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 March 31, 2006

or

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

For the transition period from to

Commission File Number: 000-24180

Quality Distribution, Inc.

(Exact name of registrant as specified in its charter)

Florida	**59-3239073**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
3802 Corporex Park Drive, Tampa, FL	**33619**

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

813-630-5826

(Registrant s telephone number, including area code)

N/A

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

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

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

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

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

As of May 1, 2006, the registrant had 19,061,412, outstanding shares of Common Stock, no par value, outstanding.

QUALITY DISTRIBUTION, INC.

CONTENTS

PART I FINANCIAL INFORMATION	*1*
ITEM 1 FINANCIAL STATEMENTS	*1*
Consolidated Statements of Operations for the Three Months ended March 31, 2006 and 2005	*1*
Consolidated Balance Sheets as of March 31, 2006 and December 31, 2005	*2*
Consolidated Statements of Shareholders Deficit and Comprehensive Loss as of March 31, 2006 and 2005	*3*
Consolidated Statements of Cash Flows for the Three Months ended March 31, 2006 and 2005	*4*
Notes to Condensed Consolidated Financial Statements	*5*
ITEM 2 Management s Discussion and Analysis of Financial Condition and Results of Operations	*21*
ITEM 3 Quantitative and Qualitative Disclosures About Market Risk	*32*
ITEM 4 Controls and Procedures	*34*
PART II OTHER INFORMATION	*34*
ITEM 1 Legal Proceedings	*34*
ITEM 1A Risk Factors	*34*
ITEM 2 Unregistered Sale of Equity Securities and Use of Proceeds	*35*
ITEM 3 Defaults Upon Senior Securities	*35*
ITEM 4 Submission of Matters to a Vote of Security Holders	*35*
ITEM 5 Other Information	*35*
ITEM 6 Exhibits	*35*
Signatures	*36*

QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

PART I FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

Quality Distribution, Inc. and Subsidiaries

Consolidated Statements of Operations

(Unaudited in 000 s, Except Per Share Amounts)

	Three Months Ended March 31, 2006	2005
OPERATING REVENUES		
Transportation	$ 142,312	$ 133,214
Other service revenue	18,104	16,854
Fuel surcharge	18,334	11,070
Total operating revenues	178,750	161,138
OPERATING EXPENSES		
Purchased transportation	121,581	110,983
Compensation	17,881	14,575
Fuel, supplies and maintenance	10,943	7,157
Depreciation and amortization	3,937	4,453
Selling and administrative	5,265	6,271
Insurance claims	3,884	3,802
Taxes and licenses	790	617
Communication and utilities	2,548	2,056
Gain on disposal of property and equipment	(157)	(28)
PPI class action settlement and related expenses		509
Total operating expenses	166,672	150,395
Operating income	12,078	10,743
Interest expense, net	7,134	6,313
Write-off of debt issuance costs		1,110
Other (income)/expense	(138)	33
Income before income taxes	5,082	3,287
Provision for income taxes	(602)	(371)
Net income attributable to common shareholders	$ 4,480	$ 2,916
PER SHARE DATA		
Net income per common share		
Basic	$ 0.24	$ 0.15
Diluted	$ 0.23	$ 0.15
Weighted average number of shares		

Basic	18,963	18,929
Diluted	19,515	19,302

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

QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

Quality Distribution, Inc and Subsidiaries

Consolidated Balance Sheets

(In 000 s)

Unaudited

	March 31, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,000	$ 1,636
Accounts receivable, net	102,314	101,353
Current maturities of notes receivable from affiliates	126	145
Prepaid expenses	8,376	5,336
Prepaid tires	7,647	7,360
Other	10,577	4,872
Total current assets	131,040	120,702
Property and equipment, net	115,108	115,199
Assets held-for-sale	147	158
Goodwill	133,593	133,138
Intangibles, net	1,116	1,165
Notes receivable from affiliates, net	79	112
Other assets	11,429	11,931
Total assets	$ 392,512	$ 382,405
LIABILITIES, MINORITY INTEREST AND SHAREHOLDERS DEFICIT		
Current liabilities:		
Current maturities of indebtedness	$ 1,516	$ 1,515
Accounts payable	11,983	16,609
Affiliates and independent owner-operators payable	14,661	11,979
Accrued expenses	26,364	22,046
Environmental liabilities	6,685	8,516
Accrued loss and damage claims	9,657	9,598
Total current liabilities	70,866	70,263
Long-term indebtedness, less current maturities	292,001	287,601
Environmental liabilities	8,643	8,643
Accrued loss and damage claims	25,032	25,032
Other non-current liabilities	10,176	10,213
Deferred tax liability	792	930
Total liabilities	407,510	402,682
Commitments and contingencies (Note 7)		
Minority interest in subsidiary	1,833	1,833
SHAREHOLDERS DEFICIT		
	358,526	359,772

Common stock, no par value; 29,000 shares authorized; 19,133 issued at March 31, 2006 and 19,123 issued at December 31, 2005		
Treasury stock, 74 and 93 shares at March 31, 2006 and December 31, 2005	(766)	(1,042)
Accumulated deficit	(164,506)	(168,710)
Stock recapitalization	(189,589)	(189,589)
Accumulated other comprehensive loss	(19,005)	(19,079)
Stock purchase warrants	50	54
Unearned compensation, restricted stock and stock units		(1,975)
Stock subscriptions receivable	(1,541)	(1,541)
Total shareholders deficit	(16,831)	(22,110)
Total liabilities, minority interest and shareholders deficit	$ 392,512	$ 382,405

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

2

QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

Consolidated Statements of Shareholders Deficit and Comprehensive Loss

For the Three Months Ended March 31, 2006 and 2005

Unaudited (In 000 s)

	Comprehensive Income (Loss)	Shares of Common Stock	Shares of Treasury Stock	Common Stock	Treasury Stock	Accumulated Deficit	Stock Recapitalization	Accumulated Other Comprehensive Loss	Stock Purchase Warrants	Unearned Compensation Restricted Stock	Stock Subscriptions Receivables	Total Shareholders Deficit
Balance, December 31, 2004		19,152	73	$ 357,777	$ (743)	$ (180,854)	$ (189,589)	$ (18,042)	$ 73	$ (1,077)	$ (1,645)	$ (34,100)
Net income	$ 2,916					2,916						2,916
Issuance of restricted stock		14	(14)	120						(120)		
Amortization of restricted stock										133		133
Forfeiture of restricted stock		(1)	1	(17)						17		
Stock warrant exercise												
Payment of stock subscriptions receivable											76	76
Acquisition of treasury stock												31
Amortization of below market options				31								
Translation adjustment, net of a deferred tax provision of nil	1							1				1
Pension plan minimum liability, net of a deferred tax benefit of nil												
Balance, March 31, 2005	$ 2,917	19,165	60	$ 357,911	$ (743)	$ (177,938)	$ (189,589)	$ (18,041)	$ 73	$ (1,047)	$ (1,569)	$ (30,943)
Balance, December 31, 2005		19,123	93	$ 359,772	$ (1,042)	$ (168,710)	$ (189,589)	$ (19,079)	$ 54	$ (1,975)	$ (1,541)	$ (22,110)

Net income	$ 4,480					4,480						4,480
Reclass of Unearned Compensation Restricted Stock				(1,975)						1,975		
Issuance of restricted stock			(19)		276	(276)						
Amortization of restricted stock				94								94
Amortization of restricted stock units				362								362
Amortization of below market options				31								31
Amortization of stock options				238								238
Stock warrant exercise		10		4					(4)			
Acquisition of treasury stock												
Payment of stock subscription receivable												
Translation adjustment, net of a deferred tax provision of nil	74							74				74
Pension plan minimum liability, net of a deferred tax benefit of nil												
Balance, March 31, 2006	$ 4,554	19,133	74	$ 358,526	$ (766)	$ (164,506)	$ (189,589)	$ (19,005)	$ 50	$	$ (1,541)	$ (16,831)

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

QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

Quality Distribution, Inc and Subsidiaries

Consolidated Statements of Cash Flows

(Unaudited In 000 s)

	Three Months Ended March 31, 2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 4,480	$ 2,916
Adjustments to reconcile to net cash and cash equivalents used in operating activities:		
Depreciation and amortization	3,937	4,453
Bad debt expense	(420)	633
Foreign currency transaction loss	75	11
Gain on disposal of property and equipment	(157)	(28)
Write-off of deferred financing costs		1,110
Stock based compensation	725	164
Amortization of deferred financing costs	454	445
Amortization of bond discount	61	51
Minority dividends	36	36
Changes in assets and liabilities:		
Accounts and other receivables	(541)	(6,600)
Notes receivable from affiliates	52	94
Prepaid expenses	(3,040)	(3,206)
Prepaid tires	(287)	(385)
Other assets	(5,772)	(981)
Accounts payable and accrued expenses	(3,945)	(133)
Environmental liabilities	(1,831)	(73)
Accrued loss and damage claims	59	(3,626)
Affiliates and independent owner-operators payable	2,682	4,270
Other liabilities	(36)	(63)
Net cash used in operating activities	(3,468)	(912)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(3,309)	(2,623)
Acquisition of business assets	(3,414)	
Proceeds from sales of property and equipment	2,633	799
Net cash used in investing activities	(4,090)	(1,824)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt and capital lease obligations		83,300
Principal payments on long-term debt and capital lease obligations	(378)	(77,850)
Proceeds from revolver	58,200	28,300
Payments on revolver	(53,500)	(34,100)
Deferred financing costs		(2,759)
Change in book overdraft	3,637	4,093
Minority dividends	(36)	(36)
Other stock transactions		76

Net cash provided by financing activities	7,923	1,024
Net increase / (decrease) in cash and cash equivalents	365	(1,712)
Effect of exchange rate changes on cash	(1)	3
Cash and cash equivalents, beginning of year	1,636	2,700
Cash and cash equivalents, end of period	$ 2,000	$ 991

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

QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

Quality Distribution, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Summary of Significant Accounting Policies

Basis of Presentation

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

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

Our accompanying unaudited condensed, consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments and accruals) considered necessary for a fair presentation have been included. For further information, refer to our Annual Report on Form 10-K for the year ended December 31, 2005, including the consolidated financial statements and accompanying notes. Certain prior period amounts have been reclassified to conform to the current year presentation.

Operating results for the three months ended March 31, 2006, are not necessarily indicative of the results that may be expected for the entire fiscal year.

New Accounting Pronouncements

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Corrections (SFAS No. 154). SFAS No. 154 replaces APB Opinion No. 20, Accounting Changes and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements and changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS No. 154 also provides guidance on the accounting for and reporting of error corrections. The January 2006 adoption of SFAS No. 154 had no material affect on our financial position, results of operations or cashflows.

Prior to the January 1, 2006 adoption of Financial Accounting Standards Board (FASB) Statement No. 123(R), Share-Based Payment (SFAS 123R), we accounted for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Accordingly, because the stock option grant price generally equaled the market price on the date of grant, no compensation expense was normally recognized for Company-issued stock options. As permitted by SFAS 123, Accounting for Stock-Based Compensation (SFAS 123), stock-based compensation was included as a pro forma disclosure in the Notes to the Consolidated Financial Statements.

Effective January 1, 2006, we adopted SFAS 123R using the modified prospective transition method and, as a result, did not retroactively adjust results from prior periods. Under this transition method, stock-based compensation was recognized for: 1) expense related to the remaining unvested portion of all stock option awards granted prior to January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123; and 2) expense related to all stock option awards granted on or subsequent to January 1, 2006, based on the grant date

5

fair value estimated in accordance with the provisions of SFAS 123R. We apply the Black-Scholes valuation model in determining the fair value of share-based payments to employees, which is then amortized on a straight-line basis over the requisite service period. See Note 4 of the Notes to Consolidated Financial Statements in this Form 10-Q for further discussion of stock-based compensation.

Acquisition of Business

We acquired the business of a transportation company on January 21, 2006, for approximately $3.4 million. We expect to pay an additional $0.5 million, based on defined criteria, for this acquisition during the third quarter of fiscal year 2006.

Goodwill and Intangible Assets

Goodwill

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

We selected the second quarter to perform our annual impairment test. Projections for future cash flows were based on our recent operating trends. EBITDA multiples were derived from other comparable publicly traded companies. The discount rate used to discount cash flows was based on our weighted average cost of capital. No impairment was determined to have occurred as of June 30, 2005, since the calculated fair value exceeded the carrying amount. The factors used in deriving the estimate of the fair value included improving economic conditions, increasing revenues and operating income during 2004 and the knowledge that we were able to renegotiate our debt structure to extend the maturity.

Our goodwill assets as of March 31, 2006 and December 31, 2005 were $133.6 million and $133.1 million, respectively. Goodwill increased $0.5 million due to the purchase of a business in January 2006.

Intangible Assets

Net intangible assets consist of a $0.9 million intangible pension plan asset and $0.2 million in total of non-compete agreements with remaining lives of 3 years, customer lists and customer contracts acquired from a competitor with lives of 5 years. Accumulated amortization of the remaining non-pension intangible assets was $0.2 million and $0.2 million at March 31, 2006 and December 31, 2005, respectively. The gross amount of intangible assets at March 31, 2006 and December 31, 2005 was $1.4 million.

Amortization expense for the non-pension intangible assets for the three months ended March 31, 2006 and 2005 was less than $0.1 million in all periods.

QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

2. Comprehensive Income

Comprehensive income is as follows (in thousands):

	Three months ended March 31, 2006	2005
Net income	$ 4,480	$ 2,916
Other comprehensive income:		
Foreign currency translation adjustments	74	1
Comprehensive income	$ 4,554	$ 2,917

3. Earnings Per Share

A reconciliation of the numerators and denominators of the basic and diluted earnings per earnings per share computations follows:

	Three months ended March 31, 2006 Net income (numerator)	Shares (denominator)	Per-share amount	March 31, 2005 Net income (numerator)	Shares (denominator)	Per-share amount
(In 000 s except pershare amounts)						
Basic income available to common shareholders:						
Net earnings	$ 4,480	18,963	$ .24	$ 2,916	18,929	$ .15
Effect of dilutive securities:						
Stock options		167			188	
Unvested restricted stock		51			14	
Stock units		181				
Stock warrants		153			171	
Diluted income available to common shareholders:						
Net earnings	$ 4,480	19,515	$ .23	$ 2,916	19,302	$ .15

The effect of our stock options, restricted stock, stock units and stock warrants which represent the shares shown in the table above are included in the computation of diluted earnings per share for the three month periods ended March 31, 2006 and 2005.

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

	Three Months ended March 31, 2006	2005
(in 000 s)		
Stock options	1,173	1,708
Unvested Restricted Stock		58

4. Stock-Based Compensation

We maintain performance incentive plans under which stock options, restricted shares, and stock units may be granted to employees and non-employee directors.

QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

Effective January 1, 2006, we adopted Financial Accounting Standards Board (FASB) Statement No. 123(R), Share-Based Payment (SFAS 123R), using the modified prospective transition method, and as a result, did not retroactively adjust results from prior periods. Under this transition method, stock-based compensation was recognized for: 1) expense related to the remaining unvested portion of all stock option awards granted prior to January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123; and 2) expense related to all stock option awards granted on or subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123R. 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 option vesting term of four years. Prior to fiscal 2006, stock-based compensation was included as a pro forma disclosure in the Notes to the Consolidated Financial Statements as permitted by SFAS 123.

Compensation expense is recognized only for those options expected to vest, with forfeitures estimated based on our historical experience and future expectations. Prior to the adoption of SFAS 123R, the effect of forfeitures on the pro forma expense amounts was recognized as the forfeitures occurred.

As a result of adopting SFAS 123R, the impact to the Consolidated Statement of Operations for the quarter ended March 31, 2006 on income before income taxes and net income was $0.2 million and $0.2 million, respectively, and $0.01 and $0.01 on basic and diluted earnings per share, respectively. In addition, prior to the adoption of SFAS 123R, we presented the tax benefit resulting from the exercise of stock options as operating cash inflows in the Consolidated Statements of Cash Flows. Upon the adoption of SFAS 123R, any excess tax benefits for those options will be classified as financing cash inflows and operating cash outflows.

The table below reflects net income and basic and diluted net income per share for the first quarter of fiscal 2005, had we applied the fair value recognition provisions of SFAS 123R (in thousands, except per share data):

		Three months ended March 31, 2005
Net income	$	2,916
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects of nil for all periods		(380)
Restricted stock compensation expense and stock option expense included in net income (loss) attributable to common stockholders as reported		164
Pro forma net income attributable to common stockholders	$	2,700
Income per common share:		
As reported basic	$	0.15
Pro forma basic	$	0.14
As reported diluted	$	0.15
Pro forma diluted	$	0.14

Pro forma disclosure for the quarter ended March 31, 2006 is not presented because the amounts are recognized in the consolidated financial statements.

The pro forma fair value of options granted during the first three months of 2006 and 2005 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 fiscal 2006, expected stock price volatility is based on the historical volatility of our stock. 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 near future. The Black-Scholes model was used with the following assumptions:

QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

	2006	2005
Risk free rate	4.3%	3.7%
Expected life	4 years	6 years
Volatility	71.3%	64.0%
Expected dividend	nil	nil

As of March 31, 2006, we have three stock-based compensation plans. There is also an agreement to issue stock units which applies solely to Mr. Detter, our Chief Executive Officer. During the three months ending March 31, 2006, we recognized compensation expense of approximately $269,000 for all options, approximately $94,000 for all restricted stock and approximately $362,000 for all restricted stock units. During the three months ending March 31, 2005, we recognized compensation expense of approximately $31,000 for all options and approximately $133,000 for all restricted stock. All stock-based compensation expense is classified within Compensation on the Consolidated Statement of Operations.

There were no modifications to stock option awards during 2006. The remaining unrecognized compensation cost related to unvested option awards at March 31, 2006 is $3.2 million and the weighted-average period of time over which this cost will be recognized is 3.4 years. This amount does not include the cost of any additional options that may be granted in future periods nor any changes in the Company s forfeiture rate. There was no exercise of options in the first quarter of 2006.

Due to the issuance of stock options, representing 200,000 shares to an executive who joined us in November 2004, we recognized $31,000 of compensation expense for the three months ended March 31, 2006 and will recognize approximately $219,000 of compensation expense over the next 21 months.

We issued options for 417,500 shares on January 3, 2006 with an exercise price of $7.94. The total compensation that will be recognized over four years for these options is approximately $1.9 million. We also issued 18,890 shares of restricted stock to certain directors as part of their annual compensation package. We will recognize approximately $150,000 as compensation over four years.

2003 Stock Option Plan

The 2003 Stock Option Plan was adopted on November 5, 2003 in connection with our IPO and expires 10 years after adoption. It provides for the grant of nonqualified stock options that become exercisable, with limited exceptions, in 25% increments on each of the first four anniversaries of the date upon which the options are granted. On December 5, 2005, the Compensation Committee of the Board of Directors approved the vesting on December 31, 2005 of all unvested options under the 2003 Stock Option Plan with an exercise price of $8.00 or higher. As a result of the accelerated vesting, approximately 744,000 options became exercisable on December 31, 2005. The number of shares available for issuance under this plan automatically increases on January 1 of each year commencing with January 1, 2004 unless otherwise determined by the Board of Directors. The increase is 2.5% of the outstanding shares as of December 31 of the prior year. No more than 6,500,000 shares of common stock may be issued under the 2003 Stock Option Plan.

QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

Stock option activity for the 2003 Stock Plan for the quarter ended March 31, 2006 is as follows (in thousands, except per share data):

	Number of Shares Available	Number of Shares Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term(in years)	Aggregate Intrinsic Value (in thousands) (a)
Options outstanding at December 31, 2005	733	2,143	12.60		
2006 option activity:					
Additional shares reserved	475				
Granted	(417)	417	7.94		
Canceled	2	(2)	17.00		
Options outstanding at March 31, 2006	793	2,558	11.76	8.45	8,018
Options exercisable at March 31, 2006		1,586	14.47	7.95	2,333

(a) The intrinsic value of a stock option is the amount by which the market value of the underlying stock, as of March 31, 2006, exceeds the exercise price of the option.

As of March 31, 2006, total unrecognized stock-based compensation expense for the 2003 Stock Plan related to nonvested stock options was approximately $3.2 million, which is expected to be recognized over a weighted average period of approximately 3.4 years.

1998 Stock Option Plan

Until adoption of the 2003 Stock Option Plan, we administered the 1998 Stock Option Plan pursuant to which a total of 377,400 shares of our common stock were available for grant. The maximum term of granted options was ten years. Fifty percent of each new option granted vested in equal increments over four years. The remaining fifty percent of each new option will vest in nine years from grant date, subject to acceleration if certain per-share equity value targets are achieved or in the event of a sale of us. Vesting of the new options occurs only during an employee s term of employment. The new options will become fully vested in the event of a termination of employment without cause or for good reason within six months following a sale of the Company.

Stock option activity for the 1998 Stock Plan for the quarter ended March 31, 2006 is as follows (in thousands, except per share data):

	Number of Shares Available	Number of Shares Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term(in years)	Aggregate Intrinsic Value (in thousands) (a)
Options outstanding at December 31, 2005	306	71	23.00		
2006 option activity:					
Granted					
Canceled					
Options outstanding at March 31, 2006	306	71	23.00	4.0	

(a)

The intrinsic value of a stock option is the amount by which the market value of the underlying stock, as of March 31, 2006, exceeds the exercise price of the option.

As of March 31, 2006, there was no unrecognized stock-based compensation expense for the 1998 Stock Plan related to nonvested stock options.

QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

Restricted Incentive Stock Plan

On November 5, 2003, our Board of Directors approved the 2003 Restricted Incentive Stock Plan, which terminates ten years from the approval date. The restricted stock issuances to persons initially receiving a grant generally vest by December 31, 2008 regardless of when issued. The vesting periods for other grant recipients are at the discretion of the Compensation Committee of the Board of Directors. In subsequent years, participants in the plan may be granted an annual, aggregate amount of up to $1 million of shares, valued at our common stock closing price at the date of grant, at the direction of the Board of Directors. No more than 700,000 shares of common stock may be issued under this plan nor more than $7.5 million of stock may be issued under this plan.

In the first quarter of fiscal year 2006, we vested 2,622 shares of restricted stock with a fair value of $34,000 and granted 18,890 shares of restricted stock for which we will recognize $150,000 of total compensation expense over four years. Compensation expense for the first quarter related to the issuance of restricted shares was $94,000 and $133,000 in 2006 and 2005, respectively.

As of March 31, 2006, total unrecognized stock-based compensation expense for the Restricted Stock Plan was approximately $432,000, which is expected to be recognized over a weighted average period of approximately 3.2 years. We recognize compensation for restricted stock based on Financial Interpretation Number 28.

Stock Unit Grant Agreement

In 2005 in connection with his employment agreement, our Chief Executive Officer, Gerald L. Detter, was granted 300,000 stock units and $50,000 in value of stock units annually with the first annual grant made upon execution of his employment agreement and subsequent grants on each anniversary. Under the Stock Unit Grant Agreement, the 300,000 unit grant (Initial Grant) vests on December 31, 2006 if Mr. Detter is still an employee on that date.

Annual grants are determined by dividing $50,000 by the fair market value of the common stock on the date of grant. Stock units subject to each annual award vest (i) 14.2% on December 31 of the year in which such Annual Award is granted; and (ii) 28.6% on December 31 of each successive year.

The stock units are credited to an unfunded account and dividends, if any, paid on Company stock are paid on stock units in additional stock units rather than in cash. Stock units credited will be paid out in a single lump sum in an equivalent whole number of shares of common stock. We have discretion to pay stock units attributable to dividend equivalents in cash. Fractional share interests shall be disregarded, but may be cumulated, or, in our discretion, paid in cash. The Initial Grant will be distributed upon the first to occur of: (1) December 31, 2008, (2) termination of employment, (3) disability or (4) a change in control event. Annual awards shall be distributed upon the first to occur of: (1) termination of employment, (2) disability or (3) a change in control event.

As of March 31, 2006, total unrecognized stock-based compensation expense for the Stock Unit Grant Agreement was approximately $1.1 million, which is expected to be recognized over a weighted average period of approximately 0.8 years. We recognize compensation for the stock unit grant agreement on a straight-line basis.

5. Employee Benefit Plans

We maintain two noncontributory defined benefit plans resulting from a prior acquisition that cover certain full-time salaried employees (CLC Plan) and certain other employees under a collective bargaining agreement (TTWU Plan). 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.

QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

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

	Three Months Ended March 31,	
	2006	2005
Service cost	$ 64	$ 68
Interest cost	675	670
Prior service cost	23	23
Amortization	148	256
Expected return on plan assets	(768)	(704)
Net periodic pension cost	$ 142	$ 313

We have contributed $0.4 million to our pension plans during the three months ended March 31, 2006, and expect to contribute $2.0 million during the remainder of 2006.

6. Geographic Segments

Our operations are located primarily in the United States, Canada and Mexico. Inter-area sales are not significant to the total revenue of any geographic area. Information about our operations in different geographic areas for the three months ended March 31, 2006 and 2005 is as follows (in thousands):

	Three Months Ended March 31, 2006			
	U. S.	International	Eliminations	Consolidated
Total operating revenues	$ 166,945	$ 11,805	$	$ 178,750
Operating income	10,352	1,726		12,078
Depreciation and Amortization	3,494	443		3,937
Capital Expenditures	6,723			6,723
	As of March 31, 2006			
Identifiable Assets	382,572	9,940		392,512

	Three Months Ended March 31, 2005			
	U. S.	International	Eliminations	Consolidated
Total operating revenues	$ 149,325	$ 11,813	$	$ 161,138
Operating income	9,035	1,708		10,743
Depreciation and Amortization	3,965	488		4,453
Capital Expenditures	2,623			2,623
	As of December 31, 2005			
Identifiable Assets	371,670	10,735		382,405

7. Commitments and Contingencies

Environmental Matters

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

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

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

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

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

As the result of environmental studies conducted at our facilities or third party sites in conjunction with our environmental management program, we have identified environmental contamination at certain sites that will require remediation.

Reserves

Our policy is to accrue remediation expenses when it is probable that such efforts will be required and the related expenses can be reasonably estimated. Estimates of costs for future environmental compliance and remediation are necessarily imprecise due to such factors as the continuing evolution of environmental laws and regulatory requirements, the availability and application of technology, the identification of currently unknown remediation sites and the allocation of costs among the potentially responsible parties under applicable statutes. As of March 31, 2006 and December 31, 2005, we had reserves in the amount of $15.3 million and $17.2 million, respectively, for all environmental matters discussed above.

QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

The activity in the environmental liability reserves is as follows at March 31, 2006 (in thousands):

	2006
Reserve at beginning of year	$ 17,159
Payments	(2,431)
Additions	600
Reserve at end of period	$ 15,328

We increased our environmental reserves by $0.6 million due to developments at our Bridgeport, New Jersey OU3 site. 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.

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

Bridgeport, New Jersey

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

In connection with OU1, USEPA originally required us to construct a large treatment plant with discharge via a two mile pipeline to the Delaware River watershed with construction to be completed by the end of 2001. We have negotiated an alternative remedy with USEPA which would call for a significantly smaller treatment facility, in place treatment of groundwater contamination via in-situ treatment and a local discharge. The treatment facility has been approved and construction started in July, 2005. USEPA has also approved an OU3 remedy for approximately 2.5 acres of affected wetland. This reflects a reduction from an approximate seven acre area that had been under negotiation. Site mobilization for the OU3 work took place in late May 2004 but was delayed due to weather related issues. Field work was re-started in May 2005 and remediation work is on-going. Additional contamination has been identified since December 31, 2006. In regard to OU2, USEPA is now requiring a Feasibility Study for the limited areas that show contamination and warrant additional investigation or work. USEPA also wants to include in OU2 the in-situ treatment previously described as part of OU1. The environmental projections for OU1 and OU2 have been changed to reflect the reallocation of the in-situ costs to OU2 and the proposed contract amount for the OU1 work. We have estimated expenditures to be in the range of $7.4 million to $10.2 million.

William Dick, Pennsylvania

CLC entered into a consent order with the Pennsylvania DEP (PADEP) and USEPA in October 1995 obligating it to provide a replacement water supply to area residents (OU1), treat contaminated groundwater (OU2), and perform remediation of contaminated soils (OU3) at this former wastewater disposal site. OU1 is complete. PADEP and USEPA had previously been unable to agree on the final interim remedy design for OU2; specifically, the discharge location for the treated groundwater. We have projected an interim remedy, which involves the construction of a treatment facility and discharge locally. A preliminary engineering design, which includes a discharge to a local tributary, was submitted in August 2004 to USEPA and PADEP for their review and comment. Agency comments have been received and a final design has been submitted to the agency and is pending final approval. Based on recent data showing reduction in site groundwater contamination due to natural attenuation and the more extensive handling and removal of contaminated soils, we believe that the groundwater project can be completed over the five-year term of this interim remedy. The agencies have approved an OU3 remedy, which requires both thermal treatment of contaminated soils and treatment of residuals via soil vapor extraction (SVE). The OU3 remedy expanded in April 2004 to off-site shipment of contaminated soils because these soils were found to be incompatible with the thermal treatment unit, which started full-scale operation in May 2004. We determined in June 2004 that we would incur increased expense due to the off-site

14

additional contaminated soil that was found to be incompatible with the thermal treatment unit, the increased volume of soil subject to thermal treatment based on an increase in the lateral extent of contamination, and the discovery of buried drums and associated contaminated material and soils, which required off-site disposal. In the third quarter of 2004, we determined that a latex liner waste material was present in the third pond, which needed to be excavated and removed for disposal offsite. This work was completed in early 2005. We also determined that the soils in pond three needed to be excavated to determine if they will be suitable for the originally planned SVE treatment. We excavated the pond s three soils into discrete piles and determined the best approach to treat these soil piles. It was determined that most of the soil piles could be treated on site using SVE as originally planned. However, some modifications to the design will have to be made in order to treat a limited number of soil piles. We have estimated expenditures to be in the range of $2.1 million to $3.1 million.

Other Owned Property

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

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

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

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

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

We have estimated expenditures for these other owned properties to be in the range of $2.5 million to $3.8 million.

Other Environmental Matters

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

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

QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

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

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

We have estimated expenditures for these other environmental matters to be in the range of $1.4 million to $3.8 million.

Routine Legal Matters

Other than reported in this Note and in the Item 3 - Legal Proceedings of our Annual Report on Form 10-K for the year ended December 31, 2005 and in Note 19. Commitments and Contingencies to our audited consolidated financial statements contained in such Form 10-K, 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.

8. Guarantor Subsidiaries

The 9% Senior Subordinated Notes issued by QD LLC and QD Capital and the Senior Floating Interest Rate Subordinated Term Notes due 2010 issued by us are unconditionally guaranteed on a senior subordinated basis pursuant to guarantees by all of our direct and indirect domestic subsidiaries, and by QDI. In addition, we have unconditionally guaranteed on a senior subordinated basis the 9% Senior Subordinated Notes. 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 Series B Floating Interest Rate Subordinated Term Notes on a joint and several basis.

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 March 31, 2006 and December 31, 2005 and condensed consolidating statements of operations and of cash flows for each of the three months ended March 31, 2006 and March 31, 2005.

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

QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

Condensed Consolidating Statement of Operations

For the Three Months Ended March 31, 2006

Unaudited - (In 000 s)

	QDI	QD LLC and QD Capital	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenues:						
Transportation	$	$	$ 142,312	$	$	$ 142,312
Other service revenue			17,826	278		18,104
Fuel surcharge			18,334			18,334
Total operating revenues			178,472	278		178,750
Operating expenses:						
Purchased transportation			121,581			121,581
Compensation			17,881			17,881
Fuel, supplies and maintenance			10,931	12		10,943
Depreciation and amortization			3,763	174		3,937
Selling and administrative			5,157	108		5,265
Insurance claims			3,884			3,884
Taxes and Licenses			790			790
Communication and utilities			2,548			2,548
(Gain)/loss on disposal of property and equipment			(157)			(157)
PPI class action settlement and related expenses						
Operating income (loss)			12,094	(16)		12,078
Interest expense, net		7,237	20	(123)		7,134
Write-off of debt issuance costs						
Other (income) expense			(138)			(138)
Income (loss) before taxes		(7,237)	12,212	107		5,082
Income tax (provision) benefit		615	(1,221)	4		(602)
Equity in earnings (loss) of subsidiaries	4,480	11,102			(15,582)	
Net income (loss)	$ 4,480	$ 4,480	$ 10,991	$ 111	$ (15,582)	$ 4,480

Consolidating Statements of Operations

Three Months Ended March 31, 2005

Unaudited - (In 000 s)

	QDI	QD LLC and QD Capital	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenues:						
Transportation	$	$	$ 132,815	$ 399	$	$ 133,214
Other service revenue			16,629	225		16,854
Fuel surcharge			11,020	50		11,070
Total operating revenues			160,464	674		161,138
Operating expenses:						
Purchased transportation			110,952	31		110,983
Compensation			14,406	169		14,575
Fuel, supplies and maintenance			6,936	221		7,157
Depreciation and amortization			4,283	170		4,453
Selling and administrative			6,234	37		6,271
Insurance claims			3,802			3,802
Taxes and Licenses			605	12		617
Communication and utilities			2,056			2,056
(Gain)/loss on disposal of property and equipment			(28)			(28)
PPI class action settlement and related expenses			509			509
Operating income			10,709	34		10,743
Interest expense, net	(7)	6,475		(155)		6,313
Write-off of debt issuance costs			1,110			1,110
Other (income) expense			20	13		33
Income (loss) before taxes	7	(6,475)	9,579	176		3,287
Income tax (provision) benefit		481	(718)	(134)		(371)
Equity in earnings (loss) of subsidiaries	2,909	8,903			(11,812)	
Net income (loss)	$ 2,916	$ 2,909	$ 8,861	$ 42	$ (11,812)	$ 2,916

QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

March 31, 2006

Unaudited (In 000 s)

	QDI	QD LLC & QD Capital	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
Current assets:						
Cash and cash equivalents	$	$	$ 616	$ 1,384	$	$ 2,000
Accounts receivable, net			102,226	88		102,314
Current maturities of notes receivable from affiliates			126			126
Prepaid expenses		58	8,318			8,376
Prepaid tires			7,606	41		7,647
Other			10,926	(349)		10,577
Total current assets		58	129,818	1,164		131,040
Property and equipment, net			113,586	1,522		115,108
Assets held-for-sale			147			147
Goodwill			133,593			133,593
Intangibles, net			1,116			1,116
Notes receivable from affiliates, net			79			79
Investment in subsidiaries	(16,831)	528,054			(511,223)	
Other assets		8,061	3,368			11,429
Total assets	$ (16,831)	$ 536,173	$ 381,707	$ 2,686	$ (511,223)	$ 392,512
LIABILITIES, MINORITY INTEREST, SHAREHOLDERS EQUITY (DEFICIT)						
Current liabilities:						
Current maturities of indebtedness	$	$ 1,400	$ 116	$	$	$ 1,516
Accounts payable			11,983			11,983
Intercompany		253,268	(249,833)	(3,435)		
Affiliates and independent owner-operators payable			14,661			14,661
Accrued expenses		6,943	19,426	(5)		26,364
Environmental liabilities			6,685			6,685
Accrued loss and damage claims			9,657			9,657
Total current liabilities		261,611	(187,305)	(3,440)		70,866
Long-term indebtedness, less current maturities		291,393	608			292,001
Environmental liabilities			8,643			8,643
Accrued loss and damage claims			25,032			25,032
Other non-current liabilities			10,176			10,176
Deferred tax liability				792		792
Total liabilities		553,004	(142,846)	(2,648)		407,510
Minority interest in subsidiary			1,833			1,833
Shareholders equity (deficit):						

Common stock	358,526	356,269	444,722	7,630	(808,621)	358,526
Treasury stock	(766)					(766)
(Accumulated deficit)/retained earnings	(164,506)	(164,506)	96,860	(2,098)	69,744	(164,506)
Stock recapitalization	(189,589)	(189,589)		(55)	189,644	(189,589)
Accumulated other comprehensive loss	(19,005)	(19,005)	(18,862)	(143)	38,010	(19,005)
Stock purchase warrants	50					50
Unearned compensation, restricted stock and stock units						
Stock subscription receivable	(1,541)					(1,541)
Total shareholders equity (deficit)	(16,831)	(16,831)	522,720	5,334	(511,223)	(16,831)
Total liabilities, minority interest and shareholders equity (deficit)	$ (16,831)	$ 536,173	$ 381,707	$ 2,686	$ (511,223)	$ 392,512

QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

December 31, 2005

Audited - (In 000 s)

	QDI	QD LLC & QD Capital	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
Current assets:						
Cash and cash equivalents	$	$	$ 607	$ 1,029	$	$ 1,636
Accounts receivable, net			101,346	7		101,353
Current maturities of notes receivable from affiliates			145			145
Prepaid expenses		83	5,253			5,336
Prepaid tires			7,319	41		7,360
Other			5,028	(156)		4,872
Total current assets		83	119,698	921		120,702
Property and equipment, net			113,503	1,696		115,199
Assets held-for-sale			158			158
Goodwill			133,138			133,138
Intangibles, net			1,165			1,165
Notes receivable from affiliates, net			112			112
Investment in subsidiaries	(22,110)	513,380			(491,270)	
Other assets		8,509	3,422			11,931
Total assets	$ (22,110)	$ 521,972	$ 371,196	$ 2,617	$ (491,270)	$ 382,405
LIABILITIES, MINORITY INTEREST, SHAREHOLDERS EQUITY (DEFICIT)						
Current liabilities:						
Current maturities of indebtedness	$	$ 1,400	$ 115	$	$	$ 1,515
Accounts payable			16,609			16,609
Intercompany		252,188	(248,730)	(3,458)		
Affiliates and independent owner-operators payable			11,979			11,979
Accrued expenses		3,511	18,537	(2)		22,046
Environmental liabilities			8,516			8,516
Accrued loss and damage claims			9,598			9,598
Total current liabilities		257,099	(183,376)	(3,460)		70,263
Long-term indebtedness, less current maturities		286,983	618			287,601
Environmental liabilities			8,643			8,643
Accrued loss and damage claims			25,032			25,032
Other non-current liabilities			10,213			10,213
Deferred tax liability				930		930
Total liabilities		544,082	(138,870)	(2,530)		402,682
Minority interest in subsidiary			1,833			1,833

Shareholders equity (deficit):						
Common stock	359,772	355,275	441,224	7,629	(804,128)	359,772
Treasury stock	(1,042)					(1,042)
(Accumulated deficit)/retained earnings	(168,710)	(168,717)	85,869	(2,209)	85,057	(168,710)
Stock recapitalization	(189,589)	(189,589)		(55)	189,644	(189,589)
Accumulated other comprehensive loss	(19,079)	(19,079)	(18,860)	(218)	38,157	(19,079)
Stock purchase warrants	54					54
Unearned compensation, restricted stock and stock units	(1,975)					(1,975)
Stock subscription receivable	(1,541)					(1,541)
Total shareholders equity (deficit)	(22,110)	(22,110)	508,233	5,147	(491,270)	(22,110)
Total liabilities, minority interest and shareholders equity (deficit)	$ (22,110)	$ 521,972	$ 371,196	$ 2,617	$ (491,270)	$ 382,405

QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

Condensed Consolidating Statements of Cash Flows

Three months Ended March 31, 2006

Unaudited - (In 000 s)

	QDI	QD LLC and QD Capital	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:						
Net income (loss)	$ 4,480	$ 4,480	$ 10,991	$ 111	$ (15,582)	$ 4,480
Adjustments for non-cash charges	(4,480)	(10,512)	3,947	174	15,582	4,711
Net Changes in assets and liabilities		2,790	(15,496)	47		(12,659)
Intercompany activity		3,242	(3,265)	23		
Net cash provided by (used in) operating activities			(3,823)	355		(3,468)
Cash flows from investing activities:						
Capital expenditures			(3,309)			(3,309)
Acquisition of business assets			(3,414)			(3,414)
Proceeds from sales of property and equipment			2,633			2,633
Other						
Net cash used in investing activities			(4,090)			(4,090)
Cash flows from financing activities:						
Net proceeds (payments) on revolver		4,700				4,700
Proceeds from issuance of long-term debt						
Principal payments of long-term debt and capital lease obligations		(378)				(378)
Deferred financing fees						
Other			3,601			3,601
Intercompany activity		(4,322)	4,322			
Net cash provided by financing activities			7,923			7,923
Net increase in cash and cash equivalents			10	355		365
Effect of exchange rate changes on cash			(1)			(1)
Cash, beginning of period			607	1,029		1,636
Cash, end of period	$	$	$ 616	$ 1,384	$	$ 2,000

Condensed Consolidating Statements of Cash Flows

Three months Ended March 31, 2005

Unaudited - (In 000 s)

QDI	QD LLC and QD Capital	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated

Cash flows from operating activities:						
Net income (loss)	$ 2,916	$ 2,909	$ 9,971	$ 42	$ (12,922)	$ 2,916
Adjustments for non-cash charges	(2,909)	(8,885)	5,577	170	12,922	6,875
Net Changes in assets and liabilities		3,455	(14,085)	(73)		(10,703)
Intercompany activity	(7)	2,521	(793)	(1,721)		
Net cash provided by (used in) operating activities			670	(1,582)		(912)
Cash flows from investing activities:						
Capital expenditures			(2,623)			(2,623)
Acquisition of business assets						
Proceeds from sales of property and equipment			799			799
Other						
Net cash used in investing activities			(1,824)			(1,824)
Cash flows from financing activities:						
Net proceeds (payments) on revolver		(5,800)				(5,800)
Proceeds from issuance of long-term debt		83,300				83,300
Principal payments of long-term debt and capital lease obligations		(77,850)				(77,850)
Deferred financing fees		(2,759)				(2,759)
Other			4,133			4,133
Intercompany activity		3,109	(3,109)			
Net cash provided by financing activities			1,024			1,024