sets forth for the periods indicated the number of terminals, tractors and trailers utilized in our business (including affiliates and owner-operators) as of December 31:

	2008	2007	2006
Terminals *	149	169	165
Number of Drivers	3,053	3,486	3,396
Trailers	7,245	7,506	7,769
Tractors	3,236	3,927	3,829
Transportation billed miles (in thousands)	136,234	154,340	157,586

* excludes transload facilities.

YEAR ENDED DECEMBER 31, 2008 COMPARED TO YEAR ENDED DECEMBER 31, 2007

Total revenues for 2008 were $815.3 million, an increase of $63.7 million or 8.5%, compared to 2007 revenues. Transportation revenue decreased by $14.9 million or 2.6%, primarily due to a $43.0 million increase from the acquired Boasso operations offset by a $57.9 million decrease in our pre-existing business due to continuing softness in the housing and automotive industries and general weakening of our economy. We had an 11.5% decrease in the total number of miles driven as the average number of miles per load decreased over the prior year along with a 7.7% decrease in overall loads.

Other service revenue increased by $27.8 million, or 36.5%, compared to 2007. This increase was primarily due to a $30.4 million increase in revenue generated by the acquired Boasso operations.

Fuel surcharge revenue increased $50.8 million, or 53.6%, primarily due to an increase in fuel prices, and to the acquisition of Boasso, offset in part by a decrease in the total number of miles driven.

Purchased transportation decreased by $4.7 million, or 1.0%, due primarily to a reduction in our pre-existing business due to a weakened economy offset by $26.8 million of expense from the acquired Boasso operations. Total purchased transportation as a percentage of transportation revenue and fuel surcharge revenue decreased to 65.6% in 2008 versus 69.8% for the prior year due to the conversion of certain affiliate terminals to company-operated terminals. Our affiliates generated 50.7% of our transportation revenue and fuel surcharge revenue for 2008 compared to 56.7% for the prior year. We pay our affiliates a greater percentage of transportation revenues generated by them than is paid to Company owner-operators, so our purchased transportation costs will change as revenues generated by affiliates change as a percentage of total transportation revenue. During the 2008 and 2007 periods, we paid our affiliates approximately 85% of the transportation revenue and paid owner-operators approximately 65% of transportation revenue.

In 2009, we expect to consolidate certain company-operated terminals, and to transition other company-operated terminals to affiliates. We expect these actions to result in a larger portion of our revenue being generated by affiliates. We believe these actions will reduce certain fixed costs and provide a more variable cost structure in our weakened economy.

Compensation expense increased $23.3 million, or 27.1%, due primarily to $18.5 million of expense from the acquired Boasso operations. In addition, we had an increase of $6.1 million due to new or converted Company terminals added over the prior year and $0.9 million increase in healthcare costs partially offset by a reduction of approximately $2.3 million from wages and payroll taxes for positions eliminated in our plan of restructure.

Fuel, supplies and maintenance increased $33.0 million, or 40.6%, due primarily to $20.5 million of expense from the acquired Boasso operations, increased fuel costs of $11.7 million, increased equipment maintenance of $1.5 million and increased equipment lease costs of $0.6 million as we increase the capacity of our equipment.

Depreciation and amortization expense increased $3.5 million, or 19.7%, due primarily to increased depreciation and amortization from the acquired Boasso operations.

Selling and administrative expenses increased $4.5 million, or 14.5%, due primarily to $4.1 million of expense from the acquired Boasso operations. We also incurred an increase of $0.3 million in bad debt expense in 2008 due to credit adjustments in 2007 resulting from a reduction in days sales outstanding in 2007, and an increase of $0.4 million in professional fees offset by a decrease of $0.6 million of travel related costs.

Insurance claims expense decreased $8.9 million, or 37.2%, due primarily to a reduction in the number and severity of accidents that occurred during 2008 offset by an increase of $1.8 million for the acquired Boasso operations.

Gain on disposal of property and equipment was $3.1 million in 2008 as compared to a loss of $1.0 million in 2007. The gain in the current year period resulted from the sale of land not used in our business compared with a loss in the prior year resulting from the disposals of certain tank wash equipment.

In 2008, we incurred restructuring costs of $5.3 million primarily due to employee termination benefits and costs associated with lease and contract terminations and other related exit activities related to our restructuring plan. The majority of these costs were related to our trucking operations. We expect to incur additional restructuring costs in 2009 due to further consolidation or closure of company-operated terminals.

Operating income increased $9.1 million, or 38.3%, compared to 2007. The operating margin for 2008 was 4.0% compared to 3.3% for 2007 as a result of the above items.

Interest expense increased by $4.2 million, or 13.4%, in 2008 compared to 2007 primarily due to interest on our new $50 million of Senior Floating Rate Notes issued in December 2007. These notes, along with our entry into a new asset-based loan facility in December 2007, were issued primarily to fund the acquisition of Boasso, and to repay a portion of the term loan under our previous credit facility. In conjunction with these notes, we are incurring increased amortization of the original issue discount related to these notes. In addition, the amortization of deferred financing costs has increased due to the refinancing of our previous revolving facility in December 2007.

We wrote off debt issuance costs of $0.3 million related to the partial repurchase of our 9% Senior Subordinated Notes in 2008. In 2007, we wrote off $1.2 million of debt issuance costs due to the refinancing of our previous revolving credit facility and term loan with our new asset-based loan facility and recorded a charge of $0.8 million for bridge loan commitment fees related to the Boasso acquisition in 2007.

Gain on debt extinguishment of $16.5 million resulted from the repurchase of $24.2 million of our 9% Senior Subordinated Notes.

Other income of $2.9 million in 2008 resulted primarily from the settlement of an acquired pension liability of $3.4 million offset by $0.3 million in foreign currency conversion. Other expense in 2007 contained $1.6 million of costs related to an unconsummated acquisition and refinancing activities offset by $0.7 million in foreign currency conversions.

The provision for income taxes was $4.9 million in 2008 as compared to a benefit from income taxes of $2.1 million in 2007. The effective rate for 2008 was 29.0%, which is lower than our anticipated 39.0% effective rate in large part due to recording a $1.2 million reduction to tax expense related to a pension adjustment. The Company s effective rate would have been higher if this pension adjustment had not been recorded. This pension adjustment was related to an income item related to the release of a pension obligation that would never be subject to income tax.

Net income was $12.1 million for 2008 compared with a net loss of $7.6 million for 2007 for the reasons outlined above.

YEAR ENDED DECEMBER 31, 2007 COMPARED TO YEAR ENDED DECEMBER 31, 2006

Total revenues for 2007 were $751.6 million, an increase of $21.4 million or 2.9%, compared to 2006 revenues. Transportation revenue increased by $3.4 million or 0.6% compared to 2006. The increase in transportation revenue is primarily attributable to rate increases offset by a decrease in the number of loads.

Other service revenue increased by $9.6 million, or 14.4% in 2007 versus 2006. This was primarily due to a $2.8 million increase in rental revenue, a $2.8 million increase from tank wash revenue, and $2.3 million due to the acquisition of Boasso. Fuel surcharge revenue increased $8.4 million from 2006 as a result of higher average fuel prices. Approximately 85% of the fuel surcharge revenue is reflected in Purchased transportation and was paid to our affiliates and company owner-operators during 2007 while the remaining company costs offset by the fuel surcharge are reflected in Fuel, supplies and maintenance.

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Operating expenses totaled $727.7 million in 2007, an increase of $45.8 million, or 6.7% from 2006. The increase in operating expenses was primarily attributable to a $28.0 million increase in fuel, supplies and maintenance, a $12.6 million increase in compensation, a $10.5 million increase in insurance claims, a $6.9 million increase in selling and administrative expenses and $0.6 million losses from the disposals of terminal assets and sales of tractors compared to $5.2 million net gains that resulted in 2006, partially offset by a decrease of $22.2 million in purchased transportation.

The decrease over the prior year in purchased transportation is primarily due in part to a shift of our transportation business from affiliates to company operations. We pay our affiliates approximately 85% of the transportation revenue while we pay company owner-operators approximately 65% of the transportation revenue. Since we pay our affiliates a greater percentage of revenues generated by them than is paid to company owner-operators, our purchased transportation costs will decrease more as revenues generated by affiliates decrease as a percentage of total transportation revenue. Our affiliates generated 56.7% of our transportation and fuel surcharge revenue in 2007 compared to 66.6% for the prior year. Total purchased transportation as a percentage of transportation revenue and fuel surcharge revenue decreased to 69.8% versus 74.4% for the prior year due to this shift in our revenue mix.

Compensation expense increased $12.6 million, or 17.2% primarily due to new or converted company terminals added over the prior year, and company-wide compensation increases. This increase was offset in part by a $1.4 million decrease in stock compensation expense due to stock units being fully recognized in 2006.

Fuel, supplies and maintenance increased $28.0 million, or 52.5% due primarily to fuel costs associated with the shift of revenue from affiliates to company owned terminals, increased lease costs as we fund the expansion of our tractor and trailer fleet through the use of operating leases, costs associated with the purchase of tires as we expand our fleet, increased maintenance as we increase the capacity of our equipment and increased costs to clean our trailers.

Depreciation and amortization expense increased $1.2 million, or 7.3%, due primarily to increased depreciation for assets acquired in affiliate conversions and amortization of intangible assets resulting from increased acquisition activity in 2007.

Selling and administrative expenses increased $7.2 million, or 30.2%. This increase is primarily attributable to a $1.4 million increase in bad debt expense due to credit adjustments as a result of a reduction in days sales outstanding in 2006, a $1.6 million increase in QCI and QSI expenses due to affiliate conversions and new tank wash terminals and an increase in travel costs as we add more company operations in addition to increased driver recruitment costs and increased building rental and maintenance costs associated with corporate and terminal buildings.

Insurance claims expense increased $10.6 million, or 79.5%, due primarily to the settlement of three large claims in the fourth quarter of 2007. During 2006, we recorded a $1.7 million reduction in claims on insurance policies retained by our insurance subsidiary, and $0.7 million of insurance reimbursement.

Loss on disposal of property and equipment was $1.0 million, in 2007 as compared to a gain of $4.9 million in 2006, primarily due to the disposal of terminal assets and the sale of tractors and trailers at a loss compared to the sale of several real properties that generated $4.5 million of gain with the remaining net gain generated from the sale of tractors and trailers in 2006.

Operating income decreased $24.1 million, or 49.9%, compared to 2006. The operating margin for 2007 was 3.3% compared to 6.8% for 2006 as a result of the above items.

Interest expense increased by $0.4 million, or 1.3%, in 2007 compared to 2006 primarily due to the increase in borrowings to acquire Boasso. Interest income decreased by $0.7 million due primarily to the realization in 2006 of interest income arising from the payment in stock of two subscription notes.

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We wrote off debt issuance costs of $1.2 million due to the refinancing of our previous revolving credit facility and term loan with our new asset based loan facility and recorded a charge of $0.8 million for bridge loan commitment fees related to the Boasso acquisition in 2007. We had no such costs in 2006.

Other expense in 2007 contained $1.6 million of costs related to an unconsummated acquisition and refinancing activities offset by $0.7 million in foreign currency conversions. Other expense in 2006 contained $1.0 million of expenses related to the filing of a shelf registration statement and related expenses.

The benefit from income taxes was $2.1 million in 2007 as compared to a benefit from income taxes of $38.2 million in 2006. The effective rate for December 31, 2007 was 21.5%. This rate is lower than our anticipated 39.0% effective rate in large part due to recording a $1.6 million valuation allowance against our deferred tax asset for foreign tax credits. The Company s effective rate would have been 38.4% if this valuation allowance had not been recorded. This change was primarily due to the release of approximately $45.8 million of our $46.7 million deferred tax valuation allowance in 2006. This release was due to improved operating results and the determination that it is more likely than not that expected future taxable income will be sufficient to utilize certain of our deferred tax assets.

Net loss was $7.6 million for 2007 compared with net income of $56.2 million for 2006 for the reasons outlined above.

Segment Operating Results

Prior to 2008, we reported our financial information as a single segment. Beginning January 1, 2008, we have two reportable business segments for financial reporting purposes that are distinguished primarily on the basis of services offered:

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

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

Due to the acquisition of Boasso in December 2007, we further enhanced our scope of services in the ISO tank container transportation and depot services market so that management now evaluates isolated revenues associated with these services and with trucking.

Segment revenues and operating income include the allocation of fuel surcharge to the trucking segment. The operating income reported in our segments excludes amounts reported in Other operating income, such as gains and losses on disposal of property and equipment, restructuring costs, corporate and other unallocated amounts. Corporate and unallocated amounts include depreciation and amortization and other gains and losses. Although these amounts are excluded from the business segment results, they are included in reported consolidated earnings. Included in Other revenues are revenues from our tank wash services and other value-added services.

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Summarized segment operating results are as follows (in thousands):

	Year ended December 31,				Change	
	2008	% of Total	2007	% of Total	$	%
Operating revenues:						
Trucking	$ 653,618	80.2%	$ 666,199	88.6%	(12,581)	(1.9)%
Container Services	89,715	11.0	12,168	1.6	77,547	637.3%
Other revenue	71,957	8.8	73,191	9.8	(1,234)	(1.7)%
Total	$ 815,290	100.0%	$ 751,558	100.0%		
Operating income:						
Trucking	$ 41,291	73.5%	$ 37,421	88.3%	3,870	10.3%
Container Services	10,934	19.5	(93)	(0.2)	11,027	11,857.0%
Other operating income	3,988	7.0	5,028	11.9	(1,040)	(20.7)%
Total	$ 56,213	100.0%	$ 42,356	100.0%		

	Year ended December 31,				Change	
	2007	% of Total	2006	% of Total	$	%
Operating revenues:						
Trucking	$ 666,199	88.6%	$ 663,866	90.9%	2,333	0.4%
Container Services	12,168	1.6		0.0	12,168	100.0%
Other revenue	73,191	9.8	66,293	9.1	6,898	10.4%
Total	$ 751,558	100.0%	$ 730,159	100.0%		
Operating income:						
Trucking	$ 37,421	88.3%	$ 52,432	87.8%	(15,011)	(28.6)%
Container Services	(93)	(0.2)		0.0	(93)	(100.0)%
Other operating income	5,028	11.9	7,306	12.2	(2,278)	(31.2)%
Total	$ 42,356	100.0%	$ 59,738	100.0%		

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

Operating revenue:

Trucking revenues decreased $12.6 million, or 1.9%, for the year ended December 31, 2008 compared to 2007 due to fewer miles driven due to a weakened economy partially offset by an increase in fuel surcharge resulting from increased fuel prices in 2008.

Container Services revenues increased $77.5 million, or more than 100.0%, for the year ended December 31, 2008 compared to 2007 due to the acquired Boasso operations.

Other revenue revenues decreased $1.2 million, or 1.7%, for the year ended December 31, 2008 compared to 2007 due primarily to a decrease in our tank wash revenue.

Operating income:

Trucking operating income increased $3.9 million, or 10.3%, for the year ended December 31, 2008 compared to 2007 primarily due to cost savings initiatives offset by fewer billed miles and the conversion of affiliates to company terminals which increased facility, leasing, and maintenance costs.

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Container Services operating income increased $11.0 million, or more than 100.0%, for the year ended December 31, 2008 compared to 2007 due to the acquired Boasso operations.

Other operating income operating income decreased $1.0 million, or 20.7%, for the year ended December 31, 2008 compared to 2007, primarily due to reduced tank wash revenue.

Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

Operating revenue:

Trucking revenues increased $2.3 million, or 0.4%, for the year ended December 31, 2007 compared to 2006 primarily due to rate increases offset by a decrease in number of loads in 2007.

Container Services revenues increased $12.2 million, or 100.0%, for the year ended December 31, 2007 compared to 2006 due to our entry into the container services business and to the acquired Boasso operations in December 2007.

Other revenue revenues increased $6.9 million, or 10.4%, for the year ended December 31, 2007 compared to 2006 due primarily to an increase in our tank wash revenue.

Operating income:

Trucking operating income decreased $15.0 million, or 28.6%, for the year ended December 31, 2007 compared to 2006 primarily due to a shift of our transportation business from affiliates to company operations.

Container Services operating income decreased $0.1 million, or 100.0%, for the year ended December 31, 2007 compared to 2006 due to our entry into the container services business.

Other operating income operating income decreased $2.3 million, or 31.2%, for the year ended December 31, 2007 compared to 2006, primarily due to higher operating expenses related to tank wash terminals in 2007.

EXCHANGE RATES

We operate in Canada and Mexico as well as in the United States. Our results of operations are affected by the relative strength of currencies in the countries where we operate. Approximately 6.4 %, 7.0% and 7.2% of our revenue in 2008, 2007 and 2006, respectively, was generated outside the United States.

In comparing the average exchange rates between 2008 and 2007, the Canadian dollar appreciated against the United States dollar by approximately 3.8% while the Mexican peso depreciated against the United States dollar by approximately 2.0%. The change in exchange rates positively impacted revenue by approximately $1.9 million in 2008. The appreciation of the Canadian dollar and depreciation of the Mexican peso was the primary reason for the less than $0.1 million net decrease in cumulative currency translation loss in shareholders equity for 2008.

Gains and losses included in the consolidated statements of operations from foreign currency transactions included a $0.3 million gain in 2008, a $0.3 million gain in 2007, and a $0.1 million gain in 2006. Risks associated with foreign currency fluctuations are discussed further in Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

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LIQUIDITY AND CAPITAL RESOURCES

We believe that our liquidity, asset-light business model, and streamlined operations will enable us to weather a continued economic downturn in 2009. Although 2008 miles driven were almost 11.5% lower than in 2007, we still generated positive cash flow from operations. Additionally, at December 31, 2008, we had over $37 million of borrowing availability under our asset-based loan facility (the ABL Facility).

The following summarizes our cash flows for fiscal years 2008, 2007 and 2006 as reported in our Consolidated Statements of Cash Flows in the accompanying Consolidated Financial Statements:

	Year Ended December 31,		
(In Thousands)	**2008**	**2007**	**2006**
Net cash provided by operating activities	$ 19,593	$ 14,052	$ 28,236
Net cash used in investing activities	(8,524)	(63,399)	(10,591)
Net cash (used in) provided by financing activities	(13,485)	52,194	(12,474)
Effect of exchange rates	(508)	23	34
Net (decrease) increase in cash	(2,924)	2,870	5,205
Cash at beginning of period	9,711	6,841	1,636
Cash at end of period	$ 6,787	$ 9,711	$ 6,841

Historically, our primary source of liquidity has been cash flow from operations and borrowing availability under our ABL Facility. Our primary cash needs consist of working capital, capital expenditures and debt service including our ABL Facility, our 9% Notes due 2010 (9% Notes) and our Senior Floating Rate Notes due 2012 (the 2012 Notes). We are focusing on: (i) stabilizing our top line, (ii) increasing our borrowing availability, (iii) simplifying our business, and (iv) improving our earnings. We incur capital expenditures for the purpose of purchasing tractors and trailers to meet our strategic needs during the year, and maintaining and improving our infrastructure. In addition, we may from time to time repurchase or redeem our outstanding securities.

There is a trading market for the 9% Notes and the Senior Floating Rate Notes although they are not listed on any exchange. During the fourth quarter of 2008, we repurchased $24.2 million in aggregate principal amount of the 9% Notes for an aggregate purchase price of $7.7 million. During the first quarter of 2009, we purchased an additional $1.0 million in aggregate principal amount of the 9% Notes for an aggregate purchase price of $0.3 million. We believe that these purchases at a substantial discount to their principal amount are a good investment for us because the prices are substantially less than the amount that we would owe for the repurchased notes upon maturity, and we had adequate liquidity for such purchases. We may from time to time repurchase or redeem additional amounts of our outstanding securities. Any repurchases or redemptions would depend upon prevailing market conditions, our liquidity requirements, contractual restrictions and other factors we consider important. Future repurchases or redemptions may materially impact our liquidity, future tax liability and results of operations.

We have accrued $10.9 million for environmental claims and $21.5 million for loss and damage claims and the timing of the cash payment for such claims fluctuates from quarter to quarter.

We generated $19.6 million, $14.1 million and $28.2 million in net cash from operating activities in 2008, 2007 and 2006, respectively. The increase in net cash provided by operating activities in 2008 as compared to 2007 is primarily due to our net income for the year. We continue to experience softness in demand; however our continued restructuring and cost reduction efforts have enabled us to generate stronger operating cash. We are aligning our cost structure to allow for flat or declining revenues. The decrease in net cash provided by operating activities in 2007 as compared to 2006 was primarily due to our net loss for the year.

Net cash used in investing activities in 2008, 2007 and 2006 was $8.5 million, $63.4 million and $10.6 million, respectively. Capital expenditures totaled $14.8 million, $10.6 million and $14.9 million in 2008, 2007 and 2006, respectively. In 2008, we used net cash of $8.4 million to purchase new revenue equipment, two businesses and the assets of one affiliate. We used net cash of $52.4 million for the acquisition of Boasso and $6.8 million of cash to purchase two businesses and the business assets of six affiliates in 2007, issued note payables for $2.4 million and assumed $2.5 million in liabilities as part of the total consideration of these acquisitions. In 2006, we used $6.5 million of cash to purchase two businesses and the business assets of three affiliates, issued a note payable for $1.6 million and assumed $4.4 million in liabilities as part of the total consideration of these acquisitions.

Net cash (used in) provided by financing activities was $(13.5) million, $52.2 million and $(12.5) million in 2008, 2007 and 2006, respectively. In 2008, we used cash of $7.7 million to repurchase $24.2 million of our 9% Notes. We expect our interest expense to be reduced due to these repurchases. In addition, we generated cash from operations and sale of properties to pay down approximately $9.0 million of our debt obligations. We utilized a portion of our ABL Facility to finance the acquisition of Boasso in 2007. In 2006, we generated enough cash from operations and the sale of property to fully repay our revolver by year-end.

Off-Balance Sheet Arrangements

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

Contractual Obligations

The following is a schedule of our long-term contractual commitments, including the current portion of our long-term indebtedness at December 31, 2008 over the periods we expect them to be paid (dollars in thousands):

	TOTAL	Year 2009	Years 2010 & 2011	Years 2012 & 2013	The Five Years after 2013
Operating leases (1)	$ 67,857	$ 19,167	$ 27,500	$ 11,893	$ 9,297
Total indebtedness (2)	342,116	8,361	105,340	226,335	2,080
Capital leases	23,816	7,994	8,785	6,647	390
Interest on indebtedness (3)	70,809	24,822	37,979	7,865	143
Total	$ 504,598	$ 60,344	$ 179,604	$ 252,740	$ 11,910

(1) These obligations represent the minimum rental commitments under all non-cancelable operating leases. See Note 18 of the Note to the Consolidated Financial Statements. We entered into a new lease, commencing in May 2007, for our corporate headquarters that requires us to spend $15.8 million over the term of the lease. We expect that some of our operating lease obligations for tractors will be partially offset by rental revenue from sub-leasing the tractors to owner-operators or affiliates.

(2) Includes a discount of $3.3 million.

(3) Amounts presented for interest payments assume that all long-term debt obligations outstanding as of December 31, 2008 will remain outstanding until maturity and interest rates on variable-rate debt in effect as of December 31, 2008 will remain in effect until maturity. As discussed below, the maturity date of the ABL Facility may be accelerated if we default on our obligations under the ABL Facility. The maturity date of the ABL Facility is also advanced to a date 91 days prior to the maturity date of the 2012 Notes or the 9% Notes (and replacement indebtedness) if the aggregate principal amount of the notes maturing in the 91-day period exceeds $50.0 million.

Other Liabilities and Obligations

We have $10.9 million of environmental liabilities, $19.0 million of pension plan obligations and $21.5 million of insurance claim obligations. We expect to incur additional environmental costs in the future for environmental studies and remediation efforts that we will be required to undertake related to legacy Chemical Leaman sites. We also have $47.7 million in outstanding letters of credit. We are required to provide letters of credit to our insurance administrator to cover the payment of claims. The outstanding letters of credit as of December 31, 2008 for our insurance administrator was $40.1 million. The remaining $7.6 million of outstanding letters of credit relate to various leasing obligations and to satisfy certain EPA requirements. If we fail to meet certain terms of our agreement, the insurance administrator may draw down the entire letter of credit. We have $2.0 million of total gross unrecognized tax benefits.

Long-term Debt

Our principal debt sources at December 31, 2008 comprise of $24 million in aggregate capital lease obligations, $101 million aggregate principal amount of 9% Notes, $135 million aggregate principal amount of the 2012 Notes and a $225 million ABL Facility.

The ABL Facility

The ABL Facility which was effective December 18, 2007, consists of a current asset-based revolving facility in an initial amount of $195.0 million (the current asset tranche) and a fixed asset-based revolving facility in an initial amount of $30.0 million (the fixed asset tranche), with the total commitments under the fixed asset tranche to be reduced, and the total commitments under the current asset tranche correspondingly increased by $5.0 million on each at December 18, 2009 and 2010. Borrowings of revolving loans under the ABL Facility are allocated pro rata to the current asset tranche and the fixed asset tranche based on the then-current asset borrowing base and the then-current fixed asset borrowing base. The ABL Facility matures June 18, 2013. The maturity date of the ABL Facility may be accelerated if we default on our obligations under the ABL Facility. The maturity date of the ABL Facility is also advanced to a date 91 days prior to the maturity date of the 2012 Notes or the 9% Notes (and replacement indebtedness) if the aggregate principal amount of the notes maturing in the 91-day period exceeds $50.0 million.

The ABL Facility includes borrowing capacity of up to $150.0 million for letters of credit, which are allocated pro rata between the two tranches based on the then-current borrowing base for each tranche (or, if the credit extensions under the fixed asset tranche are repaid and the commitments there under are terminated prior to the termination of the ABL Facility, to the current asset tranche), and up to $10.0 million for swingline borrowings on same-day notice, which are allocated under the current asset tranche. The proceeds of the ABL Facility were used, together with the proceeds from an additional private offering of $50 million of Senior Floating Rate Notes (described below under Senior Floating Rate Notes), to finance a portion of the Boasso acquisition. The ABL facility contains a fixed charge coverage ratio of 1.0 to 1.0 which only needs to be met if borrowing availability is less than $20.0 million. At December 31, 2008, we had $37.8 million of borrowing availability under the ABL Facility.

Borrowings under the ABL Facility bear interest at a rate equal to an applicable margin plus, at our option, either a base rate or LIBOR. The applicable margin for borrowings under the current asset tranche at December 31, 2008 was 1.00% with respect to base rate borrowings and 2.00% with respect to LIBOR borrowings. The applicable margin for borrowings under the fixed asset tranche at December 31, 2008 was 1.25% with respect to base rate borrowings and 2.25% with respect to LIBOR borrowings. The applicable margin for such borrowings will be reduced or increased based on aggregate borrowing base availability under the ABL Facility over the life of the ABL Facility. The base rate for the ABL Facility is the higher of the prime rate and the federal funds overnight rate plus 0.50%. We are also required to pay a fee for utilized commitments under the ABL Facility at a rate equal to 0.25% per annum. The ABL Facility is required to be prepaid only to the extent that aggregate amount of outstanding borrowings, unreimbursed letter of credit drawings and undrawn letters of credit under the relevant tranche exceeds the lesser of the applicable commitments and the applicable borrowing base in effect at such time for such tranche. The borrowing base for the current asset tranche consists of eligible accounts receivable, eligible inventory and eligible truck and trailer fleet, and the borrowing base for the fixed asset tranche consists of eligible real property and certain eligible equipment. We may voluntarily repay outstanding loans under the ABL Facility at any time without premium or penalty, other than customary breakage costs with respect to LIBOR loans. The interest rate on the ABL Facility at December 31, 2008 was 3.3%. The weighted average interest rate during fiscal year 2008 was 5.6%.

QD LLC s obligations under the ABL Facility are guaranteed by QDI and each of our wholly-owned domestic restricted subsidiaries (other than our immaterial subsidiaries). Obligations under the current asset tranche, and the guarantees of those obligations (as well as cash management obligations and any interest hedging or other swap agreements), are secured by a first priority lien on certain assets of QD LLC and the guarantors, including eligible accounts, eligible inventory and eligible truck and trailer fleet (current asset tranche priority collateral) and a second priority lien on all other assets of QD LLC and the guarantors, including eligible real property and certain eligible equipment (fixed asset tranche priority collateral). Obligations under the fixed asset tranche, and the guarantees of those obligations, are secured by a first-priority lien on fixed asset tranche priority collateral and a second priority lien on current asset tranche priority collateral.

We incurred $6.9 million in debt issuance costs relating to the ABL Facility. We are amortizing these costs over the term of the ABL Facility.

Senior Floating Rate Notes

On January 28, 2005, we consummated the private offering of $85 million of the 2012 Notes by QD LLC and QD Capital and guaranteed by QDI and domestic subsidiaries at 98% of the face value of the notes. On December 18, 2007, we consummated a private offering of $50 million of the 2012 Notes by QD LLC and QD Capital and guaranteed by QDI and domestic subsidiaries at 93% of the face value of the notes (combined the 2012 Notes). The 2012 Notes, due January 15, 2012, pay interest quarterly on January 15, April 15, July 15, and October 15. Interest accrues at a floating rate per annum, reset quarterly, equal to LIBOR plus 4.5%. The net proceeds of the $85 million offering were used to repay approximately $70 million of a previous term loan and to make a distribution to QDI, which in turn used such proceeds to redeem all $7.5 million principal amount of outstanding Series B Notes. The balance was used for general corporate purposes, including the repayment of $5.8 million of indebtedness under the revolving credit portion of our previous credit facility. The previous credit facility was amended to incorporate this reduction in the term-loan portion of the facility and to modify the covenants. The net proceeds of the $50.0 million offering were used to repay a portion of our previous credit facility. The interest rate on the $85.0 million of the 2012 Notes at December 31, 2008 and 2007 was 9.3% and 9.7%, respectively. The weighted average interest rate during fiscal year 2008 and 2007 was 8.4% and 9.9%, respectively. The interest rate on the $50 million of 2012 Notes at December 31, 2008 was 9.3%. The weighted average interest rate during fiscal year 2008 was 8.5%.

We incurred $2.5 million in debt issuance costs relating to the $85 million of the 2012 Notes and $2.3 million related to the $50 million of the 2012 Notes.

We may redeem the 2012 Notes, in whole or in part from time to time, upon not less than 30 nor more than 60 days notice at the redemption price of 100% of the outstanding principal amount thereof, plus accrued and unpaid interest thereon, if any, to the date of redemption.

Previous Term Loan

Prior to entering into the ABL Facility, our term loan carried 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, subject in each case, to adjustment based upon the achievement of certain financial ratios and matured on November 12, 2009. The principal payments were payable quarterly on March 15, June 15, September 15 and December 15. The interest rate on the term loan at December 31, 2006 was 8.4%. The weighted average interest rate during fiscal year 2006 was 8.0%. The interest rate on the term loan upon refinancing with the new ABL Facility on December 18, 2007 was 9.7% and the weighted average interest rate during 2007 was 8.6%.

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We incurred $3.4 million in debt-issuance costs relating to the term loan. We amortized the $2.3 million remaining debt-issuance costs over the term of the term loan to interest expense using the effective-interest method until we wrote off the balance of $0.7 million upon refinancing the term loan with the new ABL Facility.

Previous Revolving Credit Facility

Prior to entering into the ABL Facility, our revolving credit facility comprised a $75.0 million revolver that was available until November 12, 2008 and a $20 million pre-funded letter of credit facility that was available until November 12, 2009.

Interest on the revolver was, at our option, (a) 2.50% in excess of the Base Rate provided 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 revolver at December 31, 2006 was 10.8%. The weighted average interest rate on the revolver during 2006 was 9.8%. The interest rate on the revolver upon refinancing with the new ABL Facility on December 18, 2007 was 9.6% and the weighted average interest rate during 2007 was 10.6%.

The credit facility provided 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 revolver from time to time in effect on the aggregate outstanding stated amounts of such letters of credit and a fronting fee equal to $^{1}/4$ of 1.0% on the aggregate outstanding stated amounts of such letters of credit. We paid a commitment fee equal to $^{1}/2$ of 1.0% per annum on the undrawn portion of the available commitment under the revolver, subject to decreases based on the achievement of certain financial ratios.

We incurred $1.5 million in debt-issuance costs relating to the revolver and we amortized these costs over the term of the revolver. Upon the refinancing of the revolver with the new ABL Facility, we wrote off a balance of the debt issuance costs of $0.4 million.

9% Senior Subordinated Notes

The 9% Notes are unsecured obligations, due November 2010, 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.

During 2008, we repurchased $24.2 million of outstanding 9% Notes. The repurchase of these 9% Notes for approximately $7.7 million plus accrued interest of $0.2 million resulted in a pre-tax gain on extinguishment of debt of $16.5 million.

We incurred $5.5 million in debt issuance costs relating to the issuance of the 9% Notes. During 2008, we wrote-off approximately $0.3 million in debt issuance costs relating to the repurchase of the 9% Notes. We are amortizing the remaining costs over the remaining term of the 9% Notes.

We may redeem the 9% Notes, in whole or in part from time to time, upon not less than 30 nor more than 60 days notice, at the redemption price of 102.25% of the outstanding principal amount thereof, if redeemed during the twelve-month period commencing on November 15, 2008, and at the redemption price of 100% of the outstanding principal amount thereof, if redeemed on or after November 15, 2009, plus accrued and unpaid interest thereon, if any, to the date of redemption.

Boasso Note

Included in the aggregate purchase price of the Boasso acquisition was a $2.5 million 7% promissory note with a maturity on December 18, 2009 for the benefit of a former Boasso shareholder. The shareholder had the right to demand payment on December 18, 2008, or convert the note into shares of our common stock following the first anniversary of the acquisition at the election of the holder at a price of $4.47 per share (the closing price of the shares reported on NASDAQ on the day before the acquisition). The holder of the note exercised his right to demand payment on December 18, 2008, and received payment of cash in full including unpaid interest in January 2009.

Collateral, Guarantees and Covenants

The ABL Facility contains a number of covenants that, among other things, restrict, subject to certain exceptions, our ability, and the ability of our subsidiaries, to sell assets; incur additional indebtedness; prepay other indebtedness (including the 2012 Notes and the 9% Notes); pay dividends and distributions or repurchase their capital stock; create liens on assets; make investments; make certain acquisitions; engage in mergers or consolidations; engage in certain transactions with affiliates; amend certain charter documents and material agreements governing subordinated indebtedness, including the 2012 Notes and the 9% Notes; change the business conducted by it and its subsidiaries; and enter into agreements that restrict dividends from subsidiaries. The ABL Facility also contains certain customary affirmative covenants and events of default.

The term loan and revolver were guaranteed by all of our existing and future direct and indirect domestic subsidiaries (collectively, the subsidiary guarantors). Our obligations under the term loan and revolver and our subsidiary guarantor obligations were collateralized by a first priority perfected lien on substantially all of our properties and assets and the subsidiary guarantors, including a pledge of all capital stock and notes owned by us and the subsidiary guarantors, subject to certain exceptions. In addition, in certain cases, no more than 65.0% of the stock of our foreign subsidiaries is 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.

The previous credit agreement contained 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 the time of refinancing our previous credit facility with the new ABL Facility, we were in compliance with all these debt covenants. The previous credit agreement included one financial covenant, the ratio of Senior Secured Debt (as defined therein) to Consolidated EBITDA (as defined therein), which we were in compliance at the time of refinancing.

We are in compliance of all covenants at December 31, 2008.

Debt Retirement

The following is a schedule of our indebtedness at December 31, 2008 over the periods we are required to pay such indebtedness:

(in thousands)	**2009**	**2010**	**2011**	**2012**	**2013 and after**	**Total**
Boasso Note (1)	$ 2,500	$	$	$	$	$ 2,500
Capital lease obligations	7,994	4,791	3,994	5,486	1,551	23,816
ABL Facility (2)					87,000	87,000
9% Senior Subordinated Notes, due 2010		100,761				100,761
Senior Floating Rate Notes, due 2012 (3)				135,000		135,000
Other Notes	5,861	2,268	2,311	2,104	4,311	16,855
Total	$ 16,355	$ 107,820	$ 6,305	$ 142,590	$ 92,862	$ 365,932

(1) The holder of the Boasso Note exercised his right to demand payment in full on the first anniversary of the Boasso acquisition. This note was paid in full in January 2009.

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(2) The maturity date of the ABL Facility may be accelerated if we default on our obligations under the ABL Facility. The maturity date of the ABL Facility is also advanced to a date 91 days prior to the maturity date of the 2012 Notes or the 9% Notes (and replacement indebtedness) if the aggregate principal amount of the notes maturing in the 91-day period exceeds $50.0 million.

(3) Amounts do not include the remaining unamortized original issue discount of $3.3 million.

The following table represents our debt issuance costs at December 31, 2008:

	Issuance Costs	Write-off of Issuance Costs	Accumulated Amortization	Balance
ABL Facility	$ 6,862	$	$ (1,310)	$ 5,552
9% Senior Subordinated Notes, due 2010	5,496	(283)	(4,063)	1,150
Senior Floating Rate Notes, due 2012	4,796		(2,002)	2,794
Total	$ 17,154	$ (283)	$ (7,375)	$ 9,496

Amortization expense of deferred issuance costs was $3.0 million, $1.9 million, and $1.8 million for years ending December 31, 2008, 2007, and 2006, respectively.

QD LLC, has the ability to incur additional debt, subject to limitations imposed by the indentures governing the 9% Notes and the 2012 Notes. Under the indentures governing the 9% Notes and the 2012 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 2.25 to 1.0 or less. As of December 31, 2008, we were in compliance with this covenant.

Liquidity

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 revolver, will be sufficient to fund anticipated capital expenditures, make required payments of principal and interest on our debt and capital lease obligations, including obligations under our credit agreement, and satisfy other long-term contractual commitments for the next twelve months.

However, for periods extending beyond twelve months, if our operating cash flow and borrowings under the revolving portions of the ABL Facility are not sufficient to satisfy our capital expenditures, debt service and other long-term contractual commitments, we would 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 securiti