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FIRSTSERVICE CORP
Form 10-Q
August 14, 2002

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2002

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number 0-24762

FIRSTSERVICE CORPORATION
(Exact name of Registrant as specified in its charter)

ONTARIO, CANADA
(State or other
jurisdiction of incorporation
or organization)

NOT APPLICABLE
(I.R.S. employer
identification number,
if applicable)

FIRSTSERVICE BUILDING
1140 BAY STREET, SUITE 4000
TORONTO, ONTARIO, CANADA
M5S 2B4
(416) 960-9500
(Address and telephone number of Registrant's principal executive office)

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

Indicate the number of shares outstanding of each of the Registrant's classes of common stock as of the latest practicable date:

Subordinate Voting Shares - 13,202,668 as of July 31, 2002
Multiple Voting Shares - 662,847 as of July 31, 2002

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FIRSTSERVICE CORPORATION

FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2002

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FIRSTSERVICE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)
(in thousands of U.S. Dollars, except per share amounts) - in
accordance with U.S. generally accepted accounting principles

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	Three month periods ended June 30		
	2002	2001	
Revenues	\$146,036	\$136,575	
Cost of revenues	96,191	89,358	
Selling, general and administrative expenses	31,335	28,457	
Depreciation	3,006	2,752	
Amortization	195	204	
Interest	2,349	2,668	
Earnings before income taxes and minority interest	12,960	13,136	
Income taxes	4,277	4,595	
Earnings before minority interest	8,683	8,541	
Minority interest share of earnings	1,275	1,451	
Net earnings before extraordinary item	\$ 7,408	\$ 7,090	
Extraordinary loss on early retirement of debt, net of income tax benefit of \$nil (2001-\$578)	--	797	
Net earnings	\$ 7,408	\$ 6,293	
EARNINGS PER SHARE			
Net earnings before extraordinary item:	Basic	\$ 0.54	\$ 0.53
	Diluted	0.50	0.49
Net earnings:	Basic	0.54	0.47
	Diluted	0.50	0.44
Weighted average shares outstanding:	Basic	13,800	13,395
(in thousands)	Diluted	14,747	14,400

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

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CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in thousands of U.S. Dollars) - in accordance with U.S. generally accepted accounting principles

JUNE 30, 2002 March 31, 2002

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	10,463	\$	7,332
Accounts receivable, net		100,650		88,587
Inventories		8,349		9,078
Prepays and other assets		12,168		13,303
Deferred income taxes		2,422		2,571

134,052 120,871

Other receivables		5,502		4,908
Interest rate swap		1,237		--
Fixed assets		47,107		45,367
Other assets		5,418		5,411
Deferred income taxes		1,676		972
Intangible assets		29,653		29,422
Goodwill		153,884		151,254

244,477 237,334

\$ 378,529 \$ 358,205

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES

Accounts payable	\$	23,634	\$	20,587
Accrued liabilities		33,448		38,269
Income taxes payable		5,702		2,259
Unearned revenues		14,356		9,654
Long-term debt - current		8,000		7,193
Deferred income taxes		282		583

85,422 78,545

Long-term debt - non-current		163,678		158,418
Interest rate swap		--		2,070
Deferred income taxes		7,876		7,881
Minority interest		12,435		11,449

183,989 179,818

SHAREHOLDERS' EQUITY

Capital stock		58,039		57,712
Receivables pursuant to share purchase plan		(2,630)		(2,630)
Retained earnings		52,794		45,386
Cumulative other comprehensive income (loss)		915		(626)

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	109,118	99,842
	\$ 378,529	\$ 358,205

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

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FIRSTSERVICE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in thousands of U.S. Dollars) - in accordance with U.S. generally accepted
accounting principles

	Three month periods ended June 30	
	2002	2001
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net earnings	\$ 7,408	\$ 6,293
Items not affecting cash:		
Depreciation and amortization	3,201	2,956
Deferred income taxes	(1,040)	(159)
Minority interest share of earnings	1,275	1,451
Extraordinary loss on early retirement of debt	--	1,375
Other	142	110
Changes in operating assets and liabilities:		
Accounts receivable	(9,079)	(9,449)
Inventories	848	87
Prepays and other assets	1,374	(458)
Accounts payable and other current liabilities	(918)	(1,083)
Unearned revenues	4,241	4,731
Net cash provided by operating activities	7,452	5,854
INVESTING ACTIVITIES		
Acquisition of businesses, net of cash acquired	(63)	(1,190)
Purchases of minority shareholders' interests	(1,841)	--
Purchases of fixed assets	(3,738)	(4,993)
(Increase)/decrease in intangibles and other assets	(365)	53
Increase in other receivables	(421)	(470)
Net cash used in investing activities	(6,428)	(6,600)

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FINANCING ACTIVITIES		
Increase in long-term debt, net	943	6,439
Financing fees paid	--	(2,561)
Issuance of Subordinate Voting Shares	327	1,334
Dividends paid to minority shareholders of subsidiaries	(92)	(70)
Net cash provided by financing activities	1,178	5,142
Effect of exchange rate changes on cash	929	(257)
Increase in cash and cash equivalents during the period	3,131	4,139
Cash and cash equivalents, beginning of period	7,332	5,115
Cash and cash equivalents, end of period	\$ 10,463	\$ 9,254

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

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FIRSTSERVICE CORPORATION
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2002
 (Unaudited)
 (in thousands of U.S. Dollars, except per share amounts)

- DESCRIPTION OF THE BUSINESS - FirstService Corporation (the "Company") is a provider of property and business services to residential, corporate and public sector customers in the United States and Canada. The Company's operations are conducted through two operating divisions, Property Services and Business Services. The Property Services division includes Residential Property Management, Integrated Security Services and Consumer Services and represented approximately 75% of the Company's revenues for the year ended March 31, 2002. The Business Services division provides customer support & fulfillment and business process outsourcing services to corporations and government agencies.
- SUMMARY OF PRESENTATION - The condensed consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission for the presentation of interim financial information. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information not misleading.

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In the opinion of management, the condensed consolidated financial statements contain all adjustments necessary to present fairly the financial position of the Company as of June 30, 2002 and the results of its operations for the three month periods ended June 30, 2002 and 2001 and its cash flows for the three months ended June 30, 2002 and 2001. All such adjustments are of a normal recurring nature. The results of operations for the three months ended June 30, 2002 are not necessarily indicative of the results to be expected for the year ending March 31, 2003. There has been no change in the Company's critical accounting policies since March 31, 2002. For further information, refer to the consolidated financial statements and footnotes thereto for the year ended March 31, 2002 contained in the Company's Form 10-K filed on May 24, 2002.

3. ADOPTION OF NEW ACCOUNTING STANDARDS - The Company elected early adoption of Statement of Financial Accounting Standards ("SFAS") 142, GOODWILL AND OTHER INTANGIBLE ASSETS effective April 2001. As a result, both the current and prior year figures reflect the impact of SFAS 142.

In April 2002, the Company adopted SFAS 144, ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS. The adoption of this standard did not have a material impact on results of operations or financial condition.

In April 2002, the Financial Accounting Standards Board ("FASB") issued SFAS 145, RESCISSION OF SFAS 4, 44 AND 64, AMENDMENT OF SFAS 13 AND TECHNICAL CORRECTIONS AS OF APRIL 2002. This new standard impacts the reporting of gains and losses from extinguishment of debt and accounting for leases, and is effective for the Company's fiscal year beginning April 1, 2004. Had SFAS 145 been in effect during the quarter ended June

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30, 2001, the extraordinary loss on early retirement of debt of \$797, net of income tax benefit of \$578, would have been reported as interest expense of \$1,375 and a reduction of income tax expense of \$578.

In July 2002, the FASB issued SFAS 146, ACCOUNTING FOR COSTS ASSOCIATED WITH EXIT OR DISPOSAL ACTIVITIES. This statement changes the timing of the recognition of liabilities associated with exit or disposal activities, and will be effective for such activities initiated after December 31, 2002.

4. BUSINESS ACQUISITIONS AND PURCHASES OF MINORITY INTERESTS - Business acquisitions for the three-month period totaled \$238 (\$63 net of cash acquired), comprised primarily of the purchase of the assets of a small Consumer Services lawn care business in Montreal. In the three month period ended June 30, 2001, business acquisitions totaled \$1,203 (\$1,190 net of cash acquired), comprised of two Residential Property Management tuck-under acquisitions.

Certain vendors, at the time of acquisition, are entitled to receive contingent consideration if the acquired businesses exceed certain minimum financial thresholds during the two- to four-year period following the date of acquisition. As at June 30, 2002, there was

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contingent consideration of up to \$21.9 million payable during the period extending to June 30, 2005. In addition, vendors are entitled to receive interest on the principal amount of each contingent payment, to the extent payable, which interest is calculated from the acquisition date to the payment date at interest rates ranging from 7 to 9%. These amounts have been treated as contingent consideration and any resulting payments will be recorded as additional costs of the acquired entities to the extent the contingencies are determined payable.

During the quarter, the Company purchased minority interests from two shareholders for total consideration of \$1,841 (2001-\$nil). The Company is currently finalizing the purchase price allocations of the business acquisitions and purchases of minority interests completed during the quarter.

5. LONG-TERM DEBT - The Company has an amended and restated credit agreement with a syndicate of banks that provides a \$140,000 committed senior revolving credit facility (the "Credit Facility") renewable and extendible in 364-day increments, and if not renewed, a two-year final maturity. The Credit Facility was most recently renewed and extended on April 25, 2002. The Credit Facility bears interest at 1.50% to 3.00% over floating reference rates, depending on certain leverage ratios. At June 30, 2002, the Company had drawn approximately \$60,600 on the Credit Facility, and had \$79,400 of available un-drawn credit.

The Company has outstanding \$100,000 of 8.06% fixed-rate Guaranteed Senior Secured Notes (the "Notes"), held by a group of U.S. institutional investors. The final maturity of the Notes is June 29, 2011, with equal annual principal repayments commencing on June 29, 2005.

The Credit Facility and the Notes rank equally in terms of security. The Company has granted the lenders and Note-holders various security including the following: an interest in all of the assets of the Company including the Company's share of its subsidiaries, an assignment of material contracts and an assignment of the Company's "call rights" with respect to shares of the subsidiaries held by minority interests.

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The covenants and other limitations within the amended and restated credit agreement and the Note agreement are substantially the same. The covenants require the Company to maintain certain ratios including leverage, fixed charge coverage, interest coverage and net worth. Other limitations include prohibition from paying dividends, and without prior approval, from undertaking certain mergers, acquisitions and dispositions.

6. FINANCIAL INSTRUMENTS - The Company has an interest rate swap agreement to exchange the fixed rate on \$75,000 of its 8.06% Notes for a variable rate of LIBOR + 250.5 basis points. The term of the swap matches the term of the Notes with a maturity of June 29, 2011. This swap is being accounted for as a fair value hedge in accordance with SFAS 133, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES. The swap is carried at fair value on the balance sheet, with gains or losses recognized in earnings. The carrying value of the hedged debt is

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adjusted for changes in fair value attributable to the hedged interest rate risk; the associated gain or loss is recognized currently in earnings. The fair value of the swap is determined based on the present value of the estimated future net cash flows using implied rates in the applicable yield curve as of the valuation date. Due to changes in the yield curve, the fair value of the swap fluctuates and at June 30, 2002, the fair value was a gain of \$1,237.

- 7. CAPITAL STOCK - During the three months ended June 30, 2002 and 2001, the Company issued 60,500 and 324,500 Subordinate Voting Shares, respectively, pursuant to provisions for the exercise of stock options under its stock option plan. The Company did not repurchase any Subordinate Voting Shares during the three months ended June 30, 2002 and 2001.
- 8. COMPREHENSIVE INCOME - Total comprehensive income was \$8,949 and \$6,166 for the three months ended June 30, 2002 and 2001, respectively. Total comprehensive income includes net earnings, foreign currency exchange adjustments and current income taxes on realized foreign exchange gains for income tax purposes.
- 9. CONTINGENCIES - The Company is involved in legal proceedings and claims primarily arising in the normal course of its business. In the opinion of management, the Company's liability, if any, would not materially affect its financial condition or operations.
- 10. SEGMENTED INFORMATION - The Company's business is conducted through four operating segments. Each segment is a strategic business unit that offers different services to different types of customers.

Residential Property Management provides comprehensive property management and a full range of related services, including grounds maintenance, landscaping, painting and restoration to multiple unit residential community associations. Integrated Security Services installs, repairs, maintains and monitors electronic security systems for commercial facilities and residential properties, and also offers a security officer service in the Canadian market. Consumer Services provides closet installation, disaster restoration, painting and lawn care services to residential and commercial customers through franchised and Company-owned outlets. Business Services provides customer support & fulfillment and business process outsourcing services to corporate and government clients.

OPERATING SEGMENTS

Property Services- Residential Property Management	Property Services- Integrated Security Services	Property Services- Consumer Services	Business Services	rec
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THREE MONTH PERIOD ENDED JUNE 30, 2002				
Revenues	\$ 57,143	\$ 27,310	\$ 29,067	\$ 32,465
Operating profit	5,543	1,728	5,568	3,691
Interest				
Income taxes				
Minority interest				
Net earnings				
Total assets	103,437	64,629	70,009	127,336

THREE MONTH PERIOD ENDED JUNE 30, 2001				
Revenues	\$ 56,995	\$ 22,874	\$ 25,613	\$ 31,031
Operating profit	5,961	1,595	5,132	4,297
Interest				
Income taxes				
Minority interest				
Extraordinary loss				
Net earnings				
Total assets	95,311	45,743	61,297	126,303

GEOGRAPHIC SEGMENTS

	CANADA	UNITED STATES	CONSOLIDATED
	-----	-----	-----
THREE MONTH PERIOD ENDED JUNE 30, 2002			
Revenues	\$ 51,174	\$ 94,862	\$ 146,036
Total assets	123,245	255,284	378,529
THREE MONTH PERIOD ENDED JUNE 30, 2001			
Revenues	\$ 47,874	\$ 88,701	\$ 136,575
Total assets	112,632	225,335	337,967

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(in U.S. Dollars)

RESULTS OF OPERATIONS - THREE MONTHS ENDED JUNE 30, 2002 AND 2001

Revenues for the first quarter of fiscal 2003 were \$146.0 million, 7% higher than the prior year's first quarter. Approximately 3% or \$4.4 million of the increase resulted from the acquisitions of the Fulfillment Division of Right Choice Services, Inc. ("Right Choice") in February 2002, and CC Seattle LLC and VASEC Virginia Security and Automation, Inc. ("VASEC"), both in July 2001. The balance of the revenue increase came from internal growth of 4%.

During the quarter, 35% of the Company's revenues were originally denominated in Canadian currency. Based on the average foreign exchange rates in effect during the quarter, the Canadian dollar was 0.8% weaker relative to the U.S. dollar during quarter than in the comparable quarter last year. The impact of this exchange rate fluctuation was not material to the quarter's results of operations.

The first quarter's EBITDA¹ was \$18.5 million, down \$0.3 million from the prior year quarter. The EBITDA margin declined from 13.7% to 12.7% as a result of several factors including substantial increases in insurance costs in the Residential Property Management segment and revenue mix changes in Business Services.

Depreciation expense increased 9% year-over-year, to \$3.0 million, driven by revenue growth and capital expenditures during the past year that were higher than historical patterns.

Interest expense declined to \$2.3 million versus \$2.7 million recorded in the prior year quarter. Average indebtedness during the quarter was up \$11.5 million relative to the first quarter of last year. The average interest rate during the quarter was 5.6% versus 6.8% in the comparable quarter, due to the substantial decline in floating reference interest rates. Also impacting interest was the interest rate swap associated with \$75 million of the fixed-rate Notes, which reduced borrowing costs related to that debt.

The consolidated income tax rate declined to approximately 33% of earnings before income taxes and minority interest from 35% in the prior year's quarter. The reduction in tax rate is a result of lower statutory tax rates in several jurisdictions and continuing leverage from the cross-border tax structure implemented in fiscal 2000.

Minority interest also declined year over year, to \$1.3 million from \$1.5 million as a result of several minority share purchases that occurred during the last twelve months, including California Closet Company, Inc. ("California Closets") and The Continental Group, Ltd. During the quarter,

1 EBITDA is defined as net earnings before extraordinary items, minority interest share of earnings, income taxes, interest, depreciation and

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amortization. EBITDA margin refers to EBITDA as a percentage of revenues. EBITDA is a financial metric used by many investors to compare companies on the basis of operating results, asset value and the ability to incur and service debt. EBITDA is not a recognized measure for financial statement presentation under United States generally accepted accounting principles ("U.S. GAAP"). Non-U.S. GAAP measures, such as EBITDA, do not have any standardized meaning and are therefore unlikely to be comparable to similar measures presented by other issuers.

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the Company purchased portions of the minority shareholdings of American Pool Enterprises, Inc. and Security Services & Technologies, which also reduced minority interest for the quarter.

Net earnings for the quarter were \$7.4 million, compared to \$6.3 million in the prior year quarter (\$7.1 million before the extraordinary item). The increase in net earnings before the extraordinary item is the result of income tax and minority interest declines relative to the prior year.

Revenues from Residential Property Management operations were \$57.1 million for the quarter, slightly higher than the prior year quarter. Core management revenues grew 5%, which was offset by a 30% decline in painting and restoration activities. Painting and restoration revenues were, however, up 10% from the fourth quarter of fiscal 2002 and management expects to see continuing improvement in this area through the remainder of fiscal 2003.

Residential Property Management EBITDA declined to \$6.5 million from \$7.1 million recorded in the year ago quarter, and margins fell to 11.4% from 12.4%. Approximately \$0.5 million of increased insurance costs were incurred during the quarter, out of the estimated minimum annual insurance cost increase of \$1.3 million. A large portion of the insurance increase will be felt in the first two quarters as these costs are matched with seasonal revenues, particularly swimming pool management contracts. The Company was able to pass on only a small portion of these increased costs to customers in the current season. Additionally, the year-over-year decline in painting and restoration revenues, which carry higher margins than core management, impacted EBITDA unfavorably in the quarter.

Integrated Security Services grew 19% to \$27.3 million in the first quarter relative to the year ago period. Internal growth was 14%, with the VASEC acquisition accounting for the balance of growth. Internal growth benefited from a particularly large systems sale during the quarter, which included \$0.8 million of equipment. Excluding this sale, internal growth would have been 10%, which management believes is a more sustainable growth rate going forward for this segment.

In the Integrated Security Services segment, EBITDA increased to \$2.1 million, 11% higher than the prior year's quarter, while the margin fell to 7.7% from an unusually high 8.3% in the prior year's quarter. The margin for the whole of fiscal 2002 was 6.8% and the Company expects fiscal 2003's annual margins to exceed that figure.

Consumer Services revenue was \$29.1 million for the quarter, 13% higher than the prior year period. Internal growth was 8%, with the balance of growth coming from the acquisition of CC Seattle LLC, the Seattle franchise of California Closets. Internal growth was driven by revenue increases at Paul Davis

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Restoration and strong seasonal results from College Pro Painters relative to the same period a year ago.

EBITDA at Consumer Services was \$6.0 million, 10% higher than last year's first quarter. Margins declined slightly to 20.7% from 21.4% due to seasonal timing differences. The Company anticipates that annual margins in fiscal 2003 will be consistent with the prior year.

First quarter revenues in Business Services were \$32.5 million, 5% higher than the prior year due to the acquisition of Right Choice in February 2002. Internal revenue growth in this segment was negligible.

Business Services EBITDA was \$5.1 million, down from \$5.5 million recorded in the prior year quarter. The margin declined to 15.7% from 17.6%. There are two principal reasons for the margin decline. Firstly, Right Choice carries margins of approximately 10%, diluting the margin for the segment as a whole. Secondly, DDS Southwest, the Company's textbook fulfillment

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business based in Dallas, experienced a lower margin than in prior years. This business fulfills textbook orders on behalf of publishers for school boards across Texas, Oklahoma and New Mexico. It is a seasonal business with high volumes and margins in the Company's first and second quarters prior to the beginning of each school year. Textbook orders vary year to year and by state depending on the subject areas being purchased for in a particular year. For the 2002-2003 school year the impact of this is a volume reduction of 12%, which had a significant impact on the first quarter's margin. The decline in DDS Southwest volumes was anticipated by management and incorporated into the fiscal 2003 guidance referred to below.

Corporate expenses for the quarter totaled \$1.2 million, the same amount as recorded in the prior year's first quarter.

OUTLOOK FOR CURRENT FISCAL YEAR

Consistent with previous guidance, the Company anticipates earnings per share in the range of \$1.42-1.52 for fiscal 2003. Revenues are expected to grow at mid-single digit internal growth rates supplemented by revenues from acquisitions completed during the past year. A minimum \$1.3 million increase in insurance costs and a change in revenue mix are expected to lower margins in the Residential Property Management and Business Services segments, negatively impacting earnings. Lower interest rates and a reduced consolidated income tax rate are expected to favorably impacting earnings.

SEASONALITY AND QUARTERLY FLUCTUATIONS

Certain segments of the Company's operations, which in the aggregate comprise approximately 15% of revenues, are subject to seasonal variations. Specifically, the demand for residential lawn care, exterior painting, and swimming pool management in the northern United States and Canada is highest during late spring, summer and early fall and very low during winter. As a result, these operations generate a large percentage of their annual revenues between April and September. The Company has historically generated lower profits or net losses during its third and fourth fiscal quarters, from October to March.

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Residential Property Management (with the exception of swimming pool management), Integrated Security Services, and Business Services generate revenues evenly throughout the fiscal year.

The seasonality of swimming pool management and certain Consumer Services operations (exterior painting and lawn care) results in variations in quarterly EBITDA margins. Variations in quarterly EBITDA margins can also be caused by acquisitions, which alter the consolidated service mix. The Company's non-seasonal businesses typically generate a consistent EBITDA margin over all four quarters, while the Company's seasonal businesses experience high EBITDA margins in the first two quarters, offset by negative EBITDA in the last two quarters. As non-seasonal revenues increase as a percentage of total revenues, the Company's quarterly EBITDA margin fluctuations should be reduced.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities for the quarter was \$7.5 million, up from \$5.9 million in the prior year quarter. The improvement in cash flow is the result of a greater reduction in inventories and other current assets in the quarter relative to the prior year's quarter. Accounts receivable increased during the quarter in a manner consistent with historical patterns.

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Management believes that cash from operations and other existing resources will continue to be adequate to satisfy the ongoing working capital needs of the Company.

There have been no material changes to the terms of the Company's financing agreements since March 31, 2002 except the renewal and extension of the Credit Facility on April 25, 2002. The Company is in compliance with the covenants within its financing agreements as at June 30, 2002 and, based on its outlook for the balance of the year, expects to remain in compliance with the covenants. The Company had \$79.4 million of available un-drawn credit as of June 30, 2002.

During the quarter ended June 30, 2002, capital expenditures were \$3.7 million. Significant purchases during the quarter included \$1.5 million in service vehicles for the Residential Property Management and Consumer Services segments and \$1.2 million in Business Services warehousing equipment and software. The annual capital expenditures outlook for fiscal 2003 is \$11.0 million.

During the quarter, there was no change to the Company's market risk profile, including foreign currency and interest rate risks as described in Item 7A of Form 10-K for the year ended March 31, 2002.

CEO AND CFO CERTIFICATIONS

Certifications under Section 906 of the Sarbanes-Oxley Act of 2002 by the CEO and CFO were filed with the Securities and Exchange Commission contemporaneously with the filing of this Form 10-Q.

FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q contains or incorporates by reference certain

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forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The Company intends that such forward-looking statements be subject to the safe harbors created by such legislation. Such forward-looking statements involve risks and uncertainties and include, but are not limited to, statements regarding future events and the Company's plans, goals and objectives. Such statements are generally accompanied by words such as "intend", "anticipate", "believe", "estimate", "expect" or similar statements. The Company's actual results may differ materially from such statements.

Among the factors that could result in such differences are the impact of weather conditions, increased competition, labor shortages, the condition of the United States and Canadian economies, changes in interest rates, changes in the value of the Canadian Dollar relative to the U.S. Dollar, and the ability of the Company to make acquisitions at reasonable prices.

Although the Company believes that the assumptions underlying its forward-looking statements are reasonable, any of the assumptions could prove inaccurate and, therefore, there can be no assurance that the results contemplated in such forward-looking statements will be realized. The inclusion of such forward-looking statements should not be regarded as a representation by the Company or any other person that the future events, plans or expectations contemplated by the Company will be achieved. The Company notes that past performance in operations and share price are not necessarily predictive of future performance.

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ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- 1. a) Exhibits
 - 3.1* Articles of Incorporation and Amendment
 - 3.2* By-Laws and Amendments
 - 10.1* Credit Facility dated April 1, 1999 among the Company and syndicate of bank lenders
 - 10.2** FirstService Corporation Amended Stock Option Plan # 2
 - 10.3** FirstService Corporation Amended Share Purchase Plan # 2
 - 10.4*** Amended and Restated Credit Agreement Dated June 21, 2001 among the Company and syndicate of bank lenders
 - 10.5*** Note and Guarantee Agreement - \$US100 million 8.06% Guaranteed Senior Secured Notes due 2011

- b) Reports on Form 8-K
 - None.

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- * Incorporated by reference to the Company's report on Form 10-Q for the period ended June 30, 1999.
 - ** Incorporated by reference to the Company's report on Form 10-K for the year ended March 31, 2000.
 - *** Incorporated by reference to the Company's report on Form 10-Q for the period ended June 30, 2001.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

August 14, 2002

FIRSTSERVICE CORPORATION

/s/ D. SCOTT PATTERSON

D. Scott Patterson
Senior Vice President and Chief Financial Officer
(PRINCIPAL FINANCIAL OFFICER & AUTHORIZED SIGNATORY)