QUALITY DISTRIBUTION INC
Form 10-Q
November 13, 2001

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITY EXCHANGE ACT OF 1934.

For the quarterly period ended SEPTEMBER 30, 2001
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: 0-24180

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.)	

(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 No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

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 SEPTEMBER 30, 2001

(Common Stock, $.01 par value) 2,011,428

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

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PART 1 FINANCIAL INFORMATION
QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	September 30, 2001 (Unaudited)	**December 31, 2000 ***
ASSETS		
Current Assets		
Cash	$827	$2,636
Accounts receivable	109,403	104,534
Allowance for doubtful accounts	(10,029)	(9,779)
Current maturities of other receivables	1,087	518
Inventories	1,681	1,786
Prepaid expenses	4,069	7,391
Prepaid tires	7,999	8,156
Income tax receivable	350	350
Other	950	650
Total current assets	116,337	116,242
Property, plant and equipment	338,371	326,989
Less accumulated depreciation and amortization	(167,504)	(151,473)
	170,867	175,516
Intangibles and goodwill, net	150,208	153,668
Other Assets		

9,109	7,647
$446,521	$453,073

Condensed from audited financial statements

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

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FORM 10-Q
PART 1 FINANCIAL INFORMATION
QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)
(continued)

	September 30, 2001 (Unaudited)	December 31, 2000 *
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Current maturities of indebtedness	$2,890	$3,619
Accounts payable and accrued expenses	63,911	63,757
Independent contractors payable	8,455	7,563
Other current liabilities	1,149	3,340
Income tax payable	350	834
Total current liabilities	76,755	79,113
Long term debt, less current maturities	283,195	273,100
Capital lease obligations, less current maturities		220
Subordinated debt	140,000	140,000
Environmental liabilities	38,666	39,873
Other long term obligations	7,387	7,834
Accrued loss and damage claims	1,903	3,092
Deferred tax	1,760	1,182
Minority interest in subsidiaries	1,833	4,433
Manditoraly redeemable preferred stock	14,965	13,882
Redeemable common stock (30,239 shares)	1,210	1,210
Stockholders equity (deficit)		
Common stock		

	20	20
Additional paid-in-capital	105,656	105,656
Treasury stock	(237)	(32)
Accumulated deficit	(28,612)	(22,212)
Stock recapitalization	(189,589)	(189,589)
Other comprehensive loss	(6,505)	(2,823)
Note receivable	(1,886)	(1,886)
Total stockholders equity (deficit)	(121,153)	(110,866)
	$446,521	$453,073

Condensed from audited financial statements.

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

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FORM 10-Q
PART 1 FINANCIAL INFORMATION
QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except per share data)

	Nine months ended September 30,		Three months ended September 30,	
	2001	**2000**	**2001**	**2000**
Operating Revenues				
Transportation	$351,382	$390,546	$118,158	$125,495
Other	47,182	49,776	15,985	16,466
	398,564	440,322	134,143	141,961
Operating Expenses				
Purchased transportation	229,103	248,831	77,417	80,970
Depreciation and amortization	26,350	28,238	8,772	9,733
Other operating expenses	117,929	135,354	39,082	44,058
Operating income	25,182	27,899	8,872	7,200
Interest expense, net	29,552	30,210	10,490	10,007
Other income	(6)	(54)	(4)	(9)

Loss before taxes	(4,364)	(2,257)	(1,614)	(2,798)
Income tax expense	845	3,431	135	2,946
Minority interest		226		76
Net loss	(5,209)	(5,914)	(1,749)	(5,820)
Preferred stock dividends and accretions	(1,191)	(1,086)	(397)	(364)
Net loss attributable to common shareholders	$(6,400)	$(7,000)	$(2,146)	$(6,184)
Per Share Data:				
Basic and diluted loss per common share	$(3.18)	$(3.48)	$(1.07)	$(3.07)

Weighted average shares outstanding	2,015	2,014	2,012	2,014

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

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FORM 10-Q
PART 1 FINANCIAL INFORMATION
QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited) (In thousands)

	Nine months ended September 30, 2001	2000
Cash provided by (used for)		
Operating activities:		
Net Loss	$(5,209)	$(5,914)
Adjustments for non cash charges	28,484	31,598
Changes in assets and liabilities	(11,162)	4,900
Net cash provided by operating activities	12,113	30,584
Investing activities:		
Capital expenditures	(21,994)	(14,750)
Proceeds from asset dispositions	1,975	3,506
Net cash (used for) investing activities	(20,019)	(11,244)
Financing activities:		
Proceeds from issuance of debt	11,500	
Payment of debt obligation	(2,356)	(17,124)
Issuance of common stock		169
Purchase of preferred stock	(2,600)	
Other	769	

Net cash provided by (used for) financing activities	7,313	(16,955)
Net increase (decrease)in cash	(593)	2,385
Effect of exchange rate changes on cash	(1,216)	(237)
Cash, beginning of period	2,636	1,050
Cash, end of period	$827	$3,198
Cash payments for:		
Interest	$22,303	$24,426
Income taxes	$604	$225
Non cash activities:		
Preferred Stock Accretion	$1,083	$1,086
Unrealized gain or (loss) on derivative instruments	$(3,475)	

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

FORM 10-Q
Item 1. Financial Statements
QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation

The accompanying unaudited condensed, consolidated financial statements of Quality Distribution, Inc. (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. Certain reclassifications have been made in the fiscal 2000 statements to conform to the 2001 presentation.

For further information, refer to the consolidated financial statements and notes thereto for the year ended December 31, 2000, included in the Company s Form 10-K dated March 27, 2001.

Operating results for the third quarter ended September 30, 2001 are not necessarily indicative of the results that may be expected for the entire fiscal year.

2. COMPREHENSIVE INCOME:

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130 Reporting Comprehensive Income (SFAS 130). SFAS 130 requires that an enterprise (a) classify items of other comprehensive income by their nature in the financial statements and (b) display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in-capital in the stockholders equity section of the consolidated balance sheets for annual financial statements. The Company adopted SFAS 130 in 1998 and accordingly, Comprehensive Income is as follows:

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2001	**2000**	**2001**	**2000**
Net Income or (loss)	$(5,209)	$(5,914)	$(1,749)	$(5,820)
Other comprehensive income (loss):				
Foreign currency translation adjustments	(207)	(541)	(120)	(291)
Unrealized gain or (loss) on derivative instruments	(3,475)		(1,702)	
Comprehensive income (loss)				

$(8,891)	(6,455)	$(3,571)	$(6,111)

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FORM 10 Q
ITEM 1 Financial Statements
QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)-(continued)

3. DERIVATIVES:

The Company utilizes derivative financial instruments to reduce its exposure to market risks from changes in interest rates and foreign exchange rates. The instruments primarily used to mitigate these risks are interest rate swaps and foreign exchange contracts. The Company is exposed to credit related losses in the event of nonperformance by counterparties to these financial instruments however, counterparties to these agreements are major financial institutions; and the risk of loss due to nonperformance is considered by management to be minimal. The Company does not hold nor issue interest rate swaps or foreign exchange contracts for trading purposes.

The Financial Accounting Standards Board (FASB) issued, then subsequently amended, Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, which became effective for the Company on January 1, 2001. Under SFAS No. 133, as amended, all derivative instruments (including certain derivative instruments embedded in other contracts) are recognized in the balance sheet at their fair values and changes in fair value are recognized immediately in earnings, unless the derivatives qualify as hedges of future cash flows. For derivatives qualifying as hedges of future cash flows, the effective portion of changes in fair value is recorded temporarily in equity, then recognized in earnings along with the related effects of the hedged items. Any ineffective portion of a hedge is reported in earnings as it occurs.

The Company currently has approximately $335.7 million of variable interest debt. The Company has entered into interest rate swap agreements designed as cash flow hedges of the Company s portfolio of variable rate debt. The purpose of these swaps is to fix interest rates on variable rate debt and reduce certain exposures to interest rate fluctuations.

The notional amounts do not represent a measure of exposure of the Company. The Company will pay counterparties interest at a fixed rate ranging from 4.765% to 5.16%, and the counterparties will pay the Company interest at a variable rate equal to LIBOR. The LIBOR rate applicable to these agreements at September 30, 2001 was 2.61%. These agreements mature and renew every three months and expire at dates ranging from July 2, 2002 to September 22, 2002. A 10% fluctuation in interest rates would have a $1.8 million impact, net of interest rate swap agreements, on future earnings.

The nature of the Company s business activities necessarily involves the management of various financial and market risks, including those related to changes in interest rates and currency exchange rates. The Corporation uses derivative financial instruments to mitigate or eliminate certain of those risks. The January 1, 2001 accounting changes described above affected only the pattern and the timing of the non-cash accounting recognition.

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A reconciliation of current period changes in owners equity follows.

(In thousands)	Nine Months Ended September 30, 2001	Three Months Ended September 30, 2001
Balance beginning of period	$337	$(1,773)
Current period declines in fair value	(5,061)	(2,313)
Reclassifications to earnings	1,249	611
Balance at end of period	$(3,475)	(3,475)

Additional disclosures required by SFAS No. 133, as amended, are provided in the following paragraphs.

Hedges of Future Cash Flows

Per FASB 133, the ineffective portion of changes in fair values of hedge positions should be reported in earnings. All hedges were effective at September 30, 2001, and as such, there are no earnings reclassification at September 30, 2001, due to ineffective hedges. There were no amounts excluded from the measure of effectiveness in 2001 related to the hedge of future cash flows.

In 2001, $0.2 million, $0.4 million, and $0.6 million were reclassified to earnings during the first, second and third quarters respectively and recorded in interest expense. The $(3.5) million recorded in other comprehensive income at September 30, 2001 is expected to be reclassified to future earnings, contemporaneously with and primarily offsetting changes in interest expenses on floating-rate instruments. The actual amounts that will be reclassified to earnings over the next twelve months will vary from this amount as a result of changes in market conditions.

4. LONG TERM DEBT:

Our credit agreements include financial covenants which were modified June 4, 2001 as part of an amendment thereto. The new financial covenants are less restrictive than the original covenants and remain in effect for eight consecutive calendar quarters. A technical default occurred with respect to these covenants. A waiver has been obtained from our creditors in connection with this default.

The Company paid a fee of $1.1 million which will be amortized as interest expense for the covenant modification period. The interest rate on the credit agreement was also increased by .25%. The Company s Form 8-K dated June 8, 2001 contains full details relative to this amendment.

5. ENVIRONMENTAL MATTERS:

Our activities involve the handling, transportation, storage, and disposal of bulk liquid chemicals, many of which are classified as hazardous materials, hazardous substances, or hazardous waste. Our tank wash and terminal operations engage in the storage or discharge of wastewater and storm-water that may contain hazardous substances, and from time to time we store diesel fuel and other petroleum products at our terminals. As such, we are subject to environmental, health and safety laws and regulation by U.S. federal, state, local and Canadian government authorities. Environmental laws and regulations are complex, change frequently and have tended to become more stringent over

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time. There can be no assurance that violations of such laws or regulations will not be identified or occur in the future, or that such laws and regulations will not change in a manner that could impose material costs to us.

Facility managers are responsible for environmental compliance. Self-audits along with audits conducted by our internal audit staff are required to address operations, safety training and procedures, equipment and grounds maintenance, emergency response capabilities, and wastewater management. We also contract with an independent environmental consulting firm that conducts periodic, unscheduled, compliance assessments which focus on 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 relationship to our affiliates could, under certain circumstances, result in our incurring liability for environmental contamination attributable to an affiliate s operations, although we have not incurred any material derivative liability in the past. Our environmental management program has been extended to our affiliates.

Our wholly-owned subsidiary, Quality Carriers, Inc., is staffed with environmental experts who manage our environmental exposure relating to historical operations and develop policies and procedures, including periodic audits of our terminals and tank cleaning facilities, 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 either under CERCLA or comparable state 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, notwithstanding the existence of our environmental management program, we cannot assure that such obligations will not be incurred in the future, nor that such liabilities will not result in a material adverse effect on our financial condition, results of operations or our business reputation. As the result of environmental studies conducted at our facilities in conjunction with our environmental management program, we have identified environmental contamination at certain sites that will require remediation.

We have also been named a potentially responsible party, or have otherwise been alleged to have some level of responsibility, under CERCLA or similar state laws for cleanup of off-site locations at which our waste, or material transported by us, has allegedly been disposed of. We have asserted defenses to such actions and have not incurred significant liability in the CERCLA cases settled to date. While we believe that we will not bear any material liability in any current or future CERCLA matters, there can be no assurance that we will not in the future incur material liability under CERCLA or similar laws. See certain considerations Environmental Risk Factors for a discussion of certain risks of our being associated with transporting hazardous substances.

CLC is currently solely responsible for remediation of the following two federal Superfund sites:

Bridgeport, New Jersey. During 1991, CLC entered into a Consent Decree with the EPA filed in the U.S. District Court for the District of New Jersey, U.S. v. Chemical Leaman Tank Lines, Inc., Civil Action No. 91-2637 (JFG) (D.N.J.), with respect to its site located in Bridgeport, New Jersey, requiring CLC to remediate groundwater contamination. The Consent Decree required CLC to

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undertake Remedial Design and Remedial Action (RD/RA) related to the groundwater operable unit of the cleanup.

In August 1994, the EPA issued a Record of Decision, selecting a remedy for the wetlands operable unit at the Bridgeport site at a cost estimated by the EPA to be approximately $7 million. In October 1998, the EPA issued an administrative order that requires CLC to implement the EPA s wetlands remedy. In April 1998, the federal and state natural resource damages trustees indicated their intention to bring claims against CLC for natural resource damages at the Bridgeport site. CLC finalized a consent decree with the state and federal trustees that resolved the natural resource damages claims. In April 2001 the Company paid $4.2 million representing settlement in full of this consent decree. CLC has also entered into an agreement in principle to reimburse the EPA s past costs in investigating and overseeing activities at the site over a three-year period for which we have established reserves. In addition, the EPA has investigated contamination in site soils. No decision has been made as to the extent of soil remediation to be required, if any.

West Caln Township, PA. The EPA has alleged that CLC disposed of hazardous materials at the William Dick Lagoons Superfund Site in West Caln, Pennsylvania. On October 10, 1995, CLC entered a Consent Decree with the EPA which required CLC to

(1) pay the EPA for installation of an alternate water line to provide water to area residents;

(2) perform an interim groundwater remedy at the site; and

(3) conduct soil remediation.

U.S. v. Chemical Leaman Tank Lines, Inc., Civil Action No. 95-CV-4264 (RJB) (E.D. Pa.).

CLC has paid all costs associated with installation of the waterline. CLC has completed a hydro-geologic study, and has commenced activities for construction of a groundwater treatment plant to pump and treat groundwater. The EPA anticipates that CLC will operate the plant for about five years, at which time the EPA will evaluate groundwater conditions and determine whether a final groundwater remedy is necessary. Field sampling for soil remediation recently commenced. The Consent Decree does not cover the final groundwater remedy or other site remedies or claims, if any, for natural resource damages.

Other Environmental Matters. CLC has been named as PRP under CERCLA and similar state laws at approximately 40 former waste treatment and/or disposal sites including the Helen Kramer Landfill Site where CLC previously settled its liability. In general, CLC is among several PRP s named at these sites. CLC is also incurring expenses resulting from the investigation and/or remediation of certain current and former CLC properties, including its facility in Tonawanda, New York and its former facility in Putnam County, West Virginia, and its facility in Charleston, West Virginia. As a result of our acquisition of CLC, we identified other owned or formerly owned properties that may require investigation and/or remediation, including properties subject to the New Jersey Industrial Sites Recovery Act (ISRA). CLC s involvement at some of the above referenced sites could amount to material liabilities, and there can be no assurance that costs associated with these sites, individually or in the aggregate, will not be material. We have established reserves for liabilities

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associated with the Helen Kramer Landfill, CLC s facility at Tonawanda, New York and CLC s former facility in Putnam County.

6. RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001 the Financial Accounting Standards Board (FASB) issued SFAS No. 141 Business Combinations and SFAS No. 142 Goodwill and Other Intangible Assets. SFAS No. 141 requires business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting, and broadens the criteria for recording intangible assets separate from goodwill. Recorded goodwill and intangibles will be evaluated against this new criteria and may result in certain intangibles being subsumed into goodwill, or alternatively, amounts initially recorded as goodwill may be separately identified and recognized apart from goodwill. SFAS No. 142 requires the use of a nonamortization approach to account for purchased goodwill and certain intangibles. Under a nonamortization approach, goodwill and certain intangibles will not be amortized into results of operations, but instead would be reviewed for impairment and written down and charged to results of operations only in the periods in which the recorded value of goodwill and certain intangibles is more than its fair value. The provisions of each statement which apply to goodwill and intangible assets acquired prior to June 30, 2001 will be adopted by the Company on January 1, 2002. We expect the adoption of these accounting standards will have the impact of reducing our amortization of goodwill and intangibles commencing January 1, 2002; however, impairment reviews may result in future periodic write-downs.

7. GUARANTOR SUBSIDIARIES:

The 10% Series B Senior Subordinated Notes issued in June 1998 and due 2006 are unconditionally guaranteed on a senior unsecured basis pursuant to guarantees by all the Company s direct and indirect domestic subsidiaries, except Bulknet (The Guarantors).

The Company conducts all of its business through and derives virtually all its income from its subsidiaries. Therefore, the Company s ability to make required principal and interest payments with respect all to the Company s debt depends on the earnings of subsidiaries and its ability to receive funds from its subsidiaries. The subsidiary guarantors are wholly owned subsidiaries of the Company and have fully and unconditionally guaranteed the Notes on a joint and several basis.

The Company has 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 Notes.

The following condensed consolidating financial information presents:

1. Balance Sheets as of September 30, 2001 and December 31, 2000.

2. Statements of Operations for the three months ended September 30, 2001 and 2000. 3. Statements of Operations for the nine months ended September 30, 2001 and 2000.

4. Statements of Cash Flows for the nine months ended September 30, 2001 and 2000.

5. The parent company and combined guarantor subsidiaries.

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

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FORM 10-Q
QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATING BALANCE SHEET
SEPTEMBER 30, 2001
(Unaudited)
(In thousands)

	Parent	Guarantor Subs	Non Guarantor Subs	Elimin-ations	Consol-idated
ASSETS					
Current Assets					
Cash and cash equivalents	$	$61	$766	$	$827
Accounts receivable, net		98,299	1,075		99,374
Inventories		1,464	217		1,681
Prepaid expense and other Current assets		13,831	624		14,455
Total Current Assets		113,655	2,682		116,337
Property and equipment, net		153,764	17,103		170,867
Intangibles & goodwill, net		149,375	833		150,208
Other assets	100,000	9,105	4	(100,000)	9,109
Investment in subsidiaries	221,107			(221,107)	

$321,107	$425,899	$20,622	$(321,107)	$446,521

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FORM 10-Q
QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATING BALANCE SHEET
SEPTEMBER 30, 2001
(Unaudited) (In thousands, continued)

	Parent	Guarantor Subs	Non-Guarantor Subs	Elim's	Consolidated
Current Liabilities					
Current maturities of indebtedness	$2,890	$	$		$2,890
Accounts payable and accrued expense		62,027	1,884		63,911
Inter-company		(919)	919		
Independent contractors payable		8,594	(139)		8,455
Other current liabilities		1,149			1,149
Income tax payable		178	172		350
Total Current Liabilities	2,890	71,029	2,836		76,755
Bank debt, less current maturities	283,195				283,195
Subordinated debt, less Current maturities	140,000	100,000		(100,000)	140,000
Other long term liabilities		7,387			7,387
Environmental liabilities		38,666			38,666
Deferred income taxes		(539)	2,299		1,760
Accrued loss and damage claims		1,903			1,903

Total liabilities
$426,085 $218,446 $5,135 $(100,000) $549,666
Minority interest in subs
1,833 1,833
Mandatorily redeemable preferred stock
14,965 14,965
Redeemable common stock
1,210 1,210
Stockholders Equity

Common stock and Additional paid-in-capital
105,676 145,381 15,082 (160,463) 105,676
Retained earnings
(28,612) 60,239 1,487 (61,726) (28,612)
Stock recapitalization
(189,589) (55) 55 (189,589)
Treasury stock
(237) (237)
Other stockholders equity
(6,505) (1,027) 1,027 (6,505)
Note receivable
(1,886) (1,886)

Total stockholders equity or (deficit)
(121,153) 205,620 15,487 (221,107) (121,153)

$321,107 $425,899 $20,622 $(321,107) $446,521

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2000
(Unaudited)
(In thousands)

	Parent	Guarantor Subs	Non-Guaran-tor Subs	Elim's	Consol-idated*
ASSETS					
Current Assets					
Cash and cash equivalents	$	$2,469	$167	$	$2,636
Accounts receivable, net		85,847	9,426		95,273
Inventories		1,528	258		1,786
Prepaid expenses and other current assets		15,889	658		16,547
Total Current Assets		105,733	10,509		116,242
Property and equipment, net		154,065	21,451		175,516
Intangibles & goodwill, net		152,748	920		153,668
Other assets	100,000	7,643	4	(100,000)	7,647
Investment in subsidiaries	221,098			(221,098)	

$321,098	$420,189	$32,884	$(321,098)	$453,073

Condensed from audited financial statements.

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FORM 10-Q
QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2000
(Unaudited, in thousands, continued)

	Parent	Guarantor Subs	Non-Guaran- tor Subs	Elim's	Consol- idated*

Current Liabilities

Current maturities of indebtedness
$3,619 $ $ $3,619
Accounts payable and accrued expenses
66,782 315 67,097
Inter Company
(14,225) 14,225
Independent contractors payable
7,497 66 7,563
Other current liabilities

Income tax payable
505 329 834

Total Current Liabilities
3,619 60,559 14,935 79,113
Bank debt, less current maturities
273,253 67 273,320
Subordinated debt
140,000 140,000
Environmental liabilities
39,873 39,873
Other long term liabilities
110,926 (100,000) 10,926
Deferred income taxes
(1,173) 2,355 1,182
Minority interest in subs
4,433 4,433
Mandatorily redeemable preferred stock
13,882 13,882
Redeemable common stock
1,210 1,210
Stockholders Equity

Common stock and Additional paid-in-capital	105,676	142,963	15,082	(158,045)	105,676
Retained earnings	(22,212)	62,608	1,320	(63,928)	(22,212)
Treasury stock	(32)				(32)
Stock recapitalization	(189,589)		(55)	55	(189,589)
Other stockholders equity	(2,823)		(820)	820	(2,823)
Note receivable	(1,886)				(1,886)
Total stockholders equity or (deficit)	(110,866)	205,571	15,527	(221,098)	(110,866)
	$321,098	$420,189	$32,884	$(321,098)	$453,073

Condensed from audited financial statements.

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FORM 10-Q
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
QUALITY DISTRIBUTION, INC. AND SUBS CONDENSED CONSOLIDATING STATEMENTS OF INCOME
THREE MONTHS ENDED SEPTEMBER 30, 2001
(Unaudited) (In thousands)

	Parent	Guarantor Subs	Non-Guaran- tor Subs	Elim's	Consol- idated
Operating Revenues					
Transportation	$	$112,176	$5,982	$	$118,158
Other		15,606	379		15,985
		127,782	6,361		134,143
Operating Expenses					
Purchased transportation		76,900	517		77,417
Depreciation and amortization		7,986	786		8,772
Other operating expenses		34,471	4,611		39,082
Operating income (loss)		8,425	447		8,872
Interest expense, net	10,490				10,490
Other (income) expense		(4)			(4)
Equity in earnings (loss) of subsidiaries					

			5,355		(5,355)
Income (loss) before taxes	(5,135)	8,429	447	(5,355)	(1,614)
Income taxes	(3,386)	3,456	65		135
Minority interest					
Net Income or (loss)	$(1,749)	$4,973	$382	$(5,355)	$(1,749)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
QUALITY DISTRIBUTION, INC. AND SUBS CONDENSED CONSOLIDATING STATEMENTS OF INCOME
THREE MONTHS ENDED SEPTEMBER 30, 2000
(Unaudited) (In thousands)

	Parent	Guarantor Subs	Non-Guaran-tor Subs	Elim's	Consol-idated

Operating Revenues
Transportation
$ $118,359 $7,136 $ $125,495
Other
16,219 247 16,466

134,578 7,383 141,961
Operating Expenses

Purchased transportation
80,196 774 80,970
Depreciation and amortization
8,778 955 9,733
Other operating expenses
38,383 5,675 44,058

Operating income (loss)
7,221 (21) 7,200
Interest expense, net
9,960 47 10,007
Other (income) expense
(9) (9)
Equity in earnings (loss) of subsidiaries

4,043 (4,043)

Income (loss) before taxes
(5,917) 7,230 (68) (4,043) (2,798)
Income taxes
(97) 2,964 79 2,946
Minority interest
76 76

Net Income or (loss)
$(5,820) $4,190 $(147) $(4,043) $(5,820)

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FORM 10-Q
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
QUALITY DISTRIBUTION, INC. AND SUBS CONDENSED CONSOLIDATING STATEMENTS OF INCOME
NINE MONTHS ENDED SEPTEMBER 30, 2001
(Unaudited) (In thousands)

	Parent	Guarantor Subs	Non-Guaran-tor Subs	Elim's	Consol-idated
Operating Revenues					
Transportation	$	$333,371	$18,011	$	$351,382
Other		45,964	1,218		47,182
		379,335	19,229		398,564
Operating Expenses					
Purchased transportation		226,959	2,144		229,103
Depreciation and amortization		23,818	2,532		26,350
Other operating expenses		103,737	14,192		117,929
Operating income (loss)		24,821	361		25,182
Interest expense, net	29,552				29,552
Other expense		(4)	(2)		(6)
Equity in earnings (loss) of subsidiaries					

	14,815			(14,815)	
Income (loss) before taxes	(14,737)	24,825	363	(14,815)	(4,364)
Income taxes	(9,528)	10,178	195		845
Net income (loss)	(5,209)	14,647	168	(14,815)	(5,209)

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FORM 10-Q
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
QUALITY DISTRIBUTION, INC. AND SUBS CONDENSED CONSOLIDATING STATEMENTS OF INCOME
NINE MONTHS ENDED SEPTEMBER 30, 2000
(Unaudited) (In thousands)

	Parent	Guarantor Subs	Non-Guaran-tor Subs	Elim's	Consol-idated
Operating Revenues					
Transportation	$	$368,856	$21,690	$	$390,546
Other		49,191	585		49,776
		418,047	22,275		440,322
Operating Expenses					
Purchased transportation		246,409	2,422		248,831
Depreciation and amortization		25,343	2,895		28,238
Other operating expenses		119,170	16,184		135,354
Operating income (loss)		27,125	774		27,899
Interest expense, net	29,889		321		30,210
Other expense		(54)			(54)
Equity in earnings (loss) of subsidiaries					

		16,014		(16,014)	
Income (loss) before taxes	(13,875)	27,179	453	(16,014)	(2,257)
Income taxes	(7,961)	11,143	249		3,431
Minority Interest		226			226
Net income (loss)	$(5,914)	$15,810	$204	$(16,014)	$(5,914)

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FORM 10-Q
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2001 (Unaudited) (In thousands)

	Parent	Guarantor Subs	Non-Guaran-tor Subs	Elim's	Consol-idated

Cash provided by (used for)
Operating activities:

Net income (loss)
$(5,209) $14,647 $168 $(14,815) $(5,209)
Adjustments for non cash charges
5,209 20,828 2,447 28,484
Changes in assets/liabilities
(22,843) (3,134) 14,815 (11,162)

Net cash provided by operating activities
12,632 (519) 12,113
Investing activities:

Capital expenditures
(21,250) (744) (21,994)
Proceeds from asset dispositions
47 1,928 1,975

Net cash provided by (used for) investing activities
(21,203) 1,184 (20,019)
Financing activities:

Proceeds from issuance of long term debt

11,500 11,500
Payment of obligations
(2,291) (65) (2,356)
Issuance of common stock

Redemption of preferred stock
(2,600) (2,600)
Other
769 769
Net change in intercompany balances
(6,609) 6,609

Net cash provided by financing activities
7,378 (65) 7,313

Net increase (decrease) in cash
(1,193) 600 (593)
Effect of exchange rate changes on cash
(1,215) (1) (1,216)
Cash, beginning of period
2,469 167 2,636

Cash, end of period
$ $61 $766 $ $827

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FORM 10-Q
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2000 (Unaudited) (In thousands)

	Parent	Guarantor Subs	Non-Guarantor Subs	Elim's	Consolidated
Cash provided by (used for)					
Operating activities:					
Net income (loss)	$(5,914)	$15,810	$204	$(16,014)	$(5,914)
Adjustments for non cash charges	5,914	23,054	2,630		31,598
Changes in assets/liabilities		(20,501)	9,387	16,014	4,900
Net cash provided by operating activities		18,363	12,221		30,584
Investing activities:					
Capital expenditures		(11,427)	(3,323)		(14,750)
Proceeds from asset dispositions		2,672	834		3,506
Net cash provided by (used for) investing activities		(8,755)	(2,489)		(11,244)
Financing activities:					
Proceeds from issuance of long term debt					

10,499 (10,499)
Payment of obligations
(17,415) 291 (17,124)
Issuance of common stock
169 169
Redemption of preferred stock

Other

Net change in intercompany balances
6,747 (6,747)

Net cash provided by financing activities
(6,747) (10,208) (16,955)

Net increase (decrease) in cash
2,861 (476) 2,385
Effect of exchange rate changes on cash
(237) (237)
Cash, beginning of period
149 901 1,050

Cash, end of period
$ $2,773 $425 $ $3,198

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FORM 10-Q
PART 1 FINANCIAL INFORMATION
QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
THIRD QUARTER 2001 COMPARED TO THE THIRD QUARTER 2000

The Company s operating results are affected by shipments for the bulk chemical industry. Shipments of chemical products are in turn affected by many other industries, including consumer and industrial products, automotive, paint and coatings, and paper, and tend to vary with changing economic conditions. The Company also participates in the shipment of bulk food products through its food-grade division. The volumes of food products and certain other consumer products tend to be subject to fewer fluctuations due to swings in economic activity.

For the quarter ended September 30, 2001, revenues totaled $134.1 million, a 5.5% decrease from revenues of $142.0 million for the same period in 2000. This decrease is attributable to the continued soft demand for bulk transportation services which began in the third quarter of 2000, and continued throughout the third quarter of 2001 in the United States and Canada.

The decline in demand in the last several quarters is reflective of the softness in the manufacturing sector over the same period. The decline in base business demand, accompanied by flat pricing environment were offset partially by growth in new business as a result of successful competitive bids.

For the quarter ended September 30, 2001, operating income totaled $8.9 million, an increase of $1.7 million compared to $7.2 million for the same period in 2000. This increase in operating income was due to a $2.1 million restructuring charge taken in 2000, offset somewhat by a 0.7 special charge taken in 2001 related to employee reductions. Increases in natural gas prices led to significantly higher utility expense in 2001 versus 2000. These higher utility rates were partially offset by surcharges at some tank wash facilities.

The operating ratio for the quarter ended September 30, 2001 was 93.4% compared to 94.9% for the same period in 2000. This improvement was attributable to the reasons discussed above.

Net interest expense increased to $10.5 million in the quarter ended September 30, 2001, from $10.01 million in the quarter ended September 30, 2000. This increase is the result of the modification of our bank loan agreement.

The pretax loss for the quarter ended September 30, 2001 totaled $1.6 million compared to a $2.8 million loss for the same period in 2000.

Income tax expense decreased from $2.9 million to $0.1 million due to the relative impact of non-deductible items on the different pre tax amounts and the non-recognition of tax benefits.

For the quarter ended September 30, 2001, the Company s net loss was $1.7 million compared with a $5.8 million loss for the same period last year.

Basic weighted average shares decreased to 2,012,000 in the third quarter of 2001 from 2,014,000 at September 30, 2000. As of September 30, 2001, a total of 2,011,428 shares were outstanding.

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FORM 10-Q
PART 1 FINANCIAL INFORMATION
QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS
FIRST NINE MONTHS 2001 COMPARED TO THE FIRST NINE MONTHS 2000

For the nine months ended September 30, 2001, revenues totaled $398.6 million, a 9.5% decrease from revenues of $440.3 million for the same period in 2000. This decrease is attributable to the continued decline in demand for bulk transportation services which began in the third quarter of 2000 and has since continued to intensify throughout the United States and Canada.

For the nine months ended September 30, 2001, operating income totaled $25.2 million, a decrease of $2.7 million compared to $27.9 million for the same period in 2000. This decrease was primarily the result of the overall decrease in transportation revenue. Proportional reductions occurred in purchased transportation, wages and fuel. Offsetting these reductions were additional start up costs for new business, costs associated with the continuing conversion of Company terminals to affiliate operations, higher fleet maintenance costs and continued higher than anticipated insurance payments on older claims. Additionally, increases in natural gas prices led to higher utility expense favorably offset by surcharges at some tank wash facilities.

The operating ratio for the nine months ended September 30, 2001 was 93.7% compared to 93.7% for the same period in 2000.

Net interest expense decreased to $29.6 million in the nine months ended September 30, 2001, from $30.2 million in the nine months ended September 30, 2000. This decrease is the result of lower interest rates on the variable interest portion of the Company s debt, offset by increases due to the modification of our bank agreement.

The pretax loss for the nine months ended September 30, 2001 totaled $4.4 million compared to a $2.3 million loss for the same period in 2000.

Income tax expense decreased from $3.4 million to $0.8 million due to the relative impact of non-deductible items on the different pretax amounts and the non-recognition of tax benefits.

For the nine months ended September 30, 2001, the Company s net loss was $5.2 million compared with a $5.9 million loss for the same period last year.

Basic weighted average shares increased to 2,015,000 in the third quarter of 2001 from 2,014,000 at September 30, 2000. As of September 30, 2001, a total of 2,011,428 shares were outstanding.

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PART 1 FINANCIAL INFORMATION

QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

Liquidity and Capital Resources

The Company s primary sources of liquidity are funds provided by operations and borrowings under various credit arrangements with financial institutions.

Net cash provided by operating activities totaled $12.1 million for the nine months ended September 30, 2001, versus $30.6 million for the same period in 2000. This difference is due largely to the receipt of insurance proceeds offset by payments against environmental and other accruals in the first quarter of 2000, and the timing of payments for environmental and accrued expenses in 2001.

Cash used by investing activities totaled $20.0 million for the nine month period ended September 30, 2001, compared to $11.2 million used for the comparable 2000 period. Capital was used primarily to acquire replacement revenue equipment and for significant upgrades to the Company s computer infrastructure and new dispatch system in 2001.

Cash provided by financing activities totaled $7.3 million during the nine month period ended September 30, 2001, compared to $17.0 million used in the comparable period in 2000. This difference is due to the increased proceeds from borrowing in 2001.

The Company has a $285,000,000 credit facility with a group of banks maturing at various times from June of 2004 to 2006. Additionally, the Company has a revolving credit facility in the amount of $57.6 million until June 9, 2004. As of September 30, 2001, the Company has available $26.3 million under this revolving credit facility. The Company also has $100.0 million in 10% senior subordinated notes due in 2006 and $40.0 million in floating interest rate subordinated term securities also due in 2006.

Our credit agreements include financial covenants, recently modified, which require minimum or maximum ratios to be maintained. As of September 30, 2001, a technical default existed relative to one of these covenants. The Company has obtained a waiver from the lenders with respect to this default. Continued compliance with these requirements could be effected by changes relating to economic factors, market uncertainties, or other events as described under forward looking statements and risk factors.

The Company s management believes that borrowings under the line of credit, together with available cash and internally generated funds, will be sufficient to fund QDI s continued growth and meet its working capital requirements for the foreseeable future.

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PART 1 FINANCIAL INFORMATION

Forward Looking Statements And Risk Factors

Some of the statements contained in this report discuss future expectations and contain projections of results of operations or financial condition or state other forward-looking information. Those statements are subject to known and unknown risks, uncertainties and other factors that could cause the actual results to differ materially from those contemplated by the statements. Please see the risk factors set forth in the Company s 2000 Form 10-K which identify important risk factors such as the Company s high leverage, dependence on affiliates and owner-operators, environmental risks and claims exposure.

The forward-looking information is based on various factors and was derived using numerous assumptions. Important factors that could cause our actual results to be materially different from the forward-looking statements include general economic conditions, cost and availability of diesel fuel, adverse weather conditions and competitive rate fluctuations. Future financial and operating results of QDI may fluctuate as a result of these and other risk factors as detailed from time to time in company filings with the Securities and Exchange Commission.

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PART II OTHER INFORMATION

ITEM 1. Legal Proceedings

Reference is made to Item 2 on page 17 of the Company s Form 10-K for the year ended December 31, 2000. There have been no material changes in the Company s legal proceedings since this filing.

ITEM 4. Submission of Matters to a Vote of Security Holders

None

ITEM 6. (a) Exhibits:

Exhibit No.	Description
2.6	Bank Consent and Waiver

(b) Reports on Form 8-K: None

Signatures

QUALITY DISTRIBUTION, INC.

November 13, 2001	/s/ THOMAS L. FINKBINER
	THOMAS L. FINKBINER, (CEO, PRESIDENT) (DULY AUTHORIZED OFFICER)
November 13, 2001	/s/ DENNIS R. FARNSWORTH
	DENNIS R. FARNSWORTH (SR.VP.FINANCE) (PRINCIPAL FINANCIAL OFFICER)

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