

2077H

LAW OFFICES
FRITZ R. KAHN, P.C.
EIGHTH FLOOR
1920 N STREET, N.W.
WASHINGTON, D.C. 20036-1601
(202) 263-4152
FAX (202) 331-8330
e-mail: xicgc@worldnet.att.net

ORIGINAL

April 30, 2003

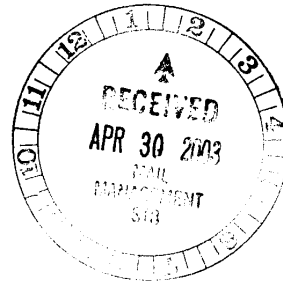
VIA HAND DELIVERY - RETURN COPY

Hon. Vernon A. Williams
Secretary
Surface Transportation Board
1925 K Street, NW (7th fl.)
Washington, DC 20423-0001

ENTERED
Office of Proceedings

APR 30 2003

Part of
Public Record



Dear Secretary Williams:

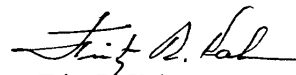
This refers to STB Docket No. MC-F-20940, Laidlaw Inc. and Laidlaw Transit Acquisition Corporation--Merger--Greyhound Lines, Inc., and to the decision of the Board, served December 6, 2000.

Enclosed are eleven copies of the second quarter financial statements of Laidaw Inc.

An additional copy of this letter and its attachment are enclosed for you to stamp to acknowledge your receipt of them and to return to me via the messenger.

If you have any question concerning the foregoing which you believe I may be able to answer or if I otherwise can be of assistance, please let me know.

Sincerely yours,


Fritz R. Kahn

enc.

cc: Rosalind A. Knapp, Esq.
Stephen E. Barber, Esq.
Roger W. Fones, Esq.
Theodore C. Knappen, Esq.
Mark E. Southerst, Esq.

LIDLAW INC.
(Debtor-in-Possession as of June 28, 2001 – Note 1)
CONSOLIDATED BALANCE SHEETS
(U.S. \$ in millions)

	February 28, 2003	August 31, 2002
	<u>(unaudited)</u>	
ASSETS		
Current assets		
Cash and cash equivalents	\$280.6	\$343.5
Restricted cash and cash equivalents (Note 2)	108.8	75.8
Short-term deposits and marketable securities (Note 2)	29.6	16.1
Trade accounts receivable (Note 3)	625.3	490.4
Other receivables	64.8	54.9
Income taxes recoverable	32.7	29.2
Parts and supplies	50.7	50.4
Other current assets	73.0	56.3
Total current assets	<u>1,265.5</u>	<u>1,116.6</u>
 Long-term investments	 <u>422.5</u>	 <u>417.9</u>
 Property and equipment		
Land	163.1	162.2
Buildings	291.8	284.3
Vehicles	2,182.9	2,128.3
Other	428.8	417.2
	<u>3,066.6</u>	<u>2,992.0</u>
Less: Accumulated depreciation	<u>1,414.5</u>	<u>1,314.3</u>
	<u>1,652.1</u>	<u>1,677.7</u>
 Other assets		
Goodwill (net of accumulated amortization and impairments of \$2,987.1; August 31, 2002 - \$776.0) (Note 4)	774.9	2,976.8
Pension asset	14.6	10.8
Deferred charges and other assets	18.5	12.0
	<u>808.0</u>	<u>2,999.6</u>
 Total assets	 <u>\$4,148.1</u>	 <u><u>\$6,211.8</u></u>

The accompanying notes are an integral part of these statements.

LIDLAW INC.
(Debtor-in-Possession as of June 28, 2001 – Note 1)
CONSOLIDATED BALANCE SHEETS
(U.S. \$ in millions)

	February 28, 2003 (unaudited)	August 31, 2002
LIABILITIES		
Liabilities not subject to compromise		
Current liabilities		
Accounts payable	\$96.3	\$109.7
Accrued liabilities	510.4	504.1
Current portion of long-term debt	19.2	20.3
Total current liabilities	<u>625.9</u>	<u>634.1</u>
 Long-term debt (Note 5)	 217.9	 204.4
 Other long-term liabilities	 677.7	 442.1
 Liabilities subject to compromise (Note 6)	 3,977.1	 3,977.1
 Commitments and contingencies (Notes 1, 7 and 14)		
 Total liabilities	 <u>5,498.6</u>	 <u>5,257.7</u>
 SHAREHOLDERS' EQUITY (DEFICIENCY)		
Preference Shares (Note 8)	7.9	7.9
Common Shares; issued and outstanding		
325,927,870 (August 31, 2002 – 325,927,870) (Note 8)	2,222.6	2,222.6
Accumulated other comprehensive loss (Note 8)	(415.1)	(258.7)
Deficit	(3,165.9)	(1,017.7)
Total shareholders' equity (deficiency)	<u>(1,350.5)</u>	<u>954.1</u>
 Total liabilities and shareholders' equity (deficiency)	 <u>\$4,148.1</u>	 <u>\$6,211.8</u>

The accompanying notes are an integral part of these statements.

LAIDLAW INC.
(Debtor-in-Possession as of June 28, 2001 – Note 1)
CONSOLIDATED STATEMENTS OF OPERATIONS
(U.S. \$ in millions except per share amounts)
(unaudited)

	Three Months Ended February 28,		Six Months Ended February 28,	
	2003	2002	2003	2002
Revenue				
Contract Bus services	\$469.4	\$474.3	\$996.2	\$1,001.3
Greyhound	281.7	281.5	556.1	565.7
Healthcare services (Note 3)	369.6	349.8	730.6	700.4
Total revenue	1,120.7	1,105.6	2,282.9	2,267.4
 Operating expenses	 894.3	 869.6	 1,813.0	 1,770.7
Selling, general and administrative expenses	116.6	111.3	228.0	221.8
Depreciation expense	75.4	74.7	151.6	148.6
Amortization expense (Note 4)	0.3	22.8	0.5	45.5
 Income from operating segments	 34.1	 27.2	 89.8	 80.8
Interest expense (Note 6)	(6.5)	(7.8)	(13.0)	(14.9)
Other financing related expenses (Note 9)	(22.9)	(15.0)	(31.1)	(29.5)
Other income (Note 7)	13.0	4.6	14.5	7.1
Income before income taxes	17.7	9.0	60.2	43.5
Income tax expense	(1.5)	(1.7)	(3.0)	(3.2)
Income before cumulative effect of change in accounting principle	16.2	7.3	57.2	40.3
 Cumulative effect of change in accounting principle (Note 4)	 -	 -	 (2,205.4)	 -
 Net income (loss)	 \$16.2	 \$7.3	 (\$2,148.2)	 \$40.3
 Basic earning (loss) per share				
Income before cumulative effect of change in accounting principle	\$0.05	\$0.02	\$0.18	\$0.12
Cumulative effect of change in accounting principle	-	-	(6.77)	-
Net income (loss)	\$0.05	\$0.02	(\$6.59)	\$0.12
 Diluted earnings (loss) per share				
Income before cumulative effect of change in accounting principle	\$0.05	\$0.02	\$0.18	\$0.12
Cumulative effect of change in accounting principle	-	-	(6.77)	-
Net income (loss)	\$0.05	\$0.02	(\$6.59)	\$0.12

The accompanying notes are an integral part of these statements.

7

LAIDLAW INC.
(Debtor-in-Possession as of June 28, 2001 – Note 1)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(U.S. \$ in millions)
(unaudited)

	Three Months Ended		Six Months Ended	
	February 28,		February 28,	
	2003	2002	2003	2002
Net Income (loss)	\$16.2	\$7.3	(\$2,148.2)	\$40.3
Unrealized gains (losses) on securities net of reclassification adjustments for losses included in net income (net of NIL taxes)	2.0	(0.6)	3.5	6.5
Foreign currency translation adjustments arising during the period (net of NIL taxes)	17.9	(7.5)	16.5	(12.9)
Minimum pension liability adjustment (net of NIL taxes)	(176.4)	-	(176.4)	(72.8)
Comprehensive loss	<u>(\$140.3)</u>	<u>(\$0.8)</u>	<u>(\$2,304.6)</u>	<u>(\$38.9)</u>

The accompanying notes are an integral part of these statements.

LIDLAW INC.
(Debtor-in-Possession as of June 28, 2001 – Note 1)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(U.S. \$ in millions)
(unaudited)

	Three Months Ended February 28,		Six Months Ended February 28,	
	2003	2002	2003	2002
Operating activities				
Net income (loss) for the period	\$16.2	\$7.3	(\$2,148.2)	\$40.3
Items not affecting cash:				
Depreciation and amortization	75.7	97.5	152.1	194.1
Other financing related expenses	22.9	15.0	31.1	29.5
Cumulative effect of change in accounting principle	-	-	2,205.4	-
Other items	(5.3)	(5.9)	(7.0)	(8.9)
Increase (decrease) in claims liability and professional liability insurance accruals	20.0	1.8	48.7	(16.8)
Increase (decrease) in accrued interest	4.4	4.2	0.1	(0.5)
Cash provided by (used in financing) other working capital items	(30.3)	23.4	(166.0)	(94.8)
Cash portion of other financing related expenses	(9.5)	(12.3)	(19.1)	(18.7)
Increase in restricted cash and cash equivalents	(21.9)	(4.1)	(33.0)	(13.9)
Net cash provided by operating activities	\$72.2	\$126.9	\$64.1	\$110.3
Investing activities				
Purchase of property, equipment and other assets, net of proceeds from sale	(\$36.9)	(\$17.7)	(\$104.5)	(\$78.1)
Expended on acquisitions	-	(0.5)	(3.2)	(0.5)
Net increase in investments	(25.3)	(1.9)	(34.3)	(9.2)
Proceeds from sale of assets	-	4.2	-	4.2
Net cash used in investing activities	(\$62.2)	(\$15.9)	(\$142.0)	(\$83.6)
Financing activities				
Net increase (decrease) in long-term debt and other long-term liabilities	\$12.4	(\$19.2)	\$15.0	(\$13.9)
Net cash provided by (used in) financing activities	\$12.4	(\$19.2)	\$15.0	(\$13.9)
Net increase (decrease) in cash and cash equivalents	\$22.4	\$91.8	(\$62.9)	\$12.8
Cash and cash equivalents – beginning of period*	258.2	202.2	343.5	281.2
Cash and cash equivalents – end of period*	\$280.6	\$294.0	\$280.6	\$294.0

*These amounts represent the unrestricted cash and cash equivalents of the Company – Refer to Note 2.

The accompanying notes are an integral part of these statements.

LAIDLAW INC.
(Debtor-in-Possession as of June 28, 2001)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED FEBRUARY 28, 2003

Note 1 – Voluntary petition for reorganization, basis of presentation and ability to continue operations and goodwill impairment

Voluntary petition for reorganization

On June 28, 2001, Laidlaw Inc. (the "Company") and five of its direct and indirect subsidiaries (collectively, the "Debtors") filed voluntary petitions for relief under chapter 11 of the United States Bankruptcy Code, 11 U.S.C. 101-1330 (the "Bankruptcy Code"), in the United States Bankruptcy Court for the Western District of New York (the "Bankruptcy Court"). The other Debtors include: Laidlaw USA, Inc. ("Laidlaw USA"), Laidlaw Investments Ltd. ("LIL"), Laidlaw International Finance Corporation ("LIFC"), Laidlaw One, Inc. ("Laidlaw One") and Laidlaw Transportation, Inc. ("LTI"). In addition, the Company and LIL commenced Canadian insolvency proceedings under the Canada Companies' Creditors Arrangement Act ("CCAA") in the Ontario Superior Court of Justice in Toronto, Ontario (the "Canadian Court"). None of the Company's operating subsidiaries was included in the filings.

The Debtors remain in possession of their respective properties and are managing their businesses as debtors-in-possession. Pursuant to the Bankruptcy Code and the CCAA, however, the Debtors may not engage in transactions outside the ordinary course of business without the approval of the Bankruptcy Court and the Canadian Court.

The Company is reorganizing its affairs under the protection of the Bankruptcy Code and the CCAA and has proposed a plan of reorganization for itself and the other Debtors. On February 27, 2003, the Bankruptcy Court entered an order confirming the Company's plan of reorganization. On February 28, 2003, the Canadian Court issued an order recognizing the Bankruptcy Court's confirmation order and implementing it in Canada with respect to the Company's Canadian insolvency proceeding. The plan of reorganization sets forth the means for satisfying claims against and interests in the Company and the other Debtors, including the liabilities subject to compromise (See Note 6). Generally, prepetition liabilities are subject to settlement under such a plan of reorganization.

Basis of presentation and ability to continue operations

The accompanying interim consolidated financial statements of Laidlaw Inc. have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") for interim reporting, which conform, in all material respects (except as indicated in Note 12), with accounting principles generally accepted in Canada ("Canadian GAAP"). Accordingly, these financial statements do not include all of the disclosures required by generally accepted accounting principles for annual financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included. All such adjustments are of a normal, recurring nature. Operating results for the six months ended February 28, 2003 are not necessarily indicative of the results that may be expected for the full year ending August 31, 2003. For further information, see the Company's consolidated financial statements, including the accounting policies and notes thereto, for the fiscal year ended August 31, 2002.

The preparation of financial statements in accordance with generally accepted accounting principles requires the Company to make estimates and assumptions that affect reported amounts of assets, liabilities, revenue and expenses, and disclosure of contingencies. Future events could alter such estimates in the near term.

The Company uses significant estimates and assumptions of future events surrounding the settling of the claims liability reserves. While the reserves are actuarially determined, the process of determining the reserves involves predicting such factors as future medical costs, the ultimate settlement amounts and court awards. As a result, there is a reasonable possibility that the recorded claims liabilities could change materially.

These consolidated financial statements have been prepared on a "going concern" basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of operations. The appropriateness of the "going concern" assumption is dependent upon, among other things, a successful completion of the proposed reorganization as contemplated by the plan of reorganization, future profitable operations and the ability to generate sufficient cash from operations and obtain financing arrangements to meet obligations. If the "going concern" basis were not appropriate for these consolidated financial statements, significant adjustments would need to be made to the carrying value of the assets and liabilities, the reported revenue and expenses and the balance sheet classifications used.

If the Company successfully completes the proposed reorganization, the Company will be required to adopt "fresh start" accounting. This accounting would require that assets and liabilities be recorded at fair value, based on values determined in connection with the restructuring. Certain reported asset and liability balances do not yet give effect to the adjustments that would result from the adoption of "fresh-start" accounting and as a result, would change materially.

Goodwill impairment

Effective September 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142 ("SFAS 142") "Accounting for Goodwill and Other Intangible Assets" and as a result, the Company ceased to amortize goodwill. In lieu of amortization, SFAS 142 requires that goodwill be reviewed for impairment upon adoption of SFAS 142 and at least annually thereafter. As a result, on September 1, 2002, the Company recorded a non-cash charge of \$2,205.4 million as a cumulative effect of change in accounting principle (see Note 4).

Note 2 – Restricted cash and cash equivalents and short-term investments

Cash and cash equivalents of \$108.8 million (August 31, 2002 - \$75.8 million) and short-term deposits and marketable securities of \$29.6 million (August 31, 2002 - \$16.1 million) are assets of the Company's wholly owned insurance subsidiaries and are used to support the current portion of claims liabilities under the Company's self-insurance program. If these amounts are withdrawn from the subsidiaries, they will have to be replaced by other suitable financial assurances. Given the recent financial position of the Company, management has concluded that such cash and cash equivalents and short-term deposits and marketable securities of the insurance subsidiaries are restricted.

Note 3 – Accounts receivable and revenue

Trade accounts receivable are net of an allowance for doubtful accounts of \$ 5.3 million (August 31, 2002 - \$ 4.6 million) in the contract bus services and Greyhound businesses and net of \$498.4 million (August 31, 2002 - \$468.6 million) of allowances for uncompensated care and contractual allowances in the healthcare services businesses.

Revenue for the healthcare services businesses is reported net of allowances for uncompensated care and contractual allowances.

Note 4 – Goodwill and other intangible assets

Effective September 1, 2002, the Company adopted SFAS 142 and, as a result, the Company ceased to amortize goodwill. In lieu of amortization, SFAS 142 requires that goodwill be reviewed for impairment upon adoption of SFAS 142 and at least annually thereafter. Under SFAS 142, goodwill impairment is deemed to exist if the carrying amount of a reporting unit exceeds its estimated fair value and the carrying amount of the goodwill exceeds its estimated fair value. To determine estimated fair value of the reporting units the Company utilized independent valuations of the underlying businesses. This methodology differs from the Company's previous accounting policy, which used undiscounted cash flows to determine possible impairment.

During the three months ended November 30, 2002, the Company completed the impairment assessment as required by SFAS 142 and determined that a significant portion of its goodwill was impaired as at September 1, 2002. As a result, the Company recorded a non-cash charge of \$2,205.4 million as a cumulative effect of change in accounting principle.

In connection with adopting SFAS 142, the Company reassessed the useful lives and classifications of its identifiable intangible assets other than goodwill and determined that the useful lives and classifications continue to be appropriate.

The changes in the carrying amount of goodwill by segment for the six months ended February 28, 2003 are as follows: (\$ millions)

	Contract Bus Services	Greyhound	Healthcare Services	Total
Balance as of August 31, 2002	\$656.7	\$482.9	\$1,837.2	\$2,976.8
Impairment loss	(153.5)	(482.9)	(1,569.0)	(2,205.4)
Other	3.1	-	0.4	3.5
Balance as of February 28, 2003	\$506.3	\$ -	\$268.6	\$774.9

The impairment loss at the Contract Bus services segment is comprised of a \$54.5 million impairment loss in the school bus transportation unit and a \$99.0 million impairment loss at the municipal and paratransit bus transportation unit. The impairment loss at the Healthcare services segment is comprised of a \$1,146.0 million impairment loss in the healthcare transportation services unit and a \$423.0 million impairment loss in the emergency management services unit.

Actual results of operations for the six months ended February 28, 2003 and pro forma results of operations for the six months ended February 28, 2002, had the goodwill not been amortized in that period in accordance with the provisions of SFAS 142, are as follows: (\$ millions)

	Six months ended February 28,	
	2003	2002
Reported income before cumulative effect of change in accounting principle	\$57.2	\$40.3
Add: goodwill amortization	-	45.1
Adjusted income before cumulative effect of change in accounting principle	57.2	85.4
Cumulative effect of change in accounting principle	(2,205.4)	-
Adjusted net income (loss)	(\$2,148.2)	\$85.4

Actual basic and diluted loss per share for the six months ended February 28, 2003 and pro forma basic and diluted earnings per share for the six months ended February 28, 2002, had the goodwill not been amortized in that period in accordance with the provision of SFAS 142, are as follows: (\$ per share)

	Six months ended February 28,	
	2003	2002
Reported income before cumulative effect of change in accounting principle	\$0.18	\$0.12
Goodwill amortization	-	0.14
Adjusted income before cumulative effect of change in accounting principle	0.18	0.26
Cumulative effect of change in accounting principle	(6.77)	-
Adjusted net income (loss)	(\$6.59)	\$0.26

Note 5 – Long-term debt

In October 2000, Greyhound Lines, Inc. ("Greyhound") entered into a revolving credit facility, expiring October 24, 2004, with Foothill Capital Corporation to fund working capital needs and for general corporate purposes (the "Greyhound Facility"). Greyhound was extended a revolving line of credit in an amount of \$125.0 million including a sub-facility of \$50.0 million for letters of credit. The Greyhound Facility is secured by liens on substantially all of the assets of Greyhound and the stock and assets of certain of its subsidiaries and is subject to certain affirmative and negative operating and financial covenants calculated on each calendar quarter. As of December 31, 2002, Greyhound was in compliance with all such covenants, including restrictions on the redemption or retirement of certain subordinated indebtedness or equity interest, payment of dividends and transactions with affiliates, including the Company.

Based on Greyhound's most recent financial forecast, management is unable to determine with reasonable assurance whether Greyhound will remain in compliance with these covenants in the future. As compliance with the covenants will not be known until after the end of Greyhound's next fiscal quarter when actual results are available, Greyhound has initiated discussions with the agent bank for the Greyhound Facility in an effort to obtain modifications to the agreement that would provide reasonable assurance that it will remain in compliance with the covenants. Although Greyhound has been successful in obtaining necessary amendments to the Greyhound Facility in the past, there can be no assurance that Greyhound will obtain additional modifications or that the cost of the modifications or other changes in the terms of the Greyhound Facility would not have a material effect on Greyhound. In the event that additional modifications suitable to the parties are not obtained, and further assuming Greyhound fails to remain in compliance with the existing covenants, Greyhound may be required to seek a replacement for the Greyhound Facility from other finance sources. However, should alternate sources of financing not be available, then Greyhound may not be able to satisfy its obligations as they become due and may not be able to continue as a going concern. As a result, Greyhound may not be able to realize its assets and settle its liabilities in the normal course of operations.

As of February 28, 2003, the Company had outstanding borrowings under the Greyhound Facility of \$22.7 million, issued letters of credit of \$46.3 million and had availability of \$56.0 million.

Note 6 – Liabilities subject to compromise

The principal categories of claims classified as liabilities subject to compromise under reorganization proceedings are identified below. All amounts below may be subject to future adjustment depending on Bankruptcy Court action, further developments with respect to disputed claims, or other events, including the reconciliation of claims filed with the Bankruptcy Court to amounts included in the Company's records. Additional prepetition claims may arise from the rejection of additional executory contracts or unexpired leases by the Company. Under a confirmed plan or plans of reorganization, all prepetition claims may be paid and discharged at amounts substantially less than their allowed amounts.

On a consolidated basis, recorded liabilities subject to compromise under the reorganization proceedings consisted of the following: (\$ in millions)

	February 28, 2003	August 31, 2002
Accrued liabilities	\$11.3	\$11.3
Safety-Kleen Corp. ("Safety-Kleen") Guarantees	77.3	77.3
Derivative liabilities	89.5	89.5
Safety-Kleen settlement (Note 14)	225.0	225.0
Accrued interest payable	370.7	370.7
Facility (as defined in Note 9)	1,163.3	1,163.3
Debentures (as defined in Note 9)	2,040.0	2,040.0
	\$3,977.1	\$3,977.1

As a result of the Debtor's chapter 11 filing, principal and interest payments may not be made on prepetition debt of the Debtors without Bankruptcy Court approval or until a reorganization plan or plans defining the repayment terms, has been confirmed and the Company has emerged. The total interest on prepetition debt that was not paid or accrued during the six months ended February 28, 2003 was \$140.9 million (six months ended February 28, 2002 - \$136.8 million) and \$69.5 million during the three months ended February 28, 2002 (three months ended February 28, 2002 - \$66.8 million). Since June 29, 2001, the total interest on this debt that was not paid or accrued was \$465.4 million. The Bankruptcy Code generally disallows the payment of interest that accrues post-petition with respect to unsecured or under-secured claims.

The Debtors are parties to litigation matters and claims that are incurred in the normal course of its operations. Generally, litigation related to "claims", as defined by the Bankruptcy Code, is stayed. The outcome of the bankruptcy process on these matters cannot be predicted with certainty.

Pursuant to the plan of reorganization, the amount of claims under the Facility, including prepetition interest, in Class 4 was fixed at \$1,305.4 million and the amount of claims under the Debentures, including prepetition interest, in Classes 5A and 5B was fixed at \$2,159.3 million and \$93.4 million, respectively. In addition, pursuant to an order of the Bankruptcy Court dated February 27, 2003, the aggregate amount of general unsecured claims in Class 6 was estimated at \$430.7 million for purposes of determining the initial allocation of distributions among the holders of claims in Classes 4, 5A and 6. The Company continues to review the proofs of claim and has filed or will file appropriate objections to claims in the Bankruptcy Court. To the extent the actual aggregate allowed amount of claims in Class 6 differs from the estimated amount, the pro rata distributions to holders of claims in Classes 4, 5A and 6 will be adjusted accordingly pursuant to the procedures set forth in the plan of reorganization.

Note 7 - Commitments and contingencies

Letters of credit

At February 28, 2003, the Company had \$154.3 million (August 31, 2002 - \$124.1 million) in outstanding letters of credit.

Environmental matters

The Company's operations are subject to numerous environmental laws, regulations and guidelines adopted by various governmental authorities in the jurisdictions in which the Company operates. Liabilities are recorded when environmental liabilities are either known or considered probable and can be reasonably estimated. On an ongoing basis, management assesses and evaluates environmental risk and, when necessary, conducts appropriate corrective measures. The Company provides for environmental liabilities using its best estimates. Actual environmental liabilities could differ significantly from these estimates.

Income tax matters

The respective tax authorities, in the normal course, audit the Company's tax filings of previous fiscal years. Management believes that there is no tax audit either threatened or pending against the Company that, if resolved against the Company, would have a materially adverse effect upon the Company's consolidated financial position or results of operations.

Legal proceedings

The Company is 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 the Company's assessment of known claims and its historical claims payout pattern and discussion with internal and outside legal counsel and risk management personnel, management believes that there is no proceeding either threatened or pending against the Company relating to such personal injury and/or property damage claims arising out of the ordinary course of business that, if resolved against the Company, would have a materially adverse effect upon the Company's consolidated financial position or results of operations.

As described in Note 1, the Debtors filed a voluntary petition for reorganization under the Bankruptcy Code on June 28, 2001, which was confirmed by the Bankruptcy Court and Canadian Court on February 27, 2003 and February 28, 2003, respectively. Management of the Company continues to operate the business of the Debtors as a debtor-in-possession. As a result of the Company's voluntary petitions for relief under the protection of the Bankruptcy Code and the CCAA, the actions described below are stayed with respect to the Company. In addition, certain of these proceedings have been settled as described below. Upon emergence from the Company's chapter 11 proceedings, the claims against the Company and the other Debtors discussed below that have not been settled will be extinguished.

The Company is a party to securities litigation commenced by shareholders of the Company and of Safety-Kleen and by bondholders of the Company and Safety-Kleen. As a result of the Company's voluntary petitions for relief under the protection of the Bankruptcy Code and the CCAA, these actions are stayed with respect to the Company. A settlement of securities litigation commenced by bondholders of the Company has been approved by the Bankruptcy Court, the Canadian Court and the federal court in South Carolina. After the settlement being fully implemented on the current terms, the plaintiff bondholder classes would be paid \$42.875 million and the estate of the

Company would receive \$12.5 million (of which the estate has already received \$11.5 million). During the three months ended February 28, 2003, the Company recorded the entire \$12.5 million as "other income". Pursuant to an order of the Bankruptcy Court, the other securities claims are subordinated and will receive no distributions under the plan of reorganization. See Note 14 for additional details with respect to the various securities litigation cases.

Healthcare Services issues

A substantial majority of the Company's healthcare services revenue is attributable to payments received from third-party payors including Medicare, Medicaid and private insurers. The Company is subject to various regulatory requirements in connection with its participation in the Medicare and Medicaid programs. The Center for Medicare and Medicaid Services has enacted rules that will revise the policy on Medicare coverage of ambulance services focusing on the medical necessity for the particular ambulance services. Rule changes in this area will impact the business of the Company. The Company has implemented a plan, which it believes will mitigate potential adverse effects of rule changes on its business.

The Company, like other Medicare and Medicaid providers, is subject to government audits of its Medicare and Medicaid reimbursement claims. Accordingly, retroactive revenue adjustments from these programs could occur. The Company is also subject to the Medicare and Medicaid fraud and abuse laws, which 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. The Company has implemented policies and procedures that it believes will assure that it is in substantial compliance with these laws and has accrued provisions, as appropriate, for settlement of prior claims.

The Company is currently undergoing investigations by certain government agencies regarding compliance with Medicare fraud and abuse statutes. The Company is cooperating with the government agencies conducting these investigations and is providing requested information to the governmental agencies. These reviews are covering periods prior to the Company's acquisition of the operations of certain businesses, as well as for periods after acquisition. Management believes that the remedies existing under specific purchase agreements and accruals established in the consolidated financial statements are sufficient.

Fuel purchase commitments

Historically, fuel costs represent approximately 3% to 6% of revenue. Due to the significance of fuel expenses, particularly diesel fuel, to the operations of the Company and the historical volatility of fuel prices, the Company has initiated a program to minimize the fluctuations in the price of its diesel fuel purchases. The intent of the program is to mitigate the impact of fuel price changes on the Company's operating margins and overall profitability by entering into forward supply contracts ("FSCs") with certain vendors. The FSCs generally stipulate set bulk delivery volumes at prearranged prices for a set period. The volumes agreed to be purchased by the Company are well below the forecasted total bulk fuel needs for the given location. Therefore, the risk of being forced to purchase fuel through the FSCs that is not required by the Company is minimal. Also, to the extent that the Company enters FSCs for portions of its total fuel needs, it may not realize the benefit of decreases in fuel prices. Conversely, to the extent that the Company does not enter into FSCs for portions of its total fuel needs, it may be adversely affected by increases in fuel prices.

Potential Pension Plan funding requirements

Greyhound and certain of its subsidiaries sponsor the following U.S. deferred benefit pension plans (the "Greyhound U.S. Plans"):

- ✘ Greyhound Lines, Inc. Salaried Employees Defined Benefit Plan ("Greyhound Salaried Plan");
- ✘ Greyhound Lines, Inc. Amalgamated Transit Union Local 1700 Council Retirement & Disability Plan ("ATU Plan");
- ✘ Texas, New Mexico and Oklahoma Coaches, Inc. Employees Retirement Plan;
- ✘ Vermont Transit Co. Inc. Employees Defined Benefit Pension Plan ("Vermont Transit Plan");
- ✘ Carolina Coach Company Pension Plan;
- ✘ Carolina Coach Company International Association of Machinist Pension Plan; and
- ✘ Carolina Coach Company Amalgamated Transit Union Pension Plan.

The ATU Plan covers approximately 14,000 current and former employees hired before November 1, 1983 by Greyhound, fewer than 1,000 of whom are active employees. The ATU Plan provides retirement benefits to the covered employees based upon a percentage of average final earnings, reduced pro rata for service of less than 15 years. Under the terms of the collective bargaining agreement, participants in this plan accrue benefits as long as no contributions are due from the Company. During fiscal 2002, the ATU Plan actuary advised the Company and the union that the decline in the financial markets had made it likely that contributions to the ATU Plan would be required for the plan in calendar 2002. The Company and union met and agreed to freeze service and wage accruals effective March 15, 2002. The Greyhound Salaried Plan covered salaried employees of Greyhound through May 7, 1990, when the plan was curtailed. The Vermont Transit Plan covered substantially all employees at Vermont Transit Company through June 30, 2000, when the plan was curtailed. The other Greyhound U.S. Plans cover salaried and hourly personnel of other Greyhound subsidiaries. Except as described below, it is the Company's policy to fund the minimum required contribution under existing laws.

As of December 31, 2002, the Greyhound U.S. Plans had a combined projected benefit obligation ("PBO"), discounted at 6.5%, of \$768.0 million. The ATU Plan represents approximately 90% of the PBO. Over the last two calendar years, the PBO has increased \$69.5 million as interest accretion on the obligation and the effect of a decrease in the discount rate of 1.3% have more than offset reductions due to benefit payments. In addition, plan assets have declined \$216.1 million over the last two calendar years due to benefit payments and losses on plan assets. As a result, although plan assets exceeded the PBO by \$41.6 million at December 31, 2000, the PBO now exceeds plan assets resulting in the plans being underfunded by \$244.0 million at December 31, 2002.

Further, in connection with its bankruptcy reorganization, the Company and the Pension Benefit Guaranty Corporation ("PBGC"), a United States government agency that administers the mandatory termination insurance program for defined benefit pension plans under the Employee Retirement Income Security Act ("ERISA"), have agreed to the economic terms relating to claims asserted by the PBGC against the Debtors regarding the funding levels of the Greyhound U.S. Plans (the "PBGC Agreement"). Under the PBGC Agreement, upon the consummation of the proposed plan of reorganization, the Company and its subsidiaries will contribute \$50 million in cash to the Greyhound U.S. Plans and the Company will issue shares of its post-reorganization common stock equal in value to \$50 million to a trust (the "Pension Plan Trust"). Further, the Company and its subsidiaries will contribute an additional \$50 million in cash to the Greyhound U.S. Plans in June 2004.

The PBGC Agreement provides that the PBGC will be granted a first priority lien on the common stock held in the Pension Plan Trust. The trustee of the Pension Plan Trust will sell the common stock as soon as practicable, but in no event later than the end of 2004. All proceeds from sales of this stock will be contributed directly to the Greyhound U.S. Plans. If the proceeds from the sales of common stock exceed \$50 million, the excess amount may be credited against the next-due minimum funding obligations of the Company and its subsidiaries, but will not reduce the June 2004

required contribution under the PBGC Agreement. If the proceeds from the sales of common stock do not aggregate \$50 million, the Company and its subsidiaries will be required to contribute the amount of the shortfall in cash to the Greyhound U.S. Plans at the end of calendar 2004.

These contributions and transfers will be in addition to the contributions to the Greyhound U.S. Plans, if any, required under the minimum funding requirements of ERISA. The PBGC also will receive a second priority lien on the assets of the Company's operating subsidiaries (other than Greyhound and its subsidiaries).

Based upon current regulations and plan asset values at December 31, 2002, and assuming annual investment returns exceed 3% and that the contributions required under the PBGC Agreement are made consistent with the terms of the PBGC Agreement, the Company does not anticipate any significant additional minimum funding requirements for the ATU Plan over the next several years. However, there is no assurance that the ATU Plan will be able to earn the assumed rate of return, that new regulations may result in changes in prescribed actuarial mortality tables or discount rates, or that there will be market driven changes in the discount rates, which would result in the Company being required to make significant additional minimum funding contributions in the future.

Note 8- Shareholders' equity (deficiency)

Upon the effective date of the plan of reorganization (See Note 1), all outstanding Common Shares, options to acquire Common Shares and Preference Shares will be cancelled.

(1) Capital Stock

(a) Authorized

An unlimited number of Common Shares.

Unlimited numbers of First, Second, Third and Fourth Preference Shares, each of which is issuable in series, are authorized. Unlimited numbers are designated as First Preference Shares Series E, Convertible First Preference Shares Series F and Convertible First Preference Shares Series G.

(b) Issued and fully paid preference shares

	February 28, 2003	August 31, 2002
5% Cumulative Convertible First Preference Shares Series G; issued at Cdn. \$20 per share, redeemable at the Company's discretion, at Cdn. \$20 per share; issued and outstanding 528,770 (August 31, 2002 – 528,770)	\$7.9	\$7.9

(c) Employee stock option plans

The Company has two existing employee stock option plans, a directors' stock option plan and employee stock purchase plans. Due to the Company's voluntary petition for reorganization, no options have been granted or exercised during the six months ended February 28, 2003. For more information on these plans, see Note 13.

(2) Accumulated other comprehensive loss

Accumulated other comprehensive loss is comprised of the following: (\$ in millions)

	Unrealized Gain (Loss) on Securities		Foreign Currency Items		Pension Adjustment		Accumulated Other Comprehensive Loss	
Six months ended February 28,	2003	2002	2003	2002	2003	2002	2003	2002
Beginning balance	\$4.6	\$0.9	(\$171.4)	(\$169.3)	(\$91.9)	\$ -	(\$258.7)	(\$168.4)
Current period change	3.5	6.5	16.5	(12.9)	(176.4)	(72.8)	(156.4)	(79.2)
Ending balance	\$8.1	\$7.4	(\$154.9)	(\$182.2)	(\$268.3)	(\$72.8)	(\$415.1)	(\$247.6)

The Company is required to record an additional minimum pension liability when the pension plans' accumulated benefit obligation exceeds the plans' assets by more than the amounts previously accrued for as pension costs. These charges are recorded as an increase to shareholders' deficiency, as a component of accumulated other comprehensive loss. During the six months ended February 28, 2003, after obtaining the most recent actuarial valuation, the Company recorded an increase in the minimum liability of \$176.4 million (February 28, 2002 - \$72.8 million).

Note 9 – Other financing related expenses

During the six months ended February 28, 2003, the Company incurred \$31.1 million (February 28, 2002 - \$29.5 million) in professional fees and other costs as a result of (i) events of default under the Company's \$1.425 billion syndicated bank facility (the "Facility"), (ii) events of default on certain Company debentures totalling \$2.04 billion (the "Debentures") and (iii) the voluntary petition for reorganization as described in Note 1. Professional fees and other costs include financing, accounting, legal and consulting services incurred by the Company during the ongoing negotiations with the Facility members and Debenture holders and related to the voluntary petition for reorganization.

Upon the successful completion of the proposed reorganization, the Company expects to pay completion fees, which have been estimated to be \$15 million. The Company accrued for these fees during the three months ended February 28, 2003 as "other financing related expenses".

Note 10 – Segmented information

The Company has three reportable segments: contract bus services, Greyhound and healthcare services. The contract bus services segment consists of two operating units. One unit provides school bus transportation throughout Canada and the United States. The other unit provides municipal and paratransit bus transportation within the United States. The Greyhound segment provides inter-city and tourism bus transportation throughout North America. The healthcare services segment consists of two operating units. One unit provides healthcare transportation services in the United States and the other provides emergency management services in the United States.

The Company evaluates performance and allocates resources based on income from operations before depreciation and amortization as reported under Canadian GAAP. The accounting policies of the reportable segments are the same as those described in Note 2 of the Canadian GAAP Notes to the Consolidated Financial Statements as at August 31, 2002. The Company's reportable segments are business units that offer different services and are each managed separately.

Services

(\$ in millions)	Three Months Ended February 28,		Six Months Ended February 28,	
	2003	2002	2003	2002
Contract Bus services				
Revenue	\$469.4	\$474.3	\$996.2	\$1,001.3
Income from operations before depreciation and amortization*	78.8	84.8	183.0	202.5
Greyhound				
Revenue	\$281.7	\$281.5	\$556.1	\$565.7
Income (loss) from operations before depreciation and amortization*	3.9	13.1	2.4	(105.2)
Healthcare services				
Revenue	\$369.6	\$349.8	\$730.6	\$700.4
Income from operations before depreciation and amortization*	24.8	24.5	51.9	49.5

* As reported under Canadian GAAP

Consolidated

(\$ in millions)	Three Months Ended February 28,		Six Months Ended February 28,	
	2003	2002	2003	2002
Revenue	\$1,120.7	\$1,105.6	\$2,282.9	\$2,267.4
Income from operations before depreciation and amortization as reported under Canadian GAAP	107.5	122.4	237.3	146.8
Adjustments to report under U.S. GAAP	2.3	2.3	4.6	128.1
Depreciation and amortization expense	(75.7)	(97.5)	(152.1)	(194.1)
Income from operating segments	34.1	27.2	89.8	80.8
Interest expense	(6.5)	(7.8)	(13.0)	(14.9)
Other financing related expenses	(22.9)	(15.0)	(31.1)	(29.5)
Other income	13.0	4.6	14.5	7.1
Income tax expense	(1.5)	(1.7)	(3.0)	(3.2)
Income for the period before cumulative effect of change in accounting principle	\$16.2	\$7.3	\$57.2	\$40.3

The "adjustments to report under U.S. GAAP" relate to a goodwill impairment loss taken under Canadian GAAP during the six months ended February 28, 2002 and the effects of not applying SOP 98-5 under Canadian GAAP (See Note 12).

Note 11 – Condensed combined financial statements of entities in reorganization proceedings

**Condensed Combined Consolidated Statement of Operations
Three months ended February 28, 2003**

(\$ in millions)	Entities in Reorganization Proceedings	Entities not in Reorganization Proceedings	Eliminations	Consolidated Totals
Revenue	\$ -	\$1,120.7	\$ -	\$1,120.7
Operating, selling, general and administrative expenses	3.8	1,007.1	-	1,010.9
Depreciation and amortization expense	-	75.7	-	75.7
Intercompany management fees (income)	(14.8)	14.8	-	-
Income from operating segments	11.0	23.1	-	34.1
Interest income (expense), net of other income	11.9	(5.4)	-	6.5
Intercompany interest income (expense)	(57.3)	57.3	-	-
Other financing related expenses	(20.5)	(2.4)	-	(22.9)
Equity in earnings of intercompany investments	71.6	-	(71.6)	-
Income (loss) before income taxes	16.7	72.6	(71.6)	17.7
Income tax expense	(0.5)	(1.0)	-	(1.5)
Net income (loss)	\$16.2	\$71.6	(\$71.6)	\$16.2

**Condensed Combined Consolidated Statement of Cash Flows
Three months ended February 28, 2003**

(\$ in millions)	Entities in Reorganization Proceedings	Entities not in Reorganization Proceedings	Consolidated Totals
Net cash provided by operating activities	\$14.3	\$57.9	\$72.2
Cash flows from investing activities:			
Purchase of property and equipment and other assets, net of proceeds from sale	-	(36.9)	(36.9)
Net decrease (increase) in long-term Investments	0.3	(25.6)	(25.3)
Net cash provided by (used in) investing activities	0.3	(62.5)	(62.2)
Cash flows from financing activities:			
Net proceeds from issue of long-term debt	-	12.4	12.4
Net cash provided by financing activities	-	12.4	12.4
Net increase in cash and cash equivalents	14.6	7.8	22.4
Cash and cash equivalents at:			
Beginning of period	58.5	199.7	258.2
End of period	\$73.1	\$207.5	\$280.6

Condensed Combined Consolidated Statement of Operations
Six months ended February 28, 2003

(\$ in millions)	Entities in Reorganization Proceedings	Entities not in Reorganization Proceedings	Eliminations	Consolidated Totals
Revenue	\$ -	\$2,282.9	\$ -	\$2,282.9
Operating, selling, general and administrative expenses	6.8	2,034.2	-	2,041.0
Depreciation and amortization expense	0.1	152.0	-	152.1
Intercompany management fees (income)	(32.7)	32.7	-	-
Income from operating segments	25.8	64.0	-	89.8
Interest income (expense), net of other income (loss)	11.3	(9.8)	-	1.5
Intercompany interest income (expense)	6.4	(6.4)	-	-
Other financing related expenses	(25.6)	(5.5)	-	(31.1)
Equity in earnings of intercompany investments	40.2	-	(40.2)	-
Income (loss) before income taxes	58.1	42.3	(40.2)	60.2
Income tax expense	(0.9)	(2.1)	-	(3.0)
Net income (loss) before cumulative effect of change in accounting principle	57.2	40.2	(40.2)	57.2
Cumulative effect of change in accounting principle	-	(2,205.4)	-	(2,205.4)
Equity in loss from the cumulative effect of change in accounting principle of intercompany investments	(2,205.4)	-	2,205.4	-
Net income (loss)	(\$2,148.2)	(\$2,165.2)	\$2,165.2	(\$2,148.2)

Condensed Combined Consolidated Statement of Cash Flows
Six months ended February 28, 2003

(\$ in millions)	Entities in Reorganization Proceedings	Entities not in Reorganization Proceedings	Consolidated Totals
Net cash provided by operating activities	\$19.9	\$44.2	\$64.1
Cash flows from investing activities:			
Purchase of property and equipment and other assets, net of proceeds from sale	-	(104.5)	(104.5)
Expended on acquisition	-	(3.2)	(3.2)
Net decrease (increase) in long-term Investments	0.7	(35.0)	(34.3)
Net cash provided by (used in) investing activities	0.7	(142.7)	(142.0)
Cash flows from financing activities:			
Net proceeds from issue of long-term debt	-	15.0	15.0
Net cash provided by financing activities	-	15.0	15.0
Net increase (decrease) in cash and cash equivalents	20.6	(83.5)	(62.9)
Cash and cash equivalents at:			
Beginning of period	52.5	291.0	343.5
End of period	\$73.1	\$207.5	\$280.6

Condensed Combined Consolidated Balance Sheet
As of February 28, 2003

(\$ in millions)	Entities in Reorganization Proceedings	Entities not in Reorganization Proceedings	Eliminations	Consolidated Totals
Current assets	\$100.0	\$1,165.5	\$-	\$1,265.5
Intercompany receivables and investments	2,549.0	-	(2,549.0)	-
Long-term investments	11.3	411.2	-	422.5
Property and equipment	3.9	1,648.2	-	1,652.1
Goodwill	-	774.9	-	774.9
Other assets	-	33.1	-	33.1
	<u>\$2,664.2</u>	<u>\$4,032.9</u>	<u>(\$2,549.0)</u>	<u>\$4,148.1</u>
Current liabilities	\$27.4	\$598.5	\$ -	\$625.9
Intercompany payables	-	950.2	(950.2)	-
Non-current liabilities	10.2	885.4	-	895.6
Liabilities subject to compromise	3,977.1	-	-	3,977.1
Shareholders' deficiency	(1,350.5)	1,598.8	(1,598.8)	(1,350.5)
	<u>\$2,664.2</u>	<u>\$4,032.9</u>	<u>(\$2,549.0)</u>	<u>\$4,148.1</u>

Condensed Combined Consolidated Statement of Operations
Three months ended February 28, 2002

(\$ in millions)	Entities in Reorganization Proceedings	Entities not in Reorganization Proceedings	Eliminations	Consolidated Totals
Revenue	\$ -	\$1,105.6	\$-	\$1,105.6
Operating, selling, general and administrative expenses	2.8	978.1	-	980.9
Depreciation and amortization expense	-	97.5	-	97.5
Intercompany management fees (income)	(12.3)	12.3	-	-
Income from operating segments	9.5	17.7	-	27.2
Interest expense, net of other income	(1.4)	(1.8)	-	(3.2)
Intercompany interest income (expense)	79.3	(79.3)	-	-
Other financing related expenses	(11.0)	(4.0)	-	(15.0)
Equity in loss of intercompany investments	(68.7)	-	68.7	-
Income (loss) before income taxes	7.7	(67.4)	68.7	9.0
Income tax expense	(0.4)	(1.3)	-	(1.7)
Net income (loss)	\$7.3	(\$68.7)	\$68.7	\$7.3

Condensed Combined Consolidating Statement of Cash Flows
Three months ended February 28, 2002

(\$ in millions)	Entities in Reorganization Proceedings	Entities not in Reorganization Proceedings	Consolidated Totals
Net cash provided by operating activities	\$16.7	\$110.2	\$126.9
Cash flows from investing activities:			
Purchase of property and equipment and other assets, net of proceeds from sale	-	(17.7)	(17.7)
Expended on acquisitions	-	(0.5)	(0.5)
Net increase in long-term investments	-	(1.9)	(1.9)
Proceeds from sale of assets	1.2	3.0	4.2
Net cash provided by (used in) investing activities	1.2	(17.1)	(15.9)
Cash flows from financing activities:			
Net decrease in long-term debt and other long-term liabilities	-	(19.2)	(19.2)
Net cash used in financing activities	-	(19.2)	(19.2)
Net increase in cash and cash equivalents	17.9	73.9	91.8
Cash and cash equivalents at:			
Beginning of period	59.5	142.7	202.2
End of period	\$77.4	\$216.6	\$294.0

Condensed Combined Consolidated Statement of Operations
Six months ended February 28, 2002

(\$ in millions)	Entities in Reorganization Proceedings	Entities not in Reorganization Proceedings	Eliminations	Consolidated Totals
Revenue	\$ -	\$2,267.4	\$ -	\$2,267.4
Operating, selling, general and administrative expenses	5.5	1,987.0	-	1,992.5
Depreciation and amortization expense	0.1	194.0	-	194.1
Intercompany management fees (income)	(30.0)	30.0	-	-
Income from operating segments	24.4	56.4	-	80.8
Interest expense, net of other income	(2.0)	(5.8)	-	(7.8)
Intercompany interest income (expense)	166.0	(166.0)	-	-
Other financing related expenses	(21.6)	(7.9)	-	(29.5)
Equity in loss of intercompany investments	(125.8)	-	125.8	-
Income (loss) before income taxes	41.0	(123.3)	125.8	43.5
Income tax expense	(0.7)	(2.5)	-	(3.2)
Net income (loss)	\$40.3	(\$125.8)	\$125.8	\$40.3

Condensed Combined Consolidating Statement of Cash Flows
Six months ended February 28, 2002

(\$ in millions)	Entities in Reorganization Proceedings	Entities not in Reorganization Proceedings	Consolidated Totals
Net cash provided by operating activities	\$34.3	\$76.0	\$110.3
Cash flows from investing activities:			
Purchase of property and equipment and other assets, net of proceeds from sale	-	(78.1)	(78.1)
Net increase in long-term investments	-	(9.2)	(9.2)
Expended on acquisitions	-	(0.5)	(0.5)
Proceeds from sale of assets	1.2	3.0	4.2
Net cash provided by (used in) investing activities	1.2	(84.8)	(83.6)
Cash flows from financing activities:			
Net decrease in long-term debt and other long-term liabilities	-	(13.9)	(13.9)
Net cash used in financing activities	-	(13.9)	(13.9)
Net increase (decrease) in cash and cash equivalents	35.5	(22.7)	12.8
Cash and cash equivalents at:			
Beginning of period	41.9	239.3	281.2
End of period	\$77.4	\$216.6	\$294.0

Note 12 – United States and Canadian Accounting Principles

These consolidated financial statements have been prepared in accordance with U.S. GAAP and conform in all material respects with Canadian GAAP, except as follows:

Six months ended February 28, (\$ millions)	2003	2002
Net income (loss) in accordance with U.S. GAAP	(\$2,148.2)	\$40.3
Effects of differences in accounting for:		
Costs of start-up activities (a)	(6.6)	(7.0)
Impairment charges under Canadian GAAP (b)	-	(123.5)
Impairment charges under U.S. GAAP (b)	2,205.4	-
Reduced goodwill amortization (b)	-	29.1
Net income (loss) in accordance with Canadian GAAP	\$50.6	(\$61.1)
Basic and diluted net income (loss) per share	\$0.16	(\$0.19)

The amounts in the consolidated balance sheets that materially differ from those reported under U.S. GAAP are as follows: (\$ in millions)

	February 28, 2003		August 31, 2002*	
	U.S. GAAP	Canadian GAAP	U.S. GAAP	Canadian GAAP
Assets:				
Other current assets (a)	\$73.0	\$76.1	\$56.3	\$64.0
Long-term investments (c)	422.5	414.4	417.9	413.3
Goodwill (b)	774.9	800.6	2,976.8	813.1
Pension asset (c)	14.6	46.9	10.8	43.1
Deferred charges (a)	18.5	24.1	12.0	19.6
Liabilities and Shareholders' Deficiency:				
Other long-term liabilities (c)	677.7	441.7	442.1	382.5
Cumulative foreign currency translation adjustments (c)	-	(154.9)	-	(171.4)
Deficit (a and b)	(3,165.9)	(3,131.5)	(1,017.7)	(3,166.1)
Accumulated other comprehensive loss (c)	(415.1)	-	(258.7)	-

* Refer to Note 28 of the Notes to the Consolidated Financial Statements as of August 31, 2002.

(a) Reporting on the costs of start-up activities

During fiscal 2000, the Company applied SOP 98-5. As a result, during fiscal 2000, the Company expensed \$27.3 million in unamortized costs of start-up activities as a cumulative effect of a change in accounting principle under U.S. GAAP. Under Canadian GAAP, SOP 98-5 is not applicable. As a result, under Canadian GAAP, the Company did not record the \$27.3 million change in accounting principle amount and continued with the policy of deferring start-up costs and amortizing the deferrals over a reasonable period representing an overall adjustment to conform to Canadian GAAP of \$6.6

million expense and \$7.0 million expense during the six months ended February 28, 2003 and the six months ended February 28, 2002, respectively.

(b) Goodwill impairment

Prior to fiscal 2003, the Company had different accounting policies for determining goodwill impairment for Canadian and U.S. GAAP reporting. This difference in accounting policy resulted in additional goodwill impairment losses under Canadian GAAP totalling \$2,273.8 million for the years ended August 31, 1999 through and including August 31, 2002 (during the six months ended February 28, 2002, the Company recorded a goodwill impairment loss totalling \$123.5 million under Canadian GAAP). As a result of the reduced goodwill impairment charges under U.S. GAAP, additional goodwill amortization totalling \$29.1 million was recorded for the six months ended February 28, 2002.

As of September 1, 2002, the Company followed the guidelines of SFAS No. 142, "Goodwill and Other Intangible Assets" and similar guidance under Canadian GAAP. The guidance in both countries discontinue the amortization of intangible assets with indefinite useful lives. In addition, the Company was required to test goodwill and intangible assets with an indefinite life for impairment in accordance with the provisions of SFAS 142 and Canadian GAAP. Pursuant to the guidance, any impairment loss is to be recorded directly through the deficit account on the consolidated statement of deficit for Canadian GAAP and recorded as a cumulative effect of change in accounting principle on the consolidated statement of operations for U.S. GAAP. On September 1, 2002, under Canadian GAAP, this resulted in an impairment charge totalling \$16.0 million. Under U.S. GAAP, this resulted in an impairment loss totalling \$2,205.4 million, recorded as a cumulative effect of change in accounting principle.

(c) Comprehensive income

U.S. GAAP requires that a comprehensive income statement be prepared. Under U.S. GAAP, SFAS No. 87, "Employers Accounting for Pensions", required the Company to record an increase in the additional minimum pension liability. Also, under U.S. GAAP, available-for-sale securities are to be reported at their fair values, with unrealized gains or losses reported in a separate component of shareholders' equity along with the cumulative foreign currency translation adjustments and the SFAS No. 87, pension adjustment. These amounts are reported under the balance sheet caption "Accumulated other comprehensive loss".

Canadian GAAP does not have the concept of comprehensive income (loss). The cumulative foreign currency translation adjustment is reported in a separate component of shareholders' equity. The cumulative SFAS No. 87 pension adjustment (February 28, 2003 - \$268.3 million, August 31, 2002 - \$91.9 million) under U.S. GAAP is not recorded under Canadian GAAP. In addition, the recording of the available-for-sale securities at their fair values (February 28, 2003 - \$8.1 million, August 31, 2002 - \$4.6 million) is not recorded under Canadian GAAP.

Note 13 – Further information on stock option and stock purchase plans

(a) Employee stock options plans

At February 28, 2003, a total of 13,483,241 aggregate options to purchase Common Shares were outstanding under the 1991 and 1998 Employee Stock Option Plans. Of these options; 1,146,393 vested and became exercisable on October 1, 2000 and terminate, subject to conditions of services, on September 30, 2005. Another 5,051,198 options vest in 25% installments on each of November 1, 2000; May 1, 2001; May 1, 2002; and May 1, 2003. These options vest immediately upon a change of control of the Company and are for a term of ten years. All other options granted under these two plans are for a term of ten years from the date of grant and become exercisable with respect to 20% of the total number of shares subject to the option, one year after the date of grant, and with respect to an additional 20% at the end of each twelve month period thereafter on a cumulative basis during the succeeding four years. The plans provide for the granting of stock options to certain senior employees and officers of the Company at the discretion of the Board of Directors. All options are subject to certain conditions of service and, in certain circumstances, a non-competition agreement.

At February 28, 2003, August 31, 2002 and February 28, 2002, the aggregate options outstanding entitled holders to purchase 13,483,241; 13,483,241 and 14,408,118 Common Shares, respectively, at prices ranging from Cdn. \$7.625 - \$20.30 and U.S. \$0.875 - \$15.25.

During the six months ended February 28, 2003, no Common Shares (February 28, 2002 – no Common Shares) were issued under the plans.

Upon the effective date of the plan of reorganization (as described in Note 1), all outstanding options will be cancelled.

(b) Directors' stock option plan

At February 28, 2003; 297,000 Common Shares were reserved for issuance on the exercise of options granted under the directors' stock option plan. All options under this plan are for a term of ten years from the date of the grant and become exercisable with respect to 20% of the total number of shares subject to the option on each of the five successive anniversaries of the date of the grant. Options are subject to certain conditions of service.

During the six months ended February 28, 2003, no options to purchase Common Shares were granted (February 28, 2002 – no options granted) and no options were terminated (2002 – none).

At February 28, 2003, the aggregate options outstanding entitled non-executive directors to purchase 180,000 (August 31, 2002 – 180,000; February 28, 2002 – 180,000) Common Shares at prices ranging from Cdn. \$14.30 to \$19.90 per share and U.S. \$8.00 per share.

During the six months ended February 28, 2003, no Common Shares were issued under the plan (February 28, 2002 – no Common Shares issued).

Upon the effective date of the plan of reorganization (as described in Note 1), all outstanding options will be cancelled.

(c) Employee stock purchase plans

During fiscal 1999, the Company established the Employee Stock Purchase Plans (the "Plans"). The Plans are available to all non-unionized hourly and salaried employees of the Company, and its subsidiaries meeting certain eligibility requirements. Each eligible employee, who enrolled in the Plans, could elect to withhold from 1% to 10% of his or her salary or hourly earnings to a maximum \$10,000 (\$10,000 CDN for Canadian employees) in any six month stock purchase period. The accumulated payroll deductions are used to purchase Common Shares of the Company at a price equal to 85% of the lower of the fair market value of the Common Shares on the first and last days of the stock purchase period. Contributions have been suspended with effect from January 1, 2000.

During the six months ended February 28, 2003 no Common Shares were issued under the Plans (February 28, 2002 – no Common Shares issued).

Note 14 – Further information on litigation

Safety-Kleen settlement

The Company owns 44% of the common shares of Safety-Kleen. On June 9, 2000, Safety-Kleen announced that it and 73 of its U.S. subsidiaries filed voluntary petitions for chapter 11 relief in the United States Bankruptcy Court for the District of Delaware.

Following Safety-Kleen's filing for petition for chapter 11 relief, the Debtors asserted various claims against Safety-Kleen, and Safety-Kleen and various Safety-Kleen constituencies, including certain current directors of Safety-Kleen (the "Safety-Kleen Directors") and Toronto Dominion (Texas), Inc. ("TD-Texas"), as administrative agent for the secured lenders of Safety-Kleen, asserted various claims against the Debtors. In November 2001, the bankruptcy court hearing Safety-Kleen's chapter 11 proceedings and the Bankruptcy Court held a joint conference and determined that mediation would occur for the claims between the Debtors and the various Safety-Kleen constituencies. Certain claims asserted by the former corporate secretary and general counsel (Mr. Taylor) of Safety-Kleen and certain of its predecessors and by the former chief financial officer (Mr. Humphreys) of Safety-Kleen were not included in the mediation.

The mediation proceedings were held in April 2002 and, on July 18, 2002, the parties to the mediation announced that they had reached a settlement. Pursuant to the settlement, the Company agreed to withdraw with prejudice its claim of up to \$6.5 billion in Safety-Kleen's bankruptcy proceedings, the Company allowed a claim of \$225.0 million as a general unsecured claim in Class 6 under its plan of reorganization in favor of Safety-Kleen and other claims asserted against the Company by Safety-Kleen, the Safety-Kleen Directors and the Safety-Kleen secured lender group, including claims of TD-Texas, are deemed withdrawn with prejudice. In addition, as part of this compromise and settlement, claims against Safety-Kleen by certain current and former Company officers and directors for indemnity and contribution will be deemed withdrawn with prejudice. Also, the Company agreed to allow a claim of \$71.4 million as a general unsecured claim under its plan of reorganization in favor of TD-Texas as claimant under a \$60.0 million promissory note issued by Safety-Kleen and guaranteed by the Company that was assigned to TD-Texas.

On August 16, 2002, the bankruptcy court hearing Safety-Kleen's chapter 11 proceeding approved the settlement. On August 30, 2002, the Bankruptcy Court approved the settlement. On September 11, 2002, the Canadian Court approved the settlement. As part of the compromise and settlement, the Company will be released from its indemnification obligations relating to certain environmental matters and Safety-Kleen will cause the claim of the South Carolina Department of Health and Environmental Control ("DHEC") against the Company be withdrawn with prejudice. Safety-Kleen announced a settlement with DHEC in mid October 2002. Releases satisfactory to the parties will be exchanged, and there will be no admission of liability by any party to the agreement or any person providing releases under the agreement. The settlement is conditioned upon, among other things, the confirmation and effectiveness of the Company's plan of reorganization and the consummation of the settlement agreement between Safety-Kleen and DHEC, which is conditioned upon the confirmation and effectiveness of a plan of reorganization of Safety-Kleen. As a result, the Company provided \$225.0 million in fiscal 2001 to reflect this settlement and the claim allowed to Safety-Kleen and for the termination of the Company's claims for indemnification, contribution or subrogation from Safety-Kleen and the Safety-Kleen Directors, as well as the termination of claims against the Company by Safety-Kleen, the Safety-Kleen Directors and the Safety-Kleen secured lender group, including the claims brought by TD-Texas.

Securities Litigation – Shareholder actions

As a result of the Company's voluntary petitions for relief under the protection of the Bankruptcy Code and the CCAA, the actions described below are stayed with respect to the Company. In addition, certain of these proceedings have been settled as described below. Upon emergence from the Company's chapter 11 proceedings, the claims against the Company and the other Debtors discussed below that have not been settled will be extinguished. Any remaining claims against current or former directors and officers will continue to remain outstanding.

Three actions, filed against the Company and others, are pending in the United States District Court for the District of South Carolina. These cases have been consolidated. Plaintiffs assert claims under the federal securities laws that the Company's financial statements had accounting irregularities based on the Company's incorporation and/or consolidation of the financial results of Safety-Kleen in the reported consolidated financial results of the Company. PricewaterhouseCoopers LLP and PricewaterhouseCoopers LLP (Canada) have agreed to a settlement with the plaintiff class, subject to approval of the federal court in South Carolina.

On September 18, 2000, the Company was added as a defendant in a consolidated amended securities fraud class action complaint that had previously been pending in the United States District Court for the District of South Carolina against Safety-Kleen and others. Safety-Kleen, which is in a chapter 11 reorganization proceeding, was dismissed as a defendant. In the currently active complaint, plaintiffs allege that, during the class period, in violation of the federal securities laws, the defendants disseminated to the investing public false and misleading financial statements and press releases concerning the financial statements and results of operations of LESI and Safety-Kleen. Plaintiffs further allege that the proxy statement, prospectus and registration statement pursuant to which LESI and Old Safety-Kleen were merged contained false and misleading financial information. PricewaterhouseCoopers LLP has agreed to a settlement with the plaintiff class, subject to approval of the federal court in South Carolina.

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 the Company and

other parties. 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 the Company and some of the defendants. The plaintiffs then filed a motion seeking leave to file an amended complaint that asserts a common law claim for negligent misrepresentation against the Company and other defendants. The court granted the motion after the Company's chapter 11 filing, then subsequently vacated its order granting the motion with respect to the Company.

Certain of the defendants in the above referenced actions asserted claims for indemnification against the Company. As a result of the Safety-Kleen settlement described above, claims of the seven Safety-Kleen Directors will be withdrawn with prejudice. The Safety-Kleen settlement would not affect the claims of Messrs. Humphreys and Taylor.

Securities Litigation – Bondholder actions

As a result of the Company's voluntary petitions for relief under the protection of the Bankruptcy Code and the CCAA, the actions described below are stayed with respect to the Company. In addition, certain of these proceedings have been settled as described below. Upon emergence from the Company's chapter 11 proceedings, the claims against the Company and the other Debtors discussed below that have not been settled will be extinguished. Any remaining claims against current or former directors and officers will continue to remain outstanding.

On July 24, 2002, the parties entered into an agreement to settle the securities litigation described below (the "Bondholder Settlement Agreement"). The Bondholder Settlement Agreement provides for a release of all claims that the plaintiffs have and may have against the Company and the other defendants, including some of the Company's current or former officers and directors, the underwriter defendants, PricewaterhouseCoopers LLP and PricewaterhouseCoopers LLP (Canada). The other defendants, including the Company, will also release or have already released various claims against each other. The Bondholder Settlement Agreement was approved by the Bankruptcy Court and the Canadian Court on August 30, 2002 and September 11, 2002, respectively, and by the federal court in South Carolina on December 17, 2002. Subject to the Bondholder Settlement Agreement being fully implemented on the current terms, the plaintiff bondholder classes would be paid \$42.875 million, and the estate of the Company would receive \$12.5 million. The Bondholder Settlement Agreement provides for two different effective dates. The settlement between PricewaterhouseCoopers LLP and PricewaterhouseCoopers LLP (Canada) and all other parties has already become effective, and the estate of the Company has received \$11.5 million of the settlement proceeds. The settlement between and among all other parties remains subject to the Company's emergence from bankruptcy. The Bondholder Settlement Agreement encompasses the following cases:

- ?? John Hancock Life Insurance Company, New York Life Insurance Company, Aid Association for Lutherans, American General Annuity Insurance Company and the Variable Annuity Life Insurance Company filed a securities fraud class action in the United States District Court for the Southern District of New York against the Company, certain of the Company's current or former officers and directors, various underwriters in the Company's sale of certain notes (the "Prepetition Notes"), and its auditors, PricewaterhouseCoopers LLP and PricewaterhouseCoopers LLP (Canada). Plaintiffs assert claims under the federal securities laws and the common law of South Carolina, alleging that the registration statement and prospectus for the Prepetition Notes contained misleading statements with

respect to the Company's financial condition and the relative priority of the Prepetition Notes. This action was transferred to the District of South Carolina.

- ?? Barbara Meltzer filed a securities fraud class action complaint in the United States District Court for the District of South Carolina against the Company and certain of its current or former officers and directors. Plaintiff asserts claims under the federal securities laws that, during the class period, defendants disseminated to the investing public false and misleading financial statements and press releases concerning the relative priority of the Company's Prepetition Notes and the Company's publicly reported financial condition and future prospects. This action and the Hancock action discussed above were consolidated by order of the South Carolina federal court dated June 20, 2001, and the caption of the case was changed to *In re Laidlaw Bondholders Litigation*.
- ?? The Bondholder Settlement Agreement also includes the settlement of a class action brought by certain Company bondholders against Citibank, N.A., the indenture trustee for the Prepetition Notes.
- ?? Westdeutsche Landesbank Girozentrale, New York Branch, filed a securities fraud class action complaint against the Company in the United States District Court for the Southern District of New York. Other defendants in the proceeding include certain of the Company's current or former officers and directors, various underwriters in the Company's sale of the Prepetition Notes, PricewaterhouseCoopers LLP and PricewaterhouseCoopers LLP (Canada). Plaintiff alleges that defendants disseminated to the investing public false and misleading financial statements and press releases concerning the Company's obligations with respect to prepetition indentures entered into in 1992 and 1997 and the Company's prepetition credit facility.

In addition to the claims resolved under the Bondholder Settlement Agreement, the Company is party to the following securities litigation:

- ?? Pending before the federal court in South Carolina is the *In re Safety-Kleen Corp. Bondholders Securities Litigation* filed on January 23, 2001. This consolidated complaint consolidates the allegations originally brought by plaintiffs in a South Carolina District Court action and a Delaware District Court action against the Company, certain of its current or former officers and directors and others. Plaintiffs assert claims under the federal securities laws and allege 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.
- ?? A complaint for violation of California Corporate Securities Law of 1968 and for common law fraud and negligent misrepresentation was filed on March 5, 2001 in the Superior Court of the State of California, County of Sacramento against the Company, certain of its current or former officers and directors and certain former officers and directors of Safety-Kleen. The plaintiffs in this case (Eaton Vance Distributors, Inc.; T. Rowe Price Associates, Inc.; Delaware Investment Advisors; John Hancock Funds, Inc; and Putnam Investments, Inc.) are purchasers or acquirers of specified bonds issued by the California Pollution Control Financing Authority on July 1, 1997 and secured by an indenture with Laidlaw Environmental Services and its successor Safety-Kleen. The action alleges that defendants made written or oral communications containing false statements or omissions about Laidlaw Environmental Services' and Safety-Kleen's business, finances and future prospects in connection with the offer for sale of those bonds, and that plaintiffs bought and

retained the bonds in reliance on said statements and were injured thereby. After the Company's filing for bankruptcy, the California court dismissed the action as to some other defendants on the grounds that the court lacked personal jurisdiction over them. This dismissal was affirmed by the California intermediate appellate court.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS**
(all dollar amounts are stated in United States dollars)

General

Voluntary petitions for reorganization

On June 28, 2001, Laidlaw Inc. (the "Company") and five of its direct and indirect subsidiaries (collectively, the "Debtors") filed voluntary petitions for relief under chapter 11 of the United States Bankruptcy Code, 11 U.S.C. 101-1330 (the "Bankruptcy Code"), in the United States Bankruptcy Court for the Western District of New York (the "Bankruptcy Court"). The other Debtors include: Laidlaw USA, Inc. ("Laidlaw USA"), Laidlaw Investments Ltd. ("LIL") Laidlaw International Finance Corporation ("LIFC"), Laidlaw One, Inc. ("Laidlaw One") and Laidlaw Transportation, Inc. ("LTI"). In addition, the Company and LIL have commenced Canadian insolvency proceedings under the Canada Companies' Creditors Arrangement Act ("CCAA") in the Ontario Superior Court of Justice in Toronto, Ontario (the "Canadian Court"). None of the Company's operating subsidiaries was included in the filings.

The Debtors remain in possession of their respective properties and are managing their businesses as debtors-in-possession. Pursuant to the Bankruptcy Code and the CCAA, however, the Debtors may not engage in transactions outside the ordinary course of business without the approval of the Bankruptcy Court and the Canadian Court.

The Company is reorganizing its affairs under the protection of the Bankruptcy Code and the CCAA and has proposed a plan of reorganization for itself and the other Debtors. On February 27, 2003, the Bankruptcy Court entered an order confirming the Company's plan of reorganization. On February 28, 2003, the Canadian Court issued an order recognizing the Bankruptcy Court's confirmation order and implementing it in Canada with respect to the Company's Canadian insolvency proceeding. The plan of reorganization sets forth the means for satisfying claims against and interests in the Company and the other Debtors, including the liabilities subject to compromise. Generally, pre-petition liabilities are subject to settlement under such a plan of reorganization.

Ability to continue operations

The consolidated financial statements have been prepared on a "going concern" basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of operations. The appropriateness of the "going concern" assumption is dependent upon, among other things, a successful completion of the proposed reorganization as contemplated by the plan of reorganization, future profitable operations and the ability to generate sufficient cash from operations and obtain financing arrangements to meet obligations. If the "going concern" basis were not appropriate for these consolidated financial statements, then significant adjustments would need to be made to the carrying value of the assets and liabilities, the reported revenue and expenses and the balance sheet classification used.

In addition, if the Company successfully completes the proposed reorganization, the Company will be required to adopt "fresh start" accounting. This accounting would require that assets and liabilities be recorded at fair value, based on values determined in connection with the restructuring. As a result, the reported amounts in the consolidated financial statements would

materially change, because they do not give effect to the adjustments to the carrying values of assets and liabilities that would ultimately result from the adoption of "fresh start" accounting.

Goodwill impairment

Effective September 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142 ("SFAS 142") "Accounting for Goodwill and Other Intangible Assets" and as a result, the Company ceased to amortize goodwill. In lieu of amortization, SFAS 142 requires that goodwill be reviewed for impairment upon adoption of SFAS 142 and at least annually thereafter. As a result, on September 1, 2002, the Company recorded a non-cash charge of \$2,205.4 million as a cumulative effect of change in accounting principle.

Results of Operations

Three Months Ended February 28, 2003 compared with
Three Months Ended February 28, 2002

Three months ended February 28,	Percentage of Revenue		Percentage Increase (Decrease)
	2003	2002	2003 Over 2002
Revenue	100.0%	100.0%	1.4%
Operating expenses	79.8	78.7	2.8
Selling, general and administrative expenses	10.4	10.1	4.8
Depreciation expense	6.8	6.7	0.9
Amortization expense	-	2.0	(98.7)
Income from operating segments	3.0	2.5	25.4
Interest expense	(0.6)	(0.7)	(16.7)
Other financing related expenses	(2.0)	(1.4)	52.7
Other income	1.2	0.4	182.6
Income before income taxes	1.6	0.8	96.7
Income tax expense	(0.2)	(0.1)	(11.8)
Net income	1.4	0.7	121.9

Revenue

The sources of revenue and changes by business segment are as follows (\$ in millions):

	Revenue For the Three Months Ended February 28,				Percentage Increase (Decrease) For the Three Months Ended February 28,	
	2003		2002		2003 Over 2002	2002 Over 2001
Contract Bus services	\$469.4	41.9%	\$474.3	42.9%	(1.0%)	2.5%
Greyhound	281.7	25.1	281.5	25.5	0.1	(2.6)
Healthcare services	369.6	33.0	349.8	31.6	5.7	(1.0)
	\$1,120.7	100.0%	\$1,105.6	100.0%	1.4	-

For each of the periods described below, management's estimates of the components of changes in the Company's consolidated revenue are as follows:

	Percentage Increase (Decrease) Three Months Ended February 28,	
	2003 Over 2002	2002 Over 2001
Increase in revenue as a result of acquisitions		
Contract Bus services	0.1%	-%
Greyhound	-	0.1
Healthcare services	-	-
Subtotal	0.1	0.1
Foreign exchange rate changes		
Contract Bus services	0.1	(0.2)
Greyhound	0.1	(0.2)
Healthcare services	-	-
Subtotal	0.2	(0.4)
Other, primarily through price and volume changes		
Contract Bus services	(0.6)	1.2
Greyhound	(0.1)	(0.5)
Healthcare services	1.8	(0.4)
Subtotal	1.1	0.3
Total	1.4%	-%

For each of the periods described below, management's estimates of the components of changes in the revenue of the respective segments are as follows:

	Percentage Increase (Decrease) Three Months Ended February 28,	
	2003 Over 2002	2002 Over 2001
Contract Bus services		
Increase in revenue as a result of acquisitions	0.3%	-%
Foreign exchange rate changes	0.2	(0.4)
Other, primarily through price and volume changes	(1.5)	2.9
Total	(1.0%)	2.5%
Greyhound		
Increase in revenue as a result of acquisitions	-%	0.2%
Foreign exchange rate changes	0.5	(0.9)
Other, primarily through price and volume changes	(0.4)	(1.9)
Total	0.1%	(2.6%)
Healthcare services		
Increase in revenue as a result of acquisitions	-%	-%
Foreign exchange rate changes	-	-
Other, primarily through price and volume changes	5.7	(1.0)
Total	5.7%	(1.0%)

The decrease in the revenue in the Contract Bus services segment is primarily attributable to lost business at both the public transit business and education services business partially offset by price increases, new business, additional routes, acquisitions and the strengthening of the Canadian dollar against the U.S. dollar. In addition, weather related school cancellations negatively impacted revenue of the education services business by approximately \$4.0 million. A portion of this revenue is expected to be recovered in the Company's fourth quarter.

Revenue during the three months ended February 28, 2003 in the Greyhound segment remained consistent with the prior period. Increased passenger revenue on the inter-city routes, primarily as a result of the late placement of the U.S. Thanksgiving holiday this year, and the strengthening of the Canadian dollar against the U.S. dollar offset the discontinuation of the Golden State Transportation ("Golden State") operations, the slow recovery of the travel services market and the impact on travel of severe weather in February 2003. Because of the U.S. Thanksgiving holiday being celebrated later in November 2002, a portion of the Thanksgiving travel occurred during the month of December 2002. Golden State, a 51.4% owned subsidiary, ceased operations effective August 30, 2002 and filed a voluntary petition for bankruptcy on September 30, 2002.

The increase in revenue in the Healthcare services segment is primarily due to an increase in the revenue per transport in the ambulance services business and an increase in the revenue per visit in the emergency management services business. In addition, the emergency management services increased its volume of visits during the quarter because of the existence of new contractual relationships.

For each of the periods described below, revenue and changes in revenue from geographic components are as follows (\$ in millions):

	Revenue For the Three Months Ended February 28,				Percentage Increase (Decrease) For the Three Months Ended February 28,	
	2003		2002		2003 Over 2002	2002 Over 2001
United States	\$1,033.7	92.2%	\$1,020.5	92.3%	1.3%	0.2%
Canada	87.0	7.8	85.1	7.7	2.2	(1.6)
	\$1,120.7	100.0%	\$1,105.6	100.0%	1.4	-

Income from operations before depreciation and amortization expenses, and the cost of operations and operating profit margins before depreciation and amortization expenses

Income from operations before depreciation and amortization expenses and changes by segment are as follows (\$ in millions):

	Income From Operations Before Depreciation and Amortization Expenses For the Three Months Ended February 28,				Percentage Increase (Decrease) For the Three Months Ended February 28,	
	2003		2002		2003 Over 2002	2002 Over 2001
Contract Bus services	\$81.1	73.9%	\$87.1	69.8%	(6.9%)	9.4%
Greyhound	3.9	3.5	13.1	10.5	(70.2)	151.9
Healthcare services	24.8	22.6	24.5	19.7	1.2	(19.9)
	\$109.8	100.0%	\$124.7	100.0%	(11.9)	8.1

Wages for operating personnel, equipment operating costs (including fuel and maintenance), ticket selling costs, insurance for personnel and property damage and third party liability represent the major components of the cost of operations. Operating costs as a percentage of revenue for the three months ended February 28, 2003 were 90.2%, compared with 88.7% in 2002.

The increase in operating costs as a percentage of revenue in the three months ended February 28, 2003 was due principally to increased accident claim costs, fuel costs, and health and welfare benefit costs.

For each of the periods described below, the operating profit margins before depreciation and amortization expenses of the individual segments and consolidated margins are as follows:

Three Months Ended February 28,	2003	2002
Contract Bus services	17.3%	18.4%
Greyhound	1.4	4.7
Healthcare services	6.7	7.0
Consolidated	9.8	11.3

For the three months ended February 28, 2003, the operating profit margin before depreciation and amortization expenses in the Contract Bus services segment was 17.3% a decrease from the 18.4% experienced in the three months ended February 28, 2002. Increased accident claims costs in the education services operations and increases in health and welfare benefits and wages throughout the segment more than offset a decrease in maintenance costs experienced during the period. The increase in health and welfare benefits was primarily driven by increased medical costs.

In the three months ended February 28, 2003, the operating profit margin before depreciation and amortization expenses in the Greyhound segment was 1.4% compared to 4.7% for the three months ended February 28, 2002. The decrease in the operating margin is primarily from increased fuel costs, increased driver hiring and training costs, increased advertising expenses and increased accident claims costs. Increased fuel costs, which normally can be passed through to the customer by raising ticket prices, have been absorbed by the segment, because of the continued weakness in the travel industry.

In the three months ended February 28, 2003, the operating profit margin before depreciation and amortization expenses in the Healthcare services segment was 6.7% compared to 7.0% for the three months ended February 28, 2002. The slight decrease in the operating margin is primarily due to an increase in wages, primarily physician wages, increased accident claims costs and an increase in health and welfare benefits. These expense increases were partially offset by an increase in revenue per transport in the ambulance services business and an increase in the revenue per visit in the emergency management services business.

Depreciation expense

Depreciation expense for the three months ended February 28, 2003 increased slightly to \$75.4 million from \$74.7 million in the prior period.

Amortization expense

Amortization expense for the three months ended February 28, 2003 decreased to \$0.3 million from \$22.8 million in the prior period. The decrease is a result of goodwill no longer being amortized. Instead, it is tested for impairment at least on an annual basis. This change in policy is due to new accounting rules implemented by the Company on September 1, 2002. See "Cumulative effect of change in accounting principle". The amount of amortization expense relating to goodwill recorded during the three months ended February 28, 2002 totaled \$22.6 million.

Interest expense

In the three months ended February 28, 2003, interest expense decreased by 16.7% to \$6.5 million from \$7.8 million in 2002. The majority of this decrease was due to a reduction in the average borrowings level. No interest expense was incurred on prepetition debt of the Debtors for the three months ended February 28, 2003 and for the three months ended February 28, 2002. The total interest on prepetition debt that was not incurred during the quarter was approximately \$69.5 million (February 28, 2002 - \$66.8 million).

Other financing related expenses

During the three months ended February 28, 2003, the Company incurred \$22.9 million (February 28, 2002 - \$15.0 million) in professional fees and other costs as a result of (i) events of default under the Company's \$1.425 billion syndicated bank facility (the "Facility"), (ii) events of default on certain Company debentures totalling \$2.04 billion (the "Debentures") and (iii) the voluntary petition for reorganization as described in Note 1 of Notes to the Consolidated Financial Statements for the three months ended February 28, 2003. Professional fees and other costs include financing, accounting, legal and consulting services, including provisions for completion fees, incurred by the Company in connection with the ongoing negotiations with the Facility members and Debenture holders and related to the voluntary petition for reorganization.

Upon the successful completion of the proposed reorganization, the Company expects to pay completion fees, which have been estimated to be \$15 million. The Company accrued for these fees during the three months ended February 28, 2003 as "other financing related expenses".

Other income

Other income increased by \$8.4 million to \$13.0 million in the quarter ended February 28, 2003. The primary reason for the increase is because of the \$12.5 million related to the settlement of the bondholder actions as described in Note 7 of Notes to the Consolidated Financial Statements. Partially offsetting the bondholder settlement was lower returns experienced in the Company's investment portfolio.

Income tax expense

During the three months ended February 28, 2003, the Company incurred an income tax expense totaling \$1.5 million (February 28, 2002 - \$1.7 million). The amounts represent the Company's estimate of the cash taxes owing for the respective periods.

Net income and income per share

Income from operations before other financing related expenses for the quarter ended February 28, 2003 increased to \$39.1 million or \$0.12 per share compared with \$22.3 million or \$0.07 per share for the quarter ended February 28, 2002. This increase is due primarily to the factors discussed previously.

Other financing related expenses during the three months ended February 28, 2003 totalling \$22.9 million (\$0.07 per share)(February 28, 2002 - \$15.0 million, or \$0.05 per share) were

incurred during the quarter as a result of (i) events of default under the Facility, (ii) events of default on the Debentures and (iii) the voluntary petition for reorganization and due to the accrual of completion fees of \$15.0 million.

In total, the net income was \$16.2 million or \$0.05 per share in the quarter compared with income \$7.3 million or \$0.02 per share for the quarter ended February 28, 2002.

The weighted average number of Common Shares outstanding during the quarter remained unchanged at 325.9 million.

Results of Operations

Six Months Ended February 28, 2003 compared with
Six Months Ended February 28, 2002

Six months ended February 28,	Percentage of Revenue		Percentage Increase (Decrease)
	2003	2002	2003 Over 2002
Revenue	100.0%	100.0%	0.7%
Operating expenses	79.4	78.1	2.4
Selling, general and administrative expenses	10.0	9.8	2.8
Depreciation expense	6.7	6.5	2.0
Amortization expense	-	2.0	(98.9)
Income from operating segments	3.9	3.6	11.1
Interest expense	(0.6)	(0.7)	(12.8)
Other financing related expenses	(1.4)	(1.3)	5.4
Other income	0.7	0.3	104.2
Income from operations before income taxes	2.6	1.9	38.4
Income tax expense	(0.1)	(0.1)	(6.2)
Income before cumulative effect of change in accounting principle	2.5	1.8	41.9
Cumulative effect of change in accounting principle	(96.6)	-	NM
Net income (loss)	(94.1)	1.8	NM

Revenue

The sources of revenue and changes by business segment are as follows (\$ in millions):

	Revenue For the Six Months Ended February 28,				Percentage Increase (Decrease) For the Six Months Ended February 28,	
	2003		2002		2003 Over 2002	2002 Over 2001
Contract Bus services	\$996.2	43.6%	\$1,001.3	44.2%	(0.5%)	1.5%
Greyhound	556.1	24.4	565.7	24.9	(1.7)	(3.0)
Healthcare services	730.6	32.0	700.4	30.9	4.3	(0.5)
	\$2,282.9	100.0%	\$2,267.4	100.0%	0.7	(0.3)

For each of the periods described below, management's estimates of the components of changes in the Company's consolidated revenue are as follows:

	Percentage Increase (Decrease) Six Months Ended February 28,	
	2003 Over 2002	2002 Over 2001
Increase in revenue as a result of acquisitions		
Contract Bus services	0.1%	- %
Greyhound	-	0.1
Healthcare services	-	-
Subtotal	0.1	0.1
Foreign exchange rate changes		
Contract Bus services	0.1	(0.2)
Greyhound	0.1	(0.2)
Healthcare services	-	-
Subtotal	0.2	(0.4)
Other, primarily through price and volume changes		
Contract Bus services	(0.4)	0.8
Greyhound	(0.5)	(0.6)
Healthcare services	1.3	(0.2)
Subtotal	0.4	-
Total	0.7%	(0.3%)

For each of the periods described below, management's estimates of the components of changes in the revenue of the respective segments are as follows:

	Percentage Increase (Decrease) Six Months Ended February 28,	
	2003 Over 2002	2002 Over 2001
Contract Bus services		
Increase in revenue as a result of acquisitions	0.3%	- %
Foreign exchange rate changes	0.1	(0.4)
Other, primarily through price and volume changes	(0.9)	1.9
Total	(0.5%)	1.5%
Greyhound		
Increase in revenue as a result of acquisitions	-%	0.2%
Foreign exchange rate changes	0.3	(0.8)
Other, primarily through price and volume changes	(2.0)	(2.4)
Total	(1.7%)	(3.0%)
Healthcare services		
Increase in revenue as a result of acquisitions	- %	-%
Foreign exchange rate changes	-	-
Other, primarily through price and volume changes	4.3	(0.5)
Total	4.3%	(0.5%)

The decrease in the revenue in the Contract Bus services segment is primarily attributable to lost business at both the public transit business and education services business partially offset by price increases, new business, additional routes, acquisitions and the strengthening of the Canadian dollar against the U.S. dollar. In addition, weather related school cancellations negatively impacted revenue of the education services business. A portion of this revenue is expected to be recovered in the Company's fourth quarter.

The decrease in revenue in the Greyhound segment is primarily attributable to the discontinuation of the Golden State operations and the slower than expected recovery of the travel services market. These revenue decreases were partially offset by the strengthening of the Canadian dollar against the U.S. dollar.

The increase in revenue in the Healthcare services segment is primarily due to an increase in the revenue per transport in the ambulance services business and an increase in the revenue per visit in the emergency management services business. In addition, the emergency management services increased its volume of visits during the period because of the existence of new contractual relationships.

For each of the periods described below, revenue and changes in revenue from geographic components are as follows (\$ in millions):

	Revenue For the Six Months Ended February 28,				Percentage Increase (Decrease) For the Six Months Ended February 28,	
	2003		2002		2003 Over 2002	2002 Over 2001
United States	\$2,105.8	92.2%	\$2,093.3	92.3%	0.6%	(0.1%)
Canada	177.1	7.8	174.1	7.7	1.7	(2.0)
	\$2,282.9	100.0%	\$2,267.4	100.0%	0.7	(0.3)

Income from operations before depreciation and amortization expenses, and the cost of operations and operating profit margins before depreciation and amortization expenses

Income from operations before depreciation and amortization expenses and changes by segment are as follows (\$ in millions):

	Income From Operations Before Depreciation and Amortization Expenses For the Six Months Ended February 28,				Percentage Increase (Decrease) For the Six Months Ended February 28,	
	2003		2002		2003 Over 2002	2002 Over 2001
Contract Bus services	\$187.6	77.5%	\$207.1	75.3%	(9.4%)	2.7%
Greyhound	2.4	1.0	18.3	6.7	(86.9)	(30.9)
Healthcare services	51.9	21.5	49.5	18.0	4.8	(24.0)
	\$241.9	100.0%	\$274.9	100.0%	(12.0)	(6.2)

Wages for operating personnel, equipment operating costs (including fuel and maintenance), ticket selling costs, insurance for personnel and property damage and third party liability represent the major components of the cost of operations. Operating costs as a percentage of revenue for the six months ended February 28, 2003 were 89.4%, compared with 87.9% in 2002.

The increase in operating costs as a percentage of revenue in the six months ended February 28, 2003 was primarily due to an increase in the provision for accident claims costs. The majority of the increase is due to increased provisions for prior years' claims. Actuarial projections of future medical costs, the ultimate settlement amounts and court awards, continue to increase. The Company has continued with its policy of providing for such costs at the higher end of the actuarial range.

For each of the periods described below, the operating profit margins before depreciation and amortization expenses of the individual segments and consolidated margins are as follows:

Six Months Ended February 28,	2003	2002
Contract Bus services	18.8%	20.7%
Greyhound	0.4	3.2
Healthcare services	7.1	7.1
Consolidated	10.6	12.1

For the six months ended February 28, 2003, the operating profit margin before depreciation and amortization expenses in the Contract Bus services segment was 18.8% a decrease from the 20.7% experienced in the six months ended February 28, 2002. This decrease was the result of increased accident claims costs in the education services operations and increases in health and welfare benefits and wages throughout the segment. The increase in health and welfare benefits was primarily driven by increased medical costs.

In the six months ended February 28, 2003, the operating profit margin before depreciation and amortization expenses in the Greyhound segment was 0.4% compared to 3.2% for the six months ended February 28, 2002. The decrease in the operating margin is primarily from increased accident claims costs, increased fuel costs, increased health and welfare benefits, increased pension expense and increased driver hiring and training costs. Increased fuel costs, which normally can be passed through to the customer by raising ticket prices, have been absorbed by the segment, because of the continued weakness in the travel industry. As with the Contract Bus services segment, the increase in health and welfare benefits was primarily driven by increased medical costs. The increase in pension expense is due to lower investment returns on the pension assets and a lower discount rate used to determine the pension liability. Driver hiring costs were higher than the prior period as the segment significantly curtailed spending in this area in the prior period following September 11th.

In the six months ended February 28, 2003, the operating profit margin before depreciation and amortization expenses in the Healthcare services segment remained unchanged at 7.1%. An increase in revenue in revenue per transport in the ambulance services business and an increase in the revenue per visit in the emergency management services business offset the increases in wages, primarily physician wages, accident claims costs and health and welfare benefits.

Depreciation expense

Depreciation expense for the six months ended February 28, 2003 increased slightly to \$151.6 million from \$148.6 million in the prior period.

Amortization expense

Amortization expense for the six months ended February 28, 2003 decreased to \$0.5 million from \$45.5 million in the prior period. The decrease is a result of goodwill no longer being amortized. Instead, it is tested for impairment at least on an annual basis. This change in policy is due to new accounting rules implemented by the Company effective September 1, 2002. See "Cumulative effect of change in accounting principle". The amount of amortization expense relating to goodwill recorded during the six months ended February 28, 2002 totaled \$45.1 million.

Interest expense

In the six months ended February 28, 2003, interest expense decreased by 12.8% to \$13.0 million from \$14.9 million in 2002. The majority of this decrease was due to a reduction in the average borrowings level. No interest expense was incurred on prepetition debt of the Debtors for the six months ended February 28, 2003 and for the six months ended February 28, 2002. The total interest on prepetition debt that was not incurred during the period was approximately \$140.9 million (February 28, 2002 - \$136.8 million).

Other financing related expenses

During the six months ended February 28, 2003, the Company incurred \$31.1 million (February 28, 2002 - \$29.5 million) in professional fees and other costs as a result of (i) events of default under the Company's \$1.425 billion syndicated bank facility (the "Facility"), (ii) events of default on certain Company debentures totalling \$2.04 billion (the "Debentures") and (iii) the voluntary petition for reorganization as described in Note 1 of Notes to the Consolidated Financial Statements for the six months ended February 28, 2003. Professional fees and other costs include financing, accounting, legal and consulting services including provisions for completion fees, incurred by the Company in connection with the ongoing negotiations with the Facility members and Debenture holders and related to the voluntary petition for reorganization.

Upon the successful completion of the proposed reorganization, the Company expects to pay completion fees, which have been estimated to be \$15 million. The Company accrued for these fees during the three months ended February 28, 2003 as "other financing related expenses".

Other income

Other income increased by \$7.4 million to \$14.5 million in the six months ended February 28, 2003. The primary reason for the increase is because of the \$12.5 million related to the settlement of the bondholder actions as described in Note 7 of Notes to the Consolidated Financial Statements. Partially offsetting the bondholder settlement was lower returns experienced in the Company's investment portfolio.

Cumulative effect of change in accounting principle

Effective September 1, 2002, the Company adopted SFAS 142 and, as a result, the Company ceased to amortize goodwill. In lieu of amortization, SFAS 142 requires that goodwill be reviewed for impairment upon adoption of SFAS 142 and at least annually thereafter. Under SFAS 142, goodwill impairment is deemed to exist if the carrying value of a reporting unit exceeds its estimated fair value. To determine estimated fair value of the reporting units the Company utilized independent valuations of the underlying businesses. This methodology differs from the Company's previous accounting policy, which used undiscounted cash flows to determine possible impairment.

On adoption, the Company completed the impairment assessment as required by SFAS 142 and determined that the carrying value of certain of its operations exceeded their fair value. As a result, the Company recorded a non-cash charge of \$2,205.4 million as a cumulative effect of change in accounting principle.

Income tax expense

During the six months ended February 28, 2003, the Company incurred an income tax expense totaling \$3.0 million (February 28, 2002 - \$3.2 million). The amounts represent the Company's estimate of the cash taxes owing for the respective periods.

Net income (loss) and income (loss) per share

Income from operations before other financing related expenses and the cumulative effect of change in accounting principle for the six months ended February 28, 2003 increased to \$88.3 million, or \$0.27 per share, compared with \$69.8 million, or \$0.21 per share, for the six months ended February 28, 2002. This increase is due primarily to the factors discussed previously.

Other financing related expenses during the six months ended February 28, 2003 totalling \$31.1 million (\$0.09 per share)(February 28, 2002 - \$29.5 million, or \$0.09 per share) were incurred during the period as a result of (i) events of default under the Facility, (ii) events of default on the Debentures and (iii) the voluntary petition for reorganization and due to the accrual of completion fees of \$15.0 million.

On September 1, 2002, \$2,205.4 million or \$6.77 per share was recorded as a cumulative effect of accounting principle. The charge relates to the adoption of a new policy for determining impairments in goodwill and other intangible assets.

In total, the net income (loss) was a loss of \$2,148.2 million or \$6.59 per share in the six months ended February 28, 2003 compared with income of \$40.3 million or \$0.12 per share for the six months ended February 28, 2002.

The weighted average number of Common Shares outstanding during the quarter remained unchanged at 325.9 million.

Financial Condition

As of February 28, 2003 and August 31, 2002, the Company's capital consisted of (\$ in millions):

	<u>February 28, 2003</u>		<u>August 31, 2002</u>		<u>Change</u>
Long-term debt (including the current portion)	\$237.1	6.7%	\$224.7	4.0%	\$12.4
Other long-term liabilities	677.7	19.1	442.1	7.9	235.6
Liabilities subject to compromise	3,977.1	112.3	3,977.1	71.0	-
Shareholders' equity (deficiency)	(1,350.5)	(38.1)	954.1	17.1	(2,304.6)
	<u>\$3,541.4</u>	<u>100.0%</u>	<u>\$5,598.0</u>	<u>100.0%</u>	<u>(\$2,056.6)</u>

Voluntary petitions for reorganization

On June 28, 2001, the Debtors filed voluntary petitions for relief under chapter 11 of the Bankruptcy Code in the Bankruptcy Court. The Debtors include the Company and five of its direct and indirect subsidiaries: Laidlaw USA, LIL, LIFC, Laidlaw One, and LTI. In addition, the Company and LIL have commenced Canadian insolvency proceedings under the CCAA in the Canadian Court. None of the Company's operating subsidiaries was included in the filings.

The Debtors remain in possession of their respective properties and are managing their businesses as debtors-in-possession. Pursuant to the Bankruptcy Code and the CCAA, however, the Debtors may not engage in transactions outside the ordinary course of business without the approval of the Bankruptcy Court and the Canadian Court.

The Company is reorganizing its affairs under the protection of the Bankruptcy Code and the CCAA and has proposed a plan of reorganization for itself and the other Debtors. On February 27, 2003, the Bankruptcy Court entered an order confirming the Company's plan of reorganization. On February 28, 2003, the Canadian Court issued an order recognizing the Bankruptcy Court's confirmation order and implementing it in Canada with respect to The Company's Canadian insolvency proceeding. The plan of reorganization sets forth the means for satisfying claims against and interests in the Company and the other Debtors, including the liabilities subject to compromise. Generally, prepetition liabilities are subject to settlement or compromise under such a plan of reorganization.

The \$12.4 million increase in long-term debt is primarily a result of borrowings under the Greyhound Lines, Inc. ("Greyhound") facility to satisfy cash funding requirements.

The \$235.6 million increase in other long-term liabilities is primarily due to the increase in the pension liability and the increase in claims liabilities as a result of increased accident claims costs being experienced.

Shareholders' equity decreased by \$2,304.6 million as a result of the comprehensive loss during the period.

Liquidity

Cash provided by operating activities decreased by \$46.2 million to \$64.1 million, in the six months ended February 28, 2003. In the six months ended February 28, 2002, cash provided by continuing operating activities totalled \$110.3 million.

Since August 31, 2002, working capital, excluding the current portion of long-term debt, has increased by \$156.0 million to \$658.8 million at February 28, 2003. This increase is primarily a result of working capital associated with the start-up of the new school year.

Approximately \$138.4 million of the cash and equivalents and short-term deposits and marketable securities are assets of the Company's wholly owned insurance subsidiaries and are used to support the Company's self-insurance program. If these amounts are withdrawn from the subsidiaries, they would have to be replaced by other suitable financial assurances.

Potential Pension Plan Funding Requirements

Greyhound and certain of its subsidiaries sponsor the following U.S. deferred Pension Plans (the "Greyhound U.S. Plans"):

- ✕ Greyhound Lines, Inc. Salaried Employees Defined Benefit Plan ("Greyhound Salaried Plan");
- ✕ Greyhound Lines, Inc. Amalgamated Transit Union Local 1700 Council Retirement & Disability Plan ("ATU Plan");
- ✕ Texas, New Mexico and Oklahoma Coaches, Inc. Employees Retirement Plan;
- ✕ Vermont Transit Co. Inc. Employees Defined Benefit Pension Plan ("Vermont Transit Plan");
- ✕ Carolina Coach Company Pension Plan;
- ✕ Carolina Coach Company International Association of Machinist Pension Plan; and
- ✕ Carolina Coach Company Amalgamated Transit Union Pension Plan.

The ATU Plan covers approximately 14,000 current and former employees hired before November 1, 1983 by Greyhound, fewer than 1,000 of whom are active employees. The ATU Plan provides retirement benefits to the covered employees based upon a percentage of average final earnings, reduced pro rata for service of less than 15 years. Under the terms of the collective bargaining agreement, participants in this plan accrue benefits as long as no contributions are due from the Company. During fiscal 2002, the ATU Plan actuary advised the Company and the union that the decline in the financial markets had made it likely that contributions to the ATU Plan would be required for the plan in calendar 2002. The Company and union met and agreed to freeze service and wage accruals effective March 15, 2002. The Greyhound Salaried Plan covered salaried employees of Greyhound through May 7, 1990, when the plan was curtailed. The Vermont Transit Plan covered substantially all employees at Vermont Transit Company through June 30, 2000, when the plan was curtailed. The other Greyhound U.S. Plans cover salaried and hourly personnel of other Greyhound subsidiaries. Except as described below, it is the Company's policy to fund the minimum required contribution under existing laws.

As of December 31, 2002, the Greyhound U.S. Plans had a combined projected benefit obligation ("PBO"), discounted at 6.5%, of \$768.0 million. The ATU Plan represents approximately 90% of the PBO. Over the last two calendar years, the PBO has increased \$69.5 million as interest accretion on the obligation and the effect of a decrease in the discount rate of 1.3% have more than offset reductions due to benefit payments. In addition, plan assets have declined \$216.1 million over the last two calendar years due to benefit payments and losses on plan assets. As a result, although plan assets exceeded the PBO by \$41.6 million at December 31, 2000, the PBO now exceeds plan assets resulting in the plans being underfunded by \$244.0 million at December 31, 2002.

Further, in connection with its bankruptcy reorganization, the Company and the Pension Benefit Guaranty Corporation ("PBGC"), a United States government agency that administers the mandatory termination insurance program for defined benefit pension plans under the Employee Retirement Income Security Act ("ERISA"), have agreed to the economic terms relating to claims asserted by the PBGC against the Debtors regarding the funding levels of the Greyhound U.S. Plans (the "PBGC Agreement"). Under the PBGC Agreement, upon the consummation of the proposed plan of reorganization, the Company and its subsidiaries will contribute \$50 million in cash to the Greyhound U.S. Plans and the Company will issue shares of its post-reorganization common stock equal in value to \$50 million to a trust (the "Pension Plan Trust"). Further, the Company and its subsidiaries will contribute an additional \$50 million in cash to the Greyhound U.S. Plans in June 2004.

The PBGC Agreement provides that the PBGC will be granted a first priority lien on the common stock held in the Pension Plan Trust. The trustee of the Pension Plan Trust will sell the common stock as soon as practicable, but in no event later than the end of calendar 2004. All proceeds

from sales of this stock will be contributed directly to the Greyhound U.S. Plans. If the proceeds from the sales of common stock exceed \$50 million, the excess amount may be credited against the next-due minimum funding obligations of the Company and its subsidiaries, but will not reduce the June 2004 required contribution under the PBGC Agreement. If the proceeds from the sales of common stock do not aggregate \$50 million, the Company and its subsidiaries will be required to contribute the amount of the shortfall in cash to the Greyhound U.S. Plans at the end of 2004.

These contributions and transfers will be in addition to the contributions to the Greyhound U.S. Plans, if any, required under the minimum funding requirements of ERISA. The PBGC also will receive a second priority lien on the assets of the Company's U.S. operating subsidiaries (other than Greyhound and its subsidiaries).

Based upon current regulations and plan asset values at December 31, 2002, and assuming annual investment returns exceed 3% and that the contributions required under the PBGC Agreement are made consistent with the terms of the PBGC Agreement, the Company does not anticipate any significant additional minimum funding requirements for the ATU Plan over the next several years. However, there is no assurance that the ATU Plan will be able to earn the assumed rate of return, that new regulations may result in changes in prescribed actuarial mortality tables or discount rates, or that there will be market driven changes in the discount rates, which would result in the Company being required to make significant additional minimum funding contributions in the future.

Debtor-in-possession facility

To ensure sufficient liquidity to meet ongoing operating needs, the Company obtained debtor-in-possession ("DIP") financing from General Electric Capital (the "DIP Facility"). The DIP Facility is guaranteed by certain of the Company's direct and indirect subsidiaries located in the United States and Canada (other than Greyhound and its subsidiaries and joint ventures)(collectively, the "Guarantors"). The term of the DIP Facility will expire on the earliest of (a) August 8, 2003, (b) the prepayment in full of all amounts outstanding under the DIP Facility and the termination of the lenders' commitments thereunder and (c) the effective date of the approved plan of reorganization.

The maximum aggregate borrowing available under the DIP Facility is \$200.0 million. The total borrowing available to LIFC, Laidlaw Transportation Management, Inc., LTI, Laidlaw One and Laidlaw USA (the "US Borrowers") is \$180.0 million (the "U.S. DIP Facility"), including a letter of credit sub-facility of \$100.0 million (the "US LC DIP Sub-Facility"). The maximum borrowing available to the Company and LIL (the "Canadian Borrowers") is \$20.0 million (the "Canadian DIP Facility"), including a letter of credit sub-facility of \$10.0 million (the "Canadian LC DIP Sub-Facility"). The total maximum usage of the U.S. LC DIP Sub-Facility and the Canadian LC DIP Sub-Facility is not to exceed \$100.0 million at any time.

The amount of credit available to the Borrowers under the DIP Facility is based on the Borrowers' last twelve-months earnings before interest, taxes, depreciation and amortization ("EBITDA"). Further, certain non-core operating entities are subject to maximum availability limits based on their respective EBITDA performance. The Borrowers may use the proceeds of loans made under the DIP Facility for working capital and other general corporate purposes of the Borrowers.

Borrowings under each facility bear interest at the Borrowers' option, at rates per annum equal to either (1) a one, two or three month reserve adjusted LIBOR plus 2.0% or (2) a floating rate equal to the index rate plus 0.5%. The Borrowers pay letter of credit fees to each administrative agent under each facility equal to 2.0% per annum of the face amount of the letters of credit. Other fees consist of (1) an unused facility fee equal to 0.5% per annum on the average unused daily balance of each facility and (2) a prepayment premium in the amount of 1.0% of the aggregate commitments under each facility if prepayment is the result of any Borrower defaults, voluntary termination (with the exception of emergence from the Reorganization Cases) or refinancing of any part of such facility with another financing prior to August 8, 2003. Finally, the Borrowers and the Guarantors also paid a \$2.0 million fee to the agents during fiscal 2001.

To secure the Borrowers' obligations under each facility, the Borrowers granted a first priority lien on all of the existing and after-acquired assets of the Borrowers. To secure the Guarantors' obligations under the DIP Facility, the Guarantors granted a security interest in all of the assets of the Guarantors, subject to certain exceptions contained in the DIP Facility documentation.

As of February 28, 2003 the Company had no borrowings under the DIP Facility, but issued letters of credit of \$37.1 million and had \$162.9 million of availability.

The Company was in default as of February 28, 2003 of several financial covenants contained in the DIP facility. The defaults relate to the failure by several of the Company's operating entities to meet minimum EBITDA thresholds for the period ended February 28, 2003. In addition, several operating entities did not meet the capital expenditure requirements specified under the DIP Facility for the fiscal quarter ended February 28, 2003. The Company is in the process obtaining a waiver under the DIP facility with respect to these defaults and expects to obtain future waivers. There is no assurance such waivers will be obtained.

The Greyhound Facility

In October 2000, Greyhound entered into a revolving credit facility, expiring October 24, 2004, with Foothill Capital Corporation to fund working capital needs and for general corporate purposes (the "Greyhound Facility"). Greyhound was extended a revolving line of credit in an amount of \$125.0 million including a sub-facility of \$50.0 million for letters of credit. Borrowings initially bore interest at a rate equal to Wells Fargo Bank's prime rate plus 0.5% per annum or LIBOR plus 2.0% as selected by Greyhound. After December 31, 2000, the interest rates were subject to quarterly adjustment based upon Greyhound Parties' ratio of debt to EBITDA, as defined in the agreement, for the four previous quarters. Letters of credit fees are based on the applicable LIBOR margin. The Greyhound Facility is secured by liens on substantially all of the assets of Greyhound and the stock and assets of certain of its subsidiaries and is subject to certain affirmative and negative operating and financial covenants calculated on each calendar quarter. As of December 31, 2002, Greyhound was in compliance with all such covenants, including restrictions on the redemption or retirement of certain subordinated indebtedness or equity interest, payment of dividends and transactions with affiliates, including the Company.

Based on Greyhound's most recent financial forecast, management is unable to determine with reasonable assurance whether Greyhound will remain in compliance with these covenants in the future. As compliance with the covenants will not be known until the end of Greyhound's next fiscal quarter when actual results are available, Greyhound has initiated discussions with the agent bank for the Greyhound Facility in an effort to obtain modifications to the agreement that would provide reasonable assurance that it will remain in compliance with the covenants. Although Greyhound has been successful in obtaining necessary amendments to the Greyhound Facility in the past, there can be no assurance that Greyhound will obtain additional modifications

or that the cost of the modifications or other changes in the terms of the Greyhound Facility would not have a material effect on Greyhound. In the event that additional modifications suitable to the parties are not obtained, and further assuming Greyhound fails to remain in compliance with the existing covenants, Greyhound may be required to seek a replacement for the Greyhound Facility from other finance sources. However, should alternate sources of financing not be available, then Greyhound may not be able to satisfy its obligations as they become due and may not be able to continue as a going concern. As a result, Greyhound may not be able to realize its assets and settle its liabilities in the normal course of operations.

As of February 28, 2003, the Company had outstanding borrowings under the Greyhound Facility of \$22.7 million, issued letters of credit of \$46.3 million and had availability of \$56.0 million.

Capital expenditures and capital resources

Net expenditures for the purchase of capital assets for normal replacement requirements and increases in services, increased to \$123.9 million for the six months ended February 28, 2003 (including \$19.4 million of purchases of capital assets financed by notes payable, operating leases and/or capital leases) from \$120.4 million for the six months ended February 28, 2002 (including \$42.3 million of purchases of capital assets financed by notes payable, operating leases and/or capital leases). This increase is primarily a result of the Company curtailing capital spending in the prior period due to the Company's financial position at that time.

Expenditures on the acquisitions of businesses (including long-term debt assumed) were \$3.3 million for the six months ended February 28, 2003 (February 28, 2002 - \$ 0.6 million).

Critical Accounting Policies

The preparation of financial statements requires management to make estimates and assumptions relating to the reporting of results of operations, financial condition and related disclosure of contingent assets and liabilities at the date of the financial statements. Actual results may differ from those estimates under different assumptions or conditions. The following are the Company's most critical accounting policies, which are those that require management's most difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

Claims liability and professional liability reserves

The Company establishes reserves for automobile liability, general liability, professional liability and worker's compensation claims that have been reported but not paid and claims that have been incurred but not reported. These reserves are developed using actuarial principles and assumptions which consider a number of factors, including historical claim payment patterns and changes in case reserves, the assumed rate of increase in healthcare costs and property damage repairs, ultimate court awards and the discount rate. The amount of these reserves could differ from the Company's ultimate liability related to these claims due to changes in the Company's accident reporting, claims payment and settlement practices or claims reserve practices, as well as differences between assumed and future cost increases and discount rates.

Revenue recognition in the Healthcare services segment

Revenue is recognized at the time of service and is recorded at amounts estimated to be recoverable, based upon recent experience, under reimbursement arrangements with third-party payors, including Medicare, Medicaid, private insurers, managed care organizations and hospitals or directly from patients. The Company derives approximately 39% of its collections in the healthcare services segment from Medicare and Medicaid, 7% from contracted hospitals, 44% from private insurers, including prepaid health plans and other sources, and 10% directly from patients.

Healthcare reimbursement is complex and may involve lengthy delays. Third-party payors are continuing their efforts to control expenditures for healthcare and may disallow, in whole or in part, claims for reimbursement based on determinations that they are not reimbursable under plan coverage, they were for services provided that were not medically necessary, or insufficient supporting information was provided.

As a result, there is a reasonable possibility that recorded estimates could change materially and that retroactive adjustments may change the amounts realized from third-party payors. Such adjustments are recorded in future periods as adjustments become known.

Pension

The determination of the Company's obligation and expense for pension benefits is dependent on the selection of certain assumptions and factors. These include assumptions about the discount rate, the expected return on plan assets and the rate of future compensation increase as determined by management. In addition, the Company's actuarial consultants also use factors to estimate such items as retirement age and mortality tables. The assumptions and factors used by the Company may differ materially from actual results due to changing market conditions, earlier or later retirement ages or longer or shorter life spans of participants. These differences may result in a significant impact to the amount of pension obligation or expense recorded by the Company. During fiscal 2002 and the first six months of this fiscal period, the Company has experienced a reduction in interest rates and a deterioration in plan returns. If this trend continues, the Company may have to fund amounts to the pension plans in future years in addition to the funding discussed above under "Liquidity – Potential Pension Plan Funding Requirements", whereby the Company has agreed with the PBGC to the economic terms relating to claims asserted by the PBGC against the Debtors regarding the funding levels of the Greyhound U.S. Plans. Under the PBGC Agreement, the Company has committed to make substantial cash contributions to the Greyhound U.S. Plans, in addition to contributions required under applicable law.

Contingencies

As discussed in Notes 7 and 14 of the Notes to the Consolidated Financial Statements, management is unable to make a reasonable estimate of the liabilities that may result from the final resolution of certain litigation matters disclosed. Further assessments of the potential liability will be made as additional information becomes available. Management currently does not believe that these proceedings will have a material adverse effect on the Company's consolidated financial position. It is possible, however, that results of operations could be materially affected by changes in management's assumptions relating to these proceedings or the actual final resolution of these proceedings.

Risk Factors in the Company

The Company is exposed to a variety of financial, operating and market risks. Some of these risks are within the Company's control; others are not. For controllable risks, the Company applies specific risk management strategies to reduce the likelihood of loss. The following are the risk factors in the Company not already disclosed elsewhere in this report.

Accident claims costs

As discussed above under the "Critical accounting policies", the Company experiences significant costs surrounding accident and professional liability claims and uses estimates and assumptions when providing for the ultimate costs of these incidents. The ultimate costs could materially affect the Company's financial condition and results of operations.

The Company has in place procedures to manage the risk. The first is a comprehensive safety program throughout the Company, which has as its goal to reduce the number of accidents as far as practically possible. Although recent accident claims cost increases experienced because of increased medical costs, ultimate settlement amounts and court awards, and increased severity of accidents experienced, the accident frequency as a percentage of revenue has actually declined over the last number of years. Once an accident has occurred, the Company has procedures and settlement practices in place to minimize the ultimate cost to the Company.

Healthcare revenue

In August 1997, the U.S. Federal Government passed the Balanced Budget Act of 1997 (the "Act"), which provides for certain changes to the Medicare reimbursement system. These changes include, among other things, the requirement for the development and implementation of a prospective fee schedule for reimbursement of ambulance services. Prior to these changes, ambulance services were reimbursed from Medicare on a reasonable charge basis.

The Act mandates that this fee schedule be developed through a negotiated rulemaking process and must consider (i) data from the industry and other organizations involved in the delivery of ambulance services, (ii) mechanisms to control increases in expenditures for ambulance services, (iii) appropriate regional and operational differences, (iv) adjustments to payment rates to account for inflation and other relevant factors, and (v) the phase-in of payment rates under the fee schedule in an efficient and fair manner.

The Act also required that beginning January 1, 2001, ambulance service providers accept assignment whereby the Company receives payment directly from Medicare and accepts such amount along with the co-pay and deductible paid by the patient as payment in full. Further, the Act stipulates that third-parties may elect to no longer provide payments for cost sharing for co-insurance, or co-payments, for dual qualified (Medicare and Medicaid) beneficiaries.

In January 1999, the Center for Medicare and Medicaid Services, formerly named the Health Care Financing Administration, announced its intention to form a negotiated rulemaking committee to create the new fee schedule for Medicare reimbursement of ambulance services. That committee convened in February 1999. The fee schedule and the mandatory acceptance of assignment was implemented on April 1, 2002. In addition, revisions to the physician certification requirements for coverage of non-emergency ambulance services were also implemented.

The Company has implemented a plan that it believes will mitigate the potential adverse impact from these changes. The plan includes renegotiation of "9-1-1" contracts, adjusting rates and seeking alternative relief from the federal and local governments.

As a result, estimating the revenue from healthcare services is subject to significant uncertainties and subsequent adjustments to the recorded revenue could be material.

Potential loss of customers

The Debtors' commencement of the chapter 11 case could adversely affect the Company's relationships with its customers and has already with certain customers. Because of the concern regarding the Company's ability to perform its obligations under its contracts, the Company's existing customers may terminate such contracts. Further, several of the Company's subsidiaries are parties to agreements that permit the customer to cancel its agreement with the subsidiary upon the filing for bankruptcy by the subsidiary's parent company. Consequently, certain contracts of the Company's subsidiaries may be terminated because the Company is a party to the chapter 11 case. Moreover, in the local county ambulatory services business, the local county may terminate the contract upon such bankruptcy filing of any affiliates and fulfill the Company's obligations itself through the use of the Company's equipment. In addition, initiation of new customer relationships may be hampered by the chapter 11 case.

Performance bonds

The Company's school busing business is highly dependent on the Company's ability to obtain performance bond coverages sufficient to meet bid requirements imposed by potential customers. The Company's ability to obtain adequate bonding coverages has been adversely affected by the Company's poor financial position and lack of liquidity. Furthermore, many school boards are requiring higher dollar-value performance bonds from their service providers. There can be no assurance that, going forward, the Company will obtain access to adequate bonding capacity. If adequate bonding capacity is not available or if the terms of such bonding are too onerous, there would be a material adverse effect on the Company.

Increasing competitive and external pressures

Contract Bus services - The segment competes with several large companies and a substantial number of smaller locally owned operations in the contract bus services business segment. Moreover, most school districts operate their own school bus systems. In acquiring new school bus contracts and maintaining existing business, competition primarily exists in the areas of pricing and service.

Greyhound - The inter-city transportation industry is highly competitive. Greyhound's primary sources of competition for passengers are automobile travel, low cost air travel from both regional and national airlines, and, in certain markets, regional bus companies and trains. Airlines have increased their penetration in intermediate-haul markets (450 to 1,000 miles), which has resulted in the bus industry, in general, reducing prices in these markets in order to compete. Additionally, airline discount programs have attracted certain long-haul passengers away from Greyhound. However, these lower airline fares usually contain restrictions and require advance purchase. Typically, Greyhound's customers decide to travel only a short time before their trip and purchase their tickets on the day of travel. Greyhound's everyday low pricing strategy results in "walk-up" fares substantially below comparable airline fares. In instances where Greyhound's fares exceed an airline discount fare, Greyhound believes the airline fares typically are more restrictive and less readily available than travel provided by Greyhound. However, Greyhound has also instituted numerous advance purchase programs, in order to attract the price sensitive customer. Price, destination choices and convenient schedules are the ways in which Greyhound meets this competitive challenge.

The automobile is the most significant form of competition to Greyhound. The out-of-pocket costs of operating an automobile are generally less expensive than bus travel, particularly for multiple persons traveling in a single car.

Healthcare services - Through its ambulance business unit, the Company competes with several large companies and a substantial number of smaller locally owned operators in the healthcare transportation services industry. Moreover, many municipal, fire and paramedic departments and hospitals operate their own ambulance systems. In acquiring new healthcare transportation contracts and maintaining its business, the Company experiences competition primarily in the areas of pricing and service.

Emergency management services is also 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 the reputation of the Company's emergency department business unit 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.

There can be no assurance that the Company will be able to compete successfully against these sources of competition or other competitive or external factors.

Retention of key personnel

The Company's success depends upon its ability to recruit and retain key personnel. The Company could experience difficulty in retaining its current key personnel or in attracting and retaining necessary additional key personnel. Low unemployment in certain market areas can make the recruiting, training, and retention of full-time and part-time personnel more difficult and costly, including the cost of overtime wages. The Company's internal growth will further increase the demand on its resources and require the addition of new personnel. The Company has entered into employment agreements with certain of its executive officers and certain other key personnel. However, failure to retain or replace key personnel may have an adverse effect on the Company's business.

Fuel price fluctuations

Historically, fuel costs represent approximately 3% to 5% of revenue. Due to the significance of fuel expenses, particularly diesel fuel, to the operations of the Company and the historical volatility of fuel prices, the Company has initiated a program to minimize the fluctuations in the price of its diesel fuel purchases. The intent of the program is to mitigate the impact of fuel price changes on the Company's operating margins and overall profitability by entering into forward supply contracts ("FSCs") with certain vendors. The FSCs generally stipulate set bulk delivery volumes at prearranged prices for a set period. The volumes agreed to be purchased by the Company are well below the forecasted total bulk fuel needs for the given location. Therefore, the risk of being forced to purchase fuel through the FSCs that is not required by the Company is minimal. Also, to the extent that the Company enters FSCs for portions of its total fuel needs, it may not realize the benefit of decreases in fuel prices. Conversely, to the extent that the Company does not enter into FSCs for portions of its total fuel needs, it may be adversely affected by increases in fuel prices.

Given the ticket based revenue stream of the Greyhound segment, fuel price increases at the U.S. operations of the Greyhound segment, limited by what the market can bear, can be passed on to the passenger through increased fares. The majority of the Canadian operations of the Greyhound segment operates in a regulated market and ticket price increases must be first approved by government agencies. The other operations, that have fuel requirements, operate with a contractual based revenue stream. Fuel price increases take a longer time to be passed on to the customer, in most cases upon renewal of the contract.

Factors that may affect future results

Certain statements contained in this report, including statements regarding the status of financing arrangements, the status and outcomes of restructuring discussions and proceedings, future operating results and market opportunities, possible asset dispositions and other statements, that are not historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements involve certain risks, uncertainties and assumptions that include, but are not limited to; the negotiating positions of various constituencies and the results of negotiations regarding restructuring plans; the Company's ability to continue as a going concern; Greyhound's ability to continue as a going concern; market factors, including competitive pressures and changes in pricing policies; changes in interpretations of existing legislation or the adoption of new legislation; loss of major customers; the ability to continue to satisfy bonding requirements for existing or new customers; volatility in energy costs; the costs and risks associated with litigation; costs related to accident and other claims; potential pension plan funding requirements; and general economic conditions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual outcomes may vary materially from those indicated.

Legal proceedings

See Notes 7 and 14 of Notes to the Consolidated Financial Statements for the six months ended February 28, 2003.