QUALITY DISTRIBUTION INC
Form 10-Q
November 07, 2008
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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, 2008**

**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** | **(I.R.S. Employer** |
| **incorporation or organization)** | **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, a non-accelerated filer or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ (Do not check if a smaller reporting company)
Smaller reporting company ¨
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 3, 2008, the registrant had 19,528,071 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, 2008 | Three months ended September 30, 2007 | Nine months ended September 30, 2008 | Nine months ended September 30, 2007 |
|---|---|---|---|---|
| **OPERATING REVENUES:** | | | | |
| Transportation | $ 144,774 | $ 148,900 | $ 445,798 | $ 442,656 |
| Other service revenue | 25,494 | 18,736 | 78,916 | 54,847 |
| Fuel surcharge | 44,473 | 24,545 | 122,490 | 67,483 |
| Total operating revenues | 214,741 | 192,181 | 647,204 | 564,986 |
| **OPERATING EXPENSES:** | | | | |
| Purchased transportation | 124,800 | 118,653 | 376,378 | 358,027 |
| Compensation | 27,519 | 22,302 | 83,518 | 62,558 |
| Fuel, supplies and maintenance | 30,031 | 21,146 | 93,199 | 56,545 |
| Depreciation and amortization | 5,207 | 4,468 | 15,435 | 12,960 |
| Selling and administrative | 8,699 | 7,442 | 26,515 | 21,314 |
| Insurance claims | 3,202 | 3,239 | 11,629 | 14,321 |
| Taxes and licenses | 1,583 | 1,105 | 4,042 | 2,729 |
| Communication and utilities | 3,104 | 2,952 | 10,109 | 8,081 |
| (Gain) loss on disposal of property and equipment | (867) | 219 | (2,832) | 418 |
| Restructuring costs | 1,700 | | 4,075 | |
| Total operating expenses | 204,978 | 181,526 | 622,068 | 536,953 |
| Operating income | 9,763 | 10,655 | 25,136 | 28,033 |
| Interest expense | 8,455 | 7,651 | 26,246 | 23,403 |
| Interest income | (128) | (198) | (333) | (573) |
| Other expense (income) | 15 | (279) | 171 | (638) |
| Income (loss) before income taxes | 1,421 | 3,481 | (948) | 5,841 |
| Provision for (benefit from) income taxes | 704 | 1,982 | (98) | 2,229 |
| Net income (loss) | $ 717 | $ 1,499 | $ (850) | $ 3,612 |
| **PER SHARE DATA:** | | | | |
| **Net income (loss) per common share** | | | | |
| Basic | $ 0.04 | $ 0.08 | $ (0.04) | $ 0.19 |
| Diluted | $ 0.04 | $ 0.08 | $ (0.04) | $ 0.19 |
| **Weighted average number of shares** | | | | |

| | | | | |
|---|---|---|---|---|
| Basic | 19,387 | 19,357 | 19,377 | 19,353 |
| Diluted | 19,556 | 19,488 | 19,377 | 19,488 |

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, 2008 | December 31, 2007 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 23,443 | $ 9,711 |
| Accounts receivable, net | 106,352 | 99,081 |
| Prepaid expenses | 9,607 | 8,150 |
| Deferred tax assets, net | 20,483 | 20,483 |
| Other | 6,970 | 6,258 |
| Total current assets | 166,855 | 143,683 |
| Property and equipment, net | 154,178 | 121,992 |
| Goodwill | 173,143 | 173,575 |
| Intangibles, net | 23,124 | 24,167 |
| Non-current deferred tax assets, net | 17,095 | 16,203 |
| Other assets | 11,669 | 14,356 |
| Total assets | $ 546,064 | $ 493,976 |
| **LIABILITIES, MINORITY INTEREST AND SHAREHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Current maturities of indebtedness | $ 7,213 | $ 413 |
| Current maturities of capital lease obligations | 7,892 | 1,451 |
| Accounts payable | 17,485 | 17,428 |
| Affiliates and independent owner-operators payable | 16,349 | 12,597 |
| Accrued expenses | 30,008 | 25,957 |
| Environmental liabilities | 3,875 | 4,751 |
| Accrued loss and damage claims | 9,842 | 13,438 |
| Income tax payable | | 555 |
| Total current liabilities | 92,664 | 76,590 |
| Long-term indebtedness, less current maturities | 371,671 | 343,575 |
| Capital lease obligations, less current maturities | 17,810 | 3,832 |
| Environmental liabilities | 6,636 | 6,418 |
| Accrued loss and damage claims | 13,831 | 18,474 |
| Other non-current liabilities | 13,652 | 15,954 |
| Total liabilities | 516,264 | 464,843 |
| Commitments and contingencies - Note 9 | | |
| Minority interest in subsidiary | 1,833 | 1,833 |
| **SHAREHOLDERS EQUITY** | | |
| Common stock, no par value; 29,000 shares authorized; 19,732 issued and 19,528 outstanding at September 30, 2008 and 19,334 issued and 19,176 outstanding at December 31, 2007 | 362,760 | 361,617 |

| | | |
|---|---|---|
| Treasury stock, 204 and 158 shares at September 30, 2008 and December 31, 2007 | (1,580) | (1,564) |
| Accumulated deficit | (126,996) | (126,146) |
| Stock recapitalization | (189,589) | (189,589) |
| Accumulated other comprehensive loss | (16,394) | (16,748) |
| Stock subscriptions receivable | (234) | (270) |
| Total shareholders equity | 27,967 | 27,300 |
| Total liabilities, minority interest and shareholders equity | $ 546,064 | $ 493,976 |

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**

**For the Nine Months Ended September 30, 2008 and 2007**

**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 | Stock Subscription Receivables | Total Shareholders Equity |
|---|---|---|---|---|---|---|---|---|---|---|
| Balance, December 31, 2006 | 19,210 | (172) | $ 359,995 | $ (1,527) | $ (118,255) | $ (189,589) | $ (18,531) | $ 21 | $ (340) | $ 31,774 |
| Net income | | | | | 3,612 | | | | | 3,612 |
| 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 |
| Acquisition of treasury stock | | (3) | | (70) | | | | | 70 | |
| FIN 48 Adjustment | | | | | (328) | | | | | (328) |
| Amortization of prior service costs, net of tax provision | | | | | | | 70 | | | 70 |
| Translation adjustment, net of tax provision | | | | | | | (314) | | | (314) |
| Balance, September 30, 2007 | 19,344 | (158) | $ 361,281 | $ (1,564) | $ (114,971) | $ (189,589) | $ (18,775) | $ | $ (270) | $ 36,112 |
| Balance, December 31, 2007 | 19,334 | (158) | $ 361,617 | $ (1,564) | $ (126,146) | $ (189,589) | $ (16,748) | $ | $ (270) | $ 27,300 |
| Net loss | | | | | (850) | | | | | (850) |
| Issuance of restricted stock | 398 | | | | | | | | | |
| Forfeiture of restricted stock | | (45) | | | | | | | | |
| Amortization of restricted stock | | | 189 | | | | | | | 189 |
| Amortization of non-employee options | | | 94 | | | | | | | 94 |
| Amortization of stock options | | | 860 | | | | | | | 860 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Other stock transactions | | (1) | | (16) | | | | | 36 | 20 |
| Amortization of prior service costs and losses, net of tax | | | | | | | 241 | | | 241 |
| Translation adjustment, net of tax | | | | | | | 113 | | | 113 |
| Balance, September 30, 2008 | 19,732 | (204) | $ 362,760 | $ (1,580) | $ (126,996) | $ (189,589) | $ (16,394) | $ | $ (234) | $ 27,967 |

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, 2008 | 2007 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net (loss) income | $ (850) | $ 3,612 |
| Adjustments to reconcile to net cash and cash equivalents (used in) provided by operating activities: | | |
| Deferred income tax (benefit) expense | (892) | 848 |
| Depreciation and amortization | 15,435 | 12,960 |
| Bad debt expense | 1,000 | 792 |
| (Gain) Loss on disposal of property and equipment | (2,832) | 418 |
| Stock based compensation | 1,143 | 1,227 |
| Amortization of deferred financing costs | 2,235 | 1,375 |
| Amortization of bond discount | 825 | 182 |
| Minority dividends | 109 | 109 |
| Changes in assets and liabilities: | | |
| Accounts and other receivables | (7,915) | (9,228) |
| Prepaid expenses | 2,692 | (286) |
| Other assets | 1,935 | (87) |
| Accounts payable | 1,830 | (1,918) |
| Accrued expenses | 4,050 | 5,754 |
| Environmental liabilities | (658) | (1,270) |
| Accrued loss and damage claims | (8,239) | (6,500) |
| Affiliates and independent owner-operators payable | 3,752 | 3,925 |
| Other liabilities | (2,418) | 939 |
| Current income taxes | (537) | (551) |
| Net cash provided by operating activities | 10,665 | 12,301 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Capital expenditures | (14,967) | (7,368) |
| Acquisition of businesses and assets | (1,397) | (4,004) |
| Boasso purchase adjustment | 1,318 | |
| Proceeds from sales of property and equipment | 4,598 | 5,471 |
| Net cash used in investing activities | (10,448) | (5,901) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from issuance of long-term debt | 1,049 | |
| Principal payments on long-term debt | (3,316) | (1,050) |
| Principal payments on capital lease obligations | (1,949) | (899) |
| Proceeds from revolver | 110,700 | 35,700 |
| Payments on revolver | (89,830) | (35,700) |
| Payments on acquisition notes | (631) | (321) |
| Deferred financing costs | (623) | (153) |
| Stock offering costs | | (787) |
| Change in book overdraft | (1,782) | (70) |
| Minority dividends | (109) | (109) |

| | | |
|---|---|---|
| Other stock transactions | 20 | 70 |
| Net cash provided by (used in) financing activities | 13,529 | (3,319) |
| Effect of exchange rate changes on cash | (14) | 59 |
| Net increase in cash and cash equivalents | 13,732 | 3,140 |
| Cash and cash equivalents, beginning of period | 9,711 | 6,841 |
| Cash and cash equivalents, end of period | $ 23,443 | $ 9,981 |
| Supplemental Disclosure of Cash Flow Information | | |
| Cash paid during the year for: | | |
| Interest | $ 20,308 | $ 19,055 |
| Income Taxes | 1,684 | 1,460 |

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 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, (iii) the term QD Capital refers to our wholly owned subsidiary, QD Capital Corporation, a Delaware corporation and (iv) the term Boasso refers to our wholly owned subsidiary, Boasso America Corporation, a Louisiana corporation.

We are primarily engaged in truckload transportation of bulk chemicals and are also engaged in ISO tank container transportation and depot services, tank wash facility services, logistics and other value-added services. We conduct a significant portion of our business through a network of company terminals, affiliates and independent owner-operators. Affiliates are independent companies, which enter into various term contracts with the Company. 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. 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 statement of consolidated financial position, results of operations and cash flows have been included. The year ended consolidated balance sheet data was derived from audited financial statements, but does not include all the disclosures required by U.S. GAAP. For further information, refer to our Annual Report on Form 10-K for the year ended December 31, 2007, 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, 2008 are not necessarily indicative of the results that may be expected for the entire fiscal year.

**New Accounting Pronouncements**

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* ( SFAS 141R ). This statement significantly changes the financial accounting and reporting of business combination transactions. The provisions of this statement are to be applied prospectively to business combination transactions in the first annual reporting period beginning on or after December 15, 2008. The impact of adopting SFAS 141R will depend on the nature, terms and size of business combinations completed after the effective date.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51* ( SFAS 160 ). SFAS 160 establishes accounting and reporting standards for noncontrolling interests in subsidiaries. This statement requires the reporting of all noncontrolling interests as a separate component of stockholders equity, the reporting of consolidated net income (loss) as the amount attributable to both the parent and the noncontrolling interests and the separate disclosure of net income (loss) attributable to the parent and to the noncontrolling interests. In addition, this statement provides accounting and reporting guidance related to changes in noncontrolling ownership interests. Other than the reporting requirements described above which require retrospective application, the provisions of SFAS 160 are to be applied prospectively in the first annual reporting period beginning on or after December 15, 2008. We are currently evaluating the impact of this standard on our consolidated financial statements.

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**QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES**

In April 2008 the FASB issued FASB Staff Position No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* ( FSP FAS 142-3 ). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets.* More specifically, FSP FAS 142-3 removes the requirement under paragraph 11 of SFAS 142 to consider whether an intangible asset can be renewed without substantial cost or material modifications to the existing terms and conditions and instead, requires an entity to consider its own historical experience in renewing similar arrangements. FSP FAS 142-3 also requires expanded disclosure related to the determination of intangible asset useful lives. We are currently evaluating the potential impact the adoption of FSP FAS 142-3 will have on our consolidated financial statements.

In May 2008, the FASB issued SFAS No.162, *The Hierarchy of Generally Accepted Accounting Principles* ( SFAS 162 ), which identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with U.S. GAAP. SFAS 162 is effective 60 days following the Securities and Exchange Commission s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles.* We do not expect the adoption of SFAS 162 to have a material effect on our financial statements or related disclosures.

In June 2008, the FASB Issued EITF No. 08-3, *Accounting by Lessees for Nonrefundable Maintenance Deposits* ( EITF No. 08-3 ). EITF No. 08-3 requires that nonrefundable maintenance deposits paid by a lessee under an arrangement accounted for as a lease be accounted for as a deposit asset until the underlying maintenance is performed. When the underlying maintenance is performed, the deposit may be expensed or capitalized in accordance with the lessee s maintenance accounting policy. Upon adoption entities must recognize the effect of the change as a change in accounting principle. The adoption of EITF No. 08-3 will not impact the Company s financial condition, results of operations or cash flows.

In June 2008, the Financial Accounting Standards Board ( FASB ) issued FASB Staff Position No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* ( FSP EITF 03-6-1 ), which addresses whether unvested equity-based awards are participating securities and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method described in FASB Statement No. 128, *Earnings per Share* . FSP EITF 03-6-1 is effective for the Company beginning December 1, 2009 and cannot be adopted early. All prior period earnings per share data presented in financial statements that are issued after the effective date shall be adjusted retrospectively to conform to the new guidance. We are currently evaluating the potential impact of the adoption of FSP EITF 03-6-1 will have on our consolidated financial statements.

**Adoption of Statement of Financial Accounting Standards No. 157 and No. 159**

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Liabilities, ( SFAS 159 ). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. If the fair value option is elected, unrealized gains and losses will be recognized in earnings at each subsequent reporting date. On January 1, 2008, we did not elect to adopt the provisions of SFAS 159.

On January 1, 2008, we adopted the provisions of Statement of Financial Accounting Standards No. 157, Fair Value Measurements, ( SFAS 157 ). SFAS 157 defines fair value and provides guidance for measuring fair value and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements, but rather applies to all other accounting pronouncements that require or permit fair value measurements. In February 2008, the FASB issued final Staff Position No. FAS 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements that Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13,* which amended SFAS 157 to exclude FASB Statement No. 13 and its related interpretive accounting pronouncements that address leasing transactions. In February 2008, the FASB also issued final Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157*, to allow a one-year deferral of adoption of SFAS 157 for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. We have elected this one-year deferral and thus will not apply the provisions of SFAS 157 to nonfinancial assets and nonfinancial liabilities that are recognized at fair value in the financial statements on a nonrecurring basis until our fiscal year beginning January 1, 2009.

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**QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES**

SFAS 157 enables the reader of the financial statements to assess the inputs used to develop fair value measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. SFAS 157 requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

We have no financial assets or financial liabilities that require application of SFAS 157.

We generally apply fair value techniques on a nonrecurring basis associated with (1) valuing potential impairment loss related to goodwill and indefinite-lived intangible assets accounted for pursuant to SFAS No. 142 and (2) valuing potential impairment loss related to long-lived assets accounted for pursuant to SFAS No. 144.

**Acquisition of Business Assets**

*Acquisition of Boasso America Corporation*

On December 18, 2007, we acquired 100% of the stock of Boasso. The results of Boasso have been included in our results since the date of acquisition.

The purchase price of Boasso was initially allocated to the assets acquired and liabilities assumed according to their estimated fair values at the time of the acquisition. In April 2008, pursuant to the stock purchase agreement, and based on an evaluation of the net working capital as of the date of acquisition, approximately $1.3 million was refunded to us. The allocation of the purchase price is as follows (in thousands):

| | |
|---|---|
| Working capital, net of cash | $ 8,312 |
| Property and equipment | 7,209 |
| Other long-term assets | 81 |
| Non-compete agreements | 400 |
| Customer related intangibles | 11,900 |
| Tradename | 9,800 |
| Long-term debt and capital lease obligations | (4,512) |
| Deferred tax liabilities | (9,435) |
| Goodwill | 29,983 |
| | $ 53,738 |

The customer-related intangible assets relate to acquired customer relationships, and are being amortized over a twelve-year weighted-average useful life on a straight-line basis. The tradename has an indefinite useful life. The allocation of the purchase price to the assets acquired and liabilities assumed may be subject to further adjustment. The goodwill acquired in this acquisition is not tax deductible, and has been allocated to the Container Services segment.

*Other Acquisitions*

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

**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

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**QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES**

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. No impairment was determined to have occurred as of June 30, 2008, since the calculated fair value exceeded the carrying amount.

Our goodwill assets as of September 30, 2008 and December 31, 2007, were $173.1 million and $173.6 million, respectively. In 2008, goodwill increased $0.9 million due to the acquisition of three businesses offset by a decrease of $1.3 million related to a purchase price adjustment based upon net working capital as of the date of the acquisition of Boasso.

*Intangible Assets*

Intangible assets at September 30, 2008 were as follows (in thousands):

| | Gross value | Accumulated amortization | Net book value | Average lives (in years) |
|---|---|---|---|---|
| Tradename | $ 9,800 | $ | $ 9,800 | Indefinite |
| Customer relationships | 11,998 | (744) | 11,254 | 12 |
| Non-compete agreements | 3,053 | (983) | 2,070 | 3 5 |
| | $ 24,851 | $ (1,727) | $ 23,124 | |

Amortization expense for the nine months ended September 30, 2008 and 2007 was $1.3 million and $0.2 million, respectively. Remaining intangible assets will be amortized to expense as follows (in thousands):

| | |
|---|---|
| 2008 remaining | $ 433 |
| 2009 | 1,665 |
| 2010 | 1,615 |
| 2011 | 1,439 |
| 2012 and after | 8,172 |
| Total | $ 13,324 |

**2. Comprehensive Income (Loss)**

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

| | Three months ended September 30, 2008 | Three months ended September 30, 2007 | Nine months ended September 30, 2008 | Nine months ended September 30, 2007 |
|---|---|---|---|---|
| Net income (loss) | $ 717 | $ 1,499 | $ (850) | $ 3,612 |
| Other comprehensive income (loss): | | | | |
| Amortization of prior service costs | 112 | 23 | 241 | 70 |

| | | | | |
|---|---|---|---|---|
| Foreign currency translation adjustments | 53 | (99) | 113 | (314) |
| Comprehensive income (loss) | $ 882 | $ 1,423 | $ (496) | $ 3,368 |

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**QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES**

**3. Income (Loss) Per Share**

A reconciliation of the numerators and denominators of the basic and diluted income (loss) per share computations is as follows (in thousands, except per share amounts):

| | Three months ended | | | | | |
|---|---|---|---|---|---|---|
| | September 30, 2008 | | | September 30, 2007 | | |
| | Net income (numerator) | Shares (denominator) | Per-share amount | Net income (numerator) | Shares (denominator) | Per-share amount |
| **Basic earnings available to common shareholders:** | | | | | | |
| Net income | $ 717 | 19,387 | $ 0.04 | $ 1,499 | 19,357 | $ 0.08 |
| **Effect of dilutive securities:** | | | | | | |
| Stock options | | 28 | | | 79 | |
| Unvested restricted stock | | 141 | | | 48 | |
| Stock units | | | | | 4 | |
| **Diluted earnings available to common shareholders:** | | | | | | |
| Net income | $ 717 | 19,556 | $ 0.04 | $ 1,499 | 19,488 | $ 0.08 |

| | Nine months ended | | | | | |
|---|---|---|---|---|---|---|
| | September 30, 2008 | | | September 30, 2007 | | |
| | Net loss (numerator) | Shares (denominator) | Per-share amount | Net income (numerator) | Shares (denominator) | Per-share amount |
| **Basic (loss) earnings available to common shareholders:** | | | | | | |
| Net (loss) income | $ (850) | 19,377 | $ (0.04) | $ 3,612 | 19,353 | $ 0.19 |
| **Effect of dilutive securities:** | | | | | | |
| Stock options | | | | | 92 | |
| Unvested restricted stock | | | | | 39 | |
| Stock units | | | | | 4 | |
| **Diluted (loss) earnings available to common shareholders:** | | | | | | |
| Net (loss) income | $ (850) | 19,377 | $ (0.04) | $ 3,612 | 19,488 | $ 0.19 |

There is no effect of our stock options and restricted stock in the computation of diluted earnings per share for the nine months ended September 30, 2008 due to a net loss.

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, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Stock options | 2,041 | 1,687 | 2,069 | 1,685 |

| | | | |
|---|---|---|---|
| Unvested restricted stock | 33 | 141 | 45 |

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**QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES**

**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, 2008, we have three stock-based compensation plans.

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 2008.

The fair value of options granted during the first nine months of 2008 and 2007 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 2008, 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 weighted average assumptions:

| | 2008 | 2007 |
|---|---|---|
| Risk free rate | 3.21% | 4.65% |
| Expected life | 5 years | 5 years |
| Volatility | 67.3% | 68.5% |
| Expected dividend | nil | nil |

The following options and restricted shares were issued during the nine months ended September 30, 2008:

| | Options Issued | Restricted Shares Issued |
|---|---|---|
| Quarter ended March 31, 2008 | 227,000 | 73,326 |
| Quarter ended June 30, 2008 | 105,000 | 17,910 |
| Quarter ended September 30, 2008 | 50,000 | |

On July 28, 2008, we issued options for 50,000 shares to our Chief Financial Officer. The exercise price of options granted was based on the fair market value of our stock at the date of the grant.

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**QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES**

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

| | Three months ended September 30, 2008 | Three months ended September 30, 2007 | Nine months ended September 30, 2008 | Nine months ended September 30, 2007 |
|---|---|---|---|---|
| Stock options | $ 319 | $ 306 | $ 868 | $ 974 |
| Restricted stock | 89 | 128 | 267 | 253 |
| Stock units | | (14) | | |
| | $ 408 | $ 420 | $ 1,135 | $ 1,227 |

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, 2008 (in thousands):

| | In $ | Remaining years |
|---|---|---|
| Stock options | $ 2,299 | 4 |
| Restricted stock | 650 | 4 |
| | $ 2,949 | |

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 nine months ended September 30, 2008.

**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, 2008 | Three months ended September 30, 2007 | Nine months ended September 30, 2008 | Nine months ended September 30, 2007 |
|---|---|---|---|---|
| Service cost | $ 54 | $ 64 | $ 160 | $ 192 |
| Interest cost | 682 | 670 | 2,047 | 2,010 |
| Amortization of prior service cost | 23 | 23 | 70 | 70 |
| Amortization of loss | 88 | 104 | 265 | 312 |
| Expected return on plan assets | (800) | (821) | (2,401) | (2,463) |
| Net periodic pension cost | $ 47 | $ 40 | $ 141 | $ 121 |

We have contributed $0.9 million to our pension plans during the nine months ended September 30, 2008. The amount we expect to contribute during the remainder of 2008 is minimal.

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

**6. Restructuring**

During the quarter ended June 30, 2008, we committed to a plan of restructure resulting in the termination of approximately 75 employees and certain contracts. As a result, we recorded a restructuring charge in the second quarter of $2.4 million of which the majority related to our trucking segment. During the third quarter, we recorded a restructuring charge of $1.7 million of which the majority related to our trucking segment for additional contract termination costs and related exit costs as we continued with our plan of restructure. As of September 30, 2008, approximately $1.1 million was accrued related to the restructuring charges, which is expected to be paid through the remainder of 2008 and 2009.

We account for restructuring costs associated with one-time termination benefits, costs associated with lease and contract terminations and other related exit activities in accordance with SFAS No. 146 Accounting for Costs Associated with Exit or Disposal Activities .

In the nine months ended September 30, 2008, we had the following activity in our restructuring accruals:

| | Balance at December 31, 2007 | Additions | Payments | Reductions | Balance at September 30, 2008 |
|---|---|---|---|---|---|
| Restructuring costs | $ | $ 4,075 | $ (2,233) | $ (756) | $ 1,086 |

**7. Segment Reporting**

*Reportable Segments*

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

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

- Container Services, specifically International Organization for Standardization, or ISO tank container transportation and depot services.

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

Segment revenues and operating income include the allocation of fuel surcharge. The operating income reported in our segments excludes amounts reported in Other operating income, such as corporate and other unallocated amounts. Corporate and unallocated amounts include depreciation and amortization, other gains and losses and restructuring costs. Although these amounts are excluded from the business segment results, they are included in reported consolidated earnings. Included in Other revenue are revenues from our tank wash services and other value-added services. We have not provided specific asset information by segment, as it is not regularly provided to our chief operating decision maker for review.

**QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES**

Summarized segment data and a reconciliation to income (loss) before income taxes are as follows (in thousands):

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| **Operating revenues:** | | | | |
| Trucking | $ 174,222 | $ 171,101 | $ 524,145 | $ 503,672 |
| Container Services | 22,660 | 2,538 | 66,930 | 7,042 |
| Other revenue | 17,859 | 18,542 | 56,129 | 54,272 |
| Total | 214,741 | 192,181 | 647,204 | 564,986 |
| **Operating income:** | | | | |
| Trucking | 12,165 | 13,322 | 31,040 | 36,887 |
| Container Services | 3,125 | (48) | 7,198 | (256) |
| Other operating income | 513 | 2,068 | 3,576 | 4,780 |
| Total segment operating income | 15,803 | 15,342 | 41,814 | 41,411 |
| Depreciation and amortization expense | 5,207 | 4,468 | 15,435 | 12,960 |
| Other (income) expense | 833 | 219 | 1,243 | 418 |
| Total | 9,763 | 10,655 | 25,136 | 28,033 |
| Interest expense | 8,455 | 7,651 | 26,246 | 23,403 |
| Interest income | (128) | (198) | (333) | (573) |
| Other expense (income) | 15 | (279) | 171 | (638) |
| Income (loss) before income taxes | $ 1,421 | $ 3,481 | $ (948) | $ 5,841 |

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**QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES**

*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, 2008 and 2007 is as follows (in thousands):

| | Three months ended September 30, 2008 | | |
|---|---|---|---|
| | U. S. | International | Consolidated |
| Total operating revenues | $ 200,883 | $ 13,858 | $ 214,741 |
| Operating income | 9,134 | 629 | 9,763 |
| | **Three months ended September 30, 2007** | | |
| | **U. S.** | **International** | **Consolidated** |
| Total operating revenues | $ 178,588 | $ 13,593 | $ 192,181 |
| Operating income | 9,329 | 1,326 | 10,655 |
| | **Nine months ended September 30, 2008** | | |
| | **U. S.** | **International** | **Consolidated** |
| Total operating revenues | $ 604,752 | $ 42,452 | $ 647,204 |
| Operating income | 21,373 | 3,763 | 25,136 |
| | **As of September 30, 2008** | | |
| Long-term identifiable assets (1) | $ 169,524 | $ 7,778 | $ 177,302 |
| | **Nine months ended September 30, 2007** | | |
| | **U. S.** | **International** | **Consolidated** |
| Total operating revenues | $ 523,877 | $ 41,109 | $ 564,986 |
| Operating income | 23,015 | 5,018 | 28,033 |
| | **As of December 31, 2007** | | |
| Long-term identifiable assets (1) | $ 138,827 | $ 7,332 | $ 146,159 |

(1) Includes property and equipment and intangible assets.

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

**8. 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 December 31, 2007, we had approximately $3.2 million of total gross unrecognized tax benefits. Of this total, $2.2 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 December 31, 2007, is $0.8 million related to tax positions for which it is reasonably possible that the total amounts could significantly change during the next twelve months due to expiration of statue of limitations. For the three months ended September 30, 2008, the net change to our gross unrecognized tax benefits was $(0.1) million. Of this amount, $0.2 million relates to additional tax reserves and $(0.3) million relates to the expiration of statute of limitations for state tax reserves. Our total gross unrecognized tax benefit at September 30, 2008 is $2.5 million.

Our continuing practice is to recognize interest and/or penalties related to income tax matters in income tax expense. We had $1.3 million (net of federal tax benefit) accrued for interest and $0.5 million accrued for penalties at December 31, 2007. Total amount accrued for interest and penalties at September 30, 2008 is $1.8 million.

We are subject to the income tax jurisdictions 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 2005, to international examinations for years before 2003 and with few exceptions, to state examinations before 2004.

The effective tax rates for the three months ended September 30, 2008 and 2007 were approximately 49.5% and 60.0%, respectively. The effective tax rates for the nine months ended September 30, 2008 and 2007 were approximately 10.4% and 38.2%, respectively. The difference in the effective tax rate can be attributed to the Company s pre-tax book loss position as of September 30, 2008 versus the Company s pre-tax book income position as of September 30, 2007 and an increase in the year to date discrete tax benefit items over the same period in 2007. Income taxes for the nine months ended September 30, 2007 includes the recognition of a previously unrecognized $1.0 million deferred tax asset related to prior periods. We believe this item was not material to any of the prior periods affected.

**9. Commitments and Contingencies**

*Environmental Matters*

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

We are potentially subject to strict, joint and several liability for investigating and rectifying the consequences of spills and other releases of such substances under expansive federal, state and foreign environmental 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 business, financial condition, operating results or cash flow.

**Reserves**

Our policy is to accrue remediation expenses when it is probable that such efforts will be required and the related expenses can be reasonably estimated. Estimates of costs for future environmental compliance and remediation may be adversely affected by such factors as changes in environmental laws and regulatory requirements, the availability and application of technology, the identification of currently unknown potential remediation sites and the allocation of costs among the potentially responsible parties under the applicable statutes. The recorded liabilities are adjusted periodically

**QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES**

as remediation efforts progress or as additional technical or legal information becomes available. As of September 30, 2008 and December 31, 2007, we had reserves in the amount of $10.5 million and $11.2 million, respectively, for all environmental matters discussed below.

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

Property Contamination Liabilities

We have been named as (or are alleged to be) a potentially responsible party under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ( CERCLA ) and similar state laws at approximately 27 sites. At two of the 27 sites, we will be participating in the initial studies to determine site remediation objectives. Since our overall liability cannot be estimated at this time, we have set reserves for only the initial remedial investigation phase. At 21 of the 27 sites, we are one of many parties with alleged liability and are negotiating with Federal, State or private parties on the scope of our obligations, if any. At four of the 21 sites, we have explicitly denied any liability and since there has been no subsequent demand for payment we have not established a reserve for these matters. We have estimated future expenditures for these off-site multi-party environmental matters to be in the range of $2.2 million to $3.8 million.

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

*Bridgeport, New Jersey*

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

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

*William Dick, Pennsylvania*

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

**QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES**

*Other Properties*

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

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

ISRA New Jersey Facilities: We are obliged to conduct investigations and remediation at two current or former New Jersey tank wash and terminal sites pursuant to the state s Industrial Sites Remediation Act, which requires such remediation following the sale of facilities after 1983. These sites are in the process of remedial investigation with projections set in contemplation of limited soil remediation expense for contaminated areas. The former owner of a third site has agreed to take responsibility for it so we are not currently taking action under ISRA for the site.

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

**Other Legal Matters**

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

**10. Guarantor Subsidiaries**

The 9% Senior Subordinated Notes due 2010 and the Senior Floating Rate 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 Rate 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:

Condensed consolidating balance sheets at September 30, 2008 and December 31, 2007 and condensed consolidating statements of operations for the three and nine-month periods ended September 30, 2008 and September 30, 2007 and the condensed consolidating statements of cash flows for each of the nine-month periods ended September 30, 2008 and September 30, 2007.

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, 2008**

**Unaudited - (In 000 s)**

| | QDI | QD LLC and QD Capital | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| Operating revenues: | | | | | | |
| Transportation | | | 144,774 | | | 144,774 |
| Other service revenue | | | 25,422 | 72 | | 25,494 |
| Fuel surcharge | | | 44,473 | | | 44,473 |
| Total operating revenues | | | 214,669 | 72 | | 214,741 |
| Operating expenses: | | | | | | |
| Purchased transportation | | | 124,800 | | | 124,800 |
| Compensation | | | 27,519 | | | 27,519 |
| Fuel, supplies and maintenance | | | 30,031 | | | 30,031 |
| Depreciation and amortization | | | 5,229 | (22) | | 5,207 |
| Selling and administrative | | 69 | 8,616 | 14 | | 8,699 |
| Insurance claims | | | 3,193 | 9 | | 3,202 |
| Taxes and Licenses | | | 1,582 | 1 | | 1,583 |
| Communication and utilities | | | 3,104 | | | 3,104 |
| (Gain)/loss on disposal of property and equipment | | | (842) | (25) | | (867) |
| Restructuring costs | | | 1,700 | | | 1,700 |
| Operating (loss) income | | (69) | 9,737 | 95 | | 9,763 |
| Interest expense (income), non-related party, net | | 8,024 | 332 | (29) | | 8,327 |
| Interest (income) expense, related party, net | | (1,500) | 1,630 | (130) | | |
| Other expense | | | 31 | (16) | | 15 |
| (Loss) income before taxes | | (6,593) | 7,744 | 270 | | 1,421 |
| Income tax provision | | | 650 | 54 | | 704 |
| Equity in earnings of subsidiaries | 717 | 7,310 | | | (8,027) | |
| Net income | 717 | 717 | 7,094 | 216 | (8,027) | 717 |

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**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 | | | 21,146 | | | 21,146 |
| Depreciation and amortization | | | 4,312 | 156 | | 4,468 |
| 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 | | | 10,686 | (31) | | 10,655 |
| 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) | 10,412 | 279 | | 3,481 |
| Income tax provision | | | 1,931 | 51 | | 1,982 |
| Equity in earnings (loss) of subsidiaries | 1,344 | 8,562 | | | (9,906) | |
| Net income (loss) | $ 1,352 | $ 1,344 | $ 8,481 | $ 228 | $ (9,906) | $ 1,499 |

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**QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES**

**Consolidating Statements of Operations**

**Nine Months Ended September 30, 2008**

**Unaudited - (In 000 s)**

| | QDI | QD LLC and QD Capital | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| Operating revenues: | | | | | | |
| Transportation | $ | $ | $ 445,798 | $ | $ | $ 445,798 |
| Other service revenue | | | 78,582 | 334 | | 78,916 |
| Fuel surcharge | | | 122,490 | | | 122,490 |
| Total operating revenues | | | 646,870 | 334 | | 647,204 |
| Operating expenses: | | | | | | |
| Purchased transportation | | | 376,378 | | | 376,378 |
| Compensation | | | 83,518 | | | 83,518 |
| Fuel, supplies and maintenance | | | 93,199 | | | 93,199 |
| Depreciation and amortization | | | 15,457 | (22) | | 15,435 |
| Selling and administrative | | 181 | 26,287 | 47 | | 26,515 |
| Insurance claims | | | 11,599 | 30 | | 11,629 |
| Taxes and Licenses | | | 4,041 | 1 | | 4,042 |
| Communication and utilities | | | 10,109 | | | 10,109 |
| (Gain)/loss on disposal of property and equipment | | | (2,807) | (25) | | (2,832) |
| Restructuring costs | | | 4,075 | | | 4,075 |
| Operating (loss) income | | (181) | 25,014 | 303 | | 25,136 |
| Interest (income) expense, non-related party, net | (21) | 24,698 | 1,314 | (78) | | 25,913 |
| Interest (income) expense, related party, net | | (4,608) | 4,997 | (389) | | |
| Other expense (income) | | | 222 | (51) | | 171 |
| Income (loss) before taxes | 21 | (20,271) | 18,481 | 821 | | (948) |
| Income tax (benefit) provision | | | (360) | 262 | | (98) |
| Equity in (loss) earnings of subsidiaries | (871) | 19,400 | | | (18,529) | |
| Net (loss) income | $ (850) | $ (871) | $ 18,841 | $ 559 | $ (18,529) | $ (850) |

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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 | | | 56,545 | | | 56,545 |
| Depreciation and amortization | | | 12,461 | 499 | | 12,960 |
| 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 | | | 28,027 | 6 | | 28,033 |
| Interest expense | | 22,053 | 1,711 | (1) | (360) | 23,403 |
| Interest income | (2) | | (521) | (410) | 360 | (573) |
| Other expense (income) | 5 | | (252) | (391) | | (638) |
| Income (loss) before taxes | (3) | (22,053) | 27,089 | 808 | | 5,841 |
| Income tax (benefit) provision | (1,007) | | 3,068 | 168 | | 2,229 |
| Equity in earnings (loss) of subsidiaries | 2,608 | 24,661 | | | (27,269) | |
| Net income (loss) | $ 3,612 | $ 2,608 | $ 24,021 | $ 640 | $ (27,269) | $ 3,612 |

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**QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES**

**Consolidating Balance Sheet**

**September 30, 2008**

**Unaudited - (In 000 s)**

| | QDI | QD LLC and QD Captial | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| ASSETS | | | | | | |
| Current Assets: | | | | | | |
| Cash and cash equivalents | $ | $ | $ 20,933 | $ 2,510 | | $ 23,443 |
| Accounts receivable, net | 75 | | 106,208 | 69 | | 106,352 |
| Prepaid expenses | | 21 | 9,586 | | | 9,607 |
| Deferred taxes asset, net | | | 20,483 | | | 20,483 |
| Other | 10 | | 7,061 | (101) | | 6,970 |