

LAIDLAW INTERNATIONAL INC

Form 10-K

December 01, 2003

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**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-K**

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

For the fiscal year ended August 31, 2003  
Commission File Number 000-13109

**LAIDLAW INTERNATIONAL, INC.**

(Exact name of registrant as specified in its charter)

**DELAWARE**  
(State or other jurisdiction of  
incorporation or organization)

**98-0390488**  
(I.R.S. Employer  
Identification No.)

**55 SHUMAN BOULEVARD, SUITE 400**  
**NAPERVILLE, ILLINOIS 60563**  
(Address of principal executive offices, including zip code)

**(630) 848-3000**  
Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:  
None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$0.01 par value

Preferred Stock Purchase Rights

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes  No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant at February 28, 2003 was \$7.2 million (computed by reference to the price at which the common equity of the registrant's predecessor, Laidlaw Inc., was last sold on the over-the-counter market in the United States as posted on the OTC Bulletin Board). At November 24, 2003 there were 103,806,110 shares of the registrant's Common Stock issued and outstanding.

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

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

### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its 2004 annual meeting of stockholders are incorporated by reference into Part III of this report on Form 10-K.

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**NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This annual report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements can be identified by the use of terminology such as believe, hope, may, anticipate, should, intend, will, expect, estimate, continue, project, positioned, strategy and similar expressions. You should be aware that those statements are or may be predictions. The forward-looking statements included in this report are not guarantees of future performances, and should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results could differ materially from those contemplated by these forward-looking statements. In the light of these risks and uncertainties, there can be no assurance that the results and events contemplated by the forward-looking information contained in this report will in fact transpire. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates.

Such risks, uncertainties and contingencies are described in detail in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and include, without limitation, the following:

Economic and other conditions in the markets in which the Company operates;

Greyhound's ability to continue as a going concern;

Governmental regulations, the competitive environment, actual accident claims experience and third-party payor health care reimbursement rates;

The restrictive covenants contained in the company's senior secured credit facility;

The ability to continue to satisfy bonding requirements for existing or new customers;

Successful completion of labor negotiations including those at the company's Greyhound business (see Greyhound Segment Employees in Item 1. Business);

Potential pension plan funding requirements;

The ability to realize revenue growth; and

The ability to implement initiatives designed to increase operating efficiencies and improve results.

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**PART I**

**ITEM 1. BUSINESS**

Except as expressly indicated or unless the context otherwise requires, the Company, Laidlaw International, we, our or us means Laidlaw International, Inc., a Delaware corporation, and its subsidiaries.

We have five reportable segments that provide transportation and healthcare services:

Our education services segment provides school bus transportation throughout Canada and the United States;

Our public transit services segment provides municipal and paratransit bus transportation within the United States;

Our Greyhound segment provides inter-city, tourism and small parcel bus transportation throughout North America;

Our healthcare transportation services segment provides healthcare related transportation services in the United States; and

Our emergency management services segment provides emergency department physician services throughout the United States.

We file annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and other information with the Securities and Exchange Commission. The public can obtain copies of these materials by visiting the Commission's Public Reference Room at 450 Fifth Street, NW, Washington DC 20549, by calling the Commission at 1-800-SEC-0330, or by accessing the SEC's website at <http://www.sec.gov>. In addition, as soon as reasonably practicable after such materials are filed with or furnished to the Commission, we make copies available to the public free of charge on or through our website at [www.laidlaw.com](http://www.laidlaw.com). A copy of our Code of Ethics, as defined under Item 406 of Regulation S-K, Corporate Governance Guidelines, Director Independence Criteria and Board Committee Charters can also be accessed on our website. We will provide, at no cost, a copy of our Code of Ethics upon request by phone or in writing to our corporate address at 55 Shuman Boulevard, Naperville, Illinois 60563 (telephone number: (630) 848-3000), attention: Investor Relations. The information on our website is not incorporated into, and is not part of, this report.

**BACKGROUND AND PARENT COMPANY RESTRUCTURING**

We are a parent holding company without business operations of our own. We were originally incorporated under the laws of Ontario, Canada under the name Laidlaw Investments Ltd. on September 25, 1985. On June 20, 2003, in connection with our reorganization, we filed a certificate of domestication with the Secretary of State of the State of Delaware and became a Delaware corporation and, as part of our domestication, we changed our name to Laidlaw International, Inc. from Laidlaw Investments Ltd.

On June 28, 2001, we, along with Laidlaw Inc., an Ontario corporation and our predecessor, and four of our direct and indirect subsidiaries, filed voluntary petitions for relief under chapter 11 of the U.S. Bankruptcy Code. In addition, we and Laidlaw Inc. commenced Canadian insolvency proceedings under the Canadian Companies Creditors Arrangement Act in the Ontario Superior Court of Justice, or the Canadian Court, in Toronto, Ontario. On February 27, 2003, the U.S. Bankruptcy Court for the Western District of New York, or the U.S. Bankruptcy Court, entered an order confirming our Third Amended Joint Plan of Reorganization, or the Plan. On February 28, 2003, the Canadian Court issued an order recognizing the U.S.

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Bankruptcy Court's confirmation order and implementing it in Canada with respect to our Canadian insolvency proceeding.

On June 23, 2003, we completed our restructuring when the Plan became effective. Pursuant to the Plan, more than \$3.2 billion of unsecured debt, \$370 million of accrued and unpaid interest and \$400 million of various other liabilities were compromised. The creditor groups received a combination of \$1,185.0 million in cash and 100.0 million shares of newly issued common stock in Laidlaw International in exchange for the extinguishment of all claims, liabilities and debt against the predecessor company, Laidlaw Inc. In addition, we issued approximately 3.8 million shares of common stock to a trust in connection with a settlement agreement with the United States Pension Benefit Guaranty Corporation relating to the funding level of certain subsidiary pension funds.

The equity ownership of the predecessor company, Laidlaw Inc., was cancelled for no consideration.

None of Laidlaw International's operating subsidiaries was a party to the chapter 11 proceedings. Our subsidiaries were able to meet their obligations with their own cash flow and credit facilities, and accordingly, continued to operate normally and without interruption during the chapter 11 proceedings.

For further discussion of the parent company restructuring and factors affecting Laidlaw International's results of operations, liquidity and financial condition, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 1 of the Notes to Consolidated Financial Statements included in this report.

In the following description of our business segments, certain revenue information is presented for the twelve month period ended August 31, 2003. As explained in Note 2 of the Notes to Consolidated Financial Statements included in this report, the Company, as a result of the consummation of the Plan, adopted fresh start accounting and, for financial reporting purposes, the effective date of the Plan was considered to be June 1, 2003. Due to the changes in the financial structure of the Company and the application of fresh start accounting, the results of the Company after June 1, 2003 are not comparable with the results of the Predecessor Company prior to the Plan implementation. Reference is made to Note 23 of the Notes to Consolidated Financial Statements, which shows the results of our business segments for the three months ended August 31, 2003 and for the nine months ended May 31, 2003.

For each of the years in the three-year period ended August 31, 2003, the percentages of consolidated revenue from our business segments were as follows:

<b>Year Ended August 31</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
Education Services	33%	33%	33%
Healthcare Transportation Services	23	22	22
Greyhound	27	28	28
Emergency Management Services	11	10	10
Public Transit Services	6	7	7
	<b>100%</b>	<b>100%</b>	<b>100%</b>

Financial information concerning the Company's business segments is set forth in Note 23 of the Notes to Consolidated Financial Statements included in this report.

*Geographic Segments*

In the last three fiscal years, the percentage of revenue generated by United States operations has been 92.1%, 92.3% and 92.2%, respectively. Geographic information is set forth in Note 23 of the Notes to Consolidated Financial Statements included in this report. We have no operations outside of the United States and Canada.

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**EDUCATION SERVICES SEGMENT**

Our education services business operates school buses and special education vehicles, primarily under the names Laidlaw Transit and Laidlaw Education Services in the United States and Canada. We have operations in 37 states and the District of Columbia in the United States and six provinces in Canada.

At the end of fiscal 2003, the business had contracts with approximately 970 school boards and districts in the United States and more than 60 school boards and districts in Canada, as well as various other educational institutions, providing transportation for approximately 2.0 million students each day.

For the twelve months ended August 31, 2003, we had revenue from our education services segment of \$1,499.7 million (U.S. \$1,357.1 million, Canada \$142.6 million).

Segment Overview

The education services business is composed of four core activities including home-to-school, extracurricular, charter and transit, and other.

- (i) *Home-to-School:* This activity comprises all regularly scheduled services for the transportation of students to and from school, covered under a contract. Home-to-school represented approximately 89% of total revenue during fiscal year 2003.
- (ii) *Extra-curricular:* Extra-curricular revenue is non-contractual income resulting from transportation service not associated with regular home-to-school services of students. This activity contributed approximately 4% of education services revenues for fiscal year 2003.
- (iii) *Charter & Transit:* Charter service is generally non-contractual, non-regularly scheduled transportation service performed for a customer other than a school or school board. Transit services are available to the general public or are contracted through a government agency. Charter and transit activity accounted for approximately 3% of total revenues during fiscal year 2003.
- (iv) *Other:* This is comprised of revenues from transportation services, primarily regularly scheduled routes, to non-school customers, from the leasing of transportation equipment or from other non-transportation services such as logistical support or maintenance contracts. Other revenues accounted for approximately 4% of total revenues during fiscal year 2003.

Market Overview

There are an estimated 496,000 school buses operated in the United States and Canada transporting students to and from school. Nearly 67% of the buses are owned and operated by local school districts and other public sector entities; the remaining 33% of the buses are operated under private contract with various parties, including Laidlaw.

We are the largest school bus operator in the United States and Canada. We serve over 1,000 school boards. Our fleet consists of approximately 42,000 buses.

Competition

Competition in the privately operated bus market occurs in two forms from the school districts themselves or from other private student carriers. Approximately 67% of school bus services



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are operated by school districts for their own transport needs. In order to convert publicly operated fleets to private operation, we need to demonstrate to school boards that we can provide student transportation more efficiently and safely and at lower cost.

Competition comes from other privately operated school bus operators. There are a few competitors that operate regionally and are owned by large, multiple segment transportation companies. The balance of the privately operated bus services market is served by more than 4,000 companies that are mostly small, privately held, local bus companies. We compete with other privately operated school bus services businesses based on price, scale and other operating attributes.

**Contracts**

In aggregate, more than 90% of education services revenue is pursuant to contracts with terms generally of three to five years with options for extensions. Our school bus contracts are generally with municipalities and school districts or boards of education. Pricing is generally on a revenue per bus, per day basis with annual increases per the terms of the agreement.

**Seasonality**

Our education services business is seasonal with operations following the school year from September to June. As a result, our education services business historically experiences a significant decline in revenue and operating income in the fourth fiscal quarter due to school summer vacations.

**Employees**

As of August 31, 2003, our education services segment had approximately 46,000 employees with 95% involved directly in operations. Part-time employees comprise over 90% of all employees. Approximately 42% are represented by 175 collective bargaining agreements. During fiscal 2004, 25% of the collective bargaining agreements, representing approximately 6,800 employees, are subject to renegotiation. The existence of many local union contracts limits the impact of any individual labor disruption on our operations. The workforce is primarily composed of drivers, mechanics and bus monitors. We believe that our relations with our employees in our education services business are good. During the past five years, we have not had any significant labor disruption in our education services business that had a material adverse effect on our business, financial condition or results of operations.

**Fuel**

For fiscal 2003, approximately 60% of our fuel costs were fixed, primarily through forward purchase contracts. In 2003, fuel expense represented 4.2% of total revenue. Wherever possible, we incorporate fuel protection measures to mitigate the effects of price fluctuations. Many of our contracts have two-way fuel cost adjustments or escalation provisions. We continue to incorporate such clauses into new contracts and seek amendments in existing agreements to reduce our exposure to increases in fuel costs.

**Vehicle Fleet**

Our education services business owns in excess of 39,000 buses and operates approximately 3,000 customer-owned buses. The average age of the bus fleet is approximately 6.5 years. In fiscal 2003, the average purchase price of a new bus was approximately \$51,000. Fleet replacements are based on contract requirements, age and useful life of the vehicle.

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### Regulation

Companies operating in the school busing industry are not subject to licensing requirements in the United States. However, U.S. regulations require all drivers of school buses to have commercial driver's licenses. In Canada, licenses to carry passengers are granted by provincial boards upon proof of public convenience and necessity. The provincial boards exercise control over the issuance, extension and transfer of licenses and regulate the general conduct of a licensee's business. Various states, provinces and school boards set standards for insurance, qualification of drivers and safety equipment.

### **PUBLIC TRANSIT SERVICES SEGMENT**

Our public transit services business is conducted by Laidlaw Transit Services, Inc. Laidlaw Transit Services, Inc. is a leading private provider of municipal public transportation services, specializing in paratransit and fixed-route contract services. Laidlaw Transit Services, Inc. also operates under the names of SuTran (Sioux Falls, SD), VanTran (Tucson, AZ) and SafeRide (Arizona and New Mexico).

For the twelve months ended August 31, 2003, our public transit business had revenues of \$283.1 million

### Segment Overview

We offer three types of transit service:

- (i) *Paratransit:* We provide door-to-door transportation for the mobility challenged. Our service offerings include curb-to-curb and door-to-door services, group service and individual dial-a-ride, to comply with the Americans with Disabilities Act, or the ADA. We serve general public and targeted populations. The paratransit business contributed approximately 67% of the total revenues of the public transit segment for fiscal year 2003.
- (ii) *Fixed-Route:* This is comprised of public municipal transit bus systems providing fixed-route transportation. We operate municipal transit bus systems and the recruitment, training and management of drivers, mechanics and support staff needed to provide such services. The fixed-route business contributed approximately 30% of public transit's total revenues for fiscal year 2003.
- (iii) *Other:* We provide shuttle services for corporate campuses and operate reservation call and dispatch centers as well as transit information centers. We have six contracts in place to provide these types of services and they contributed approximately 3% of public transit's total revenues for fiscal year 2003.

Our public transit segment operates from 104 locations in 25 states across the United States to service 146 contracts and transport more than 82 million passengers per year. With a fleet of approximately 3,800 vehicles, 65% of which are owned by our clients, we travel over 156 million miles per year.

### Market Overview

The public transit market is estimated to be approximately \$13 billion based on annual revenue, of which 11%, or approximately \$1.4 billion, is out-sourced to private sector providers. The total municipal bus fleet in the United States and Canada is estimated at roughly 65,000 buses, of which 74% are fixed-route vehicles and 26% are paratransit vehicles. Paratransit services are predominately provided by private contractors. We are one of the largest private providers of municipal public transportation services in the United States.

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### Competition

The transit market in the U.S. is highly fragmented with an estimated 6,000 operators. Public transit authorities are the primary competitors, with approximately 90% of services are operated in-house. Typically, a contract is a management contract with the transit authority providing the vehicles and facilities. Transit authorities can apply for and receive up to 80% of the capital costs for new buildings and buses from the Federal Transit Administration (FTA). With low barriers to entry, bidding for contracts can be very competitive. Additionally, the slow down in the United States economy and the decline in tax revenues (state and local) have produced shortfalls in funding to transit authorities that have contributed to downward margin pressure over the past few years.

### Contracts

All of public transit's revenues are generated under contracts, generally with three-year maturities and two-year extension options. Our largest contract represents 9.4% of our public transit segment's revenue in fiscal year 2003.

The FTA, in a policy change in May 2002, rescinded the maximum five-year limitation in contract length. As a result, FTA approval is no longer required for contract terms exceeding five years. In addition, municipal and transit authorities are no longer required to bid out contract renewals.

### Operations

We operate dispatch centers, brokerage operations, management contracts and total turnkey operations for both paratransit and fixed-route services.

Public transit's operations are largely conducted on a decentralized basis. We have two operating regions—East and West. Our support functions are more centralized and include marketing, information systems, and safety functions.

We have developed proprietary software that assists with dispatching our fleet and provides route modification of vehicles in service. It matches reservations and new trip requests with existing routes to maximize shared trips, improve passenger/vehicle productivity and enhance customer service.

### Employees

As of August 31, 2003, our public transit business had approximately 5,400 employees, 32% of which are unionized under 37 union contracts. Approximately 16% of the collective bargaining agreements, representing approximately 600 employees, are subject to renegotiation in fiscal year 2004. Driver compensation is market-driven and can be determined or specified by a Transit Authority during the competitive bidding process. We believe that our relations with our employees in our public transit business are good. During the past five years, we have not had any significant labor disruption in our public transit business that had a material adverse effect on our business, financial condition or results of operations.

### Fuel

Fuel price increases, wherever possible, are passed through to our customers or are subject to escalation clauses. We further mitigate price increases by requiring our customers to provide the fuel and have been able to either secure fuel escalation clauses or negotiate with the customer to agree to furnish fuel in 95% of all contracts bid or renewed in the last two years. Approximately 60% of our fuel purchases are retail pump purchases of fuel while vehicles are in service. There is no financial hedging instrument for retail pump purchases currently available to us. In 2003, fuel expense represented 4.6% of total revenues for the public transit segment.

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### Vehicle Fleet

As of August 31, 2003, public transit operated approximately 3,800 vehicles, of which approximately 1,350, mostly paratransit vehicles, were owned by us and the remaining units were owned and provided by customers. Our fleet consists of vans, sedans and body-on-chassis small buses configured to the individual requirements of each contract. Vehicle life is usually tied to the contract that the vehicle is providing services for. Vehicles are usually retired and sold at the end of the revenue contract.

### Safety

Public transit operates under very stringent safety standards. In addition to thorough background checks and testing at the time of hire, we require mandatory training both in the classroom and behind the wheel. The average training requirement for our drivers is 100 hours. Public transit is heavily regulated by customers, states and federal agencies and undergoes both internal and external compliance audits.

## **GREYHOUND SEGMENT**

Greyhound is the only national provider of scheduled inter-city bus transportation services in the United States and Canada. Collectively referred to as Greyhound, we operate in the U.S. as Greyhound Lines, Inc. (Greyhound U.S.), with headquarters in Dallas, Texas, and in Canada as Greyhound Canada Transportation Corporation (Greyhound Canada), with headquarters in Calgary, Alberta. We serve the value-oriented customer by connecting rural and urban markets throughout the United States and Canada, offering passenger service of 20,000 daily departures to more than 3,700 destinations with a fleet of approximately 3,700 buses. Additionally, we provide package express service, charter bus service and, in some of our terminals, food service. We also provide passenger services under private contract and package tours to major tourist regions in the United States and Canada.

Our U.S. operations serve more than 2,600 destinations with a fleet of approximately 3,000 buses. Greyhound Canada travels to more than 1,100 destinations using a fleet of approximately 700 buses.

For the twelve months ended August 31, 2003, our Greyhound services had revenue of \$1,204.2 million (U.S. \$991.8 million, Canada \$212.4 million).

### Segment Overview

Greyhound operates in four major businesses: (i) passenger service, (ii) package express, (iii) tour and charter and (iv) food service and other.

- (i) **Passenger Service.** Greyhound provides inter-city bus transportation to cities and towns in urban and rural areas throughout the U.S. and Canada. The typical passenger travels to visit friends and relatives and generally has an annual income below \$35,000. Our core customers are short-haul travelers (traveling 450 miles or less), comprising 78% of total passengers and 50% of our Greyhound services revenue. Long-haul travel contributes approximately 22% of the passengers and 50% of our Greyhound services revenue. Passenger service contributes approximately 77% of Greyhound's total revenues.

Additionally, we have interline agreements and alliances with other bus carriers as well as with other providers of transportation such as airport and rail carriers in selected cities. These alliances allow us to provide cross-border transportation to and from Mexico and access to smaller towns in the U.S. and Canada that are complementary to our existing service schedules. Within Mexico and the southwestern United States, we operate under the brand names of Crucero, Autobuses Amigos, Autobuses Americanos

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and Omnibus Americanos. We sell bus tickets in Mexico through our Hispanic alliances. Within Canada, we operate in Quebec under the brand name Voyageur.

- (ii) Package Express. Our package express service targets commercial shippers and delivery companies that require rapid delivery of small parcels, typically within 400 miles. Our services include standard delivery, which is the traditional low-value, terminal-to-terminal delivery service, as well as priority and same day delivery, which is a premium priced product typically delivered door to door. With our extensive network and multiple schedules, we are able to provide expedited service, especially to rural areas. In the U.S., package express revenues represent 4% of total Greyhound U.S. revenues; in Canada, package express revenues represent 26% of total Greyhound Canada revenues. Package express service contributes approximately 8% of Greyhound's total revenues.
- (iii) Tour and Charter. We offer charter services whereby a group of individuals can reserve a bus and driver in certain cities for transportation to and from specific events, such as concerts, sporting events, casinos and conventions. Additionally we operate meet and greet services for cruise lines at eight ports in the United States. The meet and greet service consists of meeting cruise line passengers (usually at airports) and transferring these passengers and their baggage to and from cruise ships. Tour and Charter contributes approximately 8% of Greyhound's total revenues.
- (iv) Food Service and Other. We offer food service and gift items for purchase in more than 58 terminal locations. Food service and other represents approximately 7% of Greyhound's total revenues.

**Marketing and Sales**

Our marketing and advertising philosophy is geared toward stimulating extra travel through price awareness, improving the awareness and image of Greyhound among potential customers and inducing first-time and repeat travel. We use various means to advertise passenger travel business, including radio, television and print media (primarily yellow pages). Additionally, we offer around-the-clock fare and schedule quotations as well as advance discount ticket purchasing via a toll-free telephone number through our telephone information centers and through our Internet website: [www.greyhound.com](http://www.greyhound.com).

Travelers can purchase tickets at approximately 150 company-operated bus terminals and approximately 2,100 agency-operated terminals and sales agencies. Discounts are offered on tickets purchased seven days in advance of travel. However, most tickets are purchased and used on the day of departure.

**Operations**

Maintenance garages are maintained at 30 strategic locations and are supplemented by company-operated service islands and fueling points. We have approximately 6,500 drivers based in approximately 105 different locations across the United States and Canada. Subsidiaries of Greyhound U.S. independently coordinate and manage their own driver and fleet resources.

Information technology is an integral component of our operations. Our information systems support, among other things, our website, scheduling and pricing, dispatch, operations planning, bus maintenance, telephone information center, customer service, point of sale, payroll and finance functions. We also use an automated fare and schedule quotation and ticketing system, called TRIPS, at approximately 440 locations.

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### Competition

- (i) **Passenger Service.** The transportation industry is highly competitive. Our primary sources of competition for passengers are automobile travel, low cost air travel from both regional and national airlines and, in some markets, regional bus companies and trains. Price, destination choices and convenient schedules are the ways in which we meet this competitive challenge.

Competition by U.S.-based bus and van operators for the market represented by Spanish speaking customers in the U.S. is growing. We believe that changes under the North American Free Trade Agreement ( NAFTA ) will increase the volume of bus travel between Mexico and the U.S. and provide growth opportunities while also increasing competition. We, through several joint ventures, provide through-bus service at most major gateways between the United States and Mexico. Additionally, in some of our terminals, we sell tickets for travel in Mexico on Grupo Estrella Blanca, or GEB, a Mexico-based bus carrier, and GEB sells tickets for travel in the U.S. on Greyhound Lines in certain of their terminals in Mexico.

- (ii) **Package Express.** We face competition in our package delivery service from local courier services, the U.S. Postal Service and overnight express and ground carriers. We continue to develop programs to meet this competition and further develop our package delivery business. These programs focus on system upgrades to improve service, billing and tracking for our customers, localized marketing strategies, and local, regional or national alliances with pick up and delivery carriers.
- (iii) **Tour and Charter.** Charter services are provided by several thousand local operators as well as a few regional carriers. Pricing, type of equipment and consistency in service are the principal factors both in obtaining new business and retaining existing customers. We principally compete based upon price and consistency of service, and continue to develop diversified product offerings in order to meet customer demands.
- (iv) **Food Service and Other.** Competition is limited due to the captive nature of the food service operations in our terminals. In some locations, however, fast food restaurants and convenience stores in close proximity to our terminals can pose a competitive factor.

### Vehicle Fleet

During the twelve months ended August 31, 2003, we took delivery of 219 new buses, and retired 256 buses, resulting in a fleet of approximately 3,700 buses as of August 31, 2003, of which approximately 2,000 buses were owned and 1,700 were leased. The average age of our bus fleet was 7.6 years at August 31, 2003.

We have a long-term supply agreement with Motor Coach Industries, Inc ( MCI ) that extends through 2007, but may be canceled by either party at the end of any year upon six months notice. If Greyhound acquires new buses, we must purchase at least 80% of the new bus requirements from MCI pursuant to the agreement.

### Operating Environment

Our business is affected by changes in economic conditions, consumer preferences and spending patterns, medical and wage inflation, demographic trends, consumer perceptions of transportation safety, costs of safety, security and environmental measures, road congestion and the weather.

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### Safety

We have increased our spending for safety and security by approximately \$5 million annually as a result of the events of September 11, 2001. Although Greyhound U.S. and our subsidiaries were recently awarded a federal grant of \$10 million for the twelve month period ending August 19, 2004, the grant is for spending above current levels and there can be no assurance that funding will continue in the future. Additionally, it is possible that the Transportation Security Administration could mandate security procedures that exceed the level currently provided by us, further increasing costs. Past terrorist acts and incidents on buses, or perceptions about future attacks, including changes in the homeland security threat levels, have and could continue to adversely affect the demand for our services.

### Seasonality

Our Greyhound business is seasonal in nature and generally follows the pattern of the travel industry as a whole, with peaks during the summer months and the holiday season. As a result, our Greyhound services business cash flows are also seasonal, with a disproportionate amount of annual cash flows being generated during the peak travel periods.

### Employees

As of August 31, 2003, we employed approximately 16,000 workers, consisting of approximately 4,400 terminal employees, 6,500 drivers, 1,600 supervisory personnel, 1,000 mechanics, 600 telephone information agents, and 1,900 clerical workers. Of the total workforce, approximately 13,100 are full-time employees and approximately 2,900 are part-time employees.

At August 31, 2003, approximately 53% of our Greyhound employees were represented by collective bargaining agreements. We have agreements with a number of unions, however, the largest agreement is with the Amalgamated Transit Union ( ATU ), Local 1700. It covers approximately 5,300 of our U.S. employees, mostly drivers and maintenance employees, and expires on January 31, 2004. We have started contract negotiations in an attempt to enter into a new agreement prior to expiration. As of the date of this report, the parties have not reached an agreement on a new contract. There is no assurance that Greyhound will reach an agreement with the ATU. If Greyhound's ATU unionized employees were to engage in a strike or other work stoppage prior to such expiration, or if Greyhound were unable to negotiate acceptable extensions of this agreement resulting in a strike or other work stoppage by the affected workers, Greyhound could experience a significant disruption of operations, which could have a material adverse effect on our business, financial condition and results of operations.

### Trademarks

We own the Greyhound name and trademarks and the image of the running dog trademarks worldwide. The duration of these trademarks are potentially indefinite, as long as we continue to use them. We believe that this name and the trademarks have substantial consumer awareness.

### Regulation

*U.S. Department of Transportation.* As a motor carrier engaged in interstate as well as intrastate transportation of passengers and express shipments, Greyhound U.S. and Greyhound Canada (for trips into the U.S.) are registered with the Department of Transportation, or DOT, and are also regulated by its Surface Transportation Board.

*Canada Transportation Act.* Greyhound Canada operates under the Canada Transportation Act, or CTA. The CTA provides for each province's department of transportation, through the respective highway traffic boards, to regulate provincial scheduled service. We are required to

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file tariffs with schedule and rate information for our passenger services. The CTA does not cover package express or tour and charter operations; these segments are unregulated.

*Other.* Greyhound U.S. is subject to regulation under the ADA pursuant to regulations adopted by the DOT. The regulations require that all new buses acquired by us for our fixed route operations must be equipped with wheelchair lifts. Additionally, by October 2006, one-half of the U.S. fleet involved in fixed route operations will be required to be lift-equipped and, by October 2012, the fleet must be entirely lift-equipped. The regulations do not require the retrofitting of existing buses with lift equipment or the purchase of accessible used buses. Instead, the regulations permit the operation to determine the manner in which it will meet the 50% and 100% mandates. At August 31, 2003, approximately 18% of our U.S. fleet deployed in fixed route operations were wheelchair lift-equipped. To meet the 50% requirement by October 2006, and assuming no change in current fleet size, we must replace 867 of our non-lift-equipped buses with lift-equipped buses over the next three years.

Under an initiative implemented in the spring of 2000, and continuing until the fleet is fully equipped, we provide an accessible bus to any disabled passenger who provides at least 48 hours notice. Currently the added cost of a built-in lift device in a new bus is approximately \$35,000 plus additional maintenance and employee training costs.

### **Insurance**

The DOT has granted Greyhound U.S. authority to self-insure its automobile liability exposure up to \$5.0 million per incident. To maintain self-insurance authority, Greyhound U.S. is required to provide periodic financial information and claims reports, maintain a satisfactory safety rating by the DOT, a tangible net worth of \$10.0 million and a \$15.0 million trust fund to provide security for payment of claims. At December 31, 2002, and continuing to date, Greyhound U.S.'s tangible net worth has fallen below the minimum required. In July 2003, we received a waiver of this requirement through December 31, 2004. As a condition for the waiver, Greyhound U.S. was required to increase the self-insurance trust by \$2.7 million. The DOT will also require Greyhound U.S. to make additional contributions to the trust fund to maintain a level (measured semi-annually) in excess of self-insured reserves. The loss or further modifications of self-insurance authority from the DOT could have a material adverse effect on Greyhound U.S.'s liquidity, financial condition, and results of operations.

## **HEALTHCARE TRANSPORTATION SERVICES SEGMENT**

American Medical Response, Inc., or AMR, is headquartered in Denver, Colorado and provides pre-hospital medical care through emergency and non-emergency ambulance response services. We are the United States' largest provider of medical transportation services, operating from locations in 32 states with approximately 18,500 employees in 263 operating locations.

AMR treated and transported approximately 3.7 million patients during fiscal year 2003 using a fleet of approximately 2,900 ambulances, 650 wheelchair cars and 750 other support vehicles.

For the twelve months ended August 31, 2003, AMR had net revenue of \$1,015.2 million.

### **Segment Overview**

AMR has contracts with communities and other healthcare providers and third party payors to provide full-service exclusive and non-exclusive emergency transport services. Approximately 50% of AMR's net revenues are generated from providing emergency transport services. Revenues generated from non-emergency transportation including critical care and wheelchair transport are 39% of total net revenues. The remaining 11% of AMR net revenues are earned by providing training and shared operating arrangements with local fire departments and other



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municipalities, contracted dispatching, comprehensive onsite medical care and transport services for special events.

### Contracts

As of the end of fiscal year 2003, AMR had 149 agreements with municipal or county public safety agencies to provide contracts for emergency (9-1-1) response and more than 5,000 client relationships to provide non-emergency, critical care and wheelchair transports. Approximately 43% of AMR's revenues are provided under fixed contracts to provide emergency or non-emergency transport. The remaining 57% is typically collected from third party or private payors. Our largest contract with a community represents \$35 million in annual net revenues or 3.4% of AMR's total net revenue.

Contracts with communities to provide emergency transport services are typically three to five years in length and are generally obtained through a competitive bidding process. In some instances where we are the existing provider, communities elect to renegotiate existing contracts rather than initiate new bidding processes.

Revenue from our contracts with communities and healthcare providers is typically collected from invoices generated by AMR for each patient transport. In some cases, revenue is based on negotiated fees paid periodically by the community, whereby patients are then billed directly by the community.

We also market our non-emergency ambulance services to hospitals, health maintenance organizations, convalescent homes and other health care facilities that require a stable and reliable source of medical transportation for their patients. A significant portion of our non-emergency transports is provided to such facilities and organizations in competitive markets without specific contracts. Contracts with hospitals and other facilities and organizations for non-emergency services are typically two years in length.

### Market Overview Competition

AMR is the largest provider of emergency and non-emergency ambulance services in the United States with an 8% share of the estimated \$12 billion ambulance services market. Approximately 60% of the total emergency and non-emergency market is serviced by private providers like AMR. Based on public filings, our closest competitor generates less than one-half the net revenue that we realized in fiscal year 2003. The residual market share is fragmented among more than 14,000 private, public and non-profit sector providers.

### Regulation

Ambulance services are affected by regulations covering licensing, rates, health, safety, insurance and other matters. Most emergency or 911 contracts are granted exclusive supplier status through the issuance of a certificate of need or a public service agreement. Some municipalities divide requirements into service zones. Exclusive supplier status agreements are linked to service level measurements regarding response times and performance. Some municipalities also govern or set rates that may be charged for the ambulance services.

A substantial majority of our ambulance services revenues are attributable to payments received from third-party payors including Medicare, Medicaid and private insurers. We are subject to various regulatory requirements in connection with our participation in the Medicare and Medicaid programs. The United States Federal Centers for Medicare and Medicaid Services (formerly Healthcare Financing Administration) have implemented rules that have revised the policy on Medicare coverage of ambulance services. A new fee schedule for Medicare reimbursement of ambulance services became effective on April 1, 2002.

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We, like other Medicare and Medicaid providers, are subject to governmental audits of our Medicare and Medicaid reimbursement claims. Accordingly, retroactive revenue adjustments from these programs could occur. We are also subject to the Medicare and Medicaid fraud and abuse laws that prohibit any bribe, kick-back or rebate in return for the referral of Medicare or Medicaid patients. Violations of these prohibitions may result in civil and criminal penalties and exclusion from participation in the Medicare and Medicaid programs. See Item 3. Legal Proceedings.

AMR is also subject to other federal, state and local regulations, including the federally mandated Health Insurance Portability and Accountability Act (HIPAA) designed to protect the privacy of patients' health information handled by health care providers.

Operations

*Dispatch and Communications*

We use location and detailed system status plans to position our ambulances and medical crews within a designated service area in an effort to reduce response time. Generally, ambulance units are not stationed at fixed sites but are constantly repositioned through flexible deployment systems. Communication centers control the deployment and dispatch of ambulances in response to emergency calls. These centers may be owned and operated by either local communities or AMR.

*Billing and Collections*

We, from time to time, establish usual and customary rates for the services we provide. In certain cases, however, we are required to reduce these rates due to local ordinances or regulatory restrictions. In locations where we face rate restrictions and in the case of Medicare and Medicaid billing, we have negotiated reduced rates with payors to reflect the restrictions. In addition, we have established reserves to allow for services provided for which we cannot collect fees. As a result, our reported revenues are equal to our gross billings based on our usual and customary rates, net of contractual allowances for restricted rates and allowances for uncompensated care.

The collection process varies by payor. We have a collection staff specially trained in third-party coverage and reimbursement procedures. An account may move among several payor sources before final collection or resolution is reached. We also engage collection agencies to collect delinquent accounts primarily from private payors.

Payor Mix

We derive a significant percentage of our revenue from reimbursement by third-party payors including payments under Medicare, Medicaid, private insurance and contracts/managed care plans. We also collect payments directly from patients, including payments under deductible and co-insurance provisions.

Ambulance reimbursements have been and will be affected by the new Medicare Fee Schedule that is to be phased in over five years. The first and second phases of the new schedule were effective on April 1, 2002 and January 1, 2003. The additional phases will become effective on January 1 of 2004 and 2005. Although AMR has been effective in mitigating the impact of the first two phases through improvements in billing and collection efforts and efficiencies in providing ambulance services, there is no assurance it will be able to mitigate the impact of such fee schedule in the future.

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The table below provides detail of the payor mix:

Medicare	39%
Medicaid	4%
Private Insurance/Contract	40%
Private Pay	17%
	<hr/>
	100%
	<hr/>

**Vehicle Fleet**

We operate 4,300 vehicles, of which approximately 2,900 are ambulances, 650 are wheelchair cars, and 750 are support vehicles as of August 31, 2003. Ambulances are generally replaced when they are five years old or accumulate 250,000 miles or as provided in specific contracts. The average capital cost of an ambulance is approximately \$55,000. The average age of our existing fleet is between three and four years.

**Safety**

AMR is committed to the safety of our employees, patients and the communities we serve. We have safety programs that are supported by a number of key initiatives including, but not limited to: driver qualification standards, physical agility testing, injury and illness prevention policies and procedures, monthly safety awareness campaign, road safety monitoring devices, driver training, safety training, management safety incentives and review of statistics on safety activities. Additionally, all our vehicles are subjected to inspection before and after each shift including a bumper-to-bumper checklist. In addition, there are specific inspections and procedures at 5,000 mile intervals and at 15,000 mile intervals.

**Employees**

Approximately 85% of our 18,600 employees have daily contact with patients and include approximately 5,100 paramedics, 7,700 emergency medical technicians (EMTs) and 300 nurses. Approximately 50% of our employees are represented by 49 collective bargaining agreements with 42 different unions. Approximately 22% of these collective bargaining agreements, representing approximately 2,800 employees, are subject to renegotiation during fiscal year 2004. We believe that our relations with our ambulance services employees are good. During the past five years, we have not had any significant labor disruption in our ambulance services business that had a material adverse effect on our business, financial condition or results of operations.

**EMERGENCY MANAGEMENT SERVICES SEGMENT**

EmCare, Inc., or EmCare, headquartered in Dallas, Texas, provides outsourced services to hospitals, primarily through professional corporations managed by EmCare and its subsidiaries. We recruit and schedule physicians to provide services in hospital emergency department and inpatient settings. We also assist our customers in such operational areas as staff coordination, quality assurance, departmental accreditation, billing, record keeping, third party payment, and other administrative services. During fiscal year 2003, physicians affiliated with EmCare provided services in 36 states for more than 4.5 million visits.

EmCare is the largest provider in the emergency management services sector, with an approximate 6% market share of the hospital emergency departments and approximately 16% market share of the total outsourced emergency department.

At each customer site, physicians and other medical professionals are recruited and scheduled by EmCare to treat patients. A physician at each site coordinates the delivery of services and acts as a liaison with medical staff and administration of the hospital. EmCare does not practice medicine, as all clinical decisions are the sole responsibility of the physicians.

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For the twelve months ended August 31, 2003, EmCare had revenues of \$480.6 million.

### Market Overview

More than 95% of our emergency management services revenues are derived from providing emergency department management services.

### Contracts

We provide emergency management services under 265 contracts with hospitals, one for each emergency department that we manage. The agreements with the hospitals are usually three years in length and are awarded on a competitive basis.

We receive compensation under three different arrangements:

- (i) We bill patients and third-party payors directly for the physician fees, with the hospital billing for all non-physician related services (70 of 265 contracts),
- (ii) We bill patients and third-party payors directly for the physician fees, with the hospital billing for all non-physician related services, and with the hospital paying EmCare an additional pre-arranged fee for our services (119 of 265 contracts), and
- (iii) We bill hospital clients directly for the services of the physicians, generally on an hourly basis, with the hospital ultimately responsible for billing and collecting from their patients (76 of 265 contracts).

Depending on contractual agreements with clients, EmCare may bill the hospitals, the third party payors including patients, or a combination of both for services provided. In all cases, the hospitals are directly responsible for billing and collecting for all non-physician-related services. Our average contract life is approximately 5.5 years.

### Insurance

Physicians and other medical professionals contracting with EmCare may be covered by professional liability insurance underwritten by one of our subsidiary companies for the services provided under their contracts. While insurance limits are dictated by individual contract terms, limits are generally \$1 million per medical incident, with a \$3 million annual aggregate per medical professional. Although the majority of the professional liability insurance available for physicians is provided in this manner, the contracted physicians may obtain their own professional liability insurance directly or through the contracting hospital with our consent.

### Revenue Composition

Commercial insurers, through managed care plans or traditional commercial coverage are the largest source of revenues from third-party payors, representing a combined total of 58% of total third party payor net revenue. Billings to these payors are billed based on specific fee schedules and are generally discounted based on negotiated rates with the payors. We do not accept capitation fees for professional emergency services.

Governmental payors comprise a total of 30% of third-party payor net revenue, most of which comes from the Federal Medicare program and state-based Medicaid programs. Government reimbursement is based on specific allowed fees for each professional procedure.

Patients visiting an emergency department must be assessed and provided with necessary treatment, regardless of the patient's ability to pay. Patients without private insurance or

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government insurance coverage comprise 12% of patient-billed net revenue. In locations with high rates of uninsured patients, we receive subsidies from the hospitals.

### **Competition**

Emergency management services are subject to vigorous competition. Competition for these services is generally based upon cost, the ability to make available physicians capable of providing high quality care, and our reputation among hospitals and physicians. Competition is also based upon the proper utilization of the emergency department, as well as the ability to integrate the emergency department with other hospital departments and to provide value added services.

In the United States, the emergency department market can be categorized into two major segments: high volume urban and medium to low volume, non-urban, community based emergency departments. There are approximately 4,700 emergency departments in the United States. High volume emergency departments, with 15,000 or more annual visits, represent 51% of the U.S. market. The medium to low volume, non-urban community based hospitals typically see less than 15,000 annual emergency department patient visits and represent the other 49% of the U.S. hospitals with emergency departments.

Approximately 3,100 hospitals with emergency departments outsource their emergency departments. EmCare is one of four companies operating nationally to provide services to approximately 695 hospital emergency departments. The balance of the outsourced emergency departments receive services from regional or local service providers.

### **Employees**

We have approximately 1,000 employees working for EmCare, Inc. or one of its subsidiaries. In addition, there are approximately 4,000 medical professionals under contract with EmCare and its subsidiaries. We believe that our relations with our emergency management services employees are good. During the past five years, we have not had any significant labor disruption in our emergency management services business that had a material adverse effect on our business, financial condition or results of operations.

## **INSURANCE**

Because of the size and risk profile of our education services, healthcare services and Greyhound services businesses, we have a two-tiered insurance program to cover our insurance risk in these businesses. Our main insurance program, including primary retention and a purchased umbrella policy, covers casualties, which include auto liability, workers' compensation and general liability. Our umbrella policy provides for the potential liability for all of our businesses above the primary retention of each business. Our insurance program provides that we arrange for primary retention and coverage purchased from third-party insurance companies to insure for the catastrophic risk under the umbrella policy, covering claims exceeding \$5.0 million with a cap of \$275.0 million per occurrence. Our education and public transit services businesses use captive insurance companies located primarily in Barbados, fronted by third party insurance providers. The primary retention for our education and public transit services businesses provides for the first \$5.0 million of risk per occurrence.

Our ambulance services and Greyhound services businesses have arranged for primary retention utilizing deductible reimbursement programs fronted by a third party insurance provider. The primary retention for our ambulance services business provides for the first \$2.0 million of auto liability, \$0.5 million of workers' compensation, \$1.0 million of general liability and \$5.0 million of professional liability. The primary retention for our Greyhound services business provides for the first \$3.0 million of auto liability, workers' compensation and general liability. Coverage for claims exceeding these retention levels and up to \$5.0 million per occurrence for

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auto liability, workers compensation and general liability and up to \$15.0 million per occurrence for professional liability is purchased from third party providers.

Our emergency management services business has arranged for primary retention of its professional liability and workers compensation insurance utilizing programs fronted by a third party provider for the first \$0.5 million per occurrence for professional liability and the first \$0.25 million for workers compensation. Coverage for claims exceeding these retention levels and up to \$1.0 million per occurrence per physician (aggregate annual limit per physician of \$3.0 million) and coverage of \$10.0 million for the organization for professional liability and up to \$5.0 million for workers compensation is purchased through an outside insurance carrier.

**ITEM 2. PROPERTIES**

Our corporate headquarters are located in Naperville, Illinois, with some administrative functions performed from our offices in Burlington, Ontario. It is our intent to relocate all corporate headquarter functions in Burlington, Ontario to our Naperville offices during fiscal year 2004. Our executive offices in Naperville, Illinois occupy approximately 11,000 square feet of leased office space.

Our education services business operates school buses and special education vehicles from 494 locations in the United States and 61 in Canada, of which 167 are owned and 388 are leased or operated under contract. To provide these services, we operate approximately 42,000 school buses and special education vehicles. Approximately 39,000 of these vehicles are owned by us while the balance are owned by the city or municipality.

Our public transit business operates from 95 locations in the United States, of which four are owned and the balance is leased. To provide these services, we operate approximately 3,800 paratransit vehicles of which approximately 1,350 were owned by us while the remaining units are owned and provided by our customers.

Our Greyhound business provides services from approximately 2,250 locations throughout the United States and Canada. The majority of our locations are owned and operated by independent agents of Greyhound. We own or lease 652 properties. Greyhound owns or leases approximately 3,700 highway coaches.

American Medical Response operates out of 240 locations in the United States, of which 15 are owned and the balance are leased. We utilize approximately 3,550 ambulances and wheelchair cars and approximately 750 support vehicles.

EmCare manages 265 hospital emergency departments. We lease 22 facilities to house administrative, billing and other support functions for this business.

We believe our facilities and equipment are adequate to service our present business needs.

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**ITEM 3. LEGAL PROCEEDINGS**

**Proceedings Prior to or During Bankruptcy of Laidlaw Inc.**

Prior to filing its petitions in bankruptcy, Laidlaw Inc., our predecessor, had been named as a defendant in the following actions. Litigation against Laidlaw was stayed during the pendency of the bankruptcy proceedings. As a result of the confirmation of the Plan, further proceedings against us are enjoined except as expressly permitted in the Plan. The Plan did not expressly permit litigation against us with respect to Nos. 1 and 3-7 below, and No. 2 has been settled. Further, as a result of our emergence from our chapter 11 proceedings, the claims against us that were not settled were extinguished.

1. Three actions were filed against Laidlaw and were consolidated under the caption In re Laidlaw Stockholders Litigation in the United States District Court for the District of South Carolina. Other defendants were John Grainger, James Bullock and Leslie Haworth, each former officers of Laidlaw, and Laidlaw's auditors, PricewaterhouseCoopers LLP and PricewaterhouseCoopers LLP (Canada). Plaintiffs sought to represent a class of purchasers of Laidlaw common stock for the period of October 15, 1997 through March 13, 2000. Causes of action were alleged pursuant to Sections 10(b) and 20 of the Securities Exchange Act of 1934 and SEC Rule 10b-5. PricewaterhouseCoopers LLP and PricewaterhouseCoopers LLP (Canada) settled the claims against them with the plaintiff class. As a result of the Bankruptcy Court's subordination of these claims against Laidlaw as described below, Laidlaw and Laidlaw International no longer participate as parties in this case.
2. Several cases against Laidlaw were consolidated under the caption In re Laidlaw Bondholders Litigation in the United States District Court for the District of South Carolina. Other defendants were John Grainger, James Bullock, Ivan Cairns, Leslie Haworth, Peter Widdrington, Wayne Bishop, William Cooper, Jack Edwards, William Farlinger, Donald Green, Martha Hesse, Gordon Ritchie, Stella Thompson, PricewaterhouseCoopers LLP, Goldman Sachs & Co., Bear Stearns & Co., Inc., Salomon Smith Barney, Merrill Lynch & Co., Bank One Corp., CIBC Oppenheimer, Banc of America Securities, LLC, and TD Securities (USA), Inc. Each of the individual defendants is a current or former officer or director of Laidlaw or us. Plaintiffs sought to represent a class of all purchasers of certain bonds issued by Laidlaw during the period September 24, 1997 through May 12, 2000. Causes of action were asserted against Laidlaw pursuant to Sections 11 and 12(a)(2) of the Securities Act of 1933 with respect to various bond offerings and pursuant to Section 10(b) of the Exchange Act and SEC Rule 10b-5. With court approval the parties engaged in mediation. On July 24, 2002, the parties entered into an agreement to settle this matter. The settlement agreement provides for a release of all claims that the plaintiffs have and may have against Laidlaw and the other defendants.
3. On September 19, 2000, Laidlaw was added as a defendant in a consolidated amended securities fraud class action that had previously been pending in the United States District Court for the District of South Carolina against Safety-Kleen Corp., certain current and former officers and directors of Laidlaw and Safety-Kleen, including John Grainger, James Bullock and Leslie Haworth, and PricewaterhouseCoopers LLP. This case was styled In re Safety-Kleen Corp. Securities Litigation. Safety-Kleen, which was in a chapter 11 reorganization proceeding, was dismissed as a defendant. Plaintiffs alleged that, during the class period, in violation of the federal securities laws, defendants disseminated to the investing public false and misleading financial statements and press releases concerning the financial statements and results of operations of Laidlaw Environmental Services and Safety-Kleen. Plaintiffs further alleged that the proxy statement, prospectus and registration statement pursuant to which Laidlaw Environmental Services and the predecessor of Safety-Kleen were merged contained false and misleading financial information. PricewaterhouseCoopers

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LLP agreed to a settlement with the plaintiff class. As a result of the Bankruptcy Court's subordination of these claims against Laidlaw as described below, Laidlaw and Laidlaw International no longer participate as parties in this case.

4. A consolidated amended class action complaint for violations of federal securities laws was filed in the United States District Court for the District of South Carolina against Laidlaw, certain former officers and directors of Laidlaw and Safety-Kleen and the auditors of Safety-Kleen and Laidlaw, PricewaterhouseCoopers LLP and PricewaterhouseCoopers LLP (Canada), and was captioned In re Safety-Kleen Rollins Shareholders Litigation. In this complaint, the plaintiffs alleged that the defendants caused to be disseminated a proxy statement that contained misrepresentations and omissions of a materially false and misleading nature. On June 7, 2001, the court dismissed the claims against Laidlaw and some of the defendants. The plaintiffs then filed a motion seeking leave to file an amended complaint that asserted a common law claim for negligent misrepresentation against Laidlaw and other defendants. The court granted the motion after Laidlaw's chapter 11 filing, then subsequently vacated its order granting the motion with respect to Laidlaw. As a result of the Bankruptcy Court's subordination of these claims against Laidlaw as described below, Laidlaw and Laidlaw International no longer participate as parties in this case.
5. On January 23, 2001, a case was filed against Laidlaw, PricewaterhouseCoopers LLP, certain underwriters of Safety-Kleen bonds and former or current officers or directors of Safety-Kleen in the federal court in South Carolina captioned In re Safety-Kleen Corp. Bondholders Securities Litigation. This consolidated complaint consolidated the allegations originally brought by plaintiffs in a South Carolina District Court action and a Delaware District Court action against Laidlaw, certain of its current or former officers and directors and others. Plaintiffs asserted claims under the federal securities laws and alleged that the defendants controlled the functions of Safety-Kleen, including the content and dissemination of its financial statements and public filings, which plaintiffs contend to be false and misleading. Plaintiffs filed motions for summary judgment against certain defendants on certain claims, and certain defendants filed motion for summary judgment, all of which are pending. As a result of the Bankruptcy Court's subordination of these claims against Laidlaw as described below, Laidlaw and Laidlaw International no longer participate as parties in this case.
6. On August 7, 2000, plaintiffs in the case captioned Raygar Environmental Systems International, Inc. v. Laidlaw Inc., Laidlaw Investments, Ltd., Laidlaw Transportation, Inc., Laidlaw Environmental Services, Inc., LES, Inc., Laidlaw Environmental Services (US) Inc., Laidlaw Osco Holdings, Inc., Laidlaw International, Safety-Kleen Corp. filed an amended complaint in the U.S. District Court for the Southern District of Mississippi against the above-listed defendants. The complaint alleged causes of action for breach of contract, tortious breach of contract, breach of fiduciary duty, breach of duty of good faith and fair dealing, breach of duty of confidential relations, usurpation of corporate opportunity, negligent misrepresentation, fraudulent misrepresentation, violation of federal antitrust statutes, tortious interference with contractual relations, tortious interference with prospective contractual relations, tortious interference with prospective business relationships, fraud and abuse of superior bargaining power. Plaintiff sought damages in the amount of \$450 million in compensatory damages and \$900 million in punitive damages. Discovery occurred prior to Laidlaw filing bankruptcy, and a motion to dismiss was pending at that time. As a result of the Safety-Kleen and Laidlaw bankruptcy filings, this case was stayed in its entirety and, pursuant to an order of the Mississippi federal court, was dismissed without prejudice because of inactivity. As a result of the Bankruptcy Court's disallowance of plaintiff's proofs of claims in Laidlaw's bankruptcy case, as described below, plaintiff is barred from further asserting any claims against us relating to the complaint.



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7. On November 6, 2000, a complaint was filed in the U.S. District Court for the Southern District of Mississippi and captioned Federated Holdings, Inc. v. Laidlaw Inc., Laidlaw Investments, Ltd., Laidlaw Transportation, Inc., Laidlaw Environmental Services, Inc., LES, Inc., Laidlaw Environmental Services (US) Inc., Laidlaw Osco Holdings, Inc., Safety-Kleen Corp. The complaint alleged causes of action for breach of contract, tortious breach of contract, breach of fiduciary duty, breach of duty of good faith and fair dealing, breach of duty of confidential relations, negligent misrepresentation, fraudulent misrepresentation, violation of federal and state antitrust statutes, tortious interference with prospective business relationships, fraud, and abuse of superior bargaining power. Plaintiff sought damages in the amount of \$200 million in compensatory damages and \$250 million in punitive damages. The Mississippi federal court consolidated this case with case no. 6 above (Raygar) for all purposes. As a result of the Safety-Kleen and Laidlaw bankruptcy filings, this case was stayed in its entirety and, pursuant to an order of the Mississippi federal court, was dismissed without prejudice because of inactivity. As a result of the Bankruptcy Court's disallowance of plaintiff's proofs of claims in Laidlaw's bankruptcy case, as described below, plaintiff is barred from further asserting any claims against us relating to the complaint.

*Treatment in the Bankruptcy Proceedings of the above-listed cases Nos. 1-7*

The plaintiff classes in items nos. 1-4 above and the plaintiffs in items nos. 6-7 each have filed claims in Laidlaw's bankruptcy case. Pursuant to an order of the Bankruptcy Court, dated August 30, 2002, proofs of claims relating to nos. 1, 3, 4 and 5 above were subordinated to the claims of general unsecured creditors and classified into a class under the Plan that did not receive any distributions. In addition, pursuant to an order of the Bankruptcy Court dated December 13, 2002, after a hearing on the merits, proofs of claims relating nos. 6 and 7 (Raygar and Federated) were disallowed in their entirety. As a result, Laidlaw and Laidlaw International have no continuing direct exposure in any of these cases and such cases are considered closed with respect to us, except as noted below under the Director and Officer Claim Treatment Letter.

*Director and Officer Claim Treatment Letter*

Pursuant to the Plan, we were authorized and directed to implement the Director and Officer Claim Treatment Letter, or the D&O Claim Treatment Letter, among Laidlaw, the informal steering committees of Laidlaw's lenders and bondholders and certain present or former directors of Laidlaw or its subsidiaries or affiliates, including Safety-Kleen, or the Directors and Officers. The D&O Claim Treatment Letter set forth an agreement among the parties with respect to the treatment of indemnification, reimbursement and other claims by the Directors and Officers (including certain individuals who have been named as defendants in the lawsuits described above) with respect to acts or omissions prior to our emergence from bankruptcy. Among other things, pursuant to the D&O Claim Treatment Letter, the Directors and Officers will have access to certain directors and officers insurance, or the D&O Insurance, purchased by us to cover claims, including those arising from the lawsuits described above. In addition, the Directors and Officers will have access to a \$10 million trust established by us, or the Defense Trust, to cover claims against the Directors and Officers not covered by the D&O Insurance. We are obligated to contribute additional funds to maintain a balance in the Defense Trust of \$10 million by contributing additional funds in \$1 million increments, subject to a cap of \$10 million in additional funding, which cap decreases over time as described below. At August 31, 2003, there was \$9.2 million in that trust, and no additional funds have yet been contributed by us. The maximum aggregate amounts available in the trust and from additional contributions by us will be reduced to \$17.5 million on June 23, 2005; \$15 million on June 23, 2007; \$12.5 million on June 23, 2009; \$10 million on June 23, 2011; and \$0 on June 23, 2013. The unexpended balance in the Trust, if any, will revert to us on June 23, 2013.

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### **General Litigation and Other Disputes**

During 2002, the Pension Benefit Guaranty Corporation, or the PBGC, a United States government corporation that administers the mandatory termination insurance program for defined benefit pension plans under the Employee Retirement Income Security Act of 1974, as amended, indicated to Laidlaw that it would object to the Plan if Laidlaw did not agree to take steps to improve the funded status of certain defined benefit pension plans that it maintained for its employees. Laidlaw and the PBGC reached an agreement to address the concerns of the PBGC. We have certain obligations under this agreement. This agreement was approved by the Bankruptcy Court as part of the confirmation hearing held on February 27, 2003 with respect to the Plan, and was executed by the PBGC, us, and certain of our affiliates on June 18, 2003. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity Potential Pension Plan Funding Requirements and Note 11 of Notes to Consolidated Financial Statements for further discussion of this matter.

We are the sole shareholder of Greyhound Lines, Inc., which in turn is the sole shareholder of Sistemas Internacional de Transporte de Autobuses, Inc., or SITA. SITA owns 51% of Gonzalez, Inc., d/b/a Golden State Transportation. On November 28, 2001, Golden State and numerous individual employees, including its senior management, were indicted by a federal grand jury for felony criminal offenses for allegedly transporting and harboring illegal aliens. The indictment also seeks forfeiture to the government of all the property of Golden State, which involves Golden State, SITA and Greyhound Lines since they are claimants to the property. The defendants have been arraigned on the indictment and entered pleas of not guilty. Trial dates have been set as to certain defendants. None of Greyhound, SITA or Laidlaw International have been charged with any crime.

The government filed a civil forfeiture action against certain Golden State assets based on allegations similar to those described in the indictment of Golden State. Neither SITA, Greyhound nor we are a defendant in the forfeiture action; however, Greyhound and SITA are claimants to the property. Golden State has entered into a settlement agreement with the government regarding the criminal and civil forfeiture cases brought by the government. On September 19, 2003, SITA and Greyhound also entered stipulations with the government to settle SITA and Greyhound's claims to the subject property of the forfeiture action. Pursuant to these stipulations, Greyhound and SITA agreed to forfeit certain property and cooperate in the government's ongoing criminal investigations. In return, the government dropped its forfeiture allegations against the remaining property originally sought for forfeiture and agreed not to pursue criminal charges against SITA, Greyhound and their employees arising out of the events described in the criminal indictment. The bankruptcy court overseeing the Golden State bankruptcy approved the settlement on November 6, 2003.

Our healthcare businesses are subject to the Medicare and Medicaid fraud and abuse laws, which prohibit, among other things, any bribe, kick-back or rebate in return for the referral of Medicare and Medicaid patients. Violation of these prohibitions may result in civil and criminal penalties and exclusion from participation in the Medicare and Medicaid programs. We have implemented policies and procedures that management believes will assure that we are in substantial compliance with these laws. We are currently undergoing investigations by certain government agencies as described below and in certain other matters regarding compliance with Medicare fraud and abuse statutes. We are cooperating with the government agencies conducting these investigations and are providing requested information to the government agencies. Management believes that the outcome of any of these investigations would not have a material adverse effect on us.

From August 1998 until August 2000, AMR received six subpoenas duces tecum from the United States Attorney's Office. These subpoenas related to billing matters for emergency transports and specialized services. AMR has reached a tentative settlement with the United States Attorney's Office under which it has agreed to pay \$3.5 million relating to these matters.

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In June 1999, the U.S. Department of Justice began an investigation of the billing processes of Regional Emergency Services, a subsidiary of AMR, and of Florida Hospital Waterman. Regional Emergency Services managed the ambulance services for Florida Hospital Waterman. The U.S. Department of Justice reviewed the billing processes of the companies from October 1992 to May 2002. The U.S. Department of Justice alleged violations by the companies of the False Claims Act based on the absence of certificates of medical necessity and other non-compliant billing practices. The parties have reached a tentative settlement for an aggregate of \$20 million, of which AMR will contribute \$5 million.

On May 9, 2002, AMR received another subpoena duces tecum from the Office of the Inspector General. The subpoena requested copies of documents for the period from January 1993 through May 2002. The subpoena required AMR to produce a broad range of documents relating to Huguley Hospital and Regional Emergency Services contracts in Texas, Georgia and Colorado. The claims in Texas have been resolved pursuant to the \$20 million tentative settlement agreement described above. The government investigations in Georgia and Colorado are continuing.

We are also a defendant in various lawsuits arising in the ordinary course of business, primarily cases involving personal injury, property damage or employment related claims. Based on our assessment of known claims and our historical claims payout pattern, management believes that there is no proceeding either threatened or pending against us relating to personal injury and/or property damage claims and/or employment related that would have a material adverse effect on us.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

**ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT**

The following table sets forth certain information with respect to the executive officers of Laidlaw International as of November 24, 2003.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Kevin E. Benson	56	Director, President and Chief Executive Officer
Douglas A. Carty	47	Senior Vice President and Chief Financial Officer
Ivan R. Cairns	57	Senior Vice President and General Counsel
Wayne R. Bishop	45	Vice President and Controller
D. Geoffrey Mann	39	Vice President, Treasurer
Jeffrey W. Sanders	41	Vice President, Corporate Development

Biographical information relating to each of our officers is set forth below.

**Kevin E. Benson** has been President and Chief Executive Officer and a director of the Company since June 23, 2003. From September 2002 to June 23, 2003, Mr. Benson was President and Chief Executive Officer of Laidlaw Inc., the Company's predecessor. On June 28, 2001, Laidlaw Inc. filed a voluntary petition for relief under chapter 11 of the U.S. Bankruptcy Code. The Company emerged from bankruptcy protection on June 23, 2003. Prior to that, Mr. Benson served as President and Chief Executive Officer of the Insurance Corporation of British Columbia from December 2001 until September 2002 and as President of The Pattison Group, a privately owned company and a conglomerate that owns interests in numerous businesses across a range of industries, in 2000 and 2001. He previously served as President and Chief Executive Officer of Canadian Airlines from 1996 until 2000. Prior to joining

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Canadian Airlines in 1995, he served in various capacities with Trizec-Hahn, a Canadian real estate development company with property holdings in the U.S. and Canada, joining the company in 1977 and becoming Chief Financial Officer in 1983, President in 1986 and Chief Executive Officer in 1987. Mr. Benson also serves as a director of Manulife Financial.

*Douglas A. Carty* has been Senior Vice President and Chief Financial Officer of the Company since June 23, 2003. From January 2003 to June 23, 2003, Mr. Carty was Senior Vice President and Chief Financial Officer of Laidlaw Inc. Prior to that, Mr. Carty served as Senior Vice President and Chief Financial Officer of Atlas Air Worldwide Holdings, an aviation transportation company, from July 2001 until December 2002. From 1990 until July 2001, Mr. Carty was employed with Canadian Airlines, where he served in a variety of positions, including Senior Vice President and Chief Financial Officer from 1996 until July 2000. Mr. Carty also serves as a non-executive Chairman of the Board of Points International Ltd.

*Ivan R. Cairns* has