QUALITY DISTRIBUTION INC
Form 10-Q
November 08, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2007

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 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)	**(I.R.S. Employer Identification No.)**
4041 Park Oaks Boulevard, Suite 200, Tampa, FL	**33610**

(Address of Principal Executive Offices) **(Zip Code)**

813-630-5826

(Registrant s telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Exchange Act Rule 12b-2.

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

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

As of November 1, 2007, the registrant had 19,186,916 outstanding shares of Common Stock, no par value, outstanding.

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QUALITY DISTRIBUTION, INC.

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

PART I FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

Consolidated Statements of Operations

(Unaudited in 000 s, Except Per Share Amounts)

	Three months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
OPERATING REVENUES:				
Transportation	$ 148,900	$ 149,150	$ 442,656	$ 440,776
Other service revenue	18,736	15,524	54,847	50,731
Fuel surcharge	24,545	25,354	67,483	67,549
Total operating revenues	192,181	190,028	564,986	559,056
OPERATING EXPENSES:				
Purchased transportation	118,653	128,973	358,027	380,363
Compensation	22,302	19,052	62,558	55,326
Fuel, supplies and maintenance	21,429	15,064	57,056	38,803
Depreciation and amortization	4,332	3,873	12,562	11,661
Selling and administrative	7,442	4,875	21,314	15,626
Insurance claims	3,239	2,232	14,321	10,160
Taxes and licenses	1,105	1,018	2,729	2,663
Communication and utilities	2,952	2,012	8,081	6,867
Loss (gain) on disposal of property and equipment	219	(697)	418	(920)
Total operating expenses	181,673	176,402	537,066	520,549
Operating income	10,508	13,626	27,920	38,507
Interest expense	(7,651)	(7,903)	(23,403)	(23,168)
Interest income	198	260	573	1,370
Other income (expense)	279	(95)	638	262
Income before income taxes	3,334	5,888	5,728	16,971
Provision (benefit) for income taxes	1,982	(32,139)	2,229	(31,070)
Net income	$ 1,352	$ 38,027	$ 3,499	$ 48,041
PER SHARE DATA:				
Net income per common share				
Basic	$ 0.07	$ 2.01	$ 0.18	$ 2.54
Diluted	$ 0.07	$ 1.94	$ 0.18	$ 2.46
Weighted average number of shares				
Basic	19,357	18,874	19,353	18,910
Diluted	19,488	19,569	19,488	19,548

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

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(In 000 s)

Unaudited

	September 30, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 9,981	$ 6,841
Accounts receivable, net	93,560	85,482
Prepaid expenses	6,542	6,101
Prepaid tires	7,295	7,517
Deferred tax asset, net	18,320	18,320
Other	6,401	9,214
Total current assets	142,099	133,475
Property and equipment, net	113,375	116,964
Assets held-for-sale	351	381
Goodwill	141,098	138,980
Intangibles, net	1,586	635
Non-current deferred tax asset, net	19,703	19,578
Other assets	8,775	11,249
Total assets	$ 426,987	$ 421,262
LIABILITIES, MINORITY INTEREST AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current maturities of indebtedness	$ 1,400	$ 1,400
Current maturities of capital lease obligations	1,303	1,178
Accounts payable	11,954	13,957
Affiliates and independent owner-operators payable	14,950	11,025
Accrued expenses	26,713	21,197
Environmental liabilities	7,012	5,995
Accrued loss and damage claims	10,172	11,533
Total current liabilities	73,504	66,285
Long-term indebtedness, less current maturities	271,958	272,826
Capital lease obligations, less current maturities	3,788	3,718
Environmental liabilities	3,545	5,831
Accrued loss and damage claims	15,495	20,633
Other non-current liabilities	16,644	14,249
Deferred tax liability	832	724
Total liabilities	385,766	384,266
Commitments and contingencies - Note 8		
Minority interest in subsidiary	1,833	1,833

SHAREHOLDERS EQUITY		
Common stock, no par value; 29,000 shares authorized; 19,344 issued at September 30, 2007 and 19,210 issued at December 31, 2006	361,281	359,995
Treasury stock, 158 and 172 shares at September 30, 2007 and December 31, 2006	(1,564)	(1,527)
Accumulated deficit	(111,695)	(114,866)
Stock recapitalization	(189,589)	(189,589)
Accumulated other comprehensive loss	(18,775)	(18,531)
Stock purchase warrants		21
Stock subscriptions receivable	(270)	(340)
Total shareholders equity	39,388	35,163
Total liabilities, minority interest and shareholders equity	$ 426,987	$ 421,262

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

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

Consolidated Statements of Shareholders Equity/(Deficit)

For the Nine Months Ended September 30, 2007 and 2006

Unaudited (In 000 s)

	Shares of Common Stock	Shares of Treasury Stock	Common Stock	Treasury Stock	Accumulated Deficit	Stock Recapitalization	Accumulated Other Comprehensive Loss	Stock Purchase Warrants	Unearned Compensation Restricted Stock	Stock Subscription Receivables	Total Shareholders Equity/(Deficit)
Balance, December 31, 2005	19,123	93	$ 359,772	$ (1,042)	$ (168,710)	$ (189,589)	$ (19,079)	$ 54	$ (1,975)	$ (1,541)	$ (22,110)
Net income					48,041						48,041
Reclass of unearned compensation restricted stock			(1,975)						1,975		
Issuance of restricted stock		(21)	(174)	245	(71)						
Forfeiture of restricted stock		2		(15)	15						
Amortization of restricted stock			286								286
Amortization of stock units			1,102								1,102
Amortization of non-employee options			93								93
Amortization of stock options			773								773
Stock warrant exercise	27		11					(11)			
Stock option exercise		(22)		223	(36)						187
Acquisition of treasury stock		129		(1,891)						1,201	(690)
Translation adjustment, net of a tax provision of nil							(36)				(36)
Balance, September 30, 2006	19,150	181	$ 359,888	$ (2,480)	$ (120,761)	$ (189,589)	$ (19,115)	$ 43	$	$ (340)	$ 27,646

Balance, December 31, 2006	19,210	172	$ 359,995	$ (1,527)	$ (114,866)	$ (189,589)	$ (18,531)	$ 21	$	$ (340)	$ 35,163
Net income					3,499						3,499
Issuance of restricted stock	47	(11)	(25)	25							
Forfeiture of restricted stock		2	11	(11)							
Amortization of restricted stock			253								253
Amortization of non-employee options			94								94
Amortization of stock options			880								880
Stock warrant exercise	79		21					(21)			
Stock option exercise	8	(8)	52	19							71
Payment of stock subscriptions receivable		3		(70)						70	
FIN 48 adjustment					(328)						(328)
Amortization of prior service costs, net of a tax provision of nil							70				70
Translation adjustment, net of a tax provision of nil							(314)				(314)
Balance, September 30, 2007	19,344	158	$ 361,281	$ (1,564)	$ (111,695)	$ (189,589)	$ (18,775)	$	$	$ (270)	$ 39,388

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

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Unaudited In 000 s)

	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 3,499	$ 48,041
Adjustments to reconcile to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation and amortization	12,562	11,661
Bad debt expense (recoveries)	792	(487)
Loss (gain) on disposal of property and equipment	418	(920)
Interest income on repayment of stock subscription		(690)
Stock based compensation	1,227	2,255
Amortization of deferred financing costs	1,375	1,361
Amortization of bond discount	182	182
Minority dividends	109	109
Deferred taxes	848	(32,190)
Changes in assets and liabilities:		
Accounts and other receivables	(9,228)	4,706
Prepaid expenses	(286)	508
Prepaid tires	(129)	(448)
Other assets	(87)	(7,845)
Accounts payable	(1,918)	(9,106)
Accrued expenses	5,754	3,214
Environmental liabilities	(1,270)	(5,199)
Accrued loss and damage claims	(6,500)	(1,578)
Affiliates and independent owner-operators payable	3,925	2,983
Other liabilities	388	(540)
Net cash provided by operating activities	11,661	16,017
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(6,728)	(10,692)
Acquisition of businesses and assets	(4,004)	(5,506)
Proceeds from sales of property and equipment	5,471	5,466
Net cash used in investing activities	(5,261)	(10,732)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt	(1,050)	(1,050)
Principal payments on capital lease obligations	(899)	(111)
Proceeds from revolver	35,700	159,000
Payments on revolver	(35,700)	(165,200)
Payments on acquisition notes	(321)	
Deferred financing costs	(153)	
Stock offering costs	(787)	
Change in book overdraft	(70)	3,378
Minority dividends	(109)	(109)

Other stock transactions	70	186
Net cash used in financing activities	(3,319)	(3,906)
Effect of exchange rate changes on cash	59	(63)
Net increase in cash and cash equivalents	3,140	1,316
Cash and cash equivalents, beginning of period	6,841	1,636
Cash and cash equivalents, end of period	$ 9,981	$ 2,952
Supplemental disclosures of non-cash flow information:		
Original capital lease obligations	$ 1,094	$ 1,982
Notes issued to sellers for purchase of business assets	1,593	
Deferred tax adjustment	972	
Transfer of tractors from other assets to fixed assets	2,659	

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

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

Quality Distribution, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Summary of Significant Accounting Policies

Basis of Presentation

In this quarterly report, unless the context otherwise requires or indicates, (i) the terms the Company, our Company, Quality Distribution, QDI, we, us and our refer to Quality Distribution, Inc. and its consolidated subsidiaries and their predecessors, (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, and (iii) the term QD Capital refers to our wholly owned subsidiary, QD Capital Corporation, a Delaware corporation.

We are engaged primarily in truckload transportation of bulk chemicals in North America with a significant portion of our business conducted through a network of company terminals, affiliates and independent owner-operators. Affiliates are independent companies, which enter into one-year renewable contracts with us. Affiliates are responsible for paying for their own power equipment (including debt service), fuel and other operating costs. Certain affiliates lease trailers from us. Owner-operators are independent contractors, who, through a contract with us, supply one or more tractors and drivers for our use. Contracts with owner-operators may be terminated by either party on short notice. We charge affiliates and third parties for the use of tractors and trailers as necessary and occasionally sell or lease tractors to them. In exchange for the services rendered, affiliates and owner-operators are normally paid a percentage of the revenues generated for each load hauled.

Our accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and do not include all of the information and notes required by accounting principles generally accepted in the United States (U.S. GAAP) for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments and accruals) considered necessary for a fair presentation have been included. For further information, refer to our Annual Report on Form 10-K for the year ended December 31, 2006, including the consolidated financial statements and accompanying notes. Certain prior-period amounts have been reclassified to conform to the current year s presentation.

Operating results for the three and nine months ended September 30, 2007, are not necessarily indicative of the results that may be expected for the entire fiscal year.

New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements* . SFAS No. 157 establishes a common definition for fair value to be applied to U.S. GAAP guidance requiring use of fair value, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. We are currently assessing the impact of SFAS No. 157 on our consolidated financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities-Including an Amendment of FASB Statement No. 115* , which permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 also includes an amendment to SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, which applies to all entities with available-for-sale and trading securities. This statement is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. We are currently assessing the potential impacts of implementing this standard.

Acquisition of Business Assets

During 2007, we acquired, for $2.5 million, the business of Brite Clean, Inc., a tank wash operation, with annual revenues of approximately $12 million, and facilities located in Carteret, New Jersey; Bensalem, Pennsylvania; Houston, Texas and Chicago, Illinois. The aggregate purchase price was allocated as follows: $0.5 million to fixed assets and parts, $1.6 million to goodwill, and $0.4 million to other intangible assets such as non-compete agreements and customer lists.

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

During 2007, we also purchased the business of three affiliates for $2.9 million, in the aggregate, of which, we allocated $0.9 million to fixed assets and parts, $1.5 million to goodwill, and $0.5 million to other intangible assets such as non-compete agreements.

Goodwill and Intangible Assets

Goodwill

Under SFAS 142, Goodwill and Other Intangible Assets, goodwill is subject to an annual impairment test as well as impairment assessments of certain triggering events. SFAS 142 requires us to compare the fair value of the reporting unit to its carrying amount to determine if there is a potential impairment. If the fair value of the reporting unit is less than its carrying amount, an impairment loss is recorded to the extent the carrying amount of the goodwill within the reporting unit is greater than the implied fair value of goodwill.

We perform our impairment test annually during the second quarter with a measurement date of June 30th. Projections for future cash flows were based on our recent operating trends which projected an average growth rate for revenue of approximately 5.2% over 5 years. Earnings before interest, taxes, depreciation and amortization (EBITDA) multiples were derived from other comparable publicly traded companies. The discount rate used to discount cash flows was based on our weighted average cost of capital of approximately 12.1%. No impairment was determined to have occurred as of June 30, 2007, since the calculated fair value exceeded the carrying amount. The factors used in deriving the estimate of the fair value included improving economic conditions, increasing revenues and operating income.

Our goodwill assets as of September 30, 2007 and December 31, 2006, were $141.1 million and $139.0 million, respectively. We reclassified $1.0 million of goodwill to deferred taxes in the first quarter of 2007 as a result of the FIN 48 analysis. Additional goodwill of $3.1 million resulted from the acquisitions closing in fiscal year 2007.

Intangible Assets

Net intangible assets consist of $1.6 million of non-compete agreements with remaining lives of 4 to 5 years, and customer lists and customer contracts acquired from a competitor with remaining lives of 2 to 5 years. Accumulated amortization of the remaining intangible assets was $0.3 million September 30, 2007 and December 31, 2006. The gross amount of intangible assets at September 30, 2007 and December 31, 2006 was $1.9 million and $1.0 million, respectively. We also added $1.2 million of intangibles resulting from the acquisition of four businesses in fiscal year 2007.

Amortization expense for the nine months ended September 30, 2007 and 2006 was $0.2 million and $0.1 million, respectively. Remaining intangible assets will be amortized to expense as follows (in thousands):

2007 remaining	$ 107
2008	427
2009	387
2010	343
2011 and after	322
Total	$ 1,586

2. Comprehensive Income

Comprehensive income is as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Net income	$ 1,352	$ 38,027	$ 3,499	$ 48,041
Other comprehensive income (loss):				
Amortization of prior service costs	23		70	
Foreign currency translation adjustments	(99)	48	(314)	(36)
Comprehensive income	$ 1,276	$ 38,075	$ 3,255	$ 48,005

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

3. Earnings Per Share

A reconciliation of the numerators and denominators of the basic and diluted earnings per share computations follows (in thousands except per share amounts):

	Three months ended					
	September 30, 2007			September 30, 2006		
	Net income (numerator)	Shares (denominator)	Per-share amount	Net income (numerator)	Shares (denominator)	Per-share amount
Basic earnings available to common shareholders:						
Net income	$ 1,352	19,357	$ 0.07	$ 38,027	18,874	$ 2.01
Effect of dilutive securities:						
Stock options		79			243	
Unvested restricted stock		48			65	
Stock units		4			237	
Stock warrants					150	
Diluted earnings available to common shareholders:						
Net income	$ 1,352	19,488	$ 0.07	$ 38,027	19,569	$ 1.94

	Nine months ended					
	September 30, 2007			September 30, 2006		
	Net income (numerator)	Shares (denominator)	Per-share amount	Net income (numerator)	Shares (denominator)	Per-share amount
Basic earnings available to common shareholders:						
Net income	$ 3,499	19,353	$ 0.18	$ 48,041	18,910	$ 2.54
Effect of dilutive securities:						
Stock options		92			196	
Unvested restricted stock		39			63	
Stock units		4			232	
Stock warrants					147	
Diluted earnings available to common shareholders:						
Net income	$ 3,499	19,488	$ 0.18	$ 48,041	19,548	$ 2.46

The effect of our stock options, restricted stock, stock units and stock warrants, which represent the shares shown in the table above are included in the computation of diluted earnings per share for the three and nine months ended September 30, 2007 and 2006, respectively.

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

The following securities were not included in the calculation of diluted earnings per share because such inclusion would be anti-dilutive (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Stock Options	1,687	1,186	1,685	1,158
Unvested restricted stock	33		45	

4. Stock-Based Compensation

We maintain performance incentive plans under which stock options, restricted shares, and stock units may be granted to employees, non-employee directors, consultants and advisors. As of September 30, 2007, we have three stock-based compensation plans. In addition, Gerald L. Detter, our Chairman, has stock units.

We recognize expense for stock-based compensation based upon estimated grant date fair value. We apply the Black-Scholes valuation model in determining the fair value of share-based payments to employees. The resulting compensation expense is recognized over the requisite service period, which is generally the awards vesting term. Compensation expense is recognized only for those awards expected to vest, with forfeitures estimated based on our historical experience and future expectations. All stock-based compensation expense is classified within Compensation on the Consolidated Statement of Operations. None of the stock-based compensation was capitalized during 2007.

The fair value of options granted during the first nine months of 2007 and 2006 was based upon the Black-Scholes option-pricing model. The expected term of the options represents the estimated period of time until exercise giving consideration to the contractual terms, vesting schedules and expectations of future employee behavior. For 2007, expected stock price volatility is based on the historical volatility of our common stock, which began trading on November 13, 2003. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant with an equivalent remaining term. The Company has not paid dividends in the past and does not currently plan to pay any dividends in the foreseeable future. The Black-Scholes model was used with the following assumptions:

	2007	2006
Risk free rate	4.65%	4.50%
Expected life	5 years	4 years
Volatility	68.5%	71.2%
Expected dividend	nil	nil

Due to the issuance of stock options representing 200,000 shares to an executive who joined us in November 2004, we recognized approximately $94,000 of compensation expense for the nine months ended September 30, 2007 and will recognize approximately $0.2 million of compensation expense over the next 14 months.

We issued options for 240,950 shares to various employees with an exercise price of $13.06 on January 3, 2007. The total compensation expense that will be recognized over four years for these options (net of estimated shares forfeited) is approximately $1.8 million. We issued options for 20,000 shares to an officer with an exercise price of $8.65 on March 30, 2007. The exercise price of the options was based on the fair market value of our stock at the date of the grant. The total compensation expense that will be recognized over four years for these options (net of estimated shares forfeited) is less than $0.1 million. We also issued 11,485 shares of restricted stock in January 2007 to certain directors as part of their annual compensation package, 40,000 shares of restricted stock in June 2007 to our newly appointed Chief Executive Officer and 7,050 shares of restricted stock in July 2007 to our Chairman of the Board. We will recognize approximately $0.7 million as compensation expense over four years for all of these restricted shares (net of estimated shares forfeited). Our Chairman, Mr. Detter, forfeited 7,050 stock units in connection with his cessation of services as an employee.

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

The following table summarizes stock-based compensation expense (in thousands):

	Three months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Stock options	$ 306	$ 307	$ 974	$ 867
Restricted stock, net	128	100	253	286
Stock units	(14)	376		1,103
	$ 420	$ 783	$ 1,227	$ 2,256

The following table summarizes unrecognized stock-based compensation and the weighted average period over which such stock-based compensation is expected to be recognized as of September 30, 2007 (in thousands):

	In $	Remaining years
Stock options	$ 3,812	2.6
Restricted stock, net	671	2.9
	$ 4,483	

These amounts do not include the cost of any additional awards that may be granted in future periods nor any changes in our forfeiture rate. No options were exercised during the three months ended September 30, 2007.

5. Employee Benefit 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. Retirement benefits for employees covered by the salaried plan are based on years of service and compensation levels. The monthly benefit for employees under the collective bargaining agreement plan is based on years of service multiplied by a monthly benefit factor. Pension costs are funded in accordance with the provisions of the applicable law.

We use a December 31st measurement date for both of our plans.

The components of estimated net periodic pension cost are as follows (in thousands):

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Service cost	$ 64	$ 64	$ 192	$ 192
Interest cost	670	675	2,010	2,025
Amortization of prior service cost	23	24	70	70
Amortization of loss	104	148	312	445
Expected return on plan assets	(821)	(769)	(2,463)	(2,306)
Net periodic pension cost	$ 40	$ 142	$ 121	$ 426

We have contributed $0.8 million to our pension plans during the nine months ended September 30, 2007, and expect to contribute less than $0.1 million for the remainder of 2007.

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

6. Geographic Segments

Our operations are located primarily in the United States, Canada and Mexico. Inter-area sales are not significant to the total revenue of any geographic area. Information about our operations in different geographic areas for the three and nine months ended September 30, 2007 and 2006 is as follows (in thousands):

	Three Months Ended September 30, 2007		
	U. S.	International	Consolidated
Total operating revenues	$ 178,588	$ 13,593	$ 192,181
Operating income	8,752	1,756	10,508

	Three Months Ended September 30, 2006		
	U. S.	International	Consolidated
Total operating revenues	$ 175,922	$ 14,106	$ 190,028
Operating income	11,490	2,136	13,626

	Nine Months Ended September 30, 2007		
	U. S.	International	Consolidated
Total operating revenues	$ 523,877	$ 41,109	$ 564,986
Operating income	22,454	5,466	27,920
	As of September 30, 2007		
Identifiable assets (1)	$ 107,929	$ 7,383	$ 115,312

	Nine Months Ended September 30, 2006		
	U. S.	International	Consolidated
Total operating revenues	$ 519,683	$ 39,373	$ 559,056
Operating income	32,635	5,872	38,507
	As of December 31, 2006		
Identifiable assets (1)	$ 109,530	$ 8,450	$ 117,980

(1) Includes property and equipment, assets held-for-sale and intangible assets.

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

7. Income Taxes

We adopted FASB Interpretation 48, Accounting for Uncertain Income Tax Positions (FIN 48), at the beginning of fiscal year 2007. As a result of the implementation, we recognized an increase to reserves for uncertain tax positions of $0.3 million. The increase to the reserve was accounted for as an adjustment to the beginning balance of retained earnings on the balance sheet.

At January 1, 2007, we had approximately $3.5 million of total gross unrecognized tax benefits. Of this total, $2.5 million (net of federal benefit on state tax issues) represents the amount of unrecognized tax benefits that, if recognized would favorably affect the effective income tax rate in any future periods. Included in the balance of gross unrecognized tax benefits at January 1, 2007, is $0.5 million related to tax positions for which it is reasonably possible that the total amounts could significantly change during the next twelve months. For the nine months ended September 30, 2007, the decrease in unrecognized tax benefits due to expiring statutes was $0.3 million. Our total gross unrecognized tax benefit at September 30, 2007 is $3.3 million.

Our continuing practice is to recognize interest and/or penalties related to income tax matters in income tax expense. We had $1.1 million (net of federal tax benefit) accrued for interest and $0.4 million accrued for penalties at January 1, 2007. Total amount accrued for interest and penalties at September 30, 2007 is $1.7 million.

We are subject to the income tax jurisdiction of the U.S., Canada, and Mexico, as well as income tax of multiple state jurisdictions. We believe we are no longer subject to U.S. federal income tax examinations for years before 2004, to international examinations for years before 2002 and with few exceptions, to state exams before 2003.

In accordance with FIN 48, we updated the presentation of our deferred tax asset and valuation allowance to remove any unrecognized tax benefit. In the first quarter of 2007, we reversed the remaining $0.9 million deferred tax valuation allowance and the associated deferred tax asset on state tax net operating losses that contained unrecognized tax benefits.

We recognized a $1.0 million income tax benefit in the first quarter of 2007 from the identification of previously unrecognized deferred tax assets relating to prior periods. We believe these items are not considered material to any of the prior periods affected or material to our expected results for 2007.

The effective tax rates for the three months and the nine months ended September 30, 2007 were approximately 60.0% and 39.0%, respectively. The effective tax rates for the three months and the nine months ended September 30, 2006 represented a benefit due to the realization of part of the valuation allowance on the net operating loss estimated to be utilized against 2006 taxable income. Additionally, the income tax expense for the nine months ended September 30, 2007 includes the recognition in the first quarter of 2007 of a previously unrecognized $1.0 million deferred tax asset described in the above paragraph. We expect our effective annual income tax rate for the year ended December 31, 2007 to range from approximately 39% to 42%.

8. Commitments and Contingencies

Environmental Matters

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

Our activities involve the handling, transportation and storage of bulk chemicals, both liquid and dry, many of which are classified as hazardous materials or hazardous substances. Our tank wash and terminal operations engage in the generation, storage, discharge and disposal of wastewater that may contain hazardous substances, the inventory and use of cleaning materials that may contain hazardous substances and the control and discharge of storm-water from industrial sites. In addition, we may store diesel fuel, materials containing oil and other hazardous products at our terminals. As such, we and others who operate in our industry or own and operate real property, are subject to environmental, health and safety laws and regulation by U.S. federal, state and local agencies as well as foreign governmental authorities. Environmental laws and regulations are complex, and address emissions to the air, discharge onto land or water, and the generation, handling, storage, transportation, treatment and disposal of waste materials. These laws change frequently and generally require us to obtain and maintain various licenses and permits. Environmental laws have tended to become more stringent over time, and most provide for substantial fines and potential criminal sanctions for violations. Some of these laws and regulations are subject to varying and conflicting interpretations.

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

Facility managers are responsible for environmental compliance at each operating location. Audits conducted by our staff assess operations, safety training and procedures, equipment and grounds maintenance, emergency response capabilities and waste management. We may also, if circumstances warrant, contract with independent environmental consulting firms to conduct periodic, unscheduled, compliance assessments that focus on unsafe conditions with the potential to result in releases of hazardous substances or petroleum, and that also include screening for evidence of past spills or releases. Our staff includes environmental professionals who develop guidelines and procedures, including audits of our terminals, tank cleaning facilities, and certain historical operations.

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

We are potentially subject to strict, joint and several liability for investigating and rectifying the consequences of spills and other environmental releases of such substances under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (CERCLA), the Resource Conservation and Recovery Act of 1976 (RCRA), the Superfund Amendments and Reauthorization Act of 1986, and comparable state and foreign laws. Under certain of these laws, we could also be subject to allegations of liability for the activities of our affiliates or owner-operators. From time to time, we have incurred remedial costs and regulatory penalties with respect to chemical or wastewater spills and releases at our facilities and on the road, and, notwithstanding the existence of our environmental management program, we cannot assure that such obligations will not be incurred in the future, predict with certainty the extent of future liabilities and costs under environmental, health, and safety laws, or assure that such liabilities will not result in a material adverse effect on our financial condition, results of operations or business reputation.

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

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

Reserves

Our policy is to accrue remediation expenses when it is probable that such efforts will be required and the related expenses can be reasonably estimated. Estimates of costs for future environmental compliance and remediation are necessarily imprecise due to such factors as the continuing evolution of environmental laws and regulatory requirements, the availability and application of technology, the identification of currently unknown potential remediation sites and the allocation of costs among the potentially responsible parties under applicable statutes. As of September 30, 2007 and December 31, 2006, we had reserves in the amount of $10.6 million and $11.8 million, respectively, for all environmental matters discussed below.

Property Contamination Liabilities

We have been named as (or are alleged to be) a potentially responsible party under CERCLA and similar state laws at approximately 28 sites. At 17 of these sites, we are one of many parties with alleged liability and are negotiating with either Federal, State or private parties on the scope of our obligations, if any. For example, we have been notified of potential liabilities involving the Lower Passaic River Study Area in New Jersey, the Malone Superfund Site in Texas, and two Quanta Resources sites in New York. We will be participating in the initial studies of these sites to determine site remediation objectives, goals and technologies. Since our overall liability cannot be estimated at this time, we have set reserves for only the initial remedial investigation phase at the four sites. Of the seventeen sites, we have explicitly denied any liability for three sites and since there has been no subsequent demand for payment we have not established a reserve for these matters. We have estimated future expenditures for these off-site multi-party environmental matters, including the three civil actions, to be in the range of $1.6 million to $3.8 million.

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

At eight sites we are the only responsible party and are in the process of conducting investigations and/or remediation projects. Six of these projects relate to operations conducted by Chemical Leaman Corporation and its subsidiaries (CLC) prior to our acquisition of and merger with CLC in 1998. These six sites are: Bridgeport, New Jersey; William Dick, Pennsylvania; Charleston, West Virginia; Tonawanda, New York; Scary Creek, West Virginia; and East Rutherford, New Jersey. Each of these sites is discussed in more detail below. The remaining two investigations and remediations were triggered by the New Jersey Industrial Site Remediation Act (ISRA), which requires such investigations and remediations following the sale of industrial facilities. In addition to these eight sites, the current owner of one of our leased tank wash sites has agreed to take responsibility for complying with the investigation and remediation required by ISRA, and is currently investigating the site. We have estimated future expenditures for these eight properties to be in the range of $8.7 million to $16.7 million.

We and our predecessors have also been named in three civil actions related to property contamination. One of these matters has been settled, subject to a $25,000 payment. The second matter involves plaintiffs seeking contribution for remediation at an offsite chemical distribution and re-packaging facility and the third matter involves claims for the remediation of and diminution in value of privately owned property at the Malone Superfund Site.

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 United States Environmental Protection Agency (USEPA) in May 1991 for the treatment of groundwater (operable unit one or OU1) and in October 1998 for the removal of contamination in the wetlands (OU3). In addition, we were required to assess the removal of contaminated soils (OU2).

In connection with OU1, USEPA originally required us to construct a large treatment plant with discharge via a two mile pipeline to the Delaware River watershed with construction to be completed by the end of 2001. We have negotiated an alternative remedy with USEPA which would call for a significantly smaller treatment facility, in place treatment of contamination via in-situ treatment and a local discharge. The treatment facility has been approved and construction was substantially completed in early 2007 with start-up on-going. USEPA has also approved an OU3 remedy for approximately 2.5 acres of affected wetland. This reflects a reduction from an approximate seven acre area that had been under negotiation. Site mobilization for the OU3 work took place in late May 2004 but was delayed due to weather-related issues. Field work was re-started in May 2005 and remediation work has been completed. In regard to OU2, USEPA is now in the process of finalizing a Feasibility Study for the limited areas that show contamination and warrant additional investigation or work. USEPA also wants to include in OU2 the in-situ treatment previously described as part of OU1. The environmental projections for OU1 and OU2 have been changed to reflect the reallocation of the in-situ costs to OU2 and the proposed contract amount for the OU1 work. We have estimated future expenditures to be in the range of $4.5 million to $8.5 million.

William Dick, Pennsylvania

CLC entered into a consent order with the Pennsylvania DEP (PADEP) and USEPA in October 1995 obligating it to provide a replacement water supply to area residents (OU1), treat contaminated groundwater (OU2), and perform remediation of contaminated soils (OU3) at this former wastewater disposal site. OU1 is complete. With respect to OU2, PADEP and USEPA have approved an interim remedy, which involves the construction of a treatment facility and discharge locally. We began construction of this facility in November 2006. Based on recent data showing reduction in site groundwater contamination due to natural attenuation and the more extensive handling and removal of contaminated soils, we believe that the groundwater project can be completed over the five-year term of this interim remedy. The agencies have approved an OU3 remedy, which requires both thermal treatment of contaminated soils and treatment of residuals via soil vapor extraction (SVE). The OU3 remedy expanded in April 2004 to off-site shipment of contaminated soils because these soils were found to be incompatible with the thermal treatment unit, which started full-scale operation in May 2004. In 2004, we also discovered buried drums and associated contaminated material and soils, which required off-site disposal. In the third quarter of 2004, we determined that a latex liner waste material was present in the third of a series of three former wastewater ponds, which needed to be excavated and removed for disposal offsite. This work was completed in early 2005. We also determined that the soils in pond three needed to be excavated to determine if they will be suitable for the originally planned SVE treatment. We excavated the pond s soils into three discrete piles and determined the best approach to treat these soil piles. It was determined that most of the soil piles could be treated on site using SVE as originally planned. However, some

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

modifications to the design had to be made in order to treat a limited number of soil piles. The SVE work began in 2006 and was completed in September 2007. Final site sampling is pending to determine if soil clean-up objectives have been achieved. We have estimated future expenditures to be in the range of $1.6 million to $3.4 million.

Scary Creek, West Virginia: CLC received a clean up notice from the state authority in August 1994 requiring remediation of contaminated soils and groundwater at this former wastewater disposal facility. However, the state and we have agreed that remediation can be conducted under the state s voluntary clean-up program (instead of the state superfund enforcement program). We are currently completing the originally planned remedial investigation and the additional site investigation work that was required to completely delineate the extent of site contamination. Upon completion of the site investigation phase, a remedial feasibility study and design will be prepared to address contaminated soils, and, if applicable, groundwater. The expectation is that a remedy utilizing primarily in-situ treatment with limited soil removal will be conducted.

Tonawanda, New York: CLC entered into a consent order with the New York Department of Environmental Conservation on June 22, 1999 obligating it to perform soil and groundwater remediation at this former truck terminal and tank wash site. We have completed a remedial investigation and a feasibility study with the expectation that we will conduct a remedy that may include in-situ treatment, limited soil removal and monitored natural attenuation of the groundwater.

We have estimated future expenditures for the two properties listed above to be in the range of $2.6 million to $4.8 million.

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

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

There can be no assurance that additional issues or sites for which we are responsible will not be discovered, nor that violations by us of environmental laws or regulations will not be identified or occur in the future, or that environmental, health and safety laws and regulations will not change in a manner that could impose material costs on us.

9. Other Events

We entered into a Stock Purchase Agreement on August 2, 2007 to acquire (the Acquisition) all of the outstanding capital stock of Boasso America Corporation (Boasso) for an aggregate purchase price of (i) $57,350,000 in cash less the outstanding long-term indebtedness of Boasso, subject to a working capital adjustment, and (ii) a $2,500,000 7% promissory note for the benefit of Walter J. Boasso. For its fiscal year ended March 31, 2007, Boasso reported revenues of approximately $70 million. Boasso provides ISO tank container and depot services, with facilities located in Chalmette, Louisiana; Houston, Texas; Charleston, South Carolina; Chicago, Illinois; Detroit, Michigan and Jacksonville, Florida. Consummation of the Acquisition is subject to customary closing conditions, any of which may not be satisfied. The transaction is expected to close in the fourth quarter of 2007.

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

10. Guarantor Subsidiaries

The 9% Senior Subordinated Notes due 2010 and the Senior Floating Interest Rate Subordinated Term Notes due 2012 issued by QD LLC and QD Capital are unconditionally guaranteed on a senior subordinated basis pursuant to guarantees by all of our direct and indirect domestic subsidiaries, and by QDI. Each of our direct and indirect subsidiaries, including QD LLC, is 100% owned. All non-domestic subsidiaries including Levy Transport, Ltd. are non-guarantor subsidiaries. QD Capital has no material assets or operations.

QD LLC conducts substantially all of its business through and derives virtually all of its income from its subsidiaries. Therefore, its ability to make required principal and interest payments with respect to its indebtedness depends on the earnings of subsidiaries and its ability to receive funds from its subsidiaries through dividend and other payments. The subsidiary guarantors are wholly owned subsidiaries of QD LLC and have fully and unconditionally guaranteed the 9% Senior Subordinated Notes and the Senior Floating Interest Rate Subordinated Term Notes on a joint and several basis.

We have not presented separate financial statements and other disclosures concerning subsidiary guarantors because management has determined such information is not material to the holders of the above-mentioned notes.

The following condensed consolidating financial information for QDI, QD LLC, QD Capital (which has no assets or operations), non-guarantor subsidiaries and combined guarantor subsidiaries presents:

Consolidating balance sheets at September 30, 2007 and December 31, 2006 and consolidating statements of operations for each of the three and nine-month periods ended September 30, 2007 and September 30, 2006 and the consolidating statements of cash flows for each of the nine-month periods ended September 30, 2007 and September 30, 2006.

Elimination entries necessary to consolidate the parent company and all its subsidiaries.

QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

Consolidating Statements of Operations

Three Months Ended September 30, 2007

Unaudited - (In 000 s)

	QDI	QD LLC and QD Capital	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenues:						
Transportation	$	$	$ 148,900	$	$	$ 148,900
Other service revenue			18,570	166		18,736
Fuel surcharge			24,545			24,545
Total operating revenues			192,015	166		192,181
Operating expenses:						
Purchased transportation			118,653			118,653
Compensation			22,301	1		22,302
Fuel, supplies and maintenance			21,429			21,429
Depreciation and amortization			4,176	156		4,332
Selling and administrative			7,411	31		7,442
Insurance claims			3,238	1		3,239
Taxes and Licenses			1,105			1,105
Communication and utilities			2,952			2,952
(Gain)/loss on disposal of property and equipment			211	8		219
Operating income			10,539	(31)		10,508
Interest expense		(7,218)	(556)	1	122	(7,651)
Interest income	6		176	138	(122)	198
Other income (expense)	2		106	171		279
Income (loss) before taxes	8	(7,218)	10,265	279		3,334
Income tax provision			1,931	51		1,982
Equity in (loss) earnings of subsidiaries	1,344	8,562			(9,906)	
Net income (loss)	$ 1,352	$ 1,344	$ 8,334	$ 228	$ (9,906)	$ 1,352

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

Consolidating Statements of Operations

Three Months Ended September 30, 2006

Unaudited- (In 000 s)

	QDI	QD LLC and QD Capital	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenues:						
Transportation	$	$	$ 149,150	$	$	$ 149,150
Other service revenue			15,267	257		15,524
Fuel surcharge			25,354			25,354
Total operating revenues			189,771	257		190,028
Operating expenses:						
Purchased transportation			128,973			128,973
Compensation			19,052			19,052
Fuel, supplies and maintenance			15,064			15,064
Depreciation and amortization			3,707	166		3,873
Selling and administrative			4,847	28		4,875
Insurance claims			2,232			2,232
Taxes and Licenses			1,016	2		1,018
Communication and utilities			2,012			2,012
Gain on disposal of property and equipment			(697)			(697)
Operating income			13,565	61		13,626
Interest expense		(7,760)	(255)		112	(7,903)
Interest income	4		242	126	(112)	260
Other expense			(56)	(39)		(95)
Income (loss) before taxes	4	(7,760)	13,496	148		5,888
Income tax provision (benefit)		1,417	(33,564)	8		(32,139)
Equity in earnings (loss) of subsidiaries	38,023	47,200			(85,223)	
Net income (loss)	$ 38,027	$ 38,023	$ 47,060	$ 140	$ (85,223)	$ 38,027

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

Consolidating Statements of Operations

Nine Months Ended September 30, 2007

Unaudited - (In 000 s)

	QDI	QD LLC and QD Capital	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenues:						
Transportation	$	$	$ 442,656	$	$	$ 442,656
Other service revenue			54,238	609		54,847
Fuel surcharge			67,483			67,483
Total operating revenues			564,377	609		564,986
Operating expenses:						
Purchased transportation			358,027			358,027
Compensation			62,576	(18)		62,558
Fuel, supplies and maintenance			57,056			57,056
Depreciation and amortization			12,063	499		12,562
Selling and administrative			21,212	102		21,314
Insurance claims			14,332	(11)		14,321
Taxes and Licenses			2,729			2,729
Communication and utilities			8,081			8,081
(Gain)/loss on disposal of property and equipment			387	31		418
Operating income			27,914	6		27,920
Interest expense		(22,053)	(1,711)	1	360	(23,403)
Interest income	2		521	410	(360)	573
Other income (expense)	(5)		252	391		638
Income (loss) before taxes	(3)	(22,053)	26,976	808		5,728
Income tax provision (benefit)	(1,007)		3,068	168		2,229
Equity in (loss) earnings of subsidiaries	2,495	24,548			(27,043)	
Net income (loss)	$ 3,499	$ 2,495	$ 23,908	$ 640	$ (27,043)	$ 3,499

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

Consolidating Statements of Operations

Nine Months Ended September 30, 2006

Unaudited - (In 000 s)

	QDI	QD LLC and QD Capital	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenues:						
Transportation	$	$	$ 440,776	$	$	$ 440,776
Other service revenue			49,936	795		50,731
Fuel surcharge			67,549			67,549
Total operating revenues			558,261	795		559,056
Operating expenses:						
Purchased transportation			380,363			380,363
Compensation			55,326			55,326
Fuel, supplies and maintenance			38,786	17		38,803
Depreciation and amortization			11,167	494		11,661
Selling and administrative			15,424	202		15,626
Insurance claims			10,160			10,160
Taxes and Licenses			2,660	3		2,663
Communication and utilities			6,867			6,867
Gain on disposal of property and equipment			(920)			(920)
Operating income			38,428	79		38,507
Interest expense		(22,841)	(661)		334	(23,168)
Interest income	743		588	373	(334)	1,370
Write-off of debt issuance costs						
Other income			214	48		262
Income (loss) before taxes	743	(22,841)	38,569	500		16,971
Income tax provision (benefit)		17	(31,157)	70		(31,070)
Equity in earnings (loss) of subsidiaries	47,298	70,156			(117,454)	
Net income (loss)	$ 48,041	$ 47,298	$ 69,726	$ 430	$ (117,454)	$ 48,041

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

Consolidating Balance Sheet

September 30, 2007

Unaudited - (In 000 s)

	QDI	QD LLC & QD Capital	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
Current assets:						
Cash and cash equivalents	$	$	$ 7,811	$ 2,170	$	$ 9,981
Accounts receivable, net	60		93,345	155		93,560
Prepaid expenses		8	6,493	41		6,542
Prepaid tires			7,262	33		7,295
Deferred tax asset			18,320			18,320
Other	(33)		6,449	(15)		6,401
Total current assets	27	8	139,680	2,384		142,099
Property and equipment, net			112,882	493		113,375
Assets held-for-sale			351			351
Goodwill			141,098			141,098
Intangibles, net			1,586			1,586
Investment in subsidiaries	34,833	619,288			(654,121)	
Non-current deferred tax asset	1,007		18,696			19,703
Other assets		6,085	2,690			8,775
Total assets	$ 35,867	$ 625,381	$ 416,983	$ 2,877	$ (654,121)	$ 426,987
LIABILITIES, MINORITY INTEREST, SHAREHOLDERS EQUITY (DEFICIT)						
Current liabilities:						
Current maturities of indebtedness	$	$ 1,400	$	$	$	$ 1,400
Current maturities of capital leases			1,303			1,303
Accounts payable			11,911	43		11,954
Intercompany	(3,521)	310,419	(302,104)	(4,794)		
Affiliates and independent owner-operators payable			14,950			14,950
Accrued expenses		6,771	19,949	(7)		26,713
Environmental liabilities			7,012			7,012
Accrued loss and damage claims			10,172			10,172
Total current liabilities	(3,521)	318,590	(236,807)	(4,758)		73,504
Long-term indebtedness, less current maturities		271,958				271,958
Long-term capital leases, less current maturities			3,788			3,788
Environmental liabilities			3,545			3,545
Accrued loss and damage claims			15,495			15,495
Other non-current liabilities			16,075	569		16,644
Deferred tax liability				832		832

Total liabilities	(3,521)	590,548	(197,904)	(3,357)		385,766
Minority interest in subsidiary			1,833			1,833
Shareholders equity (deficit):						
Common stock	361,281	354,963	437,796	7,629	(800,388)	361,281
Treasury stock	(1,564)					(1,564)
(Accumulated deficit)/retained earnings	(111,695)	(111,766)	193,558	(794)	(80,998)	(111,695)
Stock recapitalization	(189,589)	(189,589)		(55)	189,644	(189,589)
Accumulated other comprehensive loss	(18,775)	(18,775)	(18,300)	(546)	37,621	(18,775)
Stock purchase warrants						
Stock subscription receivable	(270)					(270)
Total shareholders equity (deficit)	39,388	34,833	613,054	6,234	(654,121)	39,388
Total liabilities, minority interest and shareholders equity (deficit)	$ 35,867	$ 625,381	$ 416,983	$ 2,877	$ (654,121)	$ 426,987

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

Consolidating Balance Sheet

December 31, 2006

Unaudited - (In 000 s)

	QDI	QD LLC & QD Capital	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
Current assets:						
Cash and cash equivalents	$	$	$ 5,386	$ 1,455	$	$ 6,841
Accounts receivable, net	58		85,052	372		85,482
Prepaid expenses		84	5,987	30		6,101
Prepaid tires			7,475	42		7,517
Deferred tax asset			18,320			18,320
Other	(6)		9,471	(251)		9,214
Total current assets	52	84	131,691	1,648		133,475
Property and equipment, net			115,917	1,047		116,964
Assets held-for-sale			381			381
Goodwill			138,980			138,980
Intangibles, net			635			635
Investment in subsidiaries	32,909	595,379			(628,288)	
Non-current deferred tax asset			19,578			19,578
Other assets		6,649	4,600			11,249
Total assets	$ 32,961	$ 602,112	$ 411,782	$ 2,695	$ (628,288)	$ 421,262
LIABILITIES, MINORITY INTEREST, SHAREHOLDERS EQUITY (DEFICIT)						
Current liabilities:						
Current maturities of indebtedness	$	$ 1,400	$	$	$	$ 1,400
Current maturities of capital leases			1,178			1,178
Accounts payable			13,914	43		13,957
Intercompany	(2,937)	291,341	(284,055)	(4,349)		
Affiliates and independent owner-operators payable			11,025			11,025
Accrued expenses	735	3,636	16,784	42		21,197
Environmental liabilities			5,995			5,995
Accrued loss and damage claims			11,533			11,533
Total current liabilities	(2,202)	296,377	(223,626)	(4,264)		66,285
Long-term indebtedness, less current maturities		272,826				272,826
Long-term capital leases, less current maturities			3,718			3,718
Environmental liabilities			5,831			5,831
Accrued loss and damage claims			20,633			20,633
Other non-current liabilities			14,249			14,249
Deferred tax liability				724		724

Total liabilities	(2,202)	569,203	(179,195)	(3,540)		384,266
Minority interest in subsidiary			1,833			1,833
Shareholders equity (deficit):						
Common stock	359,995	354,963	437,796	7,629	(800,388)	359,995
Treasury stock	(1,527)					(1,527)
(Accumulated deficit)/retained earnings	(114,866)	(113,934)	169,648	(1,107)	(54,607)	(114,866)
Stock recapitalization	(189,589)	(189,589)		(55)	189,644	(189,589)
Accumulated other comprehensive loss	(18,531)	(18,531)	(18,300)	(232)	37,063	(18,531)
Stock purchase warrants	21					21
Stock subscription receivable	(340)					(340)
Total shareholders equity (deficit)	35,163	32,909	589,144	6,235	(628,288)	35,163
Total liabilities, minority interest and shareholders equity (deficit)	$ 32,961	$ 602,112	$ 411,782	$ 2,695	$ (628,288)	$ 421,262

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

Condensed Consolidating Statements of Cash Flows

Nine Months Ended September 30, 2007

Unaudited - (In 000 s)

	QDI	QD LLC and QD Capital	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:						
Net income (loss)	$ 3,499	$ 2,495	$ 23,908	$ 640	$ (27,043)	$ 3,499
Adjustments for non-cash charges	(3,499)	(22,917)	16,603	283	27,043	17,513
Net changes in assets and liabilities	787	2,547	(12,749)	64		(9,351)
Intercompany activity	(787)	17,875	(16,643)	(445)		
Net cash provided by (used in) operating activities			11,119	542		11,661
Cash flows from investing activities:						
Capital expenditures			(6,708)	(20)		(6,728)
Acquisition of businesses and assets			(4,004)			(4,004)
Proceeds from sales of property and equipment			5,357	114		5,471
Net cash provided by (used in) investing activities			(5,355)	94		(5,261)
Cash flows from financing activities:						
Proceeds from issuance of long-term debt						
Principal payments of long-term debt		(1,050)				(1,050)
Principal payments of capital lease obligations			(899)			(899)
Proceeds from revolver		35,700				35,700
Payments on revolver		(35,700)				(35,700)
Payments on acquisition notes			(321)			(321)
Deferred financing fees		(153)				(153)
Stock offering costs	(787)					(787)
Other	(109)					(109)
Intercompany activity	896	1,203	(2,099)			
Net cash provided by (used in) financing activities			(3,319)			(3,319)
Effect of exchange rate changes on cash			(20)	79		59
Net increase (decrease) in cash and cash equivalents			2,425	715		3,140
Cash and cash equivalents, beginning of period			5,386	1,455		6,841
Cash and cash equivalents, end of period	$	$	$ 7,811	$ 2,170	$	$ 9,981

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

Condensed Consolidating Statements of Cash Flows

Nine Months Ended September 30, 2006

Unaudited - (In 000 s)

	QDI	QD LLC and QD Capital	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:						
Net income (loss)	$ 48,041	$ 47,298	$ 69,726	$ 430	$ (117,454)	$ 48,041
Adjustments for non-cash charges	(48,041)	(68,536)	(20,090)	494	117,454	(18,719)
Net Changes in assets and liabilities		2,874	(16,010)	(169)		(13,305)
Intercompany activity		18,364	(18,185)	(179)		
Net cash provided by operating activities			15,441	576		16,017
Cash flows from investing activities:						
Capital expenditures			(10,692)			(10,692)
Acquisition of business assets			(5,506)			(5,506)
Proceeds from sales of property and equipment			5,466			5,466
Net cash used in investing activities			(10,732)			(10,732)