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N="right">(49,996) (49,996)

Stock subscription receipts

(67) 67

Acquisition of treasury stock

(834) (834)

Preferred stock accretion

(5,876) (5,876)

Minority stock dividend

(145) (145)

Adjustment to redemption amount of mandatorily redeemable common stock

1,210 1,210

Issuance of stock warrants

86 86

Translation adjustment

(441) (441) (441)

Change in value of derivatives

3,346 3,346 3,346

Pension plan minimum liability

(7,907) (7,907) (7,907)

Balance, December 31, 2002 (restated)

$(54,998) 3,437 105,497 (1,236) (97,927) (189,589) (15,831) 86 (1,709) (200,709)

Net loss

$(67,102) (67,102) (67,102)

Issuance of common stock, net

7,900 120,638 120,638

Stock subscription receipts

(179) 179

Acquisition of treasury stock

(22) (22)

Preferred stock accretion

(4,395) (4,395)

Conversion of preferred stock to common stock

7,655 130,122 (200) 129,922

Minority stock dividend

	(145)	(145)								
Translation adjustment										
	(230)	(230)	(230)							
Pension plan minimum liability										
	1,372	1,372	1,372							
Balance, December 31, 2003										
	$(65,960)	18,992	$356,078	$(1,258)	$(169,569)	$(189,589)	$(14,689)	$86	$(1,730)	$(20,671)

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

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2003, 2002 and 2001

(In 000 s)

	2003	2002	2001
		(Restated)	(Restated)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (67,102)	$ (49,996)	$ (16,747)
Adjustments to reconcile to net cash and cash equivalents provided by operating activities:			
Deferred income taxes	796	90	88
Depreciation and amortization	28,509	31,823	35,125
Bad debt expense	1,573	6,801	1,791
Foreign currency transaction loss	937		
Cumulative effect of change in accounting principle		23,985	
Loss on sale of property and equipment	10	2,049	101
Amortization of bond carrying value	(2,276)	(1,307)	
Write-off/amortization of deferred financing costs	1,421	10,481	
Write-off of excess of bond carrying value and deferred financing costs	(7,529)		
Write-off of Power Purchasing, Inc. receivables	3,314	2,787	1,483
Preferred stock dividend accretion recorded as interest expense	3,457		
Interest expense recorded on conversion of preferred stock	59,395		
Paid-in-kind interest	3,735	2,296	
Changes in assets and liabilities:			
Accounts and other receivable	(5,409)	2,819	3,513
Notes receivable from affiliates	(498)		
Inventories	80	245	643
Prepaid expenses	1,600	578	1,639
Prepaid tires	(84)	1,074	(811)
Other assets	289	(2,061)	(3,569)
Accounts payable and accrued expenses	3,991	(8,380)	(3,940)
Affiliates and independent owner-operators payable	(3,285)	5,674	(2,633)
Other liabilities	(4,524)	(3,912)	(9,516)
Current income taxes	(1,051)	786	301
Net change in assets and liabilities	(8,891)	(3,177)	(14,373)
Net cash provided by operating activities	17,349	25,832	7,468
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(8,892)	(15,286)	(37,412)
Acquisition of competitor s line of business	(6,100)		
Proceeds from sales of property and equipment	2,611	8,117	2,476
Net cash used in investing activities	(12,381)	(7,169)	(34,936)

CASH FLOWS FROM FINANCING ACTIVITIES:			
Net proceeds (payments) on revolver	(3,230)	(4,500)	45,000
Issuance of preferred stock		10,000	
Proceeds from issuance of long-term debt	264,650		
Principal payments on long-term debt and capital lease obligations	(373,702)	(12,984)	(18,083)
Deferred financing fees	(12,923)	(5,501)	
Increase (decrease) in book overdraft	1	(5,836)	3,461
Preferred stock redemption			(2,600)
Net proceeds from stock issuance	120,638		
Other stock transactions	(22)	(1,032)	(370)
Minority stock dividends	(145)	(145)	(145)
Net cash (used in) provided by financing activities	(4,733)	(19,998)	27,263
Net (decrease) increase in cash and cash equivalents	235	(1,335)	(205)
Effect of exchange rate changes on cash	59	(216)	(219)
Cash, beginning of year	661	2,212	2,636
Cash, end of year	$ 955	$ 661	$ 2,212
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest	$ 24,946	$ 32,079	$ 33,914
Income taxes	$ 169	$ 129	$ 354
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES			
Accretion of dividends on preferred stock	$ 4,395	$ 5,876	$ 2,617
Exchange Offer reduction in debt	$	$ 45,415	$
Original capital lease obligation	$	$ 881	$
Adjustment to redemption amount of mandatorily redeemable common stock	$	$ 1,210	$
Conversion of preferred stock to common stock	$ 70,527	$	$

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

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

1. BUSINESS ORGANIZATION

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

Historical financial information contained herein has been adjusted to reflect the sale of the discontinued operations, consisting of the Canadian petroleum and mining trucking divisions and the Internet load brokerage subsidiary of QDI in the second quarter of 2002 and the restatement of our insurance subsidiary.

Recapitalization

On June 9, 1998, the Company completed a recapitalization with Sombrero Acquisition Corporation (Sombrero), an affiliate of Apollo Management, L.P. (Apollo), pursuant to which Sombrero merged with and into the Company. The total transaction value was approximately $250.0 million, including payment for outstanding stock options and payment of approximately $51.0 million in debt.

The transaction was accounted for as a leveraged recapitalization. There were no changes in the historical carrying values of the Company s assets and liabilities as a result of the recapitalization. Recapitalization expenditures charged to equity were $189.6 million. Senior subordinated debt of $140.0 million was used to finance the acquisition along with $60.0 million of senior secured bank debt.

The following table is intended to show the sources and uses of funds for the recapitalization (dollars in table in millions):

SOURCES OF FUNDS:	
Revolving credit facility (sub-limit)	$ 10.0

Term loan facility	50.0
Notes	140.0
Equity investment	68.0(a)
Total sources	$ 268.0
USES OF FUNDS:	
Payment of consideration in the merger	$ 195.0(a)
Repayment of long-term debt, net	54.3(b)
Fees and expenses	18.7
Total uses	$ 268.0

(a) Includes $5.7 million implied value of 241,000 shares of common stock at $23.53 per share retained by management.
(b) Represents the repayment of $55.8 million of long-term debt, net of available cash of $1.5 million.

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

The Initial Public Offering

On November 13, 2003, QDI consummated its initial public offering (the IPO) of 7,875,000 shares of its common stock at $17.00 per share. On this date, the Company sold an additional 25,000 shares of common stock to an existing shareholder for $11.63 per share as a result of the exercise of his preemptive rights in connection with the preferred stock conversion (Note 11). The Company s subsidiary, Quality Distribution, LLC (QD LLC), concurrently consummated (a) the private offering of $125 million aggregate principal amount of 9% Senior Subordinated Notes due 2010 and (b) the entry into a new credit facility consisting of a $140 million delayed draw term loan facility, a $75 million revolving credit facility and a $20 million pre-funded letter of credit facility (Note 8).

The total proceeds from the above transactions were $399.2 million. Net proceeds of $376.8 million, after deducting $22.4 million of underwriting discounts, commissions and related expenses, were used to pay existing debt balances with higher interest rates (Note 8).

The Exchange Offer

On April 10, 2002, QDI and its subsidiaries pursuant to the terms of an Offering Memorandum and Consent Solicitation Statement (the Exchange Offer), commenced an offer to exchange up to $87.0 million principal amount of QDI s outstanding 10% Series B Senior Subordinated Notes due 2006 and Series B Floating Interest Rate Subordinated Term Securities due 2006 (FIRSTS^{SM}) (collectively, the QDI Notes) for a combination of certain debt and equity securities (Note 8).

PPI Irregularities

During 2003, the Company discovered insurance and accounting irregularities at Power Purchasing, Inc., a non-core subsidiary. Power Purchasing Inc., through its subsidiary American Transinsurance Group, Inc. (collectively, PPI), primarily assists independent contractors in obtaining various lines of insurance for which PPI derives fees as an insurance broker. The irregularities resulted from unauthorized actions by the former vice president of PPI, including failing to obtain or renew certain insurance policies for PPI s customers yet continuing to collect premiums in violation of state insurance laws. The Company concluded that the irregularities affected the results of all periods since and including 1998.

As a result of our investigation noted above, we recorded $23.4 million of adjustments. We recorded $13.8 million of adjustments in 2003 to write-off uncollectible receivables, to establish reserves for lines of coverage the Company was providing that had no underlying third-party insurance, to record expenses for claims paid during the year and to accrue an estimate for costs relating to the state insurance regulatory proceedings. The restatement of previously issued financial statements increased the Company s net loss and basic and diluted net loss per share by approximately $4.9 million (10.8%) and $1.45, respectively, in the fiscal year ended December 31, 2002 and by $3.3 million (24.8%) and $0.97, respectively, in the fiscal year ended December 31, 2001. On an aggregate basis for the five-year period ended December 31, 2002, the restatement resulted in a cumulative increase in previously reported accumulated net loss of approximately $9.6 million (7.6%). The impact of the restatement on such periods prior to 2001 of $1.4 million is reflected as an adjustment to opening accumulated deficit and total stockholders deficit as of December 31, 2000 in the statement of changes in stockholders deficit. The Company expects further costs to be incurred in 2004 for legal and accounting fees and expenses.

Accordingly, the Company has restated herein the financial statements for each of the two fiscal years ended December 31, 2002 and 2001 and for each of the quarters in fiscal 2003 and 2002 (Note 20). The annual reports on Form 10-K and quarterly reports on Form 10-Q previously filed by us or QD LLC and the financial statements included in the Registration Statement on Form S-1 (No. 333-108344) and amendments thereto filed by the Company in connection with the initial public offering of shares of our common stock, relating to these periods should no longer be relied upon. The Company expects to file, in the near future, a current report on Form 8-K with the SEC to restate the Company s unaudited condensed consolidated financial statements for the nine months ended September 30, 2003 and 2002 and for the six months ended June 30, 2003 and 2002 previously contained in the Company s Registration Statement on Form S-1 (No. 333-108344) and amendments thereto.

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

The following table summarizes the impact of the corrections to the statement of operations and balance sheet as of December 31, 2002 and for the two years then ended (in thousands):

Statement of Operations Data:

	For the year ended December 31, 2002		
	As Reported	Restatement	Restated
Other service revenue	$ 68,640	$ 222	$ 68,862
Total operating revenue	516,538	222	516,760
Insurance claims expenses	13,320	5,107	18,427
Total operating expenses	489,255	5,107	494,362
Operating income	27,283	(4,885)	22,398
Loss before income taxes	(16,770)	(4,885)	(21,655)
Net loss	(45,111)	(4,885)	(49,996)

Statement of Operations Data:

	For the year ended December 31, 2001		
	As Reported	Restatement	Restated
Other service revenue	$ 65,885	$ (1,179)	$ 64,706
Total operating revenue	510,701	(1,179)	509,522
Insurance claims expenses	11,656	2,147	13,803
Total operating expenses	482,382	2,147	484,529
Operating income	28,319	(3,326)	24,993
Loss before income taxes	(11,927)	(3,326)	(15,253)
Net loss	(13,421)	(3,326)	(16,747)

Balance Sheet Data:

	As of December 31, 2002		
	As reported	Restatement	Restated
Accounts receivable, net	$ 75,428	$ (1,005)	$ 74,423
Prepaid expenses	5,186	(20)	5,166
Other	1,587	(732)	855
Total current assets	92,645	(1,757)	90,888
Other assets	8,742	(4,161)	4,581
Total assets	387,265	(5,679)	381,586
Accrued expenses	33,166	3,931	37,097
Total current liabilities	73,153	3,931	77,084
Total liabilities	513,856	3,931	517,787
Accumulated deficit	(88,317)	(9,610)	(97,927)
Total stockholders deficit	(191,099)	(9,610)	(200,709)
Total liabilities, mandatorily redeemable securities, minority interest and stockholders deficit	387,265	(5,679)	381,586

Discontinued Operations

Historical financial information contained herein has been adjusted to reflect the discontinued operations resulting from the sale of certain non-guarantor subsidiaries assets in the second quarter of 2002. These subsidiaries consisted of the petroleum trucking division and mining trucking operation of Levy, and Bulknet, the internet load brokerage subsidiary of the Company.

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

The operations and asset disposition information of the discontinued divisions are as follows (in thousands):

	Year Ended December 31,	
	2002	2001
Revenue	$ 5,117	$ 15,015
Operating expenses	6,503	15,374
Operating loss	$ (1,386)	$ (359)

The loss on disposal of these divisions during fiscal year 2002 is as follows (in thousands):

Carrying value of assets sold in 2002:	
Petroleum and mining trucking divisions	$ 5,450
Bulknet	392
Proceeds	(4,315)
Loss on disposal	$ 1,527

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of QDI and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Minority interest reflects outstanding preferred stock of Chemical Leaman Corp. (CLC), a subsidiary of QDI.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Bank overdrafts are included in accounts payable.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market and consist primarily of tires, parts, fuel and supplies for servicing the Company s revenue equipment (tractors and trailers).

Property and Equipment and Impairment on Long-Lived Assets

Property and equipment expenditures, including tractor and trailer rebuilds that extend the useful lives of such equipment, are capitalized and recorded at cost. Tractors and trailers under capital leases are stated at the present value of the minimum lease payments at the inception of the lease. Depreciation, including amortization of tractors and trailers under capital leases, is computed on a straight-line basis over the estimated useful lives of the assets or the lease terms, whichever is shorter, to an estimated salvage value. The estimated useful lives are 10-25 years for buildings and improvements, 5-15 years for tractors and trailers, 7 years for terminal equipment, 3-5 years for furniture and fixtures, and 3-10 years for other equipment. Maintenance and repairs are charged to operating expense when incurred. Major improvements that extend the lives of the assets are capitalized. The Company assesses whether there has been an impairment of long-lived assets and certain intangibles in accordance with Statement of Financial Accounting Standards (FAS) 144, Accounting for the Impairment and Disposal of Long-Lived Assets. If the carrying value of an asset, including associated intangibles, exceeds the sum of estimated undiscounted future cash flows, then an impairment loss is recognized for the difference between estimated fair value and carrying value. When assets are disposed of, the cost and related accumulated depreciation are removed from the accounts, and any gains or losses are reflected in operating expenses.

Goodwill and Intangible Assets

Effective January 1, 2002, the Company adopted the provisions of FAS 142, Goodwill and Other Intangible Assets. As a result of the adoption of FAS 142, the amortization of goodwill ceased. Under FAS 142, goodwill is subject to an annual impairment test as well as impairment assessments of triggering events. During our initial impairment analysis of goodwill in 2002, the Company determined that approximately $4.6 million of goodwill recorded in connection with the acquisition of Chemical Leaman Corporation in 1998, had been classified as an offset against accounts payable and accrued expenses. These amounts have been reclassified into goodwill.

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

As a result of our initial impairment test, an impairment adjustment of $24.0 million was charged to earnings as a cumulative effect of a change in accounting principle at January 1, 2002. There were several factors that led to the conclusion that an impairment charge was warranted. These factors included several consecutive years of declining revenues and operating losses, an uncertain economic environment exacerbated by the events of September 11, 2001, increased insurance costs for the foreseeable future and the highly leveraged nature of the Company. No tax benefit was recorded in connection with this charge. The fair value of the reporting unit was determined based on a combination of prices of comparable businesses and present value techniques.

The changes in the carrying amount of goodwill for the year ended December 31, 2002 are as follows (in thousands):

Beginning Balance	$ 150,495
Write-off related to sale of business unit	(358)
Reclassification	4,580
Impairment Loss	(23,985)
Ending Balance	$ 130,732

In 2003, goodwill increased $0.5 million in connection with the acquisition of assets (Note 3). No impairment was determined to have occurred during 2003. We completed our annual impairment assessment in the second quarter of 2003.

Intangible assets consist of a pension plan related intangible asset, non-compete agreements with lives ranging from 1 10 years, and customer lists and customer contracts acquired from a competitor with lives of 5 years (Note 3). During 2003, $2.2 million of intangible assets became fully amortized. Accumulated amortization of intangible assets was $0.1 million and $2.0 million at December 31, 2003 and 2002, respectively. The gross amount of intangible assets at December 31, 2003 and 2002 was $1.5 million and $3.5 million, respectively.

Amortization expense for the years ended December 31, 2003, 2002 and 2001 was $0.4 million, $0.7 million and $2.9 million, respectively. Remaining intangible assets, except the pension plan asset, will be amortized to expense as follows (in thousands):

2004	$ 67
2005	43
2006	40
2007	40

2008 and after	40

The following table presents net loss on a comparable basis, after adjustment for goodwill amortization for the year ended December 31, 2001 (restated) (in thousands):

Net loss:	
As reported	$ (16,747)
Goodwill amortization	3,919
Adjusted net loss	$ (12,828)
Loss per common share:	
As reported basic	$ (5.70)
Pro forma basic	$ (4.56)
As reported diluted	$ (5.70)
Pro forma diluted	$ (4.56)

Incentive Stock Option Plans

The Company uses Accounting Principles Board Opinion No. 25, Accounting for Stock-Based Compensation, and the related interpretations to account for its stock option plans described in Note 13. No compensation cost has been recorded at the grant dates, as the option price has been greater than or equal to the market price of the common stock on the applicable measurement date for all options issued. The Company adopted the disclosure provisions of FAS 148, Accounting for Stock-Based Compensation Transition and Disclosure an amendment of FAS 123, Accounting for Stock-Based Compensation, for disclosure purposes in 2002.

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

The stock of QDI was not traded publicly prior to the IPO on November 13, 2003. The pro forma fair value of options granted during 2003 and 2001 are based upon the Black-Scholes option-pricing model using a risk free rate of 3.59% for 2003 and 4.86% for 2001 for options with an expected life of 6 years in 2003 and 10 years in 2001 and using an expected volatility of 28% in 2003 and 30% in 2001. No dividends are expected to be paid in the model. The pro forma fair value of stock options granted in 2003 was $11.7 million and 2001 was $0.1 million. No options were granted in 2002. In October 2002, members of senior management forfeited 180,200 options previously granted. At December 31, 2003, a total of 227,000 authorized shares remain available for granting under the Company s 2003 Stock Option Plan.

Had compensation cost been determined based upon the fair value at the grant date for awards under the option plans consistent with the method described in SFAS 123, the Company s net loss and loss per common share would have been as follows for the years ended December 31:

	2003	2002	2001
		(Restated)	(Restated)
Net loss attributable to common stockholders (in thousands):			
As reported	$ (71,642)	$ (56,017)	$ (19,509)
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	(167)	(318)	(446)
Pro forma	$ (71,809)	$ (56,335)	$ (19,955)
Loss per common share:			
As reported basic	$ (12.51)	$ (16.63)	$ (5.70)
Pro forma basic	$ (12.53)	$ (16.72)	$ (5.83)
As reported diluted	$ (12.51)	$ (16.63)	$ (5.70)
Pro forma diluted	$ (12.53)	$ (16.72)	$ (5.83)

Deferred Loan Costs

As of December 31, 2003 and 2002, deferred loan costs included in other assets totaled $8.6 million and $3.2 million, respectively. In conjunction with the payment of the Company s previously outstanding debt balances through proceeds from the IPO and issuance of new debt (Note 8), the Company expensed the remaining deferred loan costs of $5.5 million related to debt that was paid off and recorded the charge as a reduction of the gain on debt extinguishment. In addition, the Company capitalized the portion of transaction expenses incurred in the issuance of new debt and a new credit agreement. The deferred loan costs at December 31, 2003 are being amortized over 6 to 7 years, which represent the original lives of the related long-term debt and credit agreement.

Reclassification

Certain prior period amounts have been reclassified to conform to the current year presentation.

Accrued Loss, Damage and Environmental Claims

Through September 14, 2001, the Company maintained liability insurance for bodily injury and property damage with no deductible. From September 15, 2001 to September 14, 2002, liability insurance for bodily injury and property damage was covered in the amount of $75.0 million per incident, with a $2.0 million deductible. There was no aggregate limit on this coverage. As of September 15, 2002 to September 14, 2003, liability insurance for bodily injury and property damage had an aggregate limit on the coverage in the amount of $55.0 million, with a $5.0 million per incident deductible. As of September 15, 2003, liability insurance for bodily insurance and property damage had an aggregate limit on the coverage in the amount of $40.0 million, with a $5.0 million per incident deductible. The Company currently maintains workers compensation insurance coverage with a $1.0 million deductible. The Company has accrued for the estimated self-insured portion of bodily injury, property damage and workmen s compensation claims including losses incurred but not reported.

The Company is self-insured for damage or loss to the equipment it owns or leases and for any cargo losses. The Company has accrued for the estimated cost of claims reported and losses incurred but not reported.

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

The Company is self-insured for certain insurance policies that the former vice president of PPI failed to renew for PPI s customers yet continued to collect premiums in violation of state insurance laws (Note 1). The Company has accrued for the estimated cost of claims reported and losses incurred but not reported for these policies for the periods until third-party insurance was obtained. As of March 2004, all insurance policies for PPI s customers had been placed with insurance companies, and the Company is not liable for future losses incurred on these policies.

The Company transports chemicals and hazardous materials and operates tank wash facilities. As such, the Company s operations are subject to various environmental laws and regulations. The Company has been involved in various litigation and environmental matters arising from these operations. Reserves have been recognized for probable losses that can be reasonably estimated and are not recorded on a discounted basis.

Fair Value of Financial Instruments

The carrying amounts reported in the accompanying balance sheets for cash, accounts receivable, and accounts payable approximate fair value because of the immediate or short-term maturities of these financial instruments.

The fair value of the Company s debt was estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities. The fair value of the Company s 9% Senior Subordinated Notes is approximately $130.6 million at December 31, 2003. The book value of the Company s remaining variable rate debt approximated fair market value at December 31, 2003.

The fair value of the Company s Series B senior fixed rate subordinated notes was approximately $9.3 million at December 31, 2002. The fair value of the Company s Series B floating interest rate subordinated term notes was approximately $3.5 million at December 31, 2002. The fair value of the Company s 12.5% senior subordinated secured notes was approximately $16.4 million at December 31, 2002. The book value of the Company s remaining variable rate debt approximated fair market value at December 31, 2002.

The fair values of the mandatorily redeemable preferred stock (Note 11) and the 12% Junior Subordinated Pay-in-kind Notes (Note 8) were impractical to determine at December 31, 2002 as there was no active market for the instruments and, due to each instrument s unique terms, no comparable instruments in the market. The effective interest rate of the 12% Junior Subordinated Pay-in-kind Notes was 10.2% at December 31, 2002.

Revenue Recognition

Transportation revenue, including fuel surcharges, and related costs are recognized on the date freight is delivered. Other service revenues, consisting primarily of lease revenues from affiliates, owner-operators and third parties, are recognized ratably over the lease period. Tank wash revenues are recognized when the wash is performed. Insurance brokerage revenues are recorded as a contractual percentage of premiums received ratably over the period that the insurance covers. We recognize all revenues, including the premiums for the insurance policies that were not renewed with third-party insurance carriers in connection with the restatement at PPI, on a gross basis as the principal and primary obligor with risk of loss in relation to our responsibility for completion of services as contracted by our customers.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Other Comprehensive Loss

The translation from Canadian dollars to U.S. dollars is performed for balance sheet accounts using current exchange rates in effect at the balance sheet date and for revenue and expense accounts using a weighted average exchange rate in effect during the period. The gains or losses, net of income taxes, resulting from such translation are included in stockholders deficit as a component of accumulated other comprehensive loss. Gains or losses from foreign currency transactions are included in other (expense) income.

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

The components of accumulated other comprehensive loss are as follows at December 31 (in thousands):

	2003	2002
Pension plan minimum liability (Note 10)	$ 13,029	$ 14,401
Foreign currency translation adjustment	1,660	1,430
	$ 14,689	$ 15,831

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax basis. Deferred tax assets also are recognized for credit carryforwards. Deferred tax assets and liabilities are measured using the enacted rates applicable to taxable income in the years in which the temporary differences are expected to reverse. The effect on deferred tax assets and liabilities of the change in tax rates is recognized in income in the period that includes the enactment date. An assessment is made as to whether or not a valuation allowance is required to offset deferred tax assets.

Earnings (Loss) Per Share

Basic earnings (loss) per share is calculated based on the weighted average common shares outstanding during each period. Diluted earnings (loss) per share includes the dilutive effect, if any, of common equivalent shares outstanding during each period.

Options outstanding that were anti-dilutive and not included in the computation of diluted loss per share totaled approximately 2,083,000, 99,000 and 337,000 in 2003, 2002 and 2001, respectively. Outstanding warrants that were anti-dilutive totaled approximately 291,000 in 2003 and 2002. Anti-dilutive restricted stock that was not included in the computation of diluted loss per share totaled approximately 88,000 shares in 2003.

New Accounting Pronouncements

In December 2003, the FASB released revised FASB Statement No. 132, Employers Disclosures about Pensions and Other Postretirement Benefits. The revised standard provides required disclosures for pensions and other postretirement benefit plans and is designed to improve disclosure transparency in financial statements. The revised standard replaces existing pension disclosure requirements. Required disclosures for the year ended December 31, 2003 have been incorporated in the notes to the consolidated financial statements.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46). FIN 46 provides guidance in determining (1) whether consolidation is required under the controlling financial interest model of Accounting Research Bulletin No. 51, Consolidated Financial Statements, (or other existing authoritative guidance) or, (2) whether the variable interest model under FIN 46 should be used to account for existing and new entities. In December 2003, the FASB released a revised version of FIN 46 (FIN 46R) clarifying certain aspects of FIN 46 and providing certain entities with exemptions from its requirements. The Company does not believe the adoption of this standard will have a material impact on its financial reporting.

3. ACQUISITION OF COMPETITOR S LINE OF BUSINESS

On December 31, 2003, the Company paid $6.1 million to purchase the following assets of a competitor: (a) 174 trailers, (b) the customer lists and customer contracts of substantially all of the competitor s liquid chemical and liquid edible businesses, (c) all leasehold improvements at the competitor s Hoquiam, WA terminal and (d) all leasehold interests of the competitor at the Hoquiam, WA terminal, including, at the option of the Company, the assignment of the rights of the property lease or a termination of the lease and the execution of a new lease on the same property. Pursuant to the agreement, the Company agreed to pay an additional amount up to $0.3 million calculated as $0.3 million less $5,500 times the number of liquid edible business drivers and $6,500 times the number of liquid chemical business drivers that were employed by the competitor immediately preceding the closing of the agreement and are not employed by the Company 60 days from the closing date. The Company allocated $5.4 million of the purchase price to the equipment purchased, $0.2 million to identifiable intangibles with five year lives and $0.5 million to goodwill. As the amount of the holdback contingent on driver employment was not determinable at closing, no amount was recorded. Any amounts paid will be recorded as additional goodwill.

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

4. DERIVATIVES

We utilized derivative financial instruments to reduce our exposure to market risk from changes in interest rates and foreign exchange rates. The instruments primarily used to mitigate these risks were interest rate swaps and foreign exchange contracts. All derivative instruments held by us are designated as hedges and, accordingly, the gains and losses from changes in derivative fair values were recognized as comprehensive income as required by FAS 133, Accounting For Derivative Instruments and Hedging Activities. Gains and losses upon settlement were recognized in the statement of operations or recorded as part of the underlying asset or liability as appropriate. The Company was exposed to credit related losses in the event of nonperformance by counterparties to these financial instruments; however, counterparties to these agreements were major financial institutions, and the risk of loss due to nonperformance was considered by management to be minimal. The Company does not hold or issue interest rate swaps or foreign exchange contracts for trading purposes.

We had approximately $343.9 million of variable interest rate debt outstanding at the beginning of fiscal 2002. We entered into interest rate swap agreements designated as a partial hedge of our portfolio of variable rate debt. The purpose of these swaps was to fix interest rates on variable rate debt and reduce certain exposures to interest rate fluctuation.

On February 26, 2001, we entered into swap agreements on $30 million and $100 million of our variable interest rate debt. The Company paid counterparties interest at fixed rates of 4.96% and 5.155%. The latter is retroactive to January 1, 2001. Counterparties paid the Company interest at a variable rate equal to LIBOR. These agreements matured and renewed every three months and terminated on August 1, 2002 and July 2, 2002, respectively.

On March 21, 2001, we entered into a swap agreement on $30 million of our variable interest rate debt. The Company paid counterparties interest at a fixed rate of 4.765%. Counterparties paid the Company interest at a variable rate equal to LIBOR. This agreement matured and renewed every three months and terminated September 22, 2002.

At December 31, 2003 and 2002, we had no active swap agreements.

A reconciliation of current period changes in comprehensive income as it relates to derivatives follows (in thousands):

		Year ended December 31, 2002
Balance beginning of period	$	(3,346)
Current period declines in fair value		(231)
Reclassifications to earnings		3,577
Balance at end of period	$	

Hedges of Future Cash Flows

The ineffective portion of changes in fair values of hedge positions should be reported in earnings. All hedges were effective at December 31, 2001, and as such, there were no earnings reclassifications at December 31, 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. As of December 31, 2003 and 2002, there were no outstanding hedges.

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

5. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at December 31 (in thousands):

	2003	2002
		(Restated)
Trade accounts receivable	$ 78,211	$ 74,208
Affiliate and owner-operator receivables	2,403	3,812
Employee receivables	91	66
Other	1,132	4,183
	81,837	82,269
Less allowance for doubtful accounts	(6,893)	(7,846)
	$ 74,944	$ 74,423

The activity in the allowance for doubtful accounts for each of the three years ended December 31 is as follows (in thousands):

	2003	2002	2001
		(Restated)	(Restated)
Balance, beginning of period	$ 7,846	$ 9,272	$ 9,779
Additions	1,573	6,801	1,791
Write-off of bad debts	(2,526)	(8,227)	(2,298)
Balance, end of period	$ 6,893	$ 7,846	$ 9,272

For 2003 and 2002, Dow Chemical Company accounted for 11.2% and 12.6% of the Company s operating revenues, respectively. In 2001, no one customer accounted for more than 10% of operating revenues.

6. FIXED ASSETS

Property and equipment consisted of the following at December 31 (in thousands):

	2003	2002
Land and improvements	$ 12,290	$ 12,147
Buildings and improvements	20,750	22,363
Revenue equipment	261,137	259,706
Other equipment	47,600	46,465
Total property and equipment	341,777	340,681
Accumulated depreciation	(203,816)	(187,120)
Property and equipment, net	$ 137,961	$ 153,561

Depreciation expense was $28.5 million, $31.2 million and $30.5 million for the periods ending December 31, 2003, 2002 and 2001, respectively. The capitalized cost of equipment under capital leases is included in revenue equipment in the above schedule. Our capital leased equipment consisted of the following at December 31 (in thousands):

	2003	2002
Other equipment	$ 865	$ 881
Less accumulated depreciation	(107)	(28)
	$ 758	$ 853

At December 31, 2003 and 2002, the capital lease obligation was $0.4 million and $0.6 million, respectively, and is included in current maturities of indebtedness.

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

7. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable includes $12.3 million and $11.2 million of book overdrafts at December 31, 2003 and 2002, respectively.

Accrued expenses include the following at December 31 (in thousands):

	2003	2002
		(Restated)
Loss and damage claims	$ 27,421	$ 13,433
Environmental liabilities	9,286	5,662
Salaries, wages and benefits	3,921	5,023
Restructure reserve	500	990
Accrued interest	1,781	4,201
Pension	4,844	3,195
Other	6,488	4,593
	$ 54,241	$ 37,097

During 2003, 2002 and 2001, the Company initiated cost cutting measures as part of a company-wide reorganization. The costs associated with this reorganization include severed employees wages and benefits. The Company accrued $0.7 million in 2003, $1.8 million in 2002 and $1.0 million in 2001. In 2002, the Company eliminated approximately 70 employees. The reconciliation of the activity is as follows (in thousands):

	2003	2002	2001
Beginning Balance	$ 990	$ 471	$ 1,334
Additions	725	1,804	1,049
Payments	(1,215)	(1,285)	(1,912)
Ending Balance	$ 500	$ 990	$ 471

8. LONG-TERM INDEBTEDNESS

Long-term debt consisted of the following at December 31 (in thousands):

	2003	2002
Tranche A term loan, principal of $211 due quarterly with the balance due in 2004	$	$ 80,742
Tranche B term loan, principal of $247 due quarterly with the balance due in 2005		94,196
Tranche C term loan, principal of $211 due quarterly with the balance due in 2006		80,742
Tranche D term loan, balance due in 2006		5,000
Revolving credit facility, including sub-limit		26,000
Total borrowings under former credit agreement		286,680
New term loan	139,650	
New revolving credit facility	2,000	
9% senior subordinated notes due 2010	125,000	
12 $^{1}/2$% senior subordinated secured notes due 2008		56,080
Bond carrying value on senior subordinated secured notes in excess of face value		13,256
12% junior subordinated pay-in-kind notes due 2009		13,335
Bond carrying value on junior notes in excess of face value		2,088
Series B senior subordinated notes, principal due in 2006, interest payable semi-annually at 10% per annum		18,100
Series B floating interest rate subordinated term notes, principal due in 2006, interest payable semi-annually at LIBOR plus 4.81%	7,500	7,500
Long-term debt, including current maturities	274,150	397,039
Less current maturities of long-term debt (excluding capital lease obligations)	(1,400)	(2,677)
Long-term debt, less current maturities	$ 272,750	$ 394,362

QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

The 2003 Debt Redemption

Substantially all the outstanding indebtedness of the Company and its subsidiary, Quality Distribution LLC (QD LLC), was extinguished and refinanced in connection with the IPO and the concurrent private offering of QD LLC $125 million aggregate principal amount of 9% Senior Subordinated Notes due 2010 (the 9% Senior Subordinated Notes) and the entry into a new credit facility consisting of a $140 million delayed drawn term loan facility (the New Term Loan), a $75 million revolving credit facility and a $20 million pre-funded letter of credit facility (the New Revolver) (Note 1). Concurrently with these transactions, the Company prepaid the previously existing term loan and revolving credit facility. On December 15, 2003, the Company redeemed all the outstanding Series B 10% Senior Subordinated Notes due 2006 of QDI, the 12 $^{1}/2$% Senior Subordinated Secured Notes due 2008 of QD LLC (the 12.5% Senior Subordinated Notes) and the 12% Junior Subordinated Pay-in-kind Notes of QDI (the Junior PIK Notes), (collectively, the Redeemed Notes) and paid all expenses and premiums incurred in connection therewith.

The Company recorded a net gain on debt extinguishment of $4.7 million. The bond carrying values on the date of redemption of the 12.5% Senior Subordinated Notes and Junior PIK Notes, $11.2 million and $1.8 million, respectively, were recorded as part of the net gain on debt extinguishment.

New Term Loan

The New Term Loan bears interest at the option of the Company at (a) 2.00% in excess of the Base Rate or (b) 3.00% in excess of the Eurodollar rate for Eurodollar Loans, in each case, subject to adjustment based upon the achievement of certain financial ratios. The interest rate on the new term loan was 4.16% at December 31, 2003. The New Term Loan matures on November 12, 2009.

New Revolver

The Company has a $75.0 million revolving credit facility, which may include letters of credit, available until November 12, 2008 to be used for, among other things, working capital and general corporate purposes of the Company and its subsidiaries, including permitted acquisitions.

The Company also has a $20.0 million pre-funded letter of credit facility, available until November 12, 2009.

Interest on the new revolving credit facility is, at the option of the Company, (a) 2.50% in excess of the Base Rate (as defined in the credit agreement) or (b) 3.50% in excess of the Eurodollar rate for Eurodollar Loans, in each case, subject to adjustments based upon the achievement of certain financial ratios. The interest rate on the new revolving credit facility was 4.66% at December 31, 2003.

The credit agreement provides for payment by the Company in respect of outstanding letters of credit of an annual fee equal to the spread over the Eurodollar rate for Eurodollar Loans under the revolving credit facility from time to time in effect on the aggregate outstanding stated amounts of such letters of credit and a fronting fee equal to $^{1}/4$ of 1.0% on the aggregate outstanding stated amounts of such letters of credit.

The Company pays a commitment fee equal to $^{1}/2$ of 1.0% per annum on the undrawn portion of the available commitment under the revolving credit facility, subject to decreases based on the achievement of certain financial ratios.

At December 31, 2003, the Company had $58.5 million available under the revolving credit facility. At December 31, 2003, we had $34.5 million in letters of credit outstanding.

Voluntary prepayments and commitment reductions will be permitted in whole or in part, subject to minimum prepayment or reduction requirements, without premium or penalty, provided that voluntary prepayments of Eurodollar Loans on a date other than the last day of the relevant interest period will be subject to payment of customary breakage costs, if any.

9% Senior Subordinated Notes

The 9% Senior Subordinated Notes are unsecured obligations guaranteed on a senior subordinated basis by the Company and all of its direct and indirect domestic subsidiaries. The guarantees are full, unconditional, joint and several obligations of the guarantors.

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For the Years Ended December 31, 2003, 2002 and 2001

The Company may redeem the 9% Senior Subordinated Notes, in whole or in part from time to time, upon not less than 30 nor more than 60 days notice at the following redemption prices, expressed as percentages of the principal amount thereof, if redeemed during the twelve-month period commencing on November 15 of the year set forth below, plus, in each case, accrued and unpaid interest thereon, if any, to the date of redemption:

Year	Percentage
2007	104.5%
2008	102.25%
2009 and thereafter	100.0%

Series B Notes

The Series B Notes are unsecured obligations guaranteed on a senior subordinated basis by all of the Company s direct and indirect domestic subsidiaries. The guarantees are full, unconditional, joint and several obligations of the guarantors. The subordinated floating interest rate on Series B Notes was 5.79% at December 31, 2003.

The Company may redeem the Series B floating interest rate notes, in whole or in part from time to time on or after June 15, 2002, upon not less than 30 nor more than 60 days notice at a redemption price equal to 100% of the principal amount thereof, plus, in each case, accrued and unpaid interest thereon, if any, to the date of redemption.

The Company redeemed the $18.1 million principal amount of Series B fixed rate notes on December 15, 2003 at a redemption price of 102.5% of the principal amount outstanding, plus accrued and unpaid interest to the date of redemption. The redemption price paid included $0.9 million of accrued interest and a redemption premium of $0.5 million. The redemption premium was recorded as a part of the net gain on debt extinguishment.

The 2002 Exchange Offer

The Company and its subsidiaries, pursuant to the terms of an Offering Memorandum and Consent Solicitation Statement, dated as of April 10, 2002, as supplemented May 10, 2002 by Supplement No. 1 (as so supplemented, the Offering Memorandum):

commenced an offer to exchange up to $87.0 million principal amount of QDI Notes for a combination of certain debt and equity securities, including the 12.5% Senior Subordinated Notes and the Junior PIK Notes;

commenced a consent solicitation for certain proposed amendments to the indenture governing the QDI Notes to eliminate many of the restrictive covenants contained in that indenture; and

entered into lock-up agreements with certain affiliates of Apollo Management, L.P., the Company s controlling stockholder (Apollo), certain affiliates of Ares Management, L.P. (Ares) and certain members of QDI s management, who collectively held $53.0 million aggregate principal amount of the QDI Notes.

The exchange offer for the QDI Notes and the consent solicitation were consummated on May 30, 2002. On such date, QDI accepted for exchange $61.4 million aggregate principal amount of the QDI Notes (excluding the $53.0 million aggregate principal amount of the QDI Notes covered by the lock-up agreements). All tendering holders received for each $1,000 principal amount of QDI Notes tendered, a combination of debt and equity securities consisting of:

$650 principal amount of the 12.5% Senior Subordinated Notes;

$150 principal amount of Junior PIK Notes and;

3.4706 warrants, each to purchase one share of QDI s common stock at an exercise price of $2.94 per share.

Pursuant to the terms of the lock-up agreements with Ares, Apollo and QDI s management, on May 30, 2002:

Ares exchanged its QDI Notes for the same combination of debt and equity securities indicated above for tendering holders;

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

Apollo and QDI s management group exchanged their respective QDI Notes for shares of QDI s 13.75% preferred stock; and

Apollo purchased for cash an additional $10 million of QDI s 13.75% preferred stock, all of the proceeds of which were used by QDI to retire certain borrowings under our former credit agreement for which Apollo had provided credit support.

As a result of the transactions on May 30, 2002, QD LLC issued $54.5 million aggregate principal amount of its 12.5% Senior Subordinated Notes and the Company issued its $12.6 million aggregate principal amount of Junior PIK Notes to the holders of QDI Notes participating in the transactions and to Ares. The 12.5% Senior Subordinated Notes were guaranteed on a senior subordinated basis by all of QD LLC s domestic subsidiaries. The guarantees were full, unconditional, joint and several obligations of the guarantors. QD LLC s obligations under the 12.5% Senior Subordinated Notes and the guarantor s obligations under the guarantees were collateralized by a second priority lien, subject to certain exceptions, on all of QD LLC s domestic assets and the domestic assets of the guarantors that secure the credit agreement and the interest rate protection and other hedging agreements permitted thereunder, excluding capital stock and other securities owned or held by QD LLC or QD LLC s existing and future subsidiaries. The 12.5% Senior Subordinated Secured Notes bore interest at a rate of 12 1/2% per annum, of which 7 1/4% per annum was payable in cash and 5 1/4% per annum was payable in kind, subject to increases in the cash portion if total leverage ratio or senior leverage ratio targets were met. The Junior PIK Notes bore interest at a rate of 12% per annum, of which 11% was payable in kind in the form of additional pay-in-kind notes, and 1% was payable in cash. Interest was payable on June 15 and December 15 commencing June 15, 2002 and ending on June 15, 2009. The annual cash interest payments ranged from $120 thousand in 2002 to $250 thousand in 2008, with the original principal amount issued and pay-in-kind interest of $26.8 million in the aggregate due on June 15, 2009.

On December 13, 2003, the Company redeemed the $57.5 million principal amount of the 12.5% Senior Subordinated Notes and the $14.8 million principal amount of Junior PIK Notes. The redemption price paid included accrued interest of $3.8 million and a redemption premium of $1.2 million on the 12.5% Senior Subordinated Notes and accrued interest of $0.1 million and a redemption premium of $1.1 million on the Junior PIK Notes. The redemption premiums were recorded as part of the net gain on debt extinguishment.

The accounting for the exchange offer followed the requirements of FAS 15, Accounting by Debtors and Creditors for Troubled Debt Restructurings. A comparison was made between the future cash outflows associated with the 12.5% Senior Subordinated Secured Notes and the Junior PIK Notes (including principal, interest and related costs), and the recorded liabilities related to the QDI Notes. The carrying value of the QDI Notes tendered and exchanged on May 30, 2002 became the carrying value of the 12.5% Senior Subordinated Secured Notes, less the fair value of the Warrants, Junior PIK Notes and 13.75% preferred stock issued by QDI. Interest expense associated with the 12.5% Senior Subordinated Secured Notes and the Junior PIK Notes is calculated using the effective interest method, which is less than the stated interest rates. There was no gain or loss for accounting purposes in connection with the exchange of the 12.5% Senior Subordinated Secured Notes and the Junior PIK Notes for the QDI notes.

The carrying amount of the 12.5% Senior Subordinated Notes and Junior PIK Notes was adjusted by $14.3 million and $2.2 million, respectively, to reflect accounting under FAS 15 and was to be amortized over the life of the 12.5% Senior Subordinated Secured Notes and Junior PIK Notes as a reduction in interest expense. On December 15, 2003, $11.2 million and $1.8 million of the bond carrying value of the

12.5% Senior Subordinated Notes and the Junior PIK Notes, respectively, remained unamortized. In connection with the redemption of these notes, the bond carrying values were written off, and the gain of $13.0 million was recorded as gain on debt extinguishment.

After the closing of the 2002 exchange offer, $25.6 million in aggregate principal amount and carrying amount of the QDI Notes remained outstanding. In addition, as a result of the closing of the transactions, the amendments to the financial covenants contained in the Fifth Amendment to our former credit agreement previously entered into by QDI became effective.

In connection with the 2002 exchange offer, deferred debt issue costs relating to the fourth amendment to the Company s credit agreement totaling approximately $4.2 million and legal and advisory fees relating to the exchange offer totaling approximately $5.9 million were recorded as transaction expenses.

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Former Tranche A, B, C, D and E Term Loans

On August 11, 2003, the Company entered into the seventh amendment (the Seventh Amendment) to the credit agreement. The Seventh Amendment included (i) a one year extension of the maturity of the revolving credit facility (the Revolver) and tranche A term loan to June 9, 2005, (ii) a $15.0 million permanent reduction in the Revolver, (iii) an increase in the scheduled quarterly principal payment of the Tranche A Term Loan from $225 thousand to $2.1 million beginning with the quarter ending September 30, 2003, (iv) a termination of the Company s Canadian subsidiary s ability to borrow under the Revolver, (v) a conversion of $10.0 million of the outstanding Revolver into a new tranche (Tranche E) of the term loan maturing at the rate of $1.25 million per quarter beginning on September 30, 2003 and (vi) a pricing increase to, at the Company s option, the Eurodollar rate plus 4.25% or the administrative agents base rate, as defined, plus 3.25% for all tranches of the term loan (other than the Tranche D term loan) and the Revolver. The Company paid a fee to the creditors at closing of $3.3 million, which was initially capitalized in other assets and subsequently expensed as a reduction of gain on debt extinguishment in connection with the redemption of the bank debt.

Tranche A Term Loans bore interest prior to the Seventh Amendment at the option of the Company at (a) .075% in excess of the base rate equal to the higher of $^{1}/2$ of 1.0% in excess of the federal funds rate or the rate that Credit Suisse/First Boston (CSFB) as the administrative agent announces from time to time as its prime lending rate, as in effect from time to time (the Base Rate), or (b) 3.50% in excess of the Eurodollar rate for Eurodollar Loans, in each case, subject to adjustment based upon the achievement of certain financial ratios.

Tranche B Term Loans bore interest prior to the Seventh Amendment at the option of the Company at (a) 1.25% in excess of the Base Rate or (b) 3.75% in excess of the Eurodollar rate for Eurodollar Loans, in each case, subject to adjustment based upon the achievement of certain financial ratios.

Tranche C Term Loans bore interest prior to the Seventh Amendment at the option of the Company at (a) 1.50% in excess of the Base Rate and (b) 4.00% in excess of the Eurodollar rate for Eurodollar Loans, in each case, subject to adjustment based upon the achievement of certain financial ratios.

Tranche D Term Loans bore interest at the option of the Company at (a) 1.00% in excess of the Base Rate and (b) 2.00% in excess of the Eurodollar rate for Eurodollar Loans, in each case, subject to adjustment based upon the achievement of certain financial ratios.

Former Revolving Credit Facility

The Company had a $75.0 million revolving credit facility, which could have included letters of credit, available until June 9, 2004 to be used for, among other things, working capital and general corporate purposes of the Company and its subsidiaries, including permitted acquisitions. The revolving credit facility further provided for a $15.0 million sub-limit made available to Levy, an indirect wholly owned subsidiary of the Company. Amounts drawn under the sub-limit were to be drawn in Canadian dollars.

Interest on the Revolving Credit Facility prior to the Seventh Amendment was at the option of the Company, (a) .75% in excess of the Base Rate or (b) 1.75% in excess of the Eurodollar rate for Eurodollar Loans, in each case, subject to adjustments based upon the achievement of certain financial ratios. The interest rate on the sub-limit was to be based on Canadian dollar bankers acceptances and the Canadian prime rate.

The credit agreement provided for payment by the Company in respect of outstanding letters of credit of an annual fee equal to the spread over the Eurodollar rate for Eurodollar Loans under the revolving credit facility from time to time in effect on the aggregate outstanding stated amounts of such letters of credit, or a fronting fee equal to $^{3}/8$ of 1.0% on the aggregate outstanding stated amounts of such letters of credit.

Levy was to pay an acceptance fee equal to the Applicable Margin that would be payable on Eurodollar Loans under the revolving credit facility on the drawing date of each loan drawn under the sublimit.

The Company paid a commitment fee equal to $^{1}/2$ of 1.0% per annum on the undrawn portion of the available commitment under the revolving credit facility, subject to decreases based on the achievement of certain financial ratios.

QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

On the closing date of the IPO, November 13, 2003, the Company paid the outstanding principal on the term loan of $265.5 million, the outstanding principal on the revolver of $11.5 million and accrued interest and fees on the credit agreement of $1.9 million.

Collateral, Guarantees and Covenants

The loans and letters of credit under the revolving credit agreement are guaranteed by all of the Company s existing and future direct and indirect domestic subsidiaries (collectively, the Bank Guarantors). The obligations of the Company and the Bank Guarantors are collateralized by a first priority perfected lien on substantially all of the properties and assets of the Company and the Bank Guarantors, now owned or subsequently acquired, including a pledge of all capital stock and notes owned by the Company and the Bank Guarantors, subject to certain exceptions; provided that, in certain cases, no more than 65.0% of the stock of foreign subsidiaries of the Company are required to be pledged. Such assets pledged also collateralize certain interest rate protection and other hedging agreements permitted by the credit facility that may be entered into from time to time by the Company.

Under the terms of the Company s credit agreement, the Company is required to maintain, among other restrictions, minimum net worth levels, debt to net worth ratios and debt service coverage ratios. In addition, the credit agreement and the indenture governing the Series B notes contain restrictions on debt incurrence, investments, transactions with affiliates, creation of liens, asset dispositions redeemable common stock and preferred stock issuance, capital expenditures and the payment of dividends. At December 31, 2003, the Company was in compliance with all debt covenants.

Debt Retirement

Scheduled maturities of long-term debt and capital lease obligation for the next five years and thereafter are as follows (in thousands):

	Term Loan	Revolver	9% Senior Subordinated Notes	Series B Floating Interest Rate Notes	Capital Lease Obligation	Total
Year Ending December 31:						
2004	$ 1,400	$	$	$	$ 359	$ 1,759
2005	1,400					1,400

2006	1,400			7,500		8,900
2007	1,400					1,400
2008	1,400	2,000				3,400
After	132,650		125,000			257,650
	$ 139,650	$ 2,000	$ 125,000	$ 7,500	$ 359	$ 274,509

9. INCOME TAXES

Income taxes consisted of the following for the years ended December 31 in thousands:

	2003	2002	2001
Current taxes:			
Federal	$ (478)	$ 550	$
Foreign	(217)	170	582
State	(200)	300	449
	(895)	1,020	1,031
Deferred taxes:			
Federal	1,179		
Foreign	(383)	423	104
State			
	796	423	104
Provision (benefit) for income taxes	$ (99)	$ 1,443	$ 1,135

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

The net deferred tax liability consisted of the following at December 31 (in thousands):

	2003	2002
Deferred tax assets:		
Environmental reserve	$ 11,286	$ 12,849
Tax credit carryforwards	2,457	2,457
Self-insurance reserves	8,072	5,288
Allowance for doubtful accounts	3,258	2,985
Accrued vacation pay	150	217
Pension	4,883	622
Bond discount		5,058
Net operating loss carryforwards	43,284	40,839
Restructuring accruals	192	521
OID subordinated debt		587
Other accruals	736	1,699
Accrued losses and damage claims	4,819	
	79,137	73,122
Less valuation allowance	(48,991)	(37,273)
	30,146	35,849
Deferred tax liabilities:		
Property and equipment basis differences	(30,630)	(35,958)
Tires	(1,068)	(1,069)
Other		(183)
	(31,698)	(37,210)
Net deferred tax liability	(1,552)	(1,361)
Long-term net deferred tax liability	$ (1,552)	$ (1,361)

The Company has provided a valuation allowance against net deferred tax assets, due to cumulative losses in recent years. The valuation allowance increased $11.7 million in 2003 due to a $10.9 million net change between deferred tax assets and liabilities plus $0.8 million deferred tax expense.

The Company s effective tax rate differs from the federal statutory rate. The reasons for those differences are as follows for the years ended December 31 (in thousands):

	2003	2002	2001
Tax benefit at the statutory rate	$ (22,848)	$ (7,363)	$ (5,180)
State income taxes, net of federal benefit	262	(624)	(411)
Amortization of goodwill			1,295
AMT Credit	(478)		
Non-deductible interest	20,194		
Foreign taxes	450	1,451	313
Equity in earnings of foreign subsidiaries	126	762	
Valuation allowance	2,910	7,690	5,319
Other	(715)	(473)	(201)
Provision (benefit) for income taxes	$ (99)	$ 1,443	$ 1,135

At December 31, 2003, the Company has approximately $110.0 million in net operating loss carryforwards and $2.5 million in alternative minimum tax credit carry forwards. The net operating loss carryforwards will expire in the years 2012 through 2023 while the alternative minimum tax credits may be carried forward indefinitely. Approximately $28.7 million of net operating loss carryforwards and $1.9 million of alternative minimum tax credit carryforwards were generated by Chemical Leaman Corporation prior to its acquisition. The use of pre-acquisition operating losses and tax credit carryforwards is subject to limitations imposed by the Internal Revenue Code. The Company has state net operating loss carryforwards, which expire over the next 2 to 20 years.

The Company filed for and received a refund of $4.4 million in 2001 in previously paid federal income tax as a result of carrying back a portion of the 1998 net operating loss. This refund claim is currently under examination by the Internal Revenue Service. The resolution of this examination is still uncertain; however, the Company provided $0.6 million of tax expense in connection with this matter in 2002.

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

10. EMPLOYEE BENEFIT PLANS

The Company maintains two noncontributory defined benefit plans resulting from a prior acquisition that cover certain full-time salaried employees and certain other employees under a collective bargaining agreement. Retirement benefits for employees covered by the salaried plan are based on years of service and compensation levels. The monthly benefit for employees under the collective bargaining agreement plan is based on years of service multiplied by a monthly benefit factor. Assets of the plans are invested primarily in equity securities and fixed income investments. Pension costs are funded in accordance with the provisions of the applicable law.

Effective November 1, 2001, the Company amended the collective bargaining agreement plan to freeze benefit accruals and allow participants to retire as early as age 50 with unreduced benefits. Since no prior service cost base existed prior to the amendment and the projected benefit obligation was not impacted by the change, there was no impact on the accrued pension cost.

The Company uses a December 31 measurement date for both of its plans.

The components of net periodic pension cost are as follows for the years ended December 31 (in thousands):

	2003	2002	2001
Service cost	$ 276	$ 252	$ 224
Interest cost	2,822	2,792	2,717
Expected return on plan assets	(1,338)	(2,150)	(2,518)
Net periodic pension cost	$ 1,760	$ 894	$ 423

The actuarial assumptions used to determine net benefit cost and to determine the benefit obligation for the plans are as follows for the years ended December 31:

	2003	2002	2001

Discount rate	6.25%	6.75%	7.25%
Expected long-term rate of return on plan assets	7.50%	8.00%	8.00%

The discount rate is based on a model portfolio of AA rated bonds with a maturity matched to the estimated payouts of future pension benefits. The expected return on plan assets is based on the Company s expectation of the long-term average rate of return on assets in the pension funds, which was modeled based on the current and projected asset mix of the funds and considering the historical returns earned on the type of assets in the funds.

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

Obligations and Funded Status

The following table sets forth the change in the benefit obligation, change in plan assets and unfunded status of the two plans at December 31 (in thousands):

	2003	2002
CHANGE IN BENEFIT OBLIGATION		
Benefit obligation at beginning of year	$ 43,304	$ 39,928
Service cost	276	252
Interest cost	2,822	2,792
Actuarial loss	2,431	3,491
Benefits and expenses paid	(3,388)	(3,159)
Benefit obligation at end of year	$ 45,445	$ 43,304
CHANGE IN PLAN ASSETS		
Fair value of plan assets at beginning of year	$ 28,217	$ 30,782
Actual return on plan assets	5,234	(2,173)
Contributions by Company	2,926	2,767
Benefits and expenses paid	(3,388)	(3,159)
Fair value of plan assets at end of year	$ 32,989	$ 28,217
FUNDED STATUS OF PLANS		
Unfunded status	$ (12,456)	$ (15,087)
Unrecognized net actuarial loss	12,933	14,304
Unrecognized prior service cost	1,168	1,262
Prepaid benefit cost	$ 1,645	$ 479
Amounts recognized in the balance sheet:		
Prepaid benefit cost	$ 1,645	$ 479
Accrued benefit cost	(14,198)	(15,663)
Intangible assets	1,168	1,262
Accumulated other comprehensive income	13,030	14,401
Net amount recognized	$ 1,645	$ 479

The accumulated benefit obligation for both defined benefit pension plans equaled the projected benefit obligations of $45.4 million and $43.3 million at December 31, 2003 and 2002, respectively.

Plan Assets

The Company s pension plans weighted-average asset allocations by asset category at December 31 are as follows:

	2003	2002
Debt securities	34.7%	41.8%
Equity securities	65.3	58.2
	100.0%	100.00%

The Company s investment policy is that plan assets will be managed utilizing an investment philosophy and approach characterized by all of the following, but listed in priority order: (1) emphasis on total return, (2) emphasis on high-quality securities, (3) sufficient income and stability of income, (4) safety of principal with limited volatility of capital through proper diversification and (5) sufficient liquidity. The target allocation percentages for plan assets are 60% in domestic equity securities and 40% in debt securities. None of the Company s equity or debt securities are included in plan assets.

Cash Flows

The Company expects to contribute $4.8 million to its pension plan during the year ended December 31, 2004.

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

The following benefit payments are expected to be paid (in thousands):

2004	$ 3,086
2005	3,174
2006	3,200
2007	3,220
2008	3,230
2009 - 2013	16,643

The Company charged to operations payments to multi-employer pension plans required by collective bargaining agreements of approximately $1.9 million, $1.5 million and $1.6 million for the years ended December 31, 2003, 2002 and 2001, respectively. These defined benefit plans cover substantially all of the Company s union employees not covered under the Company s pension plan. The actuarial present value of accumulated plan benefits and net assets available for benefits to employees under these multi-employer plans is not readily available.

In 2001, the Company established a Deferred Compensation Plan for its executives and other key employees. The plan is a non-qualified deferral plan that allows participants to contribute a portion of their wages on a pre-tax basis and includes a death benefit. The Company may credit participant s accounts with a discretionary contribution at its sole discretion. No contribution was made in 2003, 2002 or 2001.

11. REDEEMABLE SECURITIES

Redeemable Common Stock

One shareholder had the right to put 30,000 shares, originally recorded at the purchase price of $1.2 million, to QDI anytime after June 9, 2002 for the current market value per share, as determined in accordance with the terms of the shareholders agreement. The agreement expired upon such date as the Company s shares were traded on a national security exchange, which occurred on November 13, 2003. Accordingly, these shares were classified as mandatorily redeemable. As the shares were redeemable after June 9, 2002, the redeemable common stock was adjusted to its redemption value of $0 at December 31, 2002.

13.75% Mandatorily Redeemable Preferred Stock

In 1998, QDI issued 105,000 shares of 13.75% Mandatorily Redeemable Preferred Stock with a face value of $10.5 million and a liquidation preference of $100. As a result of the Exchange Offer, 405,000 additional shares of 13.75% Mandatorily Redeemable Preferred Stock with a face value of $40.5 million were issued, and $0.2 million in notes from shareholders, recorded as a reduction of the preferred stock balance, were accepted for partial payment on the preferred stock. Dividends were payable quarterly commencing December 15, 1998 and were cumulative. Any dividends not paid in cash prior to September 15, 2001 could be paid in additional shares of Senior Exchangeable Preferred Stock. At December 31, 2002, $11.9 million in dividends payable was accrued in the redeemable preferred stock balance. All shares were mandatorily redeemable on September 15, 2006 at 100% of the liquidation preference plus all accrued dividends. At that time, the total amount of the liquidation amount and accrued and unpaid dividends, assuming no prior dividend payments, would have been $105.3 million.

On July 1, 2003, the Company adopted FAS 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity. In accordance with the standard, the Company reclassified its 13.75% Mandatorily Redeemable Preferred Stock to liabilities and recorded $3.5 million in dividends accrued from July 1, 2003 through the conversion date, November 13, 2003, as interest expense.

On October 1, 2003, the Company amended the terms of its outstanding 13.75% preferred stock to eliminate all special redemption, liquidation and other rights, preferences and privileges of such preferred stock. In accordance with the amendment, all of the outstanding shares of redeemable preferred stock were converted into 7,654,235 shares of common stock at a conversion price of $11.63 per share upon consummation of the offering of QDI s common stock, which occurred on November 13, 2003. On the date of conversion, the preferred stock balance was $70.5 million, which included $14.4 million of accrued dividends and was net of $0.2 million of shareholders notes. In connection with the conversion, the Company recorded $59.4 million of non-cash interest expense, which was calculated as the difference between the IPO price of $17.00 per share and the carrying value of the preferred stock upon conversion, including accrued dividends, of $70.7 million. The sum of the carrying value of the preferred stock and the interest expense charge was recorded as additional paid in capital of $130.1 million. Also, the Company recorded a $0.2 million increase in stock subscription receivables representing the shareholders notes outstanding on the converted shares.

QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

12. CAPITAL STOCK

In accordance with the Company s Amended and Restated Articles of Incorporation dated November 4, 2003, the Board of Directors has authorized the issuance of 30 million shares of capital stock, 29 million shares of no par value common stock and 1 million shares of no par value preferred stock.

Preferred Stock

Of the 1 million shares of preferred stock authorized, 600,000 shares were designated as convertible preferred stock, and 510,000 were issued and outstanding. In connection with the initial public offering of shares of the Company s common stock, the 510,000 shares of preferred stock were converted into shares of common stock pursuant to the Company s Amended and Restated Articles of Incorporation. The remaining shares of preferred stock may be issued from time to time in one or more classes or series, with such relative rights, preferences, qualifications, and limitations as the Board of Directors of the Company from time to time may adopt by resolution. Prior to November 4, 2003, the Company had authorized 5.0 million shares, $.01 per share par value, of preferred stock.

Common Stock

On November 4, 2003, the Company effected a 1.7 to 1 stock split of its common stock. All historical share and per share amounts in the financial statements have been adjusted to reflect the stock split. Prior to November 4, 2003, the Company had 20 million shares $.01 par value of common stock authorized and had 3.44 million shares outstanding at December 31, 2002.

In connection with the 1998 recapitalization, the Company made limited recourse secured loans to shareholders, which bear interest at either LIBOR plus 1.5% or LIBOR plus 2%. The loans are collateralized by a pledge of approximately 74,800 shares of the Company s common stock and options to purchase 74,800 shares of the Company s common stock.

Subsequent to the 1998 recapitalization and prior to January 1, 2002, the Company periodically issued limited recourse secured loans to management, which loans are collateralized by shares of the Company s common stock owned by management. Additionally, the Company reclassified $0.2 million of notes outstanding on preferred stock to stock subscription receivables upon conversion of the preferred stock to common stock (Note 11). The principal amount of the loans is due on June 9, 2006 or November 8, 2007 with mandatory pre-payments due upon, and to the extent of, the receipt of after-tax proceeds from the sale of the pledged securities. Amounts outstanding for the total of these loans were $1.7 million at December 31, 2003 and 2002.

13. STOCK COMPENSATION PLANS

The 2003 Stock Option Plan was adopted on November 5, 2003 in connection with the Company s IPO and expires 10 years after adoption. It provides for the grant of nonqualified stock options that become exercisable in 25% increments on each of the first four anniversaries of the date upon which the options are granted. The Company initially reserved 2,210,000 shares of common stock for issuance under this plan with automatic 1% increases in the number of shares occurring on January 1 of each year commencing with January 1, 2004 unless otherwise determined by the Board of Directors. No more than 4,500,000 shares of common stock may be issued under the 2003 Stock Option Plan.

Until adoption of the 2003 Stock Option Plan, the Company administered the 1998 Stock Option Plan pursuant to which a total of 377,400 shares of the Company s 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 the Company. 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.

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

Stock option activity for the years ended December 31, 2003, 2002 and 2001 is as follows (in thousands, except per share data):

	Number of Shares	Range of Option Prices	Average Exercise Price	Shares Vested	Expiration Dates
Options outstanding at December 31, 2000	353	$ 23.53	$ 23.53	70	2008-2010
2001 option activity:					
Granted	10	$ 23.53	$ 23.53		2011
Vesting of prior-year options		$ 23.53	$ 23.53	43	2008-2010
Canceled	(26)	$ 23.53	$ 23.53	(10)	2008-2011
Options outstanding at December 31, 2001	337	$ 23.53	$ 23.53	103	2008-2011
2002 option activity:					
Granted					
Vesting of prior-year options		$ 23.53	$ 23.53	36	2008-2009
Canceled	(229)	$ 23.53	$ 23.53	(78)	2008-2010
Options outstanding at December 31, 2002	108	$ 23.53	$ 23.53	61	
2003 option activity:					
Granted	1,990	$ 17.00	$ 17.00		2013
Vesting of prior-year options					
Canceled	(11)	$ 17.00-23.53	$ 19.37	(2)	2008-2013
Options outstanding at December 31, 2003	2,087	$ 17.00-23.53	$ 17.33	59	2008-2013

The following table summarizes information about stock options outstanding at December 31, 2003 (in thousands, except per share data):

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Life (Months)	Number Exercisable	Weighted Average Exercise Price
$17.00	1,983	119		$
$23.53	104	55	59	23.53

	2,087	116	59	23.53

Additionally, on November 5, 2003, the Company s Board of Directors approved the 2003 Restricted Stock Plan, which terminates ten years from the approval date. The Company initially reserved 500,000 shares of common stock for issuance under this plan. Concurrently with the IPO, the Company granted $1.5 million of common stock valued at the IPO price of $17 per share, 88,235 shares, to certain employees eligible to participate in this plan. The restricted stock granted vests in 20% increments on December 31 of each year, beginning on December 31, 2004 and ending on December 31, 2008. In subsequent years, participants in the plan may be granted an annual, aggregate amount of up to $1 million of shares, valued at the Company s common stock closing price at the date of grant, at the direction of the Board of Directors.

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

14. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company leases other equipment under operating leases. Future minimum lease payments under non-cancelable operating leases at December 31, 2003 are as follows (in thousands):

2004	$ 2,231
2005	1,936
2006	1,184
2007	
2008 and after	

Rent expense under operating leases was $5.4 million, $6.5 million and $5.6 million for the years ended December 31, 2003, 2002 and 2001, respectively.

PPI Investigation

In connection with the irregularities discovered at PPI (Note 1), the Company anticipates paying costs relating to the state insurance regulatory proceedings. The Company has recorded an accrual of $3.0 million at December 31, 2003 as its estimate of these potential charges based on information currently available, which is subject to change as more information is obtained. Additionally, the Company anticipates incurring additional expenses in 2004 for legal and accounting fees related to the investigation.

Environmental Matters

Our activities involve the handling, transportation and storage 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 that may contain hazardous substances, and the discharge of stormwater from industrial activities. In addition, we may store diesel fuel and other petroleum type 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 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 at each operating location. Self-audits conducted by our internal audit staff are required to assess operations, safety training and procedures, equipment and grounds maintenance, emergency response capabilities and waste management. We may also contract with an independent environmental consulting firm to conduct 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 staff includes environmental experts who develop policies and procedures, including periodic audits of our terminals, tank cleaning facilities, and historic 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 either under the Comprehensive Environmental Response Compensation and Liability Act of 1980, as amended (CERCLA) and 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 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 CLC prior to our acquisition of and merger with CLC in 1998. The following is a brief discussion of two such federal Superfund sites:

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

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For the Years Ended December 31, 2003, 2002 and 2001

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 undertake Remedial Design and Remedial Action (RD/RA) related to the groundwater operable unit of the cleanup. A groundwater remedy design has subsequently been approved by the EPA and will be under construction shortly.

In August 1994, the EPA issued a Record of Decision, selecting a remedy for the wetlands operable unit at the Bridgeport site. In October 1998, the EPA issued an administrative order that requires CLC to implement the EPA s wetlands remedy. A remedial design for this remedy has been approved by the EPA and the State of New Jersey. The remediation work involving the removal of surface soils/sediments is expected to take place in 2004. 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 on March 16, 2001 with the state and federal trustees and has resolved the natural resource damages claims. In addition, the EPA has investigated contamination in site soils. However, 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 into a Consent Decree with the EPA, which contains these elements: (1) payment to the EPA for installation of an alternate water line to provide water to affected area residents; (2) performance of an interim groundwater remedy at the site; and (3) soil remediation. US v. Chemical Leaman Tank Lines, Inc., Civil Action No. 95-CV-4264 (RJB) (E.D. Pa.).

Other Owned Property Remediation. CLC has paid all costs associated with installation of the waterline. CLC has completed a groundwater study and has submitted preliminary designs for a groundwater treatment plant to pump and treat groundwater. The EPA anticipates that CLC will conduct the groundwater remedy over the course of five years, at which time the EPA will evaluate groundwater conditions and determine whether further groundwater remedy is necessary. Field sampling for soil remediation and activities for the design of a soil remediation system have been completed and approved by the EPA. Soil remediation has started and includes the use of both a low temperature thermal treatment unit and a soil vapor extraction system. The Consent Decree does not cover the final groundwater remedy or other site remedies or claims, if any, for natural resource damages.

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, 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 currently subject to the New Jersey Industrial Sites Recovery Act (ISRA) cleanup requirements. 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.

Other Environmental Matters. CLC has been named as a potentially responsible party (PRP) under CERCLA and similar state laws at approximately 37 other 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 named as co-defendant in a group of Luzerne County, Pennsylvania civil toxic tort claims arising from alleged exposure to hazardous substances that were either allegedly transported to a disposal site by CLC and other co-defendants.

Reserves. We currently have reserves in the amount of $29.2 million for all environmental matters discussed above.

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

	2003	2002
Reserve at beginning of year	$ 32,986	$ 42,572
Payments	(3,826)	(3,636)
Reserve Adjustments		(5,950)
Reserve at end of year	$ 29,160	$ 32,986

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

The balances presented include both long term and current environmental reserves, of which $9.3 million and $5.6 million is included in accrued expenses in the Consolidated Balance Sheet at December 31, 2003 and 2002, respectively. We expect these environmental obligations to be paid over the next five to seven years. The $6.0 million reduction of reserves in 2002 reflects lower than anticipated environmental clean-up costs based on new estimates at existing sites.

15. OTHER TRANSACTIONS WITH RELATED PARTIES

The Company and Apollo Management have entered into a management agreement dated February 10, 1998 whereby the Company retained Apollo Management to provide financial and strategic advice. Pursuant to the terms of the management agreement, Apollo Management has agreed at such time to provide financial and strategic services as reasonably requested by our Board of Directors. As consideration for services to be rendered under the management agreement, Apollo Management received an initial fee of $2.0 million on June 9, 1998 and thereafter was to receive an annual fee of $0.5 million until termination of the management agreement. The management agreement could have been terminated upon 30 days written notice by Apollo Management or the Company to the other party thereto. The agreement was suspended for and no services were rendered in 2003 and 2002, and, therefore, we did not recognize any selling and administrative expense for these services. Under this agreement we recognized $0.5 million in selling and administrative expense in 2001. The management agreement with Apollo Management was terminated effective as of October 7, 2003. In 2003 and 2002, we provided advisory and consulting services to Apollo Management and certain of its affiliates. The fee for these services was $0.3 million and was recorded as a reduction in selling and administrative costs in both years.

A former member of the Board of Directors of the Company, who resigned in October 2003, owns a minority interest in a firm that provides information technology services to the company. Total amounts paid by the Company to the firm during 2003, 2002 and 2001 were $0.2 million, $0.4 million and $0.5 million, respectively.

In August 2001, QDI entered into an agreement to affiliate the facilities in Bridgeport, NJ with a former director/ shareholder. In July 2003, the former director/ shareholder opened a new affiliate facility in Torrance, CA. The former director/ shareholder has been operating these locations under the affiliate program. The aggregate 2003 and 2002 revenue for these operations was $13.1 million and $11.4 million, respectively. As of December 31, 2003 and 2002, $0.1 million and $0.1 million, respectively, was owed to the Company in connection with these affiliate operations.

Of the $1.7 million stock subscription receivable (Note 12), $1.6 million relates to members of management.

Substantially all of the 13.75% Preferred Stock shares that were converted to common stock on November 13, 2003 (Note 11) were held by Apollo and members of the Company s management.

In connection with the Exchange Offer, the Company received $0.2 million of notes from shareholders, which were collateralized by the 405,000 shares of mandatorily redeemable preferred stock issued during the transaction. Upon the conversion of the preferred stock (Note 11), these notes were reclassified to stock subscription receivables.

16. GEOGRAPHIC SEGMENTS

The Company s 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 the Company s operations in different geographic areas for the years ended December 31, 2003, 2002 and 2001 is as follows (in thousands):

	2003			
	U.S.	**International**	**Eliminations**	**Consolidated**
Operating revenues	$ 524,009	$ 41,431	$	$ 565,440
Net Operating income	13,848	4,946		18,794
Identifiable assets	364,180	20,224	(12,713)	371,691
Depreciation and amortization	25,508	3,001		28,509
Capital expenditures	14,268	724		14,992

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

	2002			
	(Restated)			
	U.S.	International	Eliminations	Consolidated
Operating revenues	$ 508,205	$ 8,555	$	$ 516,760
Net Operating income	22,137	261		22,398
Identifiable assets	363,700	31,888	(14,002)	381,586
Depreciation and amortization	30,297	1,526		31,823
Capital expenditures	15,221	65		15,286

	2001			
	U.S.	International	Eliminations	Consolidated
	(Restated)			
Operating revenues	$ 500,352	$ 9,170	$	$ 509,522
Net Operating income	24,074	919		24,993
Identifiable assets	445,396	15,018	(15,288)	445,126
Depreciation and amortization	31,848	1,562		33,410
Capital expenditures	36,631	781		37,412

17. OTHER OPERATING CHARGES

Our operating expenses have been impacted by several charges in 2003, 2002 and 2001. We have incurred severance, benefits and other related expenses from cost cutting measures and consolidating terminals that resulted in charges totaling $0.7 million, $1.8 million and $1.0 million in 2003, 2002 and 2001, respectively. In addition, we had charges related to the prior operations of Chemical Leaman of $2.3 million, $2.3 million and $2.4 million in 2003, 2002 and 2001, respectively, related to insurance claims associated with the operations of predecessor companies incurred prior to the merger in 1998.

18. SUBSEQUENT EVENTS

On February 24, 2004, a putative class action lawsuit was filed in the United States District Court, Middle District of Florida, Tampa Division, against the Company and Thomas L. Finkbiner, the Company s President, Chief Executive Officer and Chairman of the Board, and Samuel M. Hensley, the Company s Senior Vice President and Chief Financial Officer.

The complaint states that it was filed on behalf of a class of persons who purchased the Company s common stock between November 7, 2003 and February 2, 2004. The complaint asserts causes of action (and seeks unspecified damages) for alleged violations of Sections 11 and 15 of the Securities Exchange Act of 1934. The complaint alleges, among other things, that in connection with its initial public offering, the Company filed with the Securities and Exchange Commission a registration statement that incorporated a prospectus that was materially false and misleading because the Company materially overstated its financial results for the years ended December 31, 2002, 2001 and 2000 and for the nine months ended September 30, 2003, and because its financial statements were allegedly not prepared in accordance with generally accepted accounting principles. The complaint also alleges that Mr. Finkbiner and Mr. Hensley are liable as control persons by virtue of their positions at the Company.

These allegations stem from the disclosures in a Form 8-K the Company filed on February 2, 2004, stating that the Company had discovered irregularities at PPI, a non-core subsidiary that primarily assists independent contractors in obtaining various lines of insurance for which PPI derives fees as an insurance broker, resulting from unauthorized actions by PPI s former vice president and that such irregularities would result in a restatement of the Company s financial statements. As a result of the investigation being conducted by our Audit Committee and its outside advisors, we have restated herein our financial statements for each of the two fiscal years ended December 31, 2002 and 2001, and for each of the quarters in fiscal 2003 and 2002 (Note 1). While one class action lawsuit has thus far been served on QDI regarding the above matters, plaintiffs may file additional complaints and/or an Amended and Consolidated Complaint. The Company will timely respond to the complaint(s) and expect that the individual defendants will do the same. The Company carries management liability and company reimbursement insurance policies for the relevant period, which provide for aggregate coverage of $20 million, and has notified the insurance carriers of the lawsuit. The carriers have not yet confirmed or denied coverage, and the Company makes no comment as to whether the insurance will be sufficient to cover all alleged damages claimed by plaintiffs against the Company.

There can also be no assurance that the litigation described above will not have a material adverse effect on the Company.

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

19. GUARANTOR SUBSIDIARIES

The 9% Senior Subordinated Notes issued by QD LLC and the Series B Floating Interest Rate Subordinated Term Notes due 2006 issued by the Company are unconditionally guaranteed on a senior subordinated basis pursuant to guarantees by all of the Company s direct and indirect domestic subsidiaries, (the Guarantors). In addition, the Company unconditionally guarantees on a senior subordinated basis the 9% Senior Subordinated Notes. Each of the Company s direct and indirect subsidiaries, including QD LLC, is 100% owned. All non-domestic subsidiaries including Levy Transport, Ltd. are non-guarantor subsidiaries.

The Company conducts substantially 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 to the Company s 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 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 above-mentioned notes.

The following condensed consolidating financial information for the parent company, QD LLC, non-guarantor subsidiaries and combined guarantor subsidiaries presents:

Condensed consolidating balance sheets at December 31, 2003 and 2002 and condensed consolidating statements of operations and of cash flows for the three years ended December 31, 2003.

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

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

The following condensed consolidating financial information has been adjusted to reflect the PPI restatement (Note 1).

Consolidating Balance Sheet, December 31, 2003

	QDI	QDI LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
Current assets:						
Cash and cash equivalents	$	$	$ 705	$ 250		$ 955
Accounts receivable, net			74,959	(15)		74,944
Current maturities of notes receivable from affiliates			676			676
Inventories			758	61		819
Prepaid expenses			3,474	92		3,566
Prepaid tires			7,812	166		7,978
Other			1,236			1,236
Total current assets			89,620	554		90,174
Property and equipment, net			131,381	6,580		137,961
Intangibles and goodwill, net			132,206	428		132,634
Notes receivable from affiliates			1,051			1,051
Investment in subsidiaries	(4,480)	153,838			(149,358)	
Other assets		100,000	9,867	4	(100,000)	9,871
	$ (4,480)	$ 253,838	$ 364,125	$ 7,566	$ (249,358)	$ 371,691
LIABILITIES, MINORITY INTEREST, STOCKHOLDERS EQUITY (DEFICIT)						
Current liabilities:						
Current maturities of indebtedness	$	$ 1,759	$	$	$	$ 1,759
Accounts payable			18,988			18,988
Intercompany	16,191	(16,191)	9,115	(9,115)		
Affiliates and owner-operators payable			7,312	7		7,319
Accrued expenses			54,130	112		54,242
Income taxes payable			(299)	817		518

Total current liabilities	16,191	(14,432)	89,246	(8,179)		82,826
Long-term indebtedness, less current maturities		272,750				272,750
Environmental liabilities			19,689			19,689
Other non-current liabilities			113,712		(100,000)	13,712
Deferred liability tax			(1,480)	3,032		1,552
Total liabilities	16,191	258,318	221,167	(5,147)	(100,000)	390,529
Minority interest in subsidiaries			1,833			1,833
Stockholders equity:						
Common stock and additional paid-in capital	356,078	176,122	99,463	15,127	(290,712)	356,078
Treasury stock	(1,258)					(1,258)
(Accumulated deficit)/retained earnings	(169,569)	23,676	54,593	(601)	(77,668)	(169,569)
Stock recapitalization	(189,589)	(189,589)		(55)	189,644	(189,589)
Accumulated other comprehensive loss	(14,689)	(14,689)	(12,931)	(1,758)	29,378	(14,689)
Stock purchase warrants	86					86
Stock subscription receivable	(1,730)					(1,730)
Total stockholders equity (deficit)	(20,671)	(4,480)	141,125	12,713	(149,358)	(20,671)
	$ (4,480)	$ 253,838	$ 364,125	$ 7,565	$ (249,358)	$ 371,691

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

Consolidating Balance Sheet, December 31, 2002 (Restated)

	QDI	QD LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
Current assets:						
Cash and cash equivalents	$	$	$ 284	$ 377	$	$ 661
Accounts receivable, net			81,871	(7,448)		74,423
Current maturities of notes receivable from affiliates			991			991
Inventories			792	106		898
Prepaid expenses			5,060	106		5,166
Prepaid tires			7,709	185		7,894
Other			855			855
Total current assets			97,562	(6,674)		90,888
Property and equipment, net			145,946	7,615		153,561
Intangibles and goodwill, net			131,869	448		132,317
Notes receivable from affiliates			239			239
Investment in subsidiaries	(122,486)	154,704			(32,218)	
Other assets		100,000	4,577	4	(100,000)	4,581
	$ (122,486)	$ 254,704	$ 380,193	$ 1,393	$ (132,218)	$ 381,586
LIABILITIES, MANDATORILY REDEEMABLE SECURITIES, MINORITY INTEREST AND STOCKHOLDERS EQUITY (DEFICIT)						
Current liabilities:						
Current maturities of indebtedness	$	$ 3,251	$	$	$	$ 3,251
Accounts payable			23,161	1,402		24,563
Intercompany	125		21,756	(21,881)		
Affiliates and owner-operators payable			10,571	33		10,604
Accrued expenses			37,097			37,097
Income taxes payable			1,268	301		1,569

Total current liabilities	125	3,251	93,853	(20,145)		77,084
Long-term indebtedness, less current maturities	15,423	373,939		5,000		394,362
Environmental liabilities			27,324			27,324
Other non-current liabilities			117,656		(100,000)	17,656
Deferred tax liability			(1,175)	2,536		1,361
Total liabilities	15,548	377,190	237,658	(12,609)	(100,000)	517,787
Mandatorily redeemable preferred stock	62,675					62,675
Minority interest in subsidiaries			1,833			1,833
Stockholders equity:						
Common stock and additional paid-in capital	105,497	176,436	112,217	15,127	(303,780)	105,497
Treasury stock	(1,236)					(1,236)
(Accumulated deficit)/retained earnings	(97,927)	(93,502)	43,288	(42)	50,256	(97,927)
Stock recapitalization	(189,589)	(189,589)		(55)	189,644	(189,589)
Accumulated other comprehensive loss	(15,831)	(15,831)	(14,803)	(1,028)	31,662	(15,831)
Stock purchase warrants	86					86
Stock subscription receivable	(1,709)					(1,709)
Total stockholders equity (deficit)	(200,709)	(122,486)	140,702	14,002	(32,218)	(200,709)
	$ (122,486)	$ 254,704	$ 380,193	$ 1,393	$ (132,218)	$ 381,586

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

Consolidating Statement of Operations

For the Year Ended December 31, 2003

	QDI	QD LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenues:						
Transportation	$	$	$ 472,358	$ 7,361	$	$ 479,719
Other service revenue			69,181	929		70,110
Fuel surcharge			15,211	400		15,611
Total operating revenues			556,750	8,690		565,440
Operating expenses:						
Purchased transportation			359,065	1,238		360,303
Compensation			57,947	2,641		60,588
Fuel, supplies and maintenance			35,968	2,344		38,312
Depreciation and amortization			26,890	1,619		28,509
Insurance claims			31,973	236		32,209
Other operating expenses			26,031	694		26,725
Operating income			18,876	(82)		18,794
Interest expense	64,241	25,543		295		90,079
Foreign currency transaction loss			937			937
Gain on debt extinguishment	(721)	(4,012)				(4,733)
Other income			(281)	(7)		(288)
Equity in loss (earnings) of subsidiaries	3,582	(10,891)			7,309	
Income (loss) before taxes	(67,102)	(10,640)	18,220	(370)	(7,309)	(67,201)
Income taxes		(7,058)	6,770	189		(99)
Net income (loss)	$ (67,102)	$ (3,582)	$ 11,450	$ (559)	$ (7,309)	$ (67,102)

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

Consolidating Statement of Operations

For the Year Ended December 31, 2002 (Restated)

	QDI	QD LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenues:						
Transportation	$	$	$ 434,466	$ 7,401	$	$ 441,867
Other service revenue			68,065	797		68,862
Fuel surcharge			5,674	357		6,031
Total operating revenues			508,205	8,555		516,760
Operating expenses:						
Purchased transportation			300,694	1,227		301,921
Compensation			66,148	2,956		69,104
Fuel, supplies and maintenance			41,535	1,699		43,234
Depreciation and amortization			30,185	1,638		31,823
Insurance claims			18,240	187		18,427
Other operating expenses			29,265	588		29,853
Operating income			22,138	260		22,398
Interest expense	718	43,082		247		44,047
Other expense (income)		(120)	129	(3)		6
Equity in loss of subsidiaries	25,293	16,662			(41,955)	
Income (loss) before taxes	(26,011)	(59,624)	22,009	16	41,955	(21,655)
Income taxes		(10,346)	11,215	574		1,443
Income (loss) from continuing operations	(26,011)	(49,278)	10,794	(558)	41,955	(23,098)
Discontinued operations:						
Loss from operation and disposal of discontinued division, net of tax				(2,913)		(2,913)
Income (loss) before cumulative effect of a change in accounting principle	(26,011)	(49,278)	10,794	(3,471)	41,955	(26,011)
Cumulative effect of change in accounting principle, net of tax	(23,985)		(23,985)		23,985	(23,985)

Net loss	$ (49,996)	$ (49,278)	$ (13,191)	$ (3,471)	$ 65,940	$ (49,996)

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

Consolidating Statement of Operations

For the Year Ended December 31, 2001 (Restated)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenues:					
Transportation	$	$ 427,046	$ 6,873	$ (720)	$ 433,199
Other service revenue		63,344	1,362		64,706
Fuel surcharge		10,683	934		11,617
Total operating revenues		501,073	9,169	(720)	509,522
Operating expenses:					
Purchased transportation		298,098	1,310	(720)	298,688
Compensation		64,325	2,653		66,978
Fuel, supplies and maintenance		40,593	1,833		42,426
Depreciation and amortization		32,961	449		33,410
Insurance claims		13,374	429		13,803
Other operating expenses		27,648	1,576		29,224
Operating income		24,074	919		24,993
Interest expense	(40,392)		3		(40,389)
Other (expense) income	165	(22)			143
Equity in earnings of subsidiaries	12,310			(12,310)	
Income (loss) before taxes	(27,917)	24,052	922	(12,310)	(15,253)
Income taxes	(11,170)	11,619	686		1,135
Net income (loss) from continuing operations	(16,747)	12,433	236	(12,310)	(16,388)
Discontinued operations:					
Income (loss) from operation of discontinued division, net of tax			(359)		(359)
Net income (loss)	$ (16,747)	$ 12,433	$ (123)	$ (12,310)	$ (16,747)

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

Consolidating Statement of Cash Flows

For the Year Ended December 31, 2003

	QDI	QD LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:						
Net income (loss)	$ (67,102)	$ (3,582)	11,450	(559)	$ (7,309)	$ (67,102)
Adjustments for non-cash charges	67,102	3,582	13,202	2,147	7,309	93,342
Changes in assets and liabilities			(734)	(8,157)		(8,891)
Net cash provided by operating activities			23,918	(6,569)		17,349
Cash flows from investing activities:						
Capital expenditures			(8,168)	(724)		(8,892)
Acquisition of competitor s line of business			(6,100)			(6,100)
Proceeds from sales of property and equipment			1,664	947		2,611
Other						
Net cash used in investing activities			(12,604)	223		(12,381)
Cash flows from financing activities:						
Net payments on revolver		(3,230)				(3,230)
Proceeds from issuance of long-term debt		264,650				264,650
Payment of debt obligations	(14,846)	(355,126)		(3,730)		(373,702)
Deferred financing fees		(12,923)				(12,923)
Net proceeds from stock issuance	120,638					120,638
Other stock transactions		(22)				(22)
Other			(144)			(144)
	(105,792)	106,651	(11,648)	10,789		

Net change in intercompany balances						
Net cash used in financing activities			(11,792)	7,059		(4,733)
Net increase in cash			(478)	713		235
Effect of exchange rate changes on cash			899	(840)		59
Cash, beginning of period			284	377		661
Cash, end of period	$	$	$ 705	$ 250		$ 955

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

Consolidating Statement of Cash Flows

For the Year Ended December 31, 2002 (Restated)

	QDI	QD LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:						
Net loss	$ (49,996)	$ (49,278)	$ (13,191)	$ (3,471)	$ 65,940	$ (49,996)
Adjustments for non-cash charges	49,996	49,278	44,657	1,014	(65,940)	79,005
Changes in assets and liabilities			(4,794)	1,617		(3,177)
Net cash provided by (used in) operating activities			26,672	(840)		25,832
Cash flows from investing activities:						
Capital expenditures			(15,282)	(4)		(15,286)
Proceeds from asset dispositions			7,242	875		8,117
Net cash provided by (used in) investing activities			(8,040)	871		(7,169)
Cash flows from financing activities:						
Capital contribution		10,000				10,000
Payment of debt obligations		(17,484)				(17,484)
Exchange offer fees		(5,501)				(5,501)
Stock transactions		(1,032)				(1,032)
Other			(6,025)	44		(5,981)
Net change in intercompany balances		14,017	(14,017)			
Net cash provided by (used in) financing activities			(20,042)	44		(19,998)
Net increase (decrease) in cash			(1,410)	75		(1,335)
Effect of exchange rate changes on cash			(216)			(216)

Cash, beginning of period			1,910	302		2,212
Cash, end of period	$	$	$ 284	$ 377	$	$ 661

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

Consolidating Statement of Cash Flows

For the Year Ended December 31, 2001 (Restated)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:					
Net income (loss)	$ (16,747)	$ 12,433	$ (123)	$ (12,310)	$ (16,747)
Adjustments for non-cash charges	16,747	6,203	3,328	12,310	38,588
Changes in assets and liabilities		(9,990)	(4,383)		(14,373)
Net cash provided by (used in) operating activities		8,646	(1,178)		7,468
Cash flows from investing activities:					
Capital expenditures		(36,393)	(1,019)		(37,412)
Proceeds from asset dispositions		80	2,396		2,476
Net cash provided by (used in) investing activities		(36,313)	1,377		(34,936)
Cash flows from financing activities:					
Proceeds from issuance of long-term debt and capital leases	45,000				45,000
Payment of debt obligations	(18,019)		(64)		(18,083)
Stock transactions	(3,115)				(3,115)
Other	3,461				3,461
Net change in intercompany balances	(27,327)	27,327			
Net cash provided by (used in) financing activities		27,327	(64)		27,263
Net increase in cash		(340)	135		(205)
Effect of exchange rate changes on cash		(219)			(219)
Cash, beginning of period		2,469	167		2,636
Cash, end of period	$	$ 1,910	$ 302	$	$ 2,212

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

20. SELECTED QUARTERLY FINANCIAL DATA (Unaudited) (In thousands, except per share data)

	Quarter Ended			
	March 31	**June 30**	**September 30**	**December 31 (2)**
2003 (1)				
Operating revenues	$ 137,015	$ 143,632	$ 145,396	$ 139,397
Operating income	8,593	9,541	6,393	(5,733)
Net income (loss)	1,835	2,209	(3,336)	(67,810)
Income (loss) per share - basic	0.55	0.65	(1.00)	(4.95)
Income (loss) per share - diluted	0.51	0.62	(1.00)	(4.95)
2002 (1)				
Operating revenues	$ 123,043	$ 135,142	$ 132,470	$ 126,105
Operating income	6,594	8,379	5,516	1,909
Loss before cumulative effect of change in accounting principle	(3,773)	(12,910)	(3,023)	(6,305)
Loss per share before cumulative effect of change in accounting principle - basic	(1.11)	(3.83)	(0.90)	(1.89)
Loss per share before cumulative effect of change in accounting principle - diluted	(1.11)	(3.83)	(0.90)	(1.89)
Net loss	(27,758)	(12,910)	(3,023)	(6,305)

(1) The quarterly financial information has been adjusted to reflect the PPI restatement (Note 1). The following are reconciliation s of our quarterly operating results from unaudited pre-adjusted financial information to the adjusted financial information (in thousands, except per share data):

	For the quarter ended March 31, 2003		
	Pre-adjustment	**Adjustment**	**Adjusted**
Operating revenues	$ 137,197	$ (182)	$ 137,015
Operating income	9,461	(868)	8,593
Net income	2,703	(868)	1,835
Income per share - basic	0.81	(0.26)	0.55
Income per share - diluted	0.76	(0.25)	0.51

For the quarter ended June 30, 2003

	Pre-adjustment	Adjustment	Adjusted
Operating revenues	$ 143,175	$ 457	$ 143,632
Operating income	10,903	(1,362)	9,541
Net income	3,571	(1,362)	2,209
Income per share - basic	1.07	(0.42)	0.65
Income per share - diluted	1.00	(0.38)	0.62

	For the quarter ended September 30, 2003		
	Pre-adjustment	Adjustment	Adjusted
Operating revenues	$ 145,879	$ (483)	$ 145,396
Operating income	9,821	(3,428)	6,393
Net income	92	(3,428)	(3,336)
Income per share - basic	0.03	(1.03)	(1.00)
Income per share - diluted	0.03	(1.03)	(1.00)

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

	For the quarter ended March 31, 2002		
	Pre-adjustment	Adjustment	Adjusted
Operating revenues	$ 122,786	$ 257	$ 123,043
Operating income	7,322	(728)	6,594
Loss before cumulative effect of change in accounting principle	(3,045)	(728)	(3,773)
Loss per share before cumulative effect of change in accounting principle - basic	(0.90)	(0.21)	(1.11)
Loss per share before cumulative effect of change in accounting principle - diluted	(0.90)	(0.21)	(1.11)
Net loss	(27,030)	(728)	(27,758)

	For the quarter ended June 30, 2002		
	Pre-adjustment	Adjustment	Adjusted
Operating revenues	$ 134,986	$ 156	$ 135,142
Operating income	9,271	(892)	8,379
Loss before cumulative effect of change in accounting principle	(12,018)	(892)	(12,910)
Loss per share before cumulative effect of change in accounting principle - basic	(3.56)	(0.27)	(3.83)
Loss per share before cumulative effect of change in accounting principle - diluted	(3.56)	(0.27)	(3.83)
Net loss	(12,018)	(892)	(12,910)

	For the quarter ended September 30, 2002		
	Pre-adjustment	Adjustment	Adjusted
Operating revenues	$ 132,575	$ (105)	$ 132,470
Operating income	7,905	(2,389)	5,516
Loss before cumulative effect of change in accounting principle	(634)	(2,389)	(3,023)
Loss per share before cumulative effect of change in accounting principle - basic	(0.19)	(0.71)	(0.90)
Loss per share before cumulative effect of change in accounting principle - diluted	(0.19)	(0.71)	(0.90)
Net loss	(634)	(2,389)	(3,023)

	For the quarter ended December 31, 2002		
	Pre-adjustment	Adjustment	Adjusted
Operating revenues	$ 126,192	$ (87)	$ 126,105
Operating income	2,786	(877)	1,909
Loss before cumulative effect of change in accounting principle	(5,428)	(877)	(6,305)
Loss per share before cumulative effect of change in accounting principle - basic	(1.62)	(0.27)	(1.89)
Loss per share before cumulative effect of change in accounting principle - diluted	(1.62)	(0.27)	(1.89)
Net loss	(5,428)	(877)	(6,305)

(2) Selling and administrative expenses in the fourth quarter of 2002 include a $3.9 million charge to increase the reserve for uncollectible accounts, due to increased collection efforts on trade receivables and receivables from terminated owner-operators and affiliates. Additionally, a $4.0 million reduction in environmental liabilities was recorded, reflecting lower than anticipated environmental clean-up costs based on new estimates at existing sites.

Results for the fourth quarter of 2003 include a non-cash charge of $59.4 million for the conversion of preferred stock into common stock and a $4.7 million gain on the early extinguishment of debt, both in connection with the Company s initial public offering in November of 2003. The fourth quarter results also include an $8.1 million charge relating to irregularities at Power Purchasing, Inc. (PPI), a non-core insurance subsidiary, a $2.3 million charge relating to prior period insurance claims of a bankrupt insurer, a $0.7 million restructuring charge and a $4.0 million adjustment for adverse development with respect to certain insurance claims.

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EXHIBIT INDEX

Exhibit No.	Description
3.1	Amended and Restated Articles of Incorporation of Quality Distribution, Inc. dated November 5, 2003. Incorporated herein by reference to Exhibit No. 3.1 to Quality Distribution, Inc. s Amendment No. 3 to Registration Statement on Form S-1 filed with the Securities and Exchange Commission on November 5, 2003 (Registration No. 333-108344).
3.2	Amended and Restated Bylaws of Quality Distribution. Inc. dated November 5, 2003. Incorporated herein by reference to Exhibit No. 3.2 to Quality Distribution, Inc. s Amendment No. 3 to Registration Statement on Form S-1 filed with the Securities and Exchange Commission on November 5, 2003 (Registration No. 333-108344).
4.1	Credit Agreement, dated as of November 13, 2003, between Quality Distribution, Inc., Quality Distribution, LLC, the lenders party thereto and Credit Suisse First Boston, as administrative agent.
4.2	Security Agreement dated as of November 13, 2003, among Quality Distribution, LLC, various subsidiaries of Quality Distribution, Inc. and Credit Suisse First Boston, as collateral agent.
4.3	U. S. Pledge Agreement dated as of November 13, 2003, among Quality Distribution, LLC, various subsidiaries of Quality Distribution, Inc. and Credit Suisse First Boston, as collateral agent and pledgee.
4.4	Subsidiaries Guaranty dated as of November 13, 2003, among various subsidiaries of Quality Distribution, Inc. and Credit Suisse First Boston, as administrative agent.
4.5	Indenture, dated as of November 13, 2003, among Quality Distribution, LLC, QD Capital Corporation, the Guarantors named therein and The Bank of New York as Trustee.
4.6	Form of Exchange Note (included as Exhibit B to Exhibit 4.5).
4.7	Registration Rights Agreement, dated as of November 13, 2003, among Quality Distribution, LLC, QD Capital Corporation, the subsidiaries of Quality Distribution, LLC set forth on Annex I thereto and The Bank of New York.
10.1	Amended and Restated Shareholders Agreement, dated as of February 10, 1998, among MTL, Apollo Investment Fund III, L.P., Apollo Overseas Partners III, L.P., Apollo U.K. Fund III, L.P. and certain shareholders of QDI. Incorporated herein by reference to Exhibit No. 4.13 to Quality Distribution, Inc. s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 29, 2002.
10.2	Amended and Restated Common and Preferred Stock Purchase and Shareholders Agreement, dated as of August 28, 1998, among BT Investment Partners, Inc., MTL Equity Investors, L.L.C., Apollo Investment Fund III, L.P., Apollo Overseas Partners III, L.P., Apollo U.K. Fund III, L.P. and MTL. Incorporated herein by reference to Exhibit No. 4.14 to Quality Distribution, Inc. s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 29, 2002.
10.3	Amendment No. 1, dated as of April 2, 2002, to the Amended and Restated Common and Preferred Stock Purchase and Shareholders Agreement, dated as of August 28, 1998, among BT Investment Partners, Inc., MTL Equity Investors, L.L.C., Apollo Investment Fund III, L.P., Apollo Overseas Partners III, L.P., Apollo U.K. Fund III, L.P. and MTL. Incorporated herein by reference to Exhibit No. 10.3 to Quality Distribution, LLC s Registration Statement on Form S-4 filed with the Securities and Exchange Commission on August 14, 2002 (Registration No. 333-98077).
10.4	Second Amended and Restated Registration Rights Agreement, dated as of August 28, 1998, among Apollo Investment Fund III, L.P., Apollo Overseas Partners III, L.P., Apollo U.K. Fund III, L.P., QDI and certain shareholders of QDI. Incorporated herein by reference to Exhibit No. 10.4 to Quality Distribution, LLC s Registration Statement on Form S-4 filed with the Securities and Exchange Commission on August 14, 2002 (Registration No. 333-98077).

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Exhibit No.	Description
10.5	Agreement, dated as of May 30, 2002, among Apollo Investment Fund III, L.P., Apollo Overseas Partners III, L.P., Apollo U.K. Fund III, L.P., QDI and certain shareholders of QDI. Incorporated herein by reference to Exhibit No. 10.5 to Quality Distribution, LLC s Registration Statement on Form S-4 filed with the Securities and Exchange Commission on August 14, 2002 (Registration No. 333-98077).
10.6	1998 Stock Option Plan of Quality Distribution, Inc. Incorporated herein by reference to Exhibit No. 10.1 to Quality Distribution, Inc. s Registration Statement on Form S-4 filed with the Securities and Exchange Commission on November 3, 1998 (Registration No. 333-66711).
10.7	Employment Agreement, dated November 8, 1999, between Quality Distribution, Inc. and Thomas L. Finkbiner. Incorporated herein by reference to Exhibit No. 10.3 to Quality Distribution, Inc. s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 29, 2002
10.8	Employment Agreement, dated March 27, 2000, between Quality Distribution, Inc. and Virgil T. Leslie. Incorporated herein by reference to Exhibit No. 10.6 to Quality Distribution, Inc. s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 29, 2002.
10.9	Employment Agreement, dated June 23, 1998, between Quality Distribution, Inc. and Dennis R. Copeland. Incorporated herein by reference to Exhibit No. 10.7 to Quality Distribution, Inc. s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 29, 2002.
10.10	Promissory Note, dated November 8, 1999, issued by Thomas L. Finkbiner to Quality Distribution, Inc. Incorporated herein by reference to Exhibit No. 10.14 to Quality Distribution, Inc. s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 29, 2002.
10.11	Pledge Agreement, dated November 8, 1999, between Thomas L. Finkbiner and Quality Distribution, Inc. Incorporated herein by reference to Exhibit No. 10.15 to Quality Distribution, Inc. s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 29, 2002.
10.12	Stock Option Agreement, dated November 8, 1999, between Thomas L. Finkbiner and Quality Distribution, Inc. Incorporated herein by reference to Exhibit No. 10.16 to Quality Distribution, Inc. s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 29, 2002.
10.13	Limited Recourse Secured Promissory Note, dated June 9, 1998, issued by Marvin Sexton to Quality Distribution, Inc. and corresponding pledge agreement. Incorporated herein by reference to Exhibit No. 10.11 to Quality Distribution, Inc. s Registration Statement on Form S-4 filed with the Securities and Exchange Commission on November 3, 1998 (Registration No. 333-66711).
10.14	Contribution Agreement dated May 30, 2002, between Quality Distribution, LLC and Quality Distribution, Inc. Incorporated herein by reference to Exhibit No. 10.26 to Quality Distribution, LLC s Registration Statement on Form S-4 filed with the Securities and Exchange Commission on August 14, 2002 (Registration No. 333-98077).
10.15	Lock-Up Agreement, dated as of April 10, 2002, and Amendment No. 1 thereto dated as of May 30, 2002, among Quality Distribution, Inc., ARES Leveraged Investment Fund, L.P. and ARES Leveraged Investment Fund II, L.P. Incorporated herein by reference to Exhibit No. 10.27 to Quality Distribution, LLC s Registration Statement on Form S-4 filed with the Securities and Exchange Commission on August 14, 2002 (Registration No. 333-98077).
10.16	Lock-Up and Purchase Agreement, dated as of April 10, 2002, among Quality Distribution, Inc., Apollo Investment Fund III, L.P., Apollo Overseas Partners III, L.P. and Apollo (U.K.) Partners III, L.P. Incorporated herein by reference to Exhibit No. 10.28 to Quality Distribution, LLC s Registration Statement on Form S-4 filed with the Securities and Exchange Commission on August 14, 2002 (Registration No. 333-98077).

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Exhibit No.	Description
10.17	Lock-up Agreement, dated as of April 10, 2002, among Quality Distribution, Inc. and the members of management listed on the signature page thereto. Incorporated herein by reference to Exhibit No. 10.29 to Quality Distribution, LLC s Registration Statement on Form S-4 filed with the Securities and Exchange Commission on August 14, 2002 (Registration No. 333-98077).
10.18	Employment Agreement dated June 23, 1998 between Quality Distribution, Inc. and Michael A. Grimm. Incorporated herein by reference to Exhibit No. 10.30 to Quality Distribution, LLC s Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 9, 2003.
10.19	Amendment, dated May 30, 2003, to Employment Agreement dated June 23, 1998 between Quality Distribution, Inc. and Michael A. Grimm. Incorporated herein by reference to Exhibit 10.29 to Quality Distribution, Inc. s Amendment No. 2 to Registration Statement on Form S-1 filed with the Securities and Exchange Commission on October 24, 2003 (Registration No. 333-108344).
10.20	Employment Agreement dated April 10, 2000 between Quality Distribution, Inc. and Keith J. Margelowsky. Incorporated herein by reference to Exhibit No. 10.31 to Quality Distribution, LLC s Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 9, 2003.
10.21	Employment Agreement dated February 5, 2003 between Quality Distribution, Inc. and Samuel M. Hensley. Incorporated herein by reference to Exhibit No. 10.32 to Quality Distribution, LLC s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 12, 2003.
10.22	Warrant Agreement (including form of warrant certificate), dated as of May 30, 2002, between Quality Distribution, Inc. and The Bank of New York. Incorporated herein by reference to Exhibit 10.32 to Quality Distribution, Inc. s Amendment No. 2 to Registration Statement on Form S-1 filed with the Securities and Exchange Commission on October 24, 2003 (Registration No. 333-108344).
10.23	2003 Stock Option Plan of Quality Distribution, Inc. Incorporated herein by reference to Exhibit 10.33 to Quality Distribution, Inc. s Amendment No. 3 to Registration Statement on Form S-1 filed with the Securities and Exchange Commission on November 5, 2003 (Registration No. 333-108344).
10.24	Form of Stock Option Agreement Under Stock Option Plan of Quality Distribution, Inc. Incorporated herein by reference to Exhibit No. 10.34 to Quality Distribution, Inc. s Amendment No. 3 to Registration Statement on Form S-1 filed with the Securities and Exchange Commission on November 5, 2003 (Registration No. 333-108344).
10.25	2003 Restricted Stock Plan of Quality Distribution, Inc. Incorporated herein by reference to Exhibit 10.35 to Quality Distribution, Inc. s Amendment No. 3 to Registration Statement on Form S-1 filed with the Securities and Exchange Commission on November 5, 2003 (Registration No. 333-108344).
10.26	Form of Restricted Award Agreement Under Restricted Stock Plan of Quality Distribution, Inc. Incorporated herein by reference to Exhibit No. 10.36 to Quality Distribution, Inc. s Amendment No. 3 to Registration Statement on Form S-1 filed with the Securities and Exchange Commission on November 5, 2003 (Registration No. 333-108344).
21.1	Subsidiaries of the Registrant. Incorporated herein by reference to Exhibit No. 21.1 to Quality Distribution, Inc. s Amendment No. 2 to Registration Statement on Form S-1 filed with the Securities and Exchange Commission on October 6, 2003 (Registration No. 333-108344).
31.1	Certification of Chief Executive Officer pursuant to Rule 13(a) 14(a).
31.2	Certification of Chief Financial Officer pursuant to Rule 13(a) 14(a).
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.