QUALITY DISTRIBUTION INC
Form 10-Q
November 09, 2005
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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, 2005

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.)**
3802 Corporex Park Drive, Tampa, FL	**33619**
(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 an accelerated filer (as defined in Rule 12b-2 of the Exchange

Act). Yes x No ¨

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

APPLICABLE ONLY TO CORPORATE USERS:

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	**Outstanding at November 1, 2005**
Common Stock (no par value per share)	19,009,876

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

PART I FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

Quality Distribution, Inc. and Subsidiaries

Consolidated Statements of Operations

(Unaudited in 000 s, Except Per Share Amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2005	**2004**	**2005**	**2004**
OPERATING REVENUES:				
Transportation	$ 136,184	$ 133,372	$ 409,026	$ 394,000
Other service revenue	17,053	17,197	50,933	53,619
Fuel surcharge	17,389	7,852	42,836	19,416
Total operating revenues	170,626	158,421	502,795	467,035
OPERATING EXPENSES:				
Purchased transportation	119,465	107,600	348,960	314,643
Compensation	15,485	14,844	46,502	45,051
Fuel, supplies and maintenance	9,608	7,836	26,049	25,348
Depreciation and amortization	4,107	5,741	12,864	17,635
Selling and administrative	5,451	5,382	16,014	18,366
Insurance claims	6,746	3,506	15,936	19,056
Taxes and licenses	605	682	2,233	2,399
Communication and utilities	1,588	1,625	5,652	5,260
Loss (gain) on disposal of property and equipment	280	1,346	333	1,320
PPI class action settlement and related expenses	126	790	1,039	4,843
Total operating expenses	163,461	149,352	475,582	453,921
Operating income	7,165	9,069	27,213	13,114
Interest expense, net	6,877	5,500	19,639	16,191
Write-off of debt issuance costs			1,110	
Other (income)/expense	(132)	130	(122)	214
Income/(loss) before income taxes	420	3,439	6,586	(3,291)
Provision for income taxes	(370)	(688)	(902)	(858)

Net income/(loss)	$ 50	$ 2,751	$ 5,684	$ (4,149)
PER SHARE DATA:				
Net income/(loss) per common share				
Basic	$ 0.00	$ 0.15	$ 0.30	$ (0.22)
Diluted	$ 0.00	$ 0.14	$ 0.29	$ (0.22)
Weighted average number of shares				
Basic	18,929	18,914	18,929	18,904
Diluted	19,217	18,985	19,302	18,904

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

Consolidated Balance Sheets

(In 000 s)

(Unaudited)

	September 30, 2005	December 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,423	$ 2,700
Accounts receivable, net of allowance of $7,458 and $7,228	100,765	100,836
Current maturities of notes receivable from affiliates	335	839
Prepaid expenses	3,866	4,845
Prepaid tires	7,727	7,498
Other	2,717	2,071
Total current assets	116,833	118,789
Property and equipment, net	114,496	116,540
Assets held-for-sale	283	1,170
Goodwill	131,363	131,363
Intangibles, net	1,215	1,371
Notes receivable from affiliates, net	490	402
Other assets	12,612	9,663
Total assets	$ 377,292	$ 379,298
LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Current maturities of indebtedness	$ 1,400	$ 1,400
Accounts payable	16,089	14,508
Affiliates and independent owner-operators payable	7,702	9,983
Accrued expenses	25,847	33,070
Environmental liabilities	10,967	11,183
Accrued loss and damage claims	34,069	33,670
Income taxes payable	721	2,551
Total current liabilities	96,795	106,365
Long-term indebtedness, less current maturities	280,272	275,150
Environmental liabilities	9,898	14,415
Other non-current liabilities	15,293	14,463
Deferred tax liability	1,025	1,172
Total liabilities	403,283	411,565
Commitments and contingencies (Note 8)		

Minority interest in subsidiary	1,833	1,833
STOCKHOLDERS DEFICIT		
Common stock, no par value; 29,000 shares authorized; 19,125 issued at September 30, 2005 and 19,152 issued at December 31, 2004	359,674	357,777
Treasury stock, 115 and 114 shares at September 30, 2005 and December 31, 2004	(1,354)	(1,326)
Accumulated deficit	(174,587)	(180,271)
Stock recapitalization	(189,589)	(189,589)
Accumulated other comprehensive loss	(18,110)	(18,042)
Stock purchase warrants	73	73
Unearned compensation, restricted stock and stock units	(2,390)	(1,077)
Stock subscriptions receivable	(1,541)	(1,645)
Total stockholders deficit	(27,824)	(34,100)
Total liabilities, minority interest and stockholders deficit	$ 377,292	$ 379,298

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

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders Deficit and Comprehensive Loss

For the Nine Months Ended September 30, 2005 and 2004

(Unaudited In 000 s)

	Comprehensive Income (Loss)	Shares of Common Stock	Common Stock	Treasury Stock	Accumulated Deficit	Stock Recapitalization	Accumulated Other Comprehensive Loss	Stock Purchase Warrants	Unearned Compensation Restricted Stock	Stock Subscription Receivables	Total Stockholders Deficit
Balance, December 31, 2003		18,992	$ 357,580	$ (1,258)	$ (169,569)	$ (189,589)	$ (14,689)	$ 86	$ (1,502)	$ (1,730)	$ (20,671)
Net loss	$ (4,149)				(4,149)						(4,149)
Minority stock dividend											
Issuance of restricted stock		86									
Vesting/forfeiture of restricted stock									444		444
Stock warrant exercise		35	13					(13)			
Acquisition of treasury stock				(52)						69	17
Issuance non-employee options											
Translation adjustment, net of a deferred tax provision of nil	82						82				82
Pension plan minimum liability, net of a deferred tax benefit of nil											
Balance, September 30, 2004	$ (4,067)	19,113	$ 357,593	$ (1,310)	$ (173,718)	$ (189,589)	$ (14,607)	$ 73	$ (1,058)	$ (1,661)	$ (24,277)
Balance, December 31, 2004		19,152	$ 357,777	$ (1,326)	$ (180,271)	$ (189,589)	$ (18,042)	$ 73	$ (1,077)	$ (1,645)	$ (34,100)
Net income	$ 5,684				5,684						5,684
Issuance of restricted stock		19	163						(163)		
Issuance of restricted stock units			2,345						(2,345)		
		(46)	(704)						1,195		491

Vesting/forfeiture of restricted stock											
Stock warrant exercise											
Acquisition of treasury stock				(28)						28	
Payment of stock subscription receivable										76	76
Issuance non-employee options			93								93
Translation adjustment, net of a deferred tax provision of nil	(68)						(68)				(68)
Pension plan minimum liability, net of a deferred tax benefit of nil											
Balance, September 30, 2005	$ 5,616	19,125	$ 359,674	$ (1,354)	$ (174,587)	$ (189,589)	$ (18,110)	$ 73	$ (2,390)	$ (1,541)	$ (27,824)

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

Consolidated Statements of Cash Flows

(Unaudited In 000 s)

	Nine months ended September 30,	
	2005	**2004**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income/(loss)	$ 5,684	$ (4,149)
Adjustments to reconcile to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	12,864	17,635
Bad debt expense	2,203	955
Foreign currency transaction loss	(80)	
(Gain)/loss on disposal of property and equipment	333	1,320
Write-off of deferred financing costs	1,110	
Amortization of restricted stock	584	444
Amortization of deferred financing costs	1,386	1,028
Amortization of bond discount	172	
Minority dividends	109	108
Changes in assets and liabilities:		
Accounts and other receivables	(2,132)	(21,888)
Notes receivable from affiliates	416	(565)
Prepaid expenses	979	1,413
Prepaid tires	(617)	(86)
Other assets	(2,928)	(1,538)
Accounts payable and accrued expenses	(9,645)	2,082
Environmental liabilities	(4,733)	7,353
Accrued loss and damage claims	399	8,405
Affiliates and independent owner-operators payable	(2,281)	6,079
Other liabilities	829	(7,428)
Current income taxes	(1,977)	1,195
Net change in assets and liabilities	(21,690)	(4,978)
Net cash provided by operating activities	2,675	12,363
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(10,441)	(8,347)
Acquisition of business assets	(2,673)	(455)
Acquisition of intangibles		(326)
Proceeds from sales of property and equipment	3,813	2,577
Net cash used in investing activities	(9,301)	(6,551)
CASH FLOWS FROM FINANCING ACTIVITIES:		

Proceeds from issuance of long-term debt	83,300	
Principal payments on long-term debt	(78,550)	(1,302)
Proceeds from revolver	103,200	1,500
Payments on revolver	(103,000)	(3,500)
Payments on letter of credit		(4,932)
Deferred financing costs	(3,162)	(369)
Change in book overdraft	3,594	3,078
Minority dividends	(109)	(108)
Other stock transactions	76	18
Net cash (used in) / provided by financing activities	5,349	(5,615)
Net (decrease) / increase in cash and cash equivalents	(1,277)	197
Effect of exchange rate changes on cash		119
Cash and cash equivalents, beginning of year	2,700	955
Cash and cash equivalents, end of period	$ 1,423	$ 1,271

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 them tractors. In exchange for the services rendered, affiliates and owner-operators are normally paid a percentage of the revenues generated for each load hauled.

The accompanying unaudited condensed, consolidated financial statements of the Company have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and notes required by generally accepted accounting principles 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/A for the year ended December 31, 2004, including the consolidated financial statements and accompanying notes. Certain prior period amounts have been reclassified to conform to the current year presentation.

Operating results for the three and nine months ended September 30, 2005, are not necessarily indicative of the results that may be expected for the entire fiscal year.

Acquisition of Business Assets

During the quarter ended September 30, 2005, we ended three affiliate arrangements and assumed those affiliates operations. We also transferred the remaining company terminal owned by our Canadian subsidiary to a new affiliate. These transactions resulted in the purchase of $2.7 million of tractors and trailers and a charge of $0.3 million to purchased transportation resulting from the write-off of amounts due from affiliates.

In October 2005, we entered into an agreement to purchase all of the assets of an affiliate for $1.2 million of cash consideration and $0.6 million forgiveness of amounts due from affiliates.

Goodwill and Intangible Assets

Goodwill

Effective January 1, 2002, we adopted the provisions of SFAS 142, Goodwill and Other Intangible Assets. As a result of the adoption of SFAS 142, the amortization of goodwill ceased. Under SFAS 142, 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.

In 2004, we selected the end of the second quarter as the date to perform our annual impairment test. No impairment was noted when the test was performed as of June 30, 2005. We used a combination of discounted cash flows and EBITDA multiples to estimate the fair value of the reporting units. Projections for future cash flows were based on our recent operating trends. 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. No impairment was determined to have occurred as of June 30, 2005, since the calculated fair value exceeded the carrying amount. The factors used in deriving the estimate of the fair value included improving economic conditions and increasing revenues and operating income during 2005.

Our goodwill assets as of September 30, 2005 and December 31, 2004 were $131.4 million in both periods.

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

Intangible Assets

Net intangible assets consist of a $1.0 million intangible pension plan asset and $0.2 million in total of non-compete agreements with lives ranging from 1 10 years and customer lists and customer contracts acquired from a competitor with lives of 5 years. Accumulated amortization of the remaining non-pension intangible assets was $0.2 million and $0.2 million at September 30, 2005 and December 31, 2004, respectively. The gross amount of intangible assets at September 30, 2005 and December 31, 2004 was $1.6 million and $1.7 million, respectively

Amortization expense for the non-pension plan asset for the three and nine months ended September 30, 2005 and 2004 was less than $0.1 million in all periods. The intangible assets, except the pension plan asset, will be amortized to expense for each full year as follows (in thousands):

2005	$ 26
2006	105
2007	40
2008	40
2009 and after	

New Accounting Pronouncements

On October 22, 2004, the American Jobs Creation Act of 2004 was signed into law. After a careful analysis of the law, we have determined that this Act will not have a material effect on our consolidated financial position and results of operations.

In December 2004, the FASB issued SFAS No. 123 (revised in 2005), Share-Based Payments. In April 2005, the SEC announced that the effective date of SFAS No. 123(R), Share-Based Payments , has been deferred for certain public companies. SFAS 123(R), as amended, requires that all share-based payments to employees, including grants of employee equity incentives, are to be recognized in the income statement based on their fair values and is effective for fiscal years beginning after June 15, 2005. SFAS 123(R) will be applicable to the Company beginning January 1, 2006, and will be adopted using the modified prospective method. The modified prospective method requires compensation costs to be recognized beginning with the effective date of adoption for (a) all share-based payments granted after the effective date and (b) awards granted to employees prior to the effective date of the statement that remain unvested on the effective date. SFAS No. 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption.

As permitted by SFAS No. 123, the Company currently accounts for share-based payments to employees using the intrinsic value method prescribed in APB No. 25, and, as such, generally recognizes no compensation cost for employee equity incentives. Accordingly, the adoption of SFAS No. 123(R) will have a significant impact on the Company s results of operations, although it will have no impact on our overall liquidity. The impact of the adoption of SFAS No. 123R cannot be determined at this time because it will depend on the levels of share-based payments granted in the future. However, had the Company adopted SFAS No. 123R in prior periods, the impact of the statement would have approximated the impact of SFAS No. 123 as described in the disclosure of pro-forma net income (loss) and earnings (loss) per share included in the stock-based compensation table in Note 4 to the unaudited financial statements included below.

Staff Accounting Bulletin 107 from the Securities and Exchange Commission was issued on March 29, 2005 and provides guidance related to share-based payment transactions with nonemployees, the transition from nonpublic to public entity status, valuation methods (including assumptions such as expected volatility and expected term), the accounting for certain redeemable financial instruments issued under share-based payment arrangements, the classification of compensation expense, non-GAAP financial measures, first-time adoption of SFAS 123(R) in an interim period, capitalization of compensation cost related to share-based payment arrangements, the accounting for income tax effects of share-based payment arrangements upon adoption of SFAS 123(R), the modification of employee share options prior to adoption of SFAS 123(R) and disclosures in Management s Discussion and Analysis subsequent to adoption of SFAS 123(R). We are in the process of analyzing this bulletin in order to determine its effects, if any, on our consolidated financial position and results of operations.

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Corrections (SFAS No. 154). SFAS No. 154 replaced APB Opinion No. 20, Accounting Changes and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements and changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS No. 154 also provides guidance on the accounting for and reporting of error corrections. This statement is applicable for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We do not anticipate any effects from this statement on our consolidated financial position and results of operations.

2. Comprehensive Income (Loss)

Comprehensive income (loss) is as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2005	**2004**	**2005**	**2004**
Net income (loss)	$ 50	2,751	5,684	(4,149)
Other comprehensive income/(loss):				
Foreign currency translation adjustments	(102)	63	(68)	82
Comprehensive income (loss)	$ (52)	2,814	5,616	(4,067)

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

3. Earnings/ (Loss) Per Share

A reconciliation of the numerators and denominators of the basic and diluted earnings (loss) from continuing operations per earnings per share computations follows:

	Three months ended					
	September 30, 2005			September 30, 2004		
(In 000 s except per share amounts)	Net income (loss) (numerator)	Shares (denominator)	Per-share amount	Net income (loss) (numerator)	Shares (denominator)	Per-share amount
Basic income (loss) available to common shareholders:						
Net earnings (loss)	$ 50	18,929	$ .00	$ 2,751	18,914	$ .15
Effect of dilutive securities:						
Stock options		150			4	
Unvested restricted stock		11				
Stock units		49				
Stock warrants		78			67	
Diluted income (loss) available to common shareholders:						
Net earnings (loss)	$ 50	19,217	$ .00	$ 2,751	18,985	$ .14

	Nine months ended					
	September 30, 2005			September 30, 2004		
(In 000 s except per share amounts)	Net income (loss) (numerator)	Shares (denominator)	Per-share amount	Net income (loss) (numerator)	Shares (denominator)	Per-share amount
Basic income (loss) available to common shareholders:						
Net earnings (loss)	$ 5,684	18,929	$ .30	$ (4,149)	18,904	$ (.22)
Effect of dilutive securities:						
Stock options		167				
Unvested restricted stock		13				
Stock units		27				
Stock warrants		166				

Diluted income (loss) available to common shareholders:						
Net earnings (loss)	$ 5,684	19,302	$ .29	$ (4,149)	18,904	$ (.22)

The effect of our stock options, restricted stock, stock warrants and stock units which represent the shares shown in the table above are included in the computation of diluted earnings per share for each of the three and nine month periods ended September 30, 2005 and 2004.

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

The following securities were not included in the calculation of diluted EPS because such inclusion would be anti-dilutive:

(in 000 s)	For the three month period ended September 30, 2005	2004	For the nine month period ended September 30, 2005	2004
Stock options	1,403	1,729	1,358	1,729
Unvested Restricted Stock	24	72	24	72

4. Stock-Based Compensation

We use Accounting Principles Board Opinion No. 25, Accounting for Stock-Based Compensation, and the related interpretations to account for our stock option plans. No compensation cost has been generally recorded at the grant dates, as the option price has been greater than or equal to the market price of the common stock on the applicable measurement date for all options issued. However, due to the issuance of stock options representing 200,000 shares to an executive who started with us in December, 2004, we recognized $31,250 and $93,750 of compensation expense for the three-month and nine month periods ending September 30, 2005, respectively and will recognize approximately $125,000 in compensation expense for each of the subsequent full three years until the options fully vest in December, 2008.

We adopted the disclosure provisions of SFAS 148, Accounting for Stock-Based Compensation Transition and Disclosure an amendment of SFAS 123, Accounting for Stock-Based Compensation, for disclosure purposes in 2002. The stock of QDI was not traded publicly prior to the initial public offering on November 13, 2003. Therefore, our volatility is based on a composite volatility of certain trucking companies and our own volatility. The pro forma fair value of options granted during the first nine months of 2005, and all of 2004 are based upon the Black-Scholes option-pricing model using the following criteria:

	2005	2004
Risk free rate	3.75%	3.62%
Expected life	5 years	6 years
Volatility	60%	62%
Expected dividend	nil	nil

The pro forma fair value of stock options granted in the first nine months of 2005 was $1.1 million, fiscal year 2004 was $2.4 million and in fiscal year 2003 it was $8.2 million after adjusting for a change in the estimated forfeiture rate. This change in the estimated forfeiture rate decreased the total amount of pro forma fair value of stock options issued in fiscal year 2003 and fiscal year 2004 by $2.9 million and $0.8 million, respectively of which $0.6 million is reflected as a decrease to pro forma compensation expense in 2005. At September 30, 2005, a total of 915,779 authorized shares remain available for granting under our 1998 and 2003 Stock Option Plans.

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

Had compensation cost been determined based upon the fair value at the grant date for awards under the option plans consistent with the method described in SFAS 123, our net income/(loss) and net income/(loss) per common share would have been as follows for the three and nine months ended September 30th:

	Three months ended September 30,		Nine months ended September 30,	
(in 000 s)	2005	2004	2005	2004
Net income/(loss)	$ 50	$ 2,751	$ 5,684	$ (4,149)
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects of $0 for all periods	(500)	(484)	(1,401)	(1,703)
Restricted stock compensation expense and stock option expense included in net income (loss) attributable to common stockholders as reported	477	104	584	444
Pro forma net income (loss) attributable to common stockholders	$ 27	$ 2,371	$ 4,867	$ (5,408)
Income (loss) per common share:				
As reported - basic	$ 0.00	$ 0.15	$ 0.30	$ (0.22)
Pro forma - basic	0.00	0.13	0.26	(0.29)
As reported - diluted	0.00	0.14	0.29	(0.22)
Pro forma - diluted	0.00	0.12	0.25	(0.29)

In June 2005, we issued to Gerald L. Detter, our Chief Executive Officer, Restricted Stock Units representing 306,535 shares of our common stock with a fair market value at the time of issuance of $2,345,000. The majority of these Restricted Stock Units are being amortized over the 19 month service period with $859,000 expected to be expensed in fiscal year 2005.

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. Assets of the plans are invested primarily in equity securities and fixed-income investments. Pension costs are funded in accordance with the provisions of the applicable law.

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	**2004**	**2005**	**2004**
Service cost	$ 67	$ 69	$ 203	$ 207
Interest cost	669	686	2,008	2,059
Prior service cost	23	23	70	70
Amortization	257	172	769	515
Expected return on plan assets	(704)	(635)	(2,113)	(1,904)
Net periodic pension cost	312	315	937	947

We have contributed $3.6 million during the nine months ended September 30, 2005, and expect to contribute $0.4 million during the remainder of 2005.

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, 2005 and 2004 is as follows (in thousands):

	Three Months Ended September 30, 2005			
	U. S.	**International**	**Eliminations**	**Consolidated**
Total operating revenues	$ 158,242	$ 12,384	$	$ 170,626
Operating income	5,310	1,855		7,165
Depreciation and Amortization	3,588	519		4,107
Capital Expenditures	7,578			7,578

	Three Months Ended September 30, 2004			
	U. S.	**International**	**Eliminations**	**Consolidated**
Total operating revenues	$ 147,009	$ 11,412	$	$ 158,421

Operating income	8,483	586	9,069
Depreciation and Amortization	5,099	642	5,741
Capital Expenditures	3,732	12	3,744

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

	Nine Months Ended September 30, 2005			
	U. S.	International	Eliminations	Consolidated
Total operating revenues	$ 465,920	$ 36,875	$	$ 502,795
Operating income	21,838	5,375		27,213
Depreciation and Amortization	11,491	1,373		12,864
Capital Expenditures	13,101	13		13,114
	As of September 30, 2005			
Identifiable Assets	367,430	9,862		377,292

	Nine Months Ended September 30, 2004			
	U. S.	International	Eliminations	Consolidated
Total operating revenues	$ 433,638	$ 33,397	$	$ 467,035
Operating income	9,702	3,412		13,114
Depreciation and Amortization	15,566	2,069		17,635
Capital Expenditures	8,769	33		8,802
	As of December 31, 2004			
Identifiable Assets	367,855	11,443		379,298

7. Issuance of Senior Floating Rate Notes

On January 28, 2005, we consummated the private offering of $85 million aggregate principal at maturity in new Senior Floating Rate Notes issued by QD LLC and QD Capital and guaranteed by QDI and domestic subsidiaries at 98% of the face value of the notes. The 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 were used to repay approximately $70 million of the term borrowings under our credit facility and a distribution to QDI, which in turn used such proceeds to redeem all $7.5 million principal amount of outstanding Series B Floating Interest Rate Subordinated Term Securities due 2006. The balance was used for general corporate purposes, including the repayment of indebtedness under the revolving credit portion of our credit facility. The credit facility was amended to incorporate this reduction in the term loan portion of the facility and to modify the covenants. In August, 2005, we completed the conversion of the Senior Floating Rate Notes from private debt to public debt.

In connection with the offering of the Notes, we incurred a pre-tax charge in the first quarter of 2005 of approximately $1.1 million resulting from the write-off of debt-issuance costs associated with the term borrowings under the credit agreement to be prepaid with the net proceeds for the offering of the Notes.

8. Commitments and Contingencies

Environmental Matters

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

Our activities involve the handling, transportation and storage of bulk chemicals, both liquid and dry, many of which are classified as hazardous materials or hazardous substances. Our tank wash and terminal operations engage in the creation, storage or discharge and proper disposal of wastewater that may contain hazardous substances, and the control and discharge of storm-water from industrial sites. In addition, we may store diesel fuel and other petroleum products at our terminals. As such, we and others who operate in our industry, are subject to environmental, health and safety laws and regulation by U.S. federal, state and local agencies and Canadian federal and provincial governmental authorities. Environmental laws and regulations are complex, and address emissions to the air, discharge onto land or water, and the generation, handling, storage,

QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

transportation, treatment and disposal of waste materials. These laws change frequently and generally require us to obtain and maintain various licenses and permits. Environmental laws have tended to become more stringent over time, and most provide for substantial fines and potential criminal sanctions for violations. Some of these laws and regulations are subject to varying and conflicting interpretations.

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

As a handler of hazardous substances, we are potentially subject to strict, joint and several liability for investigating and rectifying the consequences of spills and other environmental releases of such substances under the Comprehensive Environmental Response Compensation and Liability Act of 1980, as amended (CERCLA), the Resource Conservation and Recovery Act of 1976 (RCRA), the Superfund Amendments and Reauthorization Act of 1986, and comparable state and Canadian laws. From time to time, we have incurred remedial costs and regulatory penalties with respect to chemical or wastewater spills and releases at our facilities and on the road, and, notwithstanding the existence of our environmental management program, we cannot assure that such obligations will not be incurred in the future, nor predict with certainty the extent of future liabilities and costs under environmental, health, and safety laws, nor that such liabilities will not result in a material adverse effect on our financial condition, results of operations or 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.

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

Bridgeport, New Jersey

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

In connection with OU1, USEPA originally required us to construct a large treatment plant with discharge via a two mile pipeline to the Delaware River watershed with construction to be completed by the end of 2001. We have negotiated an alternative remedy with USEPA which would call for a significantly smaller treatment facility, in place treatment of groundwater contamination via in-situ treatment and a local discharge. The treatment facility has been approved and construction started in July, 2005. 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 is on-going. Additional contamination has been identified. In regard to OU2, USEPA is now requiring a Feasibility Study for the limited areas that show contamination and warrant additional investigation or work. USEPA also wants to include in OU2 the in-situ treatment previously described as part of OU1. The environmental projections for OU1 and OU2 have been changed to reflect the reallocation of the in-situ costs to OU2 and the proposed contract amount for the OU1 work. We have estimated expenditures to be in the range of $10.9 million to $15.2 million.

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

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. PADEP and USEPA had previously been unable to agree on the final interim remedy design for OU2; specifically the discharge location for the treated groundwater. We have projected an interim remedy, which involves the construction of a treatment facility and discharge locally. A preliminary engineering design, which includes a discharge to a local tributary, was submitted in August 2004 to USEPA and PADEP for their review and comment. Agency comments have been received and a final design is being prepared that will be submitted to the agency. 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. We determined in June 2004 that we would incur increased expense due to the off-site additional contaminated soil that was found to be incompatible with the thermal treatment unit, the increased volume of soil subject to thermal treatment based on an increase in the lateral extent of contamination, and the discovery of buried drums and associated contaminated material and soils, which required off-site disposal. In the third quarter of 2004, we determined that a latex liner waste material was present in the third pond, which needed to be excavated and removed for disposal offsite. 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 three soils into discrete piles and determined the best approach to treat these soil piles. Most of the soil piles can be treated on-site using SVE as originally planned. However, some modifications to the design will have to be made in order to treat a limited number of soil piles. We have estimated expenditures to be in the range of $2.9 million to $4.7 million.

Other Owned Property

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

Tonawanda, New York: CLC entered into a consent order with the New York Department of Environmental Conservation on June 22, 1999 obligating it to perform soil and groundwater remediation at this former truck terminal and tank wash site. We have completed a remedial investigation and 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.

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

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

ISRA NJ Facilities: We are obliged to conduct investigations and remediation at three current or former New Jersey tank wash and terminal sites pursuant to the State s Industrial Sites Remediation Act, which requires such remediation following the sale of facilities after 1983. The former owner has agreed to take responsibility for one of the sites and the other two are in the process of remedial investigation with projections set in contemplation of limited soil remediation expense for contaminated areas.

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

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

We have estimated expenditures for these other owned properties to be in the range of $2.9 million to $6.0 million.

Other Environmental Matters

We have been named as a potentially responsible party (PRP) under CERCLA and similar state laws at 18 other multi-party sites.

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

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

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

We have estimated expenditures for these other environmental matters to be in the range of $1.2 million to $3.2 million.

Reserves

Our policy is to accrue remediation expenses when it is probable that such efforts will be required and the related expenses can be reasonably estimated. Estimates of costs for future environmental compliance and remediation are necessarily imprecise due to such factors as the continuing evolution of environmental laws and regulatory requirements, the availability and application of technology, the identification of currently unknown remediation sites, and the allocation of costs among the potentially responsible parties under applicable statutes. As of

September 30, 2005 and December 31, 2004, we had reserves in the amount of $20.9 million and $25.6 million, respectively for all environmental matters discussed above.

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

The activity in the environmental liability reserves is as follows at September 30, 2005 (in thousands):

	2005
Reserve at beginning of year	$ 25,598
Payments	(4,733)
Additions	
Reserve at end of period	$ 20,865

We expect the majority of these environmental obligations to be paid over the next four to five years.

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

Legal Matters

PPI Settlement

We settled two shareholder class action lawsuits and a shareholder derivative demand stemming from previously disclosed irregularities at Power Purchasing, Inc. (PPI), a non-core subsidiary, on October 3, 2005 and October 17, 2005. The two previously-disclosed class action lawsuits, *Meigs v. Quality Distribution, Inc., et al.,* filed in the United States District Court for the Middle District of Florida, Tampa Division, and *Steamfitters Local 449 Pension & Retirement Security Funds v. Quality Distribution, Inc., et al.*, filed in the Circuit Court of the Thirteenth Judicial Circuit in and for Hillsborough County, Florida, were each filed on behalf of a putative class of shareholders who allegedly purchased our common stock traceable to our November 6, 2003 initial public offering.

No aspect of the settlements constitutes an admission or finding of wrongful conduct, acts, or omissions. In exchange for broad releases from all claims that were or could have been asserted by shareholders in respect of QDI shares, and to eliminate the burden and expense of further litigation, we and our primary directors and officers liability insurer, on behalf of all defendants, agreed to pay the class $8,150,000, of which $5,875,000 was paid directly by the insurer and the balance of $2,275,000 was paid by us. We have also agreed to pay the state action plaintiffs attorneys fees and expenses in an amount not to exceed $600,000. We recorded a pre-tax charge of $2.875 million in the fourth quarter of 2004 for these settlements. The $8,150,000 and the $600,000 are recorded in Accrued Expenses as the PPI class action settlement as of December 31, 2004 and September 30, 2005. The $5,875,000 insurance reimbursement was paid to the United States District Court in July, 2005. It was recorded in Accounts Receivable as Insurance receivable PPI class action settlement as of December 31, 2004 and is not reflected in our balance sheet as of September 30, 2005. We paid $2,275,000 to the United States District Court in the second quarter of 2005. We expect to pay the remaining $600,000 for plaintiffs attorney fees and expenses before the end of the fourth quarter of 2005.

Routine Legal Matters

Other than reported in this Note, in the Item 3 - Legal Proceedings of our Annual Report on Form 10-K/A for the year ended December 31, 2004 and in Note 20. Commitments and Contingencies to our audited consolidated financial statements contained in such Form 10-K/A, we are not currently a party to any material pending legal proceedings other than routine matters incidental to our business, and no material developments have occurred in any proceedings described in such Form 10-K/A.

9. Guarantor Subsidiaries

The $125 million of 9% Senior Subordinated Notes due 2010 issued by QD LLC and QD Capital and the $85 million of Senior Floating Rate Notes due 2012 issued by QD LLC and QD Capital are fully and unconditionally guaranteed on a senior subordinated basis pursuant to guarantees by all of our direct and indirect domestic subsidiaries (the Guarantors). In addition, we have fully and unconditionally guaranteed on a senior subordinated basis the 9% Senior Subordinated Notes and the Senior Floating Rate Notes. Each of our direct and indirect subsidiaries, including QD LLC, is 100% owned. Non-United States subsidiaries did not guarantee the debt.

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

We have not presented separate financial statements and other disclosures concerning the 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 the parent company, QD LLC, QD Capital, non-guarantor subsidiaries and combined guarantor subsidiaries presents:

Condensed consolidating balance sheets at September 30, 2005 and December 31, 2004, condensed consolidating statements of operations for each of the three and nine month periods ended September 30, 2005 and 2004, and condensed consolidating statements of cash flows for each of the nine month periods ended September 30, 2005 and 2004.

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

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

Consolidating Statements of Operations

Three Months Ended September 30, 2005

Unaudited - (In 000 s)

	QDI	QD LLC & QD Capital	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenues:						
Transportation	$	$	$ 136,123	$ 61	$	$ 136,184
Other service revenue			16,811	242		17,053
Fuel surcharge			17,379	10		17,389
Total operating revenues			170,313	313		170,626
Operating expenses:						
Purchased transportation			119,459	6		119,465
Compensation			15,456	29		15,485
Fuel, supplies and maintenance			9,577	31		9,608
Depreciation and amortization			3,988	119		4,107
Selling and administrative			5,407	44		5,451
Insurance claims			6,746			6,746
Taxes and Licenses			585	20		605
Communication and utilities			1,588			1,588
(Gain)/loss on disposal of property and equipment			236	44		280
PPI class action settlement and related expenses			126			126
Operating income			7,145	20		7,165
Interest expense, net		6,674	288	(85)		6,877
Write-off of debt issuance costs		1,110	(1,110)			
Other (income) expense	2		76	(210)		(132)
Income (loss) before taxes	(2)	(7,784)	7,891	315		420
Income tax (provision) benefit		1,299	(1,630)	(39)		(370)
Equity in earnings (loss) of subsidiaries	57	6,537			(6,594)	
Net income (loss)	$ 55	$ 52	$ 6,261	$ 276	$ (6,594)	$ 50

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

Consolidating Statements of Operations

Three Months Ended September 30, 2004

Unaudited - (In 000 s)

	QDI	QD LLC & QD Capital	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenues:						
Transportation	$	$	$ 132,305	$ 1,067	$	$ 133,372
Other service revenue			16,960	237		17,197
Fuel surcharge			7,777	75		7,852
Total operating revenues			157,042	1,379		158,421
Operating expenses:						
Purchased transportation			107,443	157		107,600
Compensation			14,429	415		14,844
Fuel, supplies and maintenance			7,460	376		7,836
Depreciation and amortization			5,444	297		5,741
Selling and administrative			5,345	37		5,382
Insurance claims			3,470	36		3,506
Taxes and licenses			645	37		682
Communication and utilities			1,616	9		1,625
(Gain)/loss on disposal of property and equipment			275	1,071		1,346
PPI class action settlement and related expenses			790			790
Operating income (loss)			10,125	(1,056)		9,069
Interest expense, net		5,598		(98)		5,500
Other (income) expense			124	6		130
Income (loss) before taxes		(5,598)	10,001	(964)		3,439
Income tax (provision) benefit		(749)	593	(532)		(688)
Equity in earnings (loss) of subsidiaries	2,751	9,098			(11,849)	
Net income (loss)	$ 2,751	$ 2,751	$ 10,594	$ (1,496)	$ (11,849)	$ 2,751

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

Consolidating Statements of Operations

Nine months Ended September 30, 2005

Unaudited - (In 000 s)

	QDI	QD LLC & QD Capital	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenues:						
Transportation	$	$	$ 408,168	$ 858	$	$ 409,026
Other service revenue			50,254	679		50,933
Fuel surcharge			42,718	118		42,836
Total operating revenues			501,140	1,655		502,795
Operating expenses:						
Purchased transportation			348,889	71		348,960
Compensation			46,143	359		46,502
Fuel, supplies and maintenance			25,537	512		26,049
Depreciation and amortization			12,407	457		12,864
Selling and administrative			15,900	114		16,014
Insurance claims			15,936			15,936
Taxes and Licenses			2,189	44		2,233
Communication and utilities			5,641	11		5,652
(Gain)/loss on disposal of property and equipment			289	44		333
PPI class action settlement and related expenses			1,039			1,039
Operating income (loss)			27,170	43		27,213
Interest expense, net	(7)	19,699	288	(341)		19,639
Write-off of debt issuance costs		1,110				1,110
Other (income) expense	2		73	(197)		(122)
Income (loss) before taxes	5	(20,809)	26,809	581		6,586
Income tax (provision) benefit		2,422	(3,049)	(275)		(902)
Equity in earnings (loss) of subsidiaries	5,684	24,066			(29,750)	
Net income (loss)	$ 5,689	$ 5,679	$ 23,760	$ 306	$ (29,750)	$ 5,684

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

Consolidating Statements of Operations

Nine months Ended September 30, 2004

Unaudited - (In 000 s)

	QDI	QD LLC & QD Capital	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenues:						
Transportation	$	$	$ 389,949	$ 4,051	$	$ 394,000
Other service revenue			52,925	694		53,619
Fuel surcharge			19,146	270		19,416
Total operating revenues			462,020	5,015		467,035
Operating expenses:						
Purchased transportation			314,034	609		314,643
Compensation			43,520	1,531		