APACHE CORP
Form 424B5
September 29, 2008

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The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell the notes or a solicitation of an offer to buy the notes in any jurisdiction where the offer or sale is not permitted.

Filed Pursuant to Rule 424(b)(5)
Registration No. 333-141867

SUBJECT TO COMPLETION, DATED SEPTEMBER 26, 2008

PROSPECTUS SUPPLEMENT
(To Prospectus Dated April 4, 2007)

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Apache Corporation

$ % Notes due 2013
$ % Notes due 2018

We are offering $ aggregate principal amount of % notes due 2013 and $ aggregate principal amount of % notes due 2018. Interest on the notes will be paid semi-annually in arrears on March 15 and September 15 of each year, beginning on March 15, 2009. The % notes due 2013 will mature on September 15, 2013 and the % notes due 2018 will mature on September 15, 2018. We may redeem some or all of each series of the notes at any time or from time to time at the redemption prices calculated as described in this prospectus supplement under Description of Notes Optional Redemption. The notes do not have the benefit of any sinking fund.

The notes will be our general unsecured senior obligations and will rank equally with all of our other unsecured senior indebtedness from time to time outstanding. The notes will be issued only in denominations of $2,000 and integral multiples of $1,000 in excess thereof. The notes will not be listed on any securities exchange.

Investing in the notes involves risks. See Risk Factors on page S-3 of this prospectus supplement.

	Per 2013 Note	Total	Per 2018 Note	Total
Public Offering Price(1)	%	$	%	$
Underwriting Discount	%	$	%	$
Proceeds to Apache (before expenses)	%	$	%	$

(1) Plus accrued interest, if any, from October , 2008, if settlement occurs after that date.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the notes in book-entry form only through the facilities of The Depository Trust Company for the accounts of its participants, including Clearstream Banking, *société anonyme*, and Euroclear Bank S.A./N.V., against payment in New York, New York on or about October , 2008.

Joint Book-Running Managers

Goldman, Sachs & Co. **J.P. Morgan**

Co-Managers

Banc of America Securities LLC **Citi**

September , 2008

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ABOUT THIS PROSPECTUS SUPPLEMENT

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not, and the underwriters have not, authorized anyone to provide you with different information. We are not, and the underwriters are not, making an offer to sell the notes in any jurisdiction where the offer or sale is not permitted. You should assume that the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus is accurate as of the date on the front of this prospectus supplement only. Our business, financial condition, results of operations and prospects may have changed since that date.

In this prospectus supplement, unless the context indicates otherwise, the terms Apache, we, us, Company and our refer to Apache Corporation and its subsidiaries. In this prospectus supplement, we refer to the % notes due 2013 as the 2013 notes and the % notes due 2018 as the 2018 notes, and together as the notes.

Our name, logo and other trademarks mentioned in this prospectus supplement are the property of their respective owners.

DOCUMENTS INCORPORATED BY REFERENCE

We have incorporated by reference in this prospectus supplement and the accompanying prospectus certain documents that we file with the SEC. This means that we can disclose important information to you by referring you to another document filed separately with the SEC. This information incorporated by reference is a part of this prospectus supplement and the accompanying prospectus, unless we provide you with different information in this prospectus supplement or the accompanying prospectus or the information is modified or superseded by a subsequently filed document. Any information referred to in this way is considered part of this prospectus supplement and the accompanying prospectus from the date we file that document.

Any reports filed by us pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 on or after the date of this prospectus supplement and before the completion of the offering of the notes will be deemed to be incorporated by reference into this prospectus supplement and the accompanying prospectus (other than information in such future filings deemed to have been furnished and not filed in accordance with SEC rules) and will automatically update, where applicable, and supersede any information contained in this prospectus supplement or the accompanying prospectus or incorporated by reference into this prospectus supplement and the accompanying prospectus.

This prospectus supplement and the accompanying prospectus incorporate the documents listed below that we have previously filed with the SEC (other than, in each case, documents or information deemed to have been furnished and not filed in accordance with SEC rules). They contain important information about us, our business and our financial condition.

Apache SEC Filings	Period or Date Filed
Annual Report on Form 10-K	Year ended December 31, 2007
Quarterly Reports on Form 10-Q	Quarters ended March 31, 2008 and June 30, 2008

You can obtain any of the documents incorporated by reference in this prospectus supplement and the accompanying prospectus from us or from the SEC through the SEC s web site at www.sec.gov. Documents incorporated by reference are available from us without charge, excluding any exhibits to those documents unless we specifically incorporated by reference the exhibit in this prospectus supplement and the accompanying prospectus. You can obtain these documents from us by requesting them in writing or by telephone at the following address or number:

Apache Corporation
2000 Post Oak Boulevard
Houston, Texas 77056
Telephone: (713) 296-6000

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CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus and the documents incorporated by reference in this prospectus supplement and the accompanying prospectus contain statements that constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, or the Exchange Act.

These statements relate to future events or our future financial performance, which involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from those expressed or implied by any forward-looking statements. In some cases, you can identify forward looking statements by terminology such as expect, anticipate, estimate, intend, may, will, c would, should, predict, potential, plans, believe or the negative of these terms or similar terminology.

These statements are only predictions. Actual events or results may differ materially because of market conditions in our markets or other factors. Moreover, we do not, nor does any other person, assume responsibility for the accuracy and completeness of those statements. Unless otherwise required by applicable securities laws, we disclaim any intention or obligation to update any of the forward-looking statements after the date of this prospectus supplement. All of the forward-looking statements are qualified in their entirety by reference to the factors discussed under Risk Factors in our annual report on Form 10-K for the fiscal year ended December 31, 2007 and under Management s Discussion and Analysis of Results of Operations and Financial Condition in our annual report on Form 10-K for the fiscal year ended December 31, 2007 and our quarterly report on Form 10-Q for the fiscal quarter ended June 30, 2008 (incorporated by reference in this prospectus supplement and the accompanying prospectus) and similar sections in any subsequent filings that we incorporate by reference in this prospectus supplement and the accompanying prospectus, which describe risks and factors that could cause results to differ materially from those projected in those forward-looking statements.

Those risk factors may not be exhaustive. We operate in a continually changing business environment, and new risk factors emerge from time to time. We cannot predict these new risk factors, nor can we assess the impact, if any, of these new risk factors on our businesses or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those projected in any forward-looking statements. Accordingly, forward-looking statements should not be relied upon as a prediction of actual results.

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RISK FACTORS

An investment in the notes is subject to numerous risks, including those described under Item 1A, Risk Factors, of our annual report on Form 10-K for the year ended December 31, 2007, which is incorporated by reference in this prospectus supplement and the accompanying prospectus. Before making an investment decision, you should carefully consider these risks, as well as other information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. These risks could materially affect our ability to meet obligations under the notes. You could lose all or part of your investment in and expected return on the notes.

USE OF PROCEEDS

The net proceeds from this offering are expected to be approximately $ million, after deducting the underwriting discounts and our estimated offering expenses. Apache intends to use the net proceeds from the sale of the notes for general corporate purposes.

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CAPITALIZATION

The following table sets forth our consolidated unaudited cash and cash equivalents and our capitalization as of June 30, 2008 on an actual basis and on an as adjusted basis to give effect to the sale of the notes offered hereby and the application of those net proceeds as described under Use of Proceeds. You should read this table in conjunction with our consolidated financial statements and the related notes incorporated by reference in this prospectus supplement and the accompanying prospectus.

	As of June 30, 2008	
	Actual	**As Adjusted**
	(unaudited) (in thousands)	
Cash and cash equivalents	$ 1,008,442	$
Total debt (including current portion):		
Existing notes and debentures	4,012,068	4,012,068
Revolving credit facility and commercial paper		
Notes offered hereby		
Other existing indebtedness	33,860	33,860
Total debt (including current portion)	4,045,928	
Total shareholders equity	16,514,469	16,514,469
Total capitalization	$ 20,560,397	$

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DESCRIPTION OF NOTES

Apache will issue the notes under the senior indenture dated as of February 15, 1996, as supplemented on November 5, 1996, between us and The Bank of New York Mellon Trust Company, N.A. (formerly known as The Bank of New York Trust Company, N.A., as successor-in-interest to JPMorgan Chase Bank, N.A., formerly known as The Chase Manhattan Bank), as trustee. The following description and the description of our debt securities in the accompanying prospectus is a summary of the material provisions of the notes and the senior indenture. These descriptions do not restate the senior indenture in its entirety. We urge you to read the senior indenture because it, and not this description, defines your rights as holders of the notes. We have filed a copy of the senior indenture as an exhibit to the registration statement, which includes the accompanying prospectus.

This description of the notes in this prospectus supplement, to the extent it is inconsistent, replaces the description of the general provisions of the debt securities and the senior indenture in the accompanying prospectus. The notes are senior debt securities as that term is used in the accompanying prospectus.

With certain exceptions and pursuant to certain requirements set forth in the senior indenture, we may discharge our obligations under the senior indenture with respect to each series of notes as described under Description of Apache Corporation Debt Securities Discharge, Defeasance and Covenant Defeasance beginning on page 20 in the accompanying prospectus.

Principal, Maturity and Interest

The notes will be senior unsecured obligations of Apache.

Apache is offering $ initial aggregate principal amount of % notes due 2013 and $ initial aggregate principal amount of % notes due 2018. The 2013 notes will mature on September 15, 2013 and the 2018 notes will mature on September 15, 2018.

We may issue and sell additional notes of each series in the future without the consent of the holders of that series. Any additional notes of either series, together with the outstanding notes of that series, will constitute a single series of notes under the senior indenture.

Interest on the 2013 notes will accrue at the rate of % per year and interest on the 2018 notes will accrue at the rate of % per year. Interest on the notes will be paid semi-annually in arrears on March 15 and September 15 of each year, beginning on March 15, 2009. We will make each interest payment to the person in whose name the notes are registered at the close of business on the immediately preceding March 1 or September 1, as the case may be, whether or not that date is a business day. Business day means any day other than a Saturday, Sunday or other day on which banking institutions in The City of New York are authorized or obligated by law, regulation or executive order to close.

Interest on the notes of each series will accrue from October , 2008, or from the most recent interest payment date to which interest has been paid or duly provided for, and will be computed on the basis of a 360-day year comprised of twelve 30-day months.

If any interest payment date, maturity date or redemption date of the notes of a series falls on a day that is not a business day, the related payment will be made on the next business day and, unless we default on the payment, no interest will accrue for the period from and after the interest payment date, maturity date or redemption date.

We do not intend to list either series of notes on any securities exchange or automated quotation system.

The notes will be issued in book-entry form without coupons only in denominations of $2,000 and integral multiples of $1,000 in excess thereof.

If a change in control, as defined in the accompanying prospectus, occurs, each holder of notes may elect to require us to repurchase the holder s notes. If a holder makes this election, we must purchase the holder s notes for their principal amount plus accrued interest to the purchase date. See Description of Apache Corporation Debt Securities We are Obligated to Purchase Debt Securities upon a Change in Control beginning on page 20 in the accompanying prospectus.

Optional Redemption

The notes of each series may be redeemed in whole at any time or in part from time to time, at our option, at a redemption price equal to the greater of:

100% of the principal amount of the notes then outstanding to be redeemed; or

the sum of the present values of the remaining scheduled payments of principal and interest on the notes to be redeemed (not including any portion of such payments of interest accrued to the date of redemption) discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the applicable treasury rate plus basis points, in the case of the 2013 notes, and at the applicable treasury rate plus basis points, in the case of the 2018 notes;

plus, in each case, accrued and unpaid interest on the principal amount of the notes of that series being redeemed to the redemption date.

Treasury rate means, with respect to any redemption date:

the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated H.15(519) or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded U.S. Treasury securities adjusted to constant maturity under the caption Treasury Constant Maturities, for the maturity corresponding to the comparable treasury issue (if no maturity is within three months before or after the remaining life (as defined below), yields for the two published maturities most closely corresponding to the comparable treasury issue will be determined and the treasury rate will be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month); or

if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per annum equal to the semi-annual equivalent yield to maturity of the comparable treasury issue, calculated using a price for the comparable treasury issue (expressed as a percentage of its principal amount) equal to the comparable treasury price for such redemption date.

The treasury rate will be calculated on the third business day next preceding the date fixed for redemption (the calculation date).

Comparable treasury issue means the U.S. Treasury security selected by an independent investment banker as having a maturity comparable to the remaining term (remaining life) of the series of notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such series of notes.

Comparable treasury price means, with respect to any redemption date, (1) the average of five reference treasury dealer quotations for such redemption date, after excluding the highest and lowest reference treasury dealer quotations, or (2) if the independent investment banker obtains fewer than four such reference treasury dealer quotations, the average of all such quotations.

Independent investment banker means either Goldman, Sachs & Co. or J.P. Morgan Securities Inc., or their respective successors, as specified by us, or, if those firms are unwilling or unable to select the comparable treasury issue, an independent investment banking institution of national standing appointed by us.

Reference treasury dealer means each of (1) Goldman, Sachs & Co. and J.P. Morgan Securities Inc., and their respective successors, provided, however, that if either of the foregoing shall cease to be a primary U.S. government securities dealer in the United States (a primary treasury dealer), we will substitute therefor another primary treasury dealer and (2) any three other primary treasury dealers selected by us after consultation with the independent investment banker.

Reference treasury dealer quotations means, with respect to each reference treasury dealer and any redemption date, the average, as determined by the independent investment banker, of the bid and asked prices for the comparable treasury issue (expressed in each case as a percentage of its principal amount) quoted in writing to the independent investment banker at 5:00 p.m., New York City time, on the calculation date.

We will mail a notice of redemption to each holder of notes of the series to be redeemed by first-class mail at least 30 and not more than 60 days prior to the date fixed for redemption. Unless we default on payment of the redemption price, interest will cease to accrue on the notes or portions thereof called for redemption. If fewer than all of the notes of a series are to be redeemed, the trustee will select, not more than 60 days prior to the redemption date, the particular notes or portions thereof for redemption from the outstanding notes of that series not previously called by such method as the trustee deems fair and appropriate.

Book-Entry; Delivery and Form

Each series of notes will be issued in the form of one or more global notes, or the Global Notes, registered in the name of The Depository Trust Company or its nominee, as described below and under Description of Apache Corporation Debt Securities Global Securities beginning on page 16 and Book-Entry Securities beginning on page 45, both in the accompanying prospectus. The Global Notes will be deposited upon issuance with The Depository Trust Company, New York, New York, or the Depositary, and registered in the name of a nominee of the Depositary in the form of a global certificate. All interests in the Global Notes will be subject to the operations and procedures of the Depositary, Euroclear Bank S.A./N.V., or Euroclear, and Clearstream Banking, *société anonyme*, or Clearstream, Luxembourg. Beneficial interests in the Global Notes must be held in minimum denominations of $2,000 and integral multiples of $1,000 in excess thereof.

The Depositary has advised us that pursuant to procedures established by it (i) upon the issuance of the Global Notes, the Depositary or its custodian will credit, on its internal system, the principal amount at maturity of the individual beneficial interests represented by such Global Notes to the respective accounts of persons who have accounts with such Depositary and (ii) ownership of beneficial interests in the Global Notes will be shown on, and the transfer of such ownership will be effected only through, records maintained by the Depositary or its nominee (with respect to interests of participants) and the records of participants (with respect to interests of persons other than participants). Ownership of beneficial interests in the Global Notes will be limited to persons who have accounts with the Depositary, or participants, or persons who hold interests through participants. Holders may hold their interests in the Global Notes directly through the Depositary if they are participants in such system, or indirectly through organizations that are participants in such system.

So long as the Depositary, or its nominee, is the registered owner or holder of the notes, the Depositary or such nominee, as the case may be, will be considered the sole owner or holder of the notes represented by such Global Notes for all purposes under the senior indenture governing the notes. No beneficial owner of an interest in the Global Notes will be able to transfer that interest except in accordance with the Depositary s procedures, in addition to those provided for under the senior indenture with respect to the notes.

Payments of the principal of, premium, if any, and interest on, the Global Notes will be made to the Depositary or its nominee, as the case may be, as the registered owner of the Global Notes. None of Apache, the trustee or any paying agent under the senior indenture governing the notes will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interest.

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The Depositary has advised us that its present practice is, upon receipt of any payment of principal, premium, if any, and interest on the Global Notes, to credit immediately participants accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of the Global Notes as shown on the records of the Depositary. Payments by participants to owners of beneficial interests in the Global Notes held through such participants will be governed by standing instructions and customary practice, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such participants.

Transfers between participants in the Depositary will be effected in the ordinary way through the Depositary s same-day funds system in accordance with the Depositary s rules and will be settled in same-day funds. If a holder requires physical delivery of a certificated security for any reason, including to sell notes to persons in states which require physical delivery of the notes, or to pledge such securities, such holder must transfer its interest in a Global Note, in accordance with the normal procedures of the Depositary and with the procedures set forth in the senior indenture governing the notes.

The Depositary has advised us that it will take any action permitted to be taken by a holder of notes, including the presentation of notes for exchange as described below, only at the direction of one or more participants to whose account the Depositary s interests in the Global Notes are credited and only in respect of such portion of the aggregate principal amount of notes as to which such participant or participants has or have given such direction. However, if an event of default under the senior indenture governing the notes has occurred and is continuing, the Depositary will exchange the Global Notes for certificated securities, which it will distribute to its participants.

The Depositary has advised us as follows: the Depositary is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a clearing corporation within the meaning of the Uniform Commercial Code and a Clearing Agency registered pursuant to the provisions of Section 17A of the Exchange Act. The Depositary was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies and clearing corporations and certain other organizations. Indirect access to the Depositary system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly, or indirect participants.

Although the Depositary has agreed to the foregoing procedures in order to facilitate transfers of interests in the Global Notes among participants of the Depositary, it is under no obligation to perform such procedures, and such procedures may be discontinued at any time. Neither we nor the trustee will have any responsibility for the performance by the Depositary or its participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Clearstream, Luxembourg and Euroclear hold interests on behalf of their participating organizations through customers securities accounts in Clearstream, Luxembourg s and Euroclear s names on the books of their respective depositaries, which hold those interests in customers securities accounts in the depositaries names on the books of the Depositary. At the present time, Citibank, N.A. acts as U.S. depositary for Clearstream, Luxembourg and JPMorgan Chase Bank, N.A. acts as U.S. depositary for Euroclear (the U.S. Depositaries). Except as set forth below, the Global Notes may be transferred, in whole but not in part, only to another nominee of the Depositary or to a successor of the Depositary or its nominee.

Clearstream, Luxembourg holds securities for its participating organizations, or Clearstream Participants, and facilitates the clearance and settlement of securities transactions between Clearstream Participants through electronic book-entry changes in accounts of Clearstream Participants, thereby eliminating the need for physical movement of certificates. Clearstream, Luxembourg provides to Clearstream Participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream, Luxembourg interfaces with domestic markets in several countries.

Clearstream, Luxembourg is registered as a bank in Luxembourg, and as such is subject to regulation by the Commission de Surveillance du Secteur Financier and the Banque Centrale du Luxembourg, which supervise and oversee the activities of Luxembourg banks. Clearstream Participants are world-wide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations, and may include the underwriters or their affiliates. Indirect access to Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with a Clearstream Participant. Clearstream, Luxembourg has established an electronic bridge with Euroclear as the operator of the Euroclear System (the Euroclear Operator) in Brussels to facilitate settlement of trades between Clearstream, Luxembourg and the Euroclear Operator.

Distributions with respect to either series of notes held beneficially through Clearstream, Luxembourg will be credited to cash accounts of Clearstream Participants in accordance with its rules and procedures, to the extent received by the U.S. Depositary for Clearstream, Luxembourg.

Euroclear holds securities and book-entry interests in securities for participating organizations, or Euroclear Participants, and facilitates the clearance and settlement of securities transactions between Euroclear Participants, and between Euroclear Participants and participants of certain other securities intermediaries through electronic book-entry changes in accounts of such participants or other securities intermediaries. Euroclear provides Euroclear Participants, among other things, with safekeeping, administration, clearance and settlement, securities lending and borrowing, and related services. Euroclear Participants are investment banks, securities brokers and dealers, banks, central banks, supranationals, custodians, investment managers, corporations, trust companies and certain other organizations, and may include the underwriters or their affiliates. Non-participants in Euroclear may hold and transfer beneficial interests in a Global Note through accounts with a participant in the Euroclear System or any other securities intermediary that holds a book-entry interest in a Global Note through one or more securities intermediaries standing between such other securities intermediary and Euroclear.

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law (collectively, the Terms and Conditions). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear Participants, and has no record of or relationship with persons holding through Euroclear Participants.

Distributions of the notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear Participants in accordance with the Terms and Conditions, to the extent received by the U.S. Depositary for Euroclear.

Transfers between Euroclear Participants and Clearstream Participants will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Cross-market transfers between Direct Participants in the Depositary, on the one hand, and Euroclear Participants or Clearstream Participants, on the other hand, will be effected through the Depositary in accordance with the Depositary s rules on behalf of Euroclear or Clearstream, Luxembourg, as the case may be, by its U.S. Depositary; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, Luxembourg, as the case may be, by the counterparty in such system in accordance with the rules and procedures and within the established

deadlines (European time) of such system. Euroclear or Clearstream, Luxembourg, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its U.S. Depositary to take action to effect final settlement on its behalf by delivering or receiving interests in the Global Notes in the Depositary, and making or receiving payment in accordance with normal procedures for same-day fund settlement applicable to the Depositary. Euroclear Participants and Clearstream Participants may not deliver instructions directly to their respective U.S. Depositaries.

Due to time zone differences, the securities accounts of a Euroclear Participant or Clearstream Participant purchasing an interest in a Global Note from a Direct Participant in the Depositary will be credited, and any such crediting will be reported to the relevant Euroclear Participant or Clearstream Participant, during the securities settlement processing day (which must be a business day for Euroclear or Clearstream, Luxembourg) immediately following the settlement date of the Depositary. Cash received in Euroclear or Clearstream, Luxembourg as a result of sales of interests in a Global Note by or through a Euroclear Participant or Clearstream Participant to a Direct Participant in the Depositary will be received with value on the settlement date of the Depositary but will be available in the relevant Euroclear or Clearstream, Luxembourg cash account only as of the business day for Euroclear or Clearstream, Luxembourg following the Depositary s settlement date.

The information in this section concerning the Depositary, Euroclear and Clearstream, Luxembourg and their book-entry systems has been obtained from sources that we believe to be reliable, but we take no responsibility for the accuracy of that information.

Although Euroclear and Clearstream, Luxembourg have agreed to the foregoing procedures to facilitate transfers of interests in the Global Notes among Euroclear Participants and Clearstream Participants, they are under no obligation to perform or to continue to perform such procedures, and such procedures may be discontinued at any time. None of us, any of the underwriters or the trustee will have any responsibility for the performance by Euroclear or Clearstream, Luxembourg or their respective Participants of their respective obligations under the rules and procedures governing their operations.

MATERIAL UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The following describes the material U.S. federal income tax consequences of the ownership and disposition of the notes by holders who purchase notes at their original issuance. This discussion is not a complete discussion of all the potential tax consequences that may be relevant to you. This discussion is based upon the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as in effect on the date of this document, and all of which are subject to change, possibly on a retroactive basis. For purposes of this discussion, you are a U.S. holder if you are a beneficial owner of notes and you are a United States person for U.S. federal income tax purposes or a non-U.S. holder if you are a beneficial owner of notes who is an individual, corporation, trust or estate that is not a United States person for U.S. federal income tax purposes. A United States person is:

- an individual citizen or resident of the United States;
- a corporation or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in the United States or under the laws of the United States or of any state thereof or the District of Columbia;
- an estate whose income is subject to U.S. federal income taxation regardless of its source; or

a trust if a U.S. court is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust or a trust that has a valid election in effect under applicable regulations to be treated as a United States person.

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If a partnership or other entity or arrangement treated as a partnership for U.S. federal income tax purposes holds the notes, the tax treatment of a partner will generally depend on the status of the partner and on the activities of the partnership. We urge partners of partnerships holding notes to consult their tax advisors.

This discussion only applies to holders who hold the notes as capital assets. The tax treatment of holders of the notes may vary depending upon their particular situations. Certain holders, including insurance companies, tax exempt organizations, financial institutions, investors in pass-through entities, expatriates, taxpayers subject to the alternative minimum tax, broker-dealers and persons holding the notes as part of a straddle, hedge or conversion transaction, may be subject to special rules not discussed below. This discussion does not address any estate, gift, foreign, state or local taxes. We urge you to consult your own tax advisors regarding the particular U.S. federal income tax consequences to you of holding and disposing of notes, any tax consequences that may arise under the laws of any relevant foreign, state, local, or other taxing jurisdiction or under any applicable tax treaty, as well as possible effects of changes in federal or other tax laws.

U.S. Holders

The following is a summary of the material U.S. federal income tax consequences that will apply to you if you are a U.S. holder of the notes.

Payments of Interest. Payments of stated interest on a note will generally be taxable to you as ordinary income at the time received or accrued, depending on your method of accounting for U.S. federal income tax purposes.

Sale, Exchange or Other Taxable Disposition of the Notes. Upon a sale, exchange or other taxable disposition of a note, you generally will recognize gain or loss equal to the difference between the amount received upon the sale or other disposition (less any amount attributable to accrued interest which will be taxable as ordinary income, if not previously taken into gross income) and your adjusted tax basis in the note at that time.

Gain or loss realized on the sale or other disposition of a note generally will be capital gain or loss, and will be long-term capital gain or loss if, at the time of sale or other disposition, the note has been held for more than one year. Under current law, long-term capital gains of certain non-corporate holders are generally taxed at lower rates than items of ordinary income. The deductibility of capital losses is subject to limitations.

Backup Withholding and Information Reporting. In general, information reporting will apply to certain payments of principal and interest on the notes and to the proceeds from the sale or other disposition of a note paid to you unless you are an exempt recipient. Additionally, a backup withholding tax (currently at a rate of 28%) will apply to such payments if you fail to provide a correct taxpayer identification number or certification of exempt status or fail to report full dividend and interest income or otherwise fail to comply with applicable requirements of the backup withholding rules.

If backup withholding applies to you, the amounts withheld may be refunded or credited against your U.S. federal income tax liability, as long as you timely provide certain information to the Internal Revenue Service or IRS.

Non-U.S. Holders

The following is a summary of the material U.S. federal income tax consequences that will apply to you if you are a non-U.S. holder of the notes.

Payments of Interest. A payment of interest on the notes that is not effectively connected with the conduct of a trade or business in the United States to a non-U.S. holder will not be subject to

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U.S. federal income tax and withholding of U.S. federal income tax will not be required on that payment if you:

- do not actually or constructively own 10% or more of the total combined voting power of all classes of our stock,
- are not a controlled foreign corporation that is related to us, and
- certify to us, our payment agent, or the person who would otherwise be required to withhold U.S. tax, on IRS Form W-8BEN or applicable substitute form, under penalties of perjury, that you are not a United States person and provide your name and address.

If you do not satisfy the preceding requirements, your interest on a note would generally be subject to a 30% U.S. withholding tax unless you provide a properly executed IRS Form W-8BEN (or applicable substitute form) claiming an exemption from, or reduction of, withholding under the benefits of a tax treaty.

If you are engaged in a trade or business in the United States, and if interest on a note is effectively connected with the conduct of that trade or business and, if an applicable tax treaty applies, is attributable to a permanent establishment you maintain in the United States, you will be exempt from U.S. withholding tax if specific certification requirements are met but will be subject to regular U.S. federal income tax on the interest in the same manner as if you were a United States person. You can generally meet the certification requirements if you provide to us, our payment agent or the person who would otherwise be required to withhold U.S. tax, a properly completed and executed IRS Form W-8ECI or applicable substitute form. If you are eligible for the benefits of a tax treaty between the United States and your country of residence, any effectively connected income or gain will be subject to U.S. federal income tax only if it is also attributable to a permanent establishment you maintain in the United States. In addition to regular U.S. federal income tax, if you are a foreign corporation, you may be subject to a U.S. branch profits tax at a 30% rate, although an applicable tax treaty may provide for a lower rate.

Gain on Disposition. You generally will not be subject to U.S. federal income tax on any gain realized on a sale, redemption, exchange or other taxable disposition of a note unless:

- the gain is effectively connected with your conduct of a trade or business within the United States and, if an applicable tax treaty applies, is attributable to a permanent establishment you maintain in the United States; or
- you are an individual who has been present in the United States for 183 or more days in the taxable year of the disposition and certain other requirements are met.

A non-U.S. holder described in the first bullet point above generally will be subject to U.S. federal income tax on the net gain derived from the sale in the same manner as a United States person, and in addition, a non-U.S. holder that is a foreign corporation may be subject to a branch profits tax at a 30% rate or a lower rate if so specified by an applicable income tax treaty. A non-U.S. holder described in the second bullet point above will be subject to a flat 30% U.S. federal income tax on the gain derived from the sale, which may be offset by certain U.S. source capital losses.

Information reporting and backup withholding. Payments to you of interest on a note, and amounts withheld from such payments, if any, generally will be required to be reported to the IRS and to you. U.S. backup withholding generally will not apply to payments of interest on the notes by us or our paying agent to you if you certify as to your non-U.S. status under penalties of perjury or otherwise establish an exemption, provided that neither we nor our paying agent has actual knowledge or reason to know that you are a United States person or that the conditions of any other exemptions are not in fact satisfied.

The payment of the proceeds of the disposition of notes (including redemption or retirement) to or through the United States office of a United States or foreign broker will be subject to information reporting and backup withholding unless you properly certify under penalties of perjury as to your non-U.S. status and specific other conditions are met or you otherwise establish an exemption. The proceeds of a disposition effected outside the United States by you of notes to or through a foreign office of a broker generally will not be subject to backup withholding or information reporting. However, if that broker is a United States person, a controlled foreign corporation for U.S. tax purposes, a foreign person that derives 50% or more of its gross income for certain periods from the conduct of a trade or business in the United States, or a foreign partnership that is engaged in the conduct of a trade or business in the United States or that has one or more partners that are United States persons who in the aggregate hold more than 50% of the income or capital interests in the partnership, information reporting requirements will apply unless that broker has documentary evidence in its files of your non-U.S. status and has no actual knowledge to the contrary or unless you otherwise establish an exemption.

We urge you to consult your own tax advisor regarding the application of information reporting and backup withholding to your particular situation, the availability of an exemption therefrom, and the procedure for obtaining such an exemption, if available. Any amounts withheld from a payment to you under the backup withholding rules will be allowed as a credit against your U.S. federal income tax liability and may entitle you to a refund, provided you furnish the required information in a timely manner to the IRS.

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UNDERWRITING

We and the underwriters for the offering named below have entered into an underwriting agreement and a pricing agreement with respect to the notes. Subject to certain conditions, each underwriter has severally agreed to purchase the principal amount of each series of notes indicated in the following table.

Underwriters	Principal Amount of 2013 Notes	Principal Amount of 2018 Notes
Goldman, Sachs & Co.	$	$
J.P. Morgan Securities Inc.		
Banc of America Securities LLC		
Citigroup Global Markets Inc.		
Total	$	$

The underwriters are committed to take and pay for all of the notes being offered, if any are taken.

Notes of each series sold by the underwriters to the public will initially be offered at the initial public offering price set forth on the cover of this prospectus supplement. Any notes of each series sold by the underwriters to securities dealers may be sold at a discount from the initial public offering price of up to % of the principal amount of that series of notes. Any such securities dealers may resell notes of any series of notes purchased from the underwriters to certain other brokers or dealers at a discount from the initial public offering price of up to % of the principal amount of such series of notes. If all the notes are not sold at the initial offering price, the underwriters may change the offering price and the other selling terms. The offering of the notes by the underwriters is subject to receipt and acceptance and subject to the underwriters right to reject any order in whole or in part.

The following table shows the underwriting discounts and commissions that we are to pay to the underwriters in connection with this offering (expressed as a percentage of the principal amount of the notes).

Net increase (decrease) in cash and cash equivalents	$ 18.0	$ 22.4	$ (7.2)	$ (62.9)
Cash and cash equivalents beginning of period*	75.1	258.2	100.3	343.5
Cash and cash equivalents end of period*	$ 93.1	$ 280.6	$ 93.1	$ 280.6

**These amounts represent the unrestricted cash and cash equivalents*

The accompanying notes are an integral part of these statements.

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LAIDLAW INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTH PERIODS ENDED FEBRUARY 29, 2004

Note 1 Corporate overview and basis of presentation

Corporate overview

Laidlaw International, Inc. (the Company) operates in five reportable business segments: education services, public transit services, Greyhound, healthcare transportation services and emergency management services. The education services segment provides school bus transportation, including scheduled home-to-school, extra-curricular and charter and transit school bus services, throughout the United States and Canada. The public transit services segment provides fixed-route municipal bus service and also provides paratransit bus transportation for riders with disabilities. Greyhound, a national provider of inter-city bus transportation in the United States and Canada, provides scheduled passenger service, package delivery service, charter bus service and, in certain terminals, food service. The healthcare transportation service segment provides critical care transportation services, non-emergency ambulance and transfer services and emergency response services in the United States. The emergency management services segment provides outsourced emergency department physician services throughout the United States.

Basis of presentation

The accompanying interim consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States for interim reporting and accordingly, do not include all of the disclosures required 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 three month and six month periods ended February 29, 2004 are not necessarily indicative of the results that may be expected for the full year ending August 31, 2004. For further information, see the Company s consolidated financial statements, including the accounting policies and notes thereto, included in the Company s Annual Report on Form 10-K for the fiscal year ended August 31, 2003.

On June 1, 2003, the Company adopted fresh start accounting pursuant to the guidance provided by the American Institute of Certified Public Accountant s Statement of Position 90-7 Financial Reporting by Entities in Reorganization under the Bankruptcy Code. In accordance with the principles of fresh start accounting, the Company adjusted its assets and liabilities to their estimated fair values as of June 1, 2003. Due to the changes in the financial structure of the Company following its emergence from bankruptcy in June 2003, and the application of fresh start accounting, the consolidated financial statements of the Company issued subsequent to May 31, 2003 are not comparable with the consolidated financial statements issued by the predecessor company (the Predecessor Company) prior to June 1, 2003. A black line has been drawn on the accompanying Consolidated Financial Statements to separate and distinguish between the Company and the Predecessor Company.

The basic earnings (loss) per share figures are calculated using the weighted average number of shares outstanding during the respective periods (100.0 million for the three and six month periods ended February 29, 2004 and 325.9 million for the Predecessor Company in the three month and six month periods ended February 28, 2003). The diluted earnings per share for the three and six month periods ended February 29, 2004 of 103.8 million, assumes the sale on the open market of the Company s common shares held in trust.

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

Restatement

On November 10, 2004 the Company announced the need to restate deferred tax expense for our second fiscal quarter of 2004. As part of our year-end processes and procedures to determine the Company s annual tax provision, management identified a $6.6 million increase in our Canadian deferred tax assets and a corresponding tax benefit to reflect a change in the Ontario, Canada provincial tax rates. As the rate changes became effective in the Company s second fiscal quarter, the $6.6 million tax benefit should have been reflected as a reduction of our second quarter tax expense. However, the adjustment was not reflected in the Company s originally reported second quarter results because our quarterly processes did not include procedures to verify enacted tax rates and adjust the rate used to value our deferred tax assets for any changes that might have occurred. Management s quarterly controls and procedures have been modified to include steps to verify and adjust, if needed, our effective tax rate for tax changes enacted during such period by taxing authorities in jurisdictions in which the Company conducts business. No change in the Company s annual process was required as management believes we have disclosure controls and procedures which operate at a reasonable assurance level on an annual basis. To properly reflect this adjustment in the second fiscal quarter of 2004, management has restated the Company s unaudited consolidated financial statements contained in its Quarterly Report on Form 10-Q for such period originally filed with the U.S. Securities and Exchange Commission on April 12, 2004. The effect of this restatement is reflected in the restated unaudited consolidated financial statements contained in this Form 10-Q/A and is detailed below.

Amounts as originally reported and as restated on the Consolidated Balance Sheets are as follows:

($ in millions)	February 29, 2004	
	As previously reported	As Restated
Deferred income tax assets	$ 198.4	$ 205.0
Retained earnings (deficit)	$ 13.3	$ 19.9
Total shareholders equity	$ 1,330.0	$ 1,336.6

Amounts as originally reported and as restated on the Consolidated Statements of Operations are as follows:

($ in millions except per share amounts)	Three Months Ended February 29, 2004		Six Months Ended February 29, 2004	
	As previously reported	As Restated	As previously reported	As Restated
Income tax benefit (expense)	$ (1.7)	$ 4.9	$ (16.8)	$ (10.2)
Net income	$ 0.6	$ 7.2	$ 23.2	$ 29.8
Basic earnings per share	$ 0.01	$ 0.07	$ 0.23	$ 0.30
Diluted earnings per share	$ 0.01	$ 0.07	$ 0.23	$ 0.29

Note 2 Accounts receivable and revenue

Trade accounts receivable as of February 29, 2004 are net of $589.4 million (August 31, 2003 $527.9 million) of allowances for uncompensated care and contractual allowances in the Company s Healthcare Transportation and Emergency Management business segments (the Healthcare Businesses) and net of an allowance for doubtful accounts of $6.4 million (August 31, 2003 $5.6 million) in the Company s other three reportable segments.

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Note 3 Intangible assets

The contracts and customer relationships are net of $13.5 million of accumulated amortization at February 29, 2004 (August 31, 2003 $4.5 million).

Included in deferred charges and other assets are radio frequency licenses totalling $12.0 million at February 29, 2004 (August 31, 2003 $12.0 million). The licenses are considered to be assets with indefinite lives and as such, are not amortized.

Note 4 Long-term debt and interest rate swap

In December 2003, the Company modified the terms of its $625.0 million loan maturing in June 2009 (the Term B Facility). The interest rate charged on the loan was reduced by 1.25%, to LIBOR plus 3.75% from LIBOR plus 5.0%. Additionally, the LIBOR floor or minimum LIBOR rate was reduced 0.25% to 1.75% from the previous floor of 2.0%. Additionally, the Company entered into an interest rate swap agreement (Swap) that effectively converted $110 million of Term B Facility floating rate debt to fixed rate debt with an interest rate of 6.8%. The Swap was entered into because the Company is required, under the Term B Facility, to have a fixed interest rate on a portion of the underlying debt. The Swap is considered a cash flow hedge and expires in September 2006.

Note 5 Stock awards and options

Pursuant to the Company s 2003 Equity and Performance Incentive Plan the Company issued stock based compensation to various employees and non-employee directors. These grants to employees represent the long-term incentive portion of the Company s overall compensation plan for management. During the six month period ended February 29, 2004, the Company recorded an expense of approximately $0.8 million related to these plans. The Company accounts for these grants pursuant to Statement of Financial Accounting Standards (SFAS) 123 Accounting for Stock-Based Compensation . A summary of stock based compensation issued during the current fiscal year is as follows:

Stock options - On September 10, 2003, the Company issued 57,375 non-qualified stock options to non-employee directors with a strike price of $10.33 per share, which was equal to the fair market value of the Company s stock at the date of grant. The stock options have a ten-year life and vest ratably over three years.

Stock options and tandem stock appreciation rights During the six month period ended February 29, 2004, the Company issued 366,000 non-qualified stock options to key management employees with a strike price of between $13.00 and $14.60 per share, which was equal to the fair market value of the Company s stock at the date of grant. The stock options have a ten-year life and vest ratably over three years. In tandem with the stock option grant each participant received a stock appreciation right which allows the participant to receive, upon exercise of the right, the difference between the option strike price and fair market value of the Company s stock on the exercise date. The Company can choose whether to deliver Company common stock or cash to the participant upon exercise of the stock appreciation right. Any exercise of a tandem stock appreciation right will automatically cancel the underlying stock option and any exercise of the stock option will automatically cancel the tandem stock appreciation right.

Restricted Shares On September 10, 2003, the Company issued 28,688 shares of restricted common stock to non-employee directors that vest at the end of a three-year period. During the vesting period the participant has the rights of a shareholder in terms of voting and dividend rights but is restricted from transferring the shares.

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Deferred Shares During the six month period ended February 29, 2004, the Company issued 781,400 deferred shares to key management employees that vest ratably over a four-year period. Due to forfeitures, 773,250 deferred shares remain outstanding at February 29, 2004. On each vesting date the employee will receive common stock of the Company equal in number to the deferred shares that have vested. Upon delivery of the Company common stock an equal number of deferred shares are terminated. The participant has no voting rights with the deferred shares.

Note 6 Material contingencies

Ability of Greyhound Lines to continue as a going concern

Based upon the current financial forecast for Greyhound Lines, Inc. (Greyhound Lines) management is unable to predict with reasonable assurance whether Greyhound Lines will remain in compliance with all of the terms of its revolving credit facility (the Greyhound Facility). Additionally, there is less than one year until the October 24, 2004, expiration of the Greyhound Facility. Greyhound Lines intends to enter into discussions to extend the maturity and to modify certain of the other terms of the agreement. As of February 29, 2004, Greyhound Lines was in compliance with all covenants under the Greyhound Facility and had $5.0 million of cash borrowings, issued letters of credit of $56.6 million and availability of $56.8 million. However, Greyhound Lines may not be able to access such availability if an event of default exists. In addition, if an event of default occurs and is continuing, the lenders may seek to enforce remedies under the Greyhound Facility, including terminating the commitment to make loans or issue letters of credit, holding cash collateral for payment of Greyhound Lines obligations under the Greyhound Facility and selling the collateral. Furthermore, an event of default under the Greyhound Facility may result in cross-defaults under other debt instruments of Greyhound Lines and its subsidiaries.

Although Greyhound Lines has been successful in obtaining necessary extensions and modifications to the Greyhound Facility in the past, there can be no assurances that they will obtain them in the future or that the cost of any future extensions, modifications or other changes in the terms of the Greyhound Facility would not have a material effect on Greyhound Lines or the Company. In the event that the parties are unable to agree on an extension of the facility beyond its current maturity date, and that modifications suitable to the parties are not obtained, Greyhound Lines will be required to seek a replacement for the Greyhound Facility from other financing sources. Should alternate sources of financing not be available, then Greyhound Lines may not be able to satisfy its obligations as they become due and may not be able to continue as a going concern. If the going concern basis on which Greyhound Lines consolidated financial statements were prepared was not appropriate for those 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 balance sheet classifications used by Greyhound Lines. Accordingly, if such changes were made to Greyhound Lines consolidated financial statements, significant adjustments would be required to the Company s consolidated financial statements.

Compliance by the Company with the financial and other covenants in its senior secured credit facility is generally not dependent on the financial results or financial condition of Greyhound Lines, as Greyhound Lines performance has been excluded for purposes of determining compliance with such provisions. Moreover, consistent with the intent to exclude events solely related to Greyhound Lines, the Company s senior secured credit facility specifies that a default by Greyhound Lines under the Greyhound Facility or a bankruptcy filing by Greyhound Lines would not be an event of default under the Company s senior secured credit facility. In addition, in January 2004, the Company amended its senior secured credit facility to clarify that an event of default is not triggered under the Company s controlled group liabilities under ERISA with

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respect to Greyhound Lines pension plans in the context of a Greyhound Lines bankruptcy filing.

Should Greyhound Lines be unable to continue as a going concern, the Company may be required to honor certain of Greyhound Lines lease commitments and pension obligations. The Company s management believes that any required expenditures with respect to such liabilities would not materially impact the Company s financial condition.

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 previous tax filings. It is not possible at this time to predict the final outcome of these audits or to establish a reasonable estimate of possible additional taxes owing, if any.

Legal proceedings

The Company is a defendant in various lawsuits arising in the ordinary course of business, primarily cases involving personal injury and property damage claims and employment related claims. Based on the Company s assessment of known claims and the 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 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. For additional information on the Company s legal proceedings, refer to Item 1, Part II of this Form 10-Q.

Healthcare Businesses Issues

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. Management believes that the outcome of any of these investigations would not have a materially adverse effect upon the Company s consolidated financial position or results of operations.

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Contingent bonuses

The Company and two of its subsidiaries, American Medical Response, Inc. (AMR) and EmCare Holdings, Inc. (EmCare) are parties to an employment agreement effective October 1, 2002 with William A. Sanger under which Mr. Sanger serves as President and Chief Executive Officer of AMR and Chief Executive Officer of EmCare. Pursuant to the agreement, Mr. Sanger is entitled to a bonus payment upon a sale, or an initial public offering, of the stock of AMR and/or EmCare. This bonus is also payable if Mr. Sanger remains employed on October 1, 2007 and neither a sale nor initial public offering has occurred. With respect to AMR, the bonus is equal to 5% of the enterprise value of AMR in excess of $410 million at the time of the event that entitles Mr. Sanger to the payment. With respect to EmCare, the bonus is equal to 5% of the enterprise value of EmCare in excess of $125 million at the time of the event that entitles Mr. Sanger to the payment.

EmCare is party to an employment agreement effective April 1, 2003 with Don S. Harvey under which Mr. Harvey serves as President and Chief Operating Officer of EmCare. Pursuant to the agreement, Mr. Harvey is entitled to a bonus payment upon a sale, or an initial public offering, of the stock of EmCare provided Mr. Harvey remains employed under the agreement upon the occurrence of such event. The bonus is equal to 2% of the enterprise value of EmCare in excess of $125 million at the time of the event that entitles Mr. Harvey to the payment.

Organized strikes and work stoppages by unionized employees

The Company is party to collective bargaining agreements that cover the majority of its employees with the largest agreement between Greyhound Lines and the Amalgamated Transit Union (ATU). The ATU agreement covers the drivers and maintenance employees of Greyhound Lines and had an expiration date of January 31, 2004. During January 2004, Greyhound Lines and the ATU tentatively agreed to a new bargaining agreement. This agreement was submitted to the membership of the ATU for ratification and on March 26, 2004, the members of the ATU ratified the new agreement, which expires on January 31, 2007.

Note 7 Cumulative effect of a change in accounting principle

Effective September 1, 2002, the Predecessor Company adopted SFAS 142 and, as a result, the Predecessor Company ceased to amortize goodwill. 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 Predecessor Company utilized independent valuations of the underlying businesses.

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

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Note 8 Segmented information

The Company has five reportable segments: Education services, Public Transit services, Greyhound, Healthcare Transportation services and Emergency Management services. Revenues and operating income before depreciation and amortization of the segments for the three and six month periods ended February 29, 2004 and February 28, 2003 are as follows:

($ in millions)	**Three Months Ended February 29, 2004**	Predecessor Company Three Months Ended February 28, 2003	**Six Months Ended February 29, 2004**	Predecessor Company Six Months Ended February 28, 2003
Education services				
Revenue	$ 394.8	$ 400.8	$ 850.5	$ 857.0
Operating income before depreciation and amortization	75.7	79.3	185.2	185.9
Public Transit services				
Revenue	$ 72.5	$ 68.6	$ 144.6	$ 139.2
Operating income (loss) before depreciation and amortization	(4.8)	1.8	(4.3)	1.7
Greyhound				
Revenue	$ 294.3	$ 281.7	$ 581.4	$ 556.1
Operating income before depreciation and amortization	12.1	3.9	22.7	2.4
Healthcare Transportation services				
Revenue	$ 262.4	$ 252.0	$ 524.4	$ 499.5
Operating income before depreciation and amortization	22.4	18.2	41.4	37.3
Emergency Management services				
Revenue	$ 138.5	$ 117.6	$ 271.9	$ 231.1
Operating income before depreciation and amortization	9.7	6.6	20.3	14.6
Consolidated Total				
Revenue	$ 1,162.5	$ 1,120.7	$ 2,372.8	$ 2,282.9
Operating income before depreciation and amortization	115.1	109.8	265.3	241.9
Depreciation and amortization expense	73.7	75.7	154.4	152.1
Operating income	41.4	34.1	110.9	89.8

Interest expense		(34.6)		(6.5)		(67.3)		(13.0)
Other expenses, net		(4.5)		(9.9)		(3.6)		(16.6)
Income tax benefit (expense)		4.9		(1.5)		(10.2)		(3.0)
Income before cumulative effect of a change in accounting principle	$	7.2	$	16.2	$	29.8	$	57.2

The Company s goodwill balance of $183.1 million (August 31, 2003 $183.1 million) is composed of goodwill from the Education services segment.

Total identifiable assets for each of the reportable segments have not changed materially since August 31, 2003.

Note 9 Condensed financial statements of restricted subsidiaries

Pursuant to the terms of the Company s $406.0 million Senior Notes, the Company is required to segregate the consolidated results of operations between the subsidiaries of the Company that are not a party to the agreement, which are comprised of the U.S. based businesses in the Greyhound segment (the Unrestricted Subsidiaries), and the Company and its remaining subsidiaries (the Restricted Subsidiaries).

Condensed Consolidated Statement of Operations
Three Months Ended February 29, 2004

($ millions)	Restricted Subsidiaries	Unrestricted Subsidiaries	Consolidated Totals
Revenue	$ 929.5	$ 233.0	$ 1,162.5
Compensation expense	575.8	103.3	679.1
Accident claims and professional liability expenses	58.4	19.1	77.5
Vehicle related costs	35.6	33.2	68.8
Occupancy costs	31.5	19.8	51.3
Fuel	30.7	14.6	45.3
Depreciation	58.5	10.6	69.1
Amortization	4.6		4.6
Other operating expenses	89.8	35.6	125.4
Operating income (loss)	44.6	(3.2)	41.4
Interest expense	(26.4)	(8.2)	(34.6)
Other expenses, net	(3.9)	(0.6)	(4.5)
Income (loss) before income taxes	14.3	(12.0)	2.3
Income tax benefit (expense)	(0.3)	5.2	4.9
Net income (loss)	$ 14.0	$ (6.8)	$ 7.2

Condensed Consolidated Statement of Operations
Six Months Ended February 29, 2004

($ millions)	Restricted Subsidiaries	Unrestricted Subsidiaries	Consolidated Totals
Revenue	$ 1,909.6	$ 463.2	$ 2,372.8
Compensation expense	1,159.6	204.5	1,364.1
Accident claims and professional liability expenses	131.4	35.7	167.1
Vehicle related costs	71.1	67.6	138.7
Occupancy costs	61.6	39.6	101.2

Fuel	61.6	28.1	89.7
Depreciation	124.1	21.1	145.2
Amortization	9.2		9.2
Other operating expenses	175.2	71.5	246.7
Operating income (loss)	115.8	(4.9)	110.9
Interest expense	(51.7)	(15.6)	(67.3)
Other expenses, net	(3.4)	(0.2)	(3.6)
Income (loss) before income taxes	60.7	(20.7)	40.0
Income tax benefit (expense)	(18.9)	8.7	(10.2)
Net income (loss)	$ 41.8	$ (12.0)	$ 29.8

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Predecessor Company
Condensed Consolidated Statement of Operations
Three Months Ended February 28, 2003

($ millions)	Restricted Subsidiaries	Unrestricted Subsidiaries	Consolidated Totals
Revenue	$ 888.7	$ 232.0	$ 1,120.7
Compensation expense	542.6	109.1	651.7
Accident claims and professional liability expenses	53.5	19.9	73.4
Vehicle related costs	33.0	34.1	67.1
Occupancy costs	32.6	20.0	52.6
Fuel	28.8	14.7	43.5
Depreciation	63.7	11.7	75.4
Amortization	0.3		0.3
Other operating expenses	84.7	37.9	122.6
Operating income (loss)	49.5	(15.4)	34.1
Interest expense	(0.1)	(6.4)	(6.5)
Other income (expense), net	(10.5)	0.6	(9.9)
Income (loss) before income taxes	38.9	(21.2)	17.7
Income tax expense	(1.2)	(0.3)	(1.5)
Net income (loss)	$ 37.7	$ (21.5)	$ (16.2)

Predecessor Company
Condensed Consolidated Statement of Operations
Six Months Ended February 28, 2003

($ millions)	Restricted Subsidiaries	Unrestricted Subsidiaries	Consolidated Totals
Revenue	$ 1,824.6	$ 458.3	$ 2,282.9
Compensation expense	1,092.8	217.0	1,309.8
Accident claims and professional liability expenses	134.1	35.9	170.0
Vehicle related costs	68.0	65.6	133.6
Occupancy costs	62.1	39.1	101.2
Fuel	58.1	28.9	87.0
Depreciation	127.7	23.9	151.6
Amortization	0.5		0.5
Other operating expenses	164.7	74.7	239.4
Operating income (loss)	116.6	(26.8)	89.8
Interest expense	(1.5)	(11.5)	(13.0)

Other income (expense), net	(17.2)	0.6	(16.6)
Income (loss) before income taxes and cumulative effect of a change in accounting principle	97.9	(37.7)	60.2
Income tax expense	(2.3)	(0.7)	(3.0)
Income (loss) from operations before cumulative effect of a change in accounting principle	$ 95.6	$ (38.4)	$ 57.2
Cumulative effect of a change in accounting principle	(1,775.9)	(429.5)	(2,205.4)
Net loss	$ (1,680.3)	$ (467.9)	$ (2,148.2)

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Condensed Consolidated Statement of Cash Flows
Three Months Ended February 29, 2004

($ millions)	Restricted Subsidiaries	Unrestricted Subsidiaries	Consolidated Totals
Net cash provided by operating activities	$ 127.4	$ 18.8	$ 146.2
Cash flows from investing activities:			
Purchase of property, equipment and other assets, net of proceeds from sale	$ (57.7)	$ (8.1)	$ (65.8)
Expended on acquisitions	(1.3)		(1.3)
Net (increase) decrease in investments	(1.1)	0.7	(0.4)
Net cash used in investing activities	$ (60.1)	$ (7.4)	$ (67.5)
Cash flows from financing activities:			
Net decrease in long-term debt and other long-term liabilities	$ (49.0)	$ (11.7)	$ (60.7)
Net cash used in financing activities	$ (49.0)	$ (11.7)	$ (60.7)
Net increase (decrease) in cash and cash equivalents	$ 18.3	$ (0.3)	$ 18.0
Cash and cash equivalents at:			
Beginning of period	55.5	19.6	75.1
End of period	$ 73.8	$ 19.3	$ 93.1

Condensed Consolidated Statement of Cash Flows
Six Months Ended February 29, 2004

($ millions)	Restricted Subsidiaries	Unrestricted Subsidiaries	Consolidated Totals
Net cash provided by operating activities	$ 77.6	$ 17.0	$ 94.6
Cash flows from investing activities:			
Purchase of property, equipment and other assets, net of proceeds from sale	$ (90.5)	$ (14.6)	$ (105.1)
Expended on acquisitions	(1.3)		(1.3)
Net increase in investments	(7.1)	(1.0)	(8.1)
Net cash used in investing activities	$ (98.9)	$ (15.6)	$ (114.5)

Cash flows from financing activities:						
Net increase (decrease) in long-term debt and other long-term liabilities	$	40.0	$	(27.3)	$	12.7
Net cash provided by (used in) financing activities	$	40.0	$	(27.3)	$	12.7
Net increase (decrease) in cash and cash equivalents	$	18.7	$	(25.9)	$	(7.2)
Cash and cash equivalents at:						
Beginning of period		55.1		45.2		100.3
End of period	$	73.8	$	19.3	$	93.1

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Predecessor Company
Condensed Consolidated Statement of Cash Flows
Three Months Ended February 28, 2003

($ millions)	Restricted Subsidiaries	Unrestricted Subsidiaries	Consolidated Totals
Net cash provided by (used in) operating activities	$ 93.7	$ (21.5)	$ 72.2
Cash flows from investing activities:			
Purchase of property, equipment and other assets, net of proceeds from sale	$ (38.8)	$ 1.9	$ (36.9)
Net (increase) decrease in investments	(25.5)	0.2	(25.3)
Net cash provided by (used in) investing activities	$ (64.3)	$ 2.1	$ (62.2)
Cash flows from financing activities:			
Net increase (decrease) in long-term debt and other non-current liabilities	$ (3.2)	$ 15.6	$ 12.4
Net cash provided by (used in) financing activities	$ (3.2)	$ 15.6	$ 12.4
Net increase (decrease) in cash and cash equivalents	$ 26.2	$ (3.8)	$ 22.4
Cash and cash equivalents at:			
Beginning of period	240.6	17.6	258.2
End of period	$ 266.8	$ 13.8	$ 280.6

Predecessor Company
Condensed Consolidated Statement of Cash Flows
Six Months Ended February 28, 2003

($ millions)	Restricted Subsidiaries	Unrestricted Subsidiaries	Consolidated Totals
Net cash provided by operating activities	$ 60.0	$ 4.1	$ 64.1
Cash flows from investing activities:			
	$ (73.8)	$ (30.7)	$ (104.5)

Purchase of property, equipment and other assets, net of proceeds from sale						
Expended on acquisitions		(3.2)				(3.2)
Net increase in investments		(33.5)		(0.8)		(34.3)
Net cash used in investing activities	$	(110.5)	$	(31.5)	$	(142.0)
Cash flows from financing activities:						
Net increase (decrease) in long-term debt and other non-current liabilities	$	(6.5)	$	21.5	$	15.0
Net cash provided by (used in) financing activities	$	(6.5)	$	21.5	$	15.0
Net decrease in cash and cash equivalents	$	(57.0)	$	(5.9)	$	(62.9)
Cash and cash equivalents at:						
Beginning of period		323.8		19.7		343.5
End of period	$	266.8	$	13.8	$	280.6

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Condensed Consolidated Balance Sheet
February 29, 2004

($ millions)	Restricted Subsidiaries	Unrestricted Subsidiaries	Consolidated Totals
Current assets			
Cash and cash equivalents	$ 73.8	$ 19.3	$ 93.1
Restricted cash and cash equivalents	64.8		64.8
Short-term deposits and marketable securities	12.8		12.8
Accounts receivable	677.8	37.6	715.4
Parts and supplies	38.9	11.3	50.2
Deferred income tax assets	63.2	14.1	77.3
Other current assets	52.3	14.1	66.4
Total current assets	983.6	96.4	1,080.0
Long-term investments	532.4	40.5	572.9
Property and equipment	1,268.3	371.6	1,639.9
Goodwill	183.1		183.1
Contracts and customer relationships	208.9		208.9
Deferred income tax assets	87.1	117.9	205.0
Deferred charges and other assets	65.6	9.9	75.5
Total assets	$ 3,329.0	$ 636.3	$ 3,965.3
Current liabilities			
Accounts payable	$ 98.9	$ 24.9	$ 123.8
Accrued liabilities	367.9	121.5	489.4
Current portion of long-term debt	34.8	13.7	48.5
Total current liabilities	501.6	160.1	661.7
Long-term debt	1,056.4	129.0	1,185.4
Pension liability	3.5	222.7	226.2
Other long-term liabilities	465.3	90.1	555.4
Total liabilities	2,026.8	601.9	2,628.7
Shareholders equity	1,302.2	34.4	1,336.6
Total liabilities and shareholders equity	$ 3,329.0	$ 636.3	$ 3,965.3

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Condensed Consolidated Balance Sheet
As of August 31, 2003

($ millions)	Restricted Subsidiaries	Unrestricted Subsidiaries	Consolidated Totals
Current assets			
Cash and cash equivalents	$ 55.1	$ 45.2	$ 100.3
Restricted cash and cash equivalents	39.4		39.4
Short-term deposits and marketable securities	42.0		42.0
Accounts receivable	528.8	41.0	569.8
Parts and supplies	38.2	12.0	50.2
Deferred income tax assets	76.1	10.1	86.2
Other current assets	50.1	10.0	60.1
Total current assets	829.7	118.3	948.0
Long-term investments	514.1	39.4	553.5
Property and equipment	1,291.2	378.6	1,669.8
Goodwill	183.1		183.1
Contracts and customer relationships	216.9		216.9
Deferred income tax assets	88.3	114.9	203.2
Deferred charges and other assets	66.9	11.3	78.2
Total assets	$ 3,190.2	$ 662.5	$ 3,852.7
Current liabilities			
Accounts payable	$ 87.7	$ 31.7	$ 119.4
Accrued liabilities	397.3	108.7	506.0
Current portion of long-term debt	35.7	33.7	69.4
Total current liabilities	520.7	174.1	694.8
Long-term debt	1,012.5	132.6	1,145.1
Pension liability	4.9	220.8	225.7
Other long-term liabilities	408.2	88.6	496.8
Total liabilities	1,946.3	616.1	2,562.4
Shareholders equity	1,243.9	46.4	1,290.3
Total liabilities and shareholders equity	$ 3,190.2	$ 662.5	$ 3,852.7

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Note 10 Guarantors of Senior Notes

The Company s $406.0 million Senior Notes are guaranteed by the Company s subsidiaries, except for the Unrestricted Subsidiaries, the Canadian subsidiaries and any of the Company s insurance subsidiaries. The condensed consolidated financial statements for the guarantors, the non-guarantors and the parent company (reported as the Company and as the Predecessor Company for historical purposes) are as follows:

Condensed Consolidated Statement of Operations
Three months ended February 29, 2004

($ millions)	Parent Company	Guarantors	Non-Guarantors	Eliminations	Consolidated Totals
Revenue	$	$ 822.9	$ 339.6	$	$ 1,162.5
Operating, selling, general and administrative expenses	0.5	731.3	315.6		1,047.4
Depreciation and amortization expense		55.2	18.5		73.7
Intercompany management fees (income)		(2.0)	2.0		
Operating income (loss)	(0.5)	38.4	3.5		41.4
Interest expense	(24.1)	(2.8)	(7.7)		(34.6)
Intercompany interest income (expense)	(1.1)	1.7	(0.6)		
Other income (expense), net	(4.2)	0.3	(0.6)		(4.5)
Equity in earnings (loss) of intercompany investments	17.4	(6.1)		(11.3)	
Income (loss) before income taxes	(12.5)	31.5	(5.4)	(11.3)	2.3
Income tax benfit (expense)	13.1	(17.2)	9.0		4.9
Net income (loss)	$ 0.6	$ 14.3	$ 3.6	$ (11.3)	$ 7.2

Condensed Consolidated Statement of Operations
Six months ended February 29, 2004

($ millions)	Parent Company	Guarantors	Non-Guarantors	Eliminations	Consolidated Totals
Revenue	$	$ 1,695.4	$ 677.4	$	$ 2,372.8

Operating, selling, general and administrative expenses	0.5	1,474.6	632.4		2,107.5
Depreciation and amortization expense		115.4	39.0		154.4
Intercompany management fees (income)		(2.8)	2.8		
Operating income (loss)	(0.5)	108.2	3.2		110.9
Interest expense	(49.5)	(3.2)	(14.6)		(67.3)
Intercompany interest income (expense)	(1.6)	2.8	(1.2)		
Other income (expenses), net	(3.9)	0.6	(0.3)		(3.6)
Equity in earnings (loss) of intercompany investments	55.4	(12.0)		(43.4)	
Income (loss) before income taxes	(0.1)	96.4	(12.9)	(43.4)	40.0
Income tax recovery (expense)	23.3	(45.5)	12.0		(10.2)
Net income (loss)	$ 23.2	$ 50.9	$ (0.9)	$ (43.4)	$ 29.8

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Predecessor Company
Condensed Consolidated Statement of Operations
Three months ended February 28, 2003

($ millions)	Parent Company	Guarantors	Non-Guarantors	Eliminations	Consolidated Totals
Revenue	$	$ 801.6	$ 319.1	$	$ 1,120.7
Operating, selling, general and administrative expenses	6.1	700.4	304.4		1,010.9
Depreciation and amortization expense		54.6	21.1		75.7
Intercompany management fees (income)	(12.4)	9.1	3.3		
Operating income (loss), net	6.3	37.5	(9.7)		34.1
Interest expense		(1.2)	(5.3)		(6.5)
Intercompany interest income (expense)		0.5	(0.5)		
Other income (expense)	(8.3)	(1.7)	0.1		(9.9)
Equity in earnings (loss) of intercompany investments	18.3	(15.6)		(2.7)	
Income (loss) before income taxes	16.3	19.5	(15.4)	(2.7)	17.7
Income tax expense	(0.1)	(0.8)	(0.6)		(1.5)
Net income (loss)	$ 16.2	$ 18.7	$ (16.0)	$ (2.7)	$ 16.2

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

($ millions)	Parent Company	Guarantors	Non-Guarantors	Eliminations	Consolidated Totals
Revenue	$	$ 1,647.5	$ 635.4	$	$ 2,282.9
Operating, selling, general and administrative expenses	9.1	1,409.7	622.2		2,041.0
Depreciation and amortization expense	0.1	109.7	42.3		152.1
Intercompany management fees (income)	(31.6)	24.6	7.0		
Operating income (loss)	22.4	103.5	(36.1)		89.8
Interest expense		(2.6)	(10.4)		(13.0)
		1.1	(1.1)		

Intercompany interest income (expense)					
Other income (expense), net	(13.6)	(3.7)	0.7		(16.6)
Equity in earnings (loss) of intercompany investments	48.7	(32.5)		(16.2)	
Income (loss) before income taxes	57.5	65.8	(46.9)	(16.2)	60.2
Income tax expense	(0.3)	(1.5)	(1.2)		(3.0)
Income (loss) before cumulative effect of a change in accounting principle	57.2	64.3	(48.1)	(16.2)	57.2
Cumulative effect of a change in accounting principle		(1,668.0)	(537.4)		(2,205.4)
Equity in loss from cumulative effect of a change in accounting principle of intercompany investments	(2,205.4)	(429.5)		2,634.9	
Net income (loss)	$(2,148.2)	$ (2,033.2)	$ (585.5)	$ 2,618.7	$ (2,148.2)

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Condensed Consolidated Statement of Cash Flows
Three months ended February 29, 2004

($ millions)	Parent Company	Guarantors	Non-Guarantors	Consolidated Totals
Net cash provided by (used in) operating activities	$ (42.7)	$ 117.0	$ 71.9	$ 146.2
Cash flows from investing activities:				
Purchases of property, equipment and other assets, net of proceeds from sale	$	$ (43.0)	$ (22.8)	$ (65.8)
Expended on acquisitions			(1.3)	(1.3)
Net decrease (increase) in investments	(0.9)	30.1	(29.6)	(0.4)
Net cash used in investing activities	$ (0.9)	$ (12.9)	$ (53.7)	$ (67.5)
Cash flows from financing activities:				
Net increase (decrease) in long-term debt and other long-term liabilities	$ (40.1)	$ 0.9	$ (21.5)	$ (60.7)
Increase (decrease) in intercompany advances	103.5	(111.7)	8.2	
Net cash provided by (used in) financing activities	$ 63.4	$ (110.8)	$ (13.3)	$ (60.7)
Net increase (decrease) in cash and cash equivalents	$ 19.8	$ (6.7)	$ 4.9	$ 18.0
Cash and cash equivalents at:				
Beginning of period	18.9	27.7	28.5	75.1
End of period	$ 38.7	$ 21.0	$ 33.4	$ 93.1

Condensed Consolidated Statement of Cash Flows
Six months ended February 29, 2004

($ millions)	Parent Company	Guarantors	Non-Guarantors	Consolidated Totals

Net cash provided by (used in) operating activities	$	(61.6)	$	35.2	$	121.0	$	94.6
Cash flows from investing activities:								
Purchases of property, equipment and other assets, net of proceeds from sale	$		$	(56.7)	$	(48.4)	$	(105.1)
Expended on acquisitions						(1.3)		(1.3)
Net decrease (increase) in investments		0.7		31.3		(40.1)		(8.1)
Net cash used in investing activities	$	0.7	$	(25.4)	$	(89.8)	$	(114.5)
Cash flows from financing activities:								
Net increase (decrease) in long-term debt and other long-term liabilities	$	43.7	$	(2.7)	$	(28.3)	$	12.7
Increase (decrease) in intercompany advances		15.1		10.1		(25.2)		
Net cash provided by (used in) financing activities	$	58.8	$	7.4	$	(53.5)	$	12.7
Net increase (decrease) in cash and cash equivalents	$	(2.1)	$	17.2	$	(22.3)	$	(7.2)
Cash and cash equivalents at:								
Beginning of period		40.8		3.8		55.7		100.3
End of period	$	38.7	$	21.0	$	33.4	$	93.1

Predecessor Company
Condensed Consolidated Statement of Cash Flows
Three months ended February 28, 2003

($ millions)	Parent Company	Guarantors	Non-Guarantors	Consolidated Totals
Net cash provided by operating activities	$ 15.3	$ 53.0	$ 3.9	$ 72.2
Cash flows from investing activities:				
Purchases of property, equipment and other assets, net of proceeds from sale	$	$ (33.5)	$ (3.4)	$ (36.9)
Net decrease (increase) in investments	0.3	(10.0)	(15.6)	(25.3)
Net cash provided by (used in) investing activities	$ 0.3	$ (43.5)	$ (19.0)	$ (62.2)
Cash flows from financing activities:				
Net increase (decrease) in long-term debt and other long-term liabilities	$	$ (3.7)	$ 16.1	$ 12.4
Net cash provided by (used in) financing activities	$	$ (3.7)	$ 16.1	$ 12.4
Net increase in cash and cash equivalents	$ 15.6	$ 5.8	$ 1.0	$ 22.4
Cash and cash equivalents at:				
Beginning of period	17.8	210.6	29.8	258.2
End of period	$ 33.4	$ 216.4	$ 30.8	$ 280.6

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

($ millions)	Parent Company	Guarantors	Non-Guarantors	Consolidated Totals

Net cash provided by operating activities	$	20.7	$	10.9	$	32.5	$	64.1
Cash flows from investing activities:								
Purchases of property, equipment and other assets, net of proceeds from sale	$		$	(57.9)	$	(46.6)	$	(104.5)
Expended on acquisitions				(3.2)				(3.2)
Net decrease (increase) in investments		0.7		(19.5)		(15.5)		(34.3)
Net cash provided by (used in) investing activities	$	0.7	$	(80.6)	$	(62.1)	$	(142.0)
Cash flows from financing activities:								
Net increase (decrease) in long-term debt and other long-term liabilities	$		$	(5.2)	$	20.2	$	15.0
Net cash provided by (used in) financing activities	$		$	(5.2)	$	20.2	$	15.0
Net increase (decrease) in cash and cash equivalents	$	21.4	$	(74.9)	$	(9.4)	$	(62.9)
Cash and cash equivalents at:								
Beginning of period		12.0		291.3		40.2		343.5
End of period	$	33.4	$	216.4	$	30.8	$	280.6

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Condensed Consolidated Balance Sheet
As of February 29, 2004

($ millions)	Parent Company	Guarantors	Non-Guarantors	Eliminations	Consolidated Totals
Current assets	$ 40.3	$ 805.9	$ 233.8	$	$ 1,080.0
Intercompany receivables (payables) and investments	2,156.2	5.2	26.6	(2,188.0)	
Long-term investments	109.7	97.3	365.9		572.9
Property and equipment		966.4	673.5		1,639.9
Goodwill		183.1			183.1
Contracts and customer relationships		208.1	0.8		208.9
Long-term deferred income tax assets	61.9		187.9	(44.8)	205.0
Deferred charges and other assets	45.3	20.2	10.0		75.5
	$ 2,413.4	$ 2,286.2	$ 1,498.5	$ (2,232.8)	$ 3,965.3
Current liabilities	$ 39.9	$ 275.9	$ 345.9	$	$ 661.7
Non-current liabilities	1,043.5	182.5	785.8	(44.8)	1,967.0
Shareholders equity	1,330.0	1,827.8	366.8	(2,188.0)	1,336.6
	$ 2,413.4	$ 2,286.2	$ 1,498.5	$ (2,232.8)	$ 3,965.3

Condensed Consolidated Balance Sheet
As of August 31, 2003

($ millions)	Parent Company	Guarantors	Non-Guarantors	Eliminations	Consolidated Totals
Current assets	$ 44.0	$ 662.7	$ 241.3	$	$ 948.0
Intercompany receivables and investments	2,083.4	25.9	18.8	(2,128.1)	
Long-term investments	110.3	129.0	314.2		553.5
Property and equipment		1,015.7	654.1		1,669.8
Goodwill		183.1			183.1
Contracts and customer relationships		216.8	0.1		216.9
Long-term deferred income tax assets	49.1		183.9	(29.8)	203.2

Deferred charges and other assets	46.5	20.2	11.5		78.2
	$ 2,333.3	$ 2,253.4	$ 1,423.9	$ (2,157.9)	$ 3,852.7
Current liabilities	$ 44.1	$ 296.7	$ 354.0	$	$ 694.8
Non-current liabilities	998.9	180.6	717.9	(29.8)	1,867.6
Shareholders equity	1,290.3	1,776.1	352.0	(2,128.1)	1,290.3
	$ 2,333.3	$ 2,253.4	$ 1,423.9	$ (2,157.9)	$ 3,852.7

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

Corporate overview

The following discussion and analysis presents factors which affected the Company s consolidated results of operations for the three and six month periods ended February 29, 2004 as compared to the three and six month periods ended February 28, 2003 and the Company s consolidated financial position at February 29, 2004. The following information should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in this Form 10-Q and in the Company s Form 10-K for the year ended August 31, 2003.

We operate in five reportable segments: Education services, Public Transit services, Greyhound, Healthcare Transportation services and Emergency Management services. See Note 8 Segmented Information of Notes to Consolidated Financial Statements in this Report.

Pursuant to the terms of the Company s $406.0 million Senior Notes, the Company is required to segregate the consolidated results of operations between the Restricted and Unrestricted Subsidiaries as defined in Note 9 Condensed financial statements of restricted subsidiaries of the Notes to the Consolidated Financial Statements included in this Report.

Results of Operations

As discussed in Note 1 Corporate overview and basis of presentation of the Notes to the Consolidated Financial Statements included in this Report, we adopted fresh start accounting effective June 1, 2003 and our results of operations and cash flows have been separated as pre-June 1 and post-May 31, 2003 due to a change in basis of accounting in the underlying assets and liabilities. For purposes of the following discussion, we refer to our results prior to June 1, 2003 as results for the Predecessor Company and we refer to our results after May 31, 2003 as results for the Company. However, for the reasons described in Note 1 and due to other non-recurring adjustments, the Predecessor Company s financial statements for the periods prior to our emergence from bankruptcy may not be comparable to the Company s financial statements. Readers should, therefore, review this material with caution and not rely on the information concerning the Predecessor Company as being indicative of our future results or providing an accurate comparison of financial performance.

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Three and six month periods ended February 29, 2004 compared with the Predecessor Company three and six month periods ended February 28, 2003 results of operations

	Predecessor of Revenue			
	Three Months Ended		Six Months	
	February 29, 2004	February 28, 2003	**February 29, 2004**	February 28, 2003
Revenue	**100.0%**	100.0%	**100.0%**	100.0%
Compensation expense	**58.4**	58.2	**57.5**	57.4
Accident claims and professional liability expenses	**6.7**	6.6	**7.0**	7.4
Vehicle related costs	**5.9**	6.0	**5.8**	5.9
Occupancy costs	**4.4**	4.7	**4.3**	4.4
Fuel	**3.9**	3.9	**3.8**	3.8
Depreciation	**5.9**	6.7	**6.1**	6.7
Amortization	**0.4**		**0.4**	
Other operating expenses	**10.8**	10.9	**10.4**	10.5
Operating income	**3.6**	3.0	**4.7**	3.9
Interest expense	**(3.0)**	(0.6)	**(2.8)**	(0.6)
Other expense, net	**(0.4)**	(0.8)	**(0.2)**	(0.7)
Income before income taxes and cumulative effect of a change in accounting principle	**0.2**	1.6	**1.7**	2.6
Income tax benefit (expense)	**0.4**	(0.2)	**(0.4)**	(0.1)
Income before cumulative effect of a change in accounting principle	**0.6**	1.4	**1.3**	2.5
Cumulative effect of a change in accounting principle				(96.6)
Net income (loss)	**0.6%**	1.4%	**1.3%**	(94.1)%

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Revenue

The sources of revenue by business segment and by Restricted Subsidiaries and Unrestricted Subsidiaries are as follows ($ in millions):

	Revenue			
	Three Months ended		Six Months ended	
	February 29, 2004	February 28, 2003	**February 29, 2004**	February 28, 2003
Education services	**$ 394.8**	$ 400.8	**$ 850.5**	$ 857.0
Public Transit services	**72.5**	68.6	**144.6**	139.2
Greyhound	**294.3**	281.7	**581.4**	556.1
Healthcare Transportation services	**262.4**	252.0	**524.4**	499.5
Emergency Management services	**138.5**	117.6	**271.9**	231.1
Total	**$ 1,162.5**	$ 1,120.7	**$ 2,372.8**	$ 2,282.9
Restricted Subsidiaries	**$ 929.5**	$ 888.7	**$ 1,909.6**	$ 1,824.6
Unrestricted subsidiaries	**233.0**	232.0	**463.2**	458.3
Total	**$ 1,162.5**	$ 1,120.7	**$ 2,372.8**	$ 2,282.9

Revenue in the Education services segment decreased by 1.5% and 0.8% during the three and six months ended February 29, 2004, respectively. The effect of lost business ($28 million and $57 million during the three and six months ended February 29, 2004, respectively, of which approximately half was due to the loss of the City of Boston contract) and lost operating days due to weather ($6 million in the three and six months ended February 29, 2004) was only partially offset by new contracts, price increases and the strengthening of the Canadian currency relative to the U.S. dollar. It is anticipated that approximately $5 million of the weather related revenue losses will be recovered in the fourth quarter. Revenue would have declined 3.2% and 2.4% during the three and six months ended February 29, 2004, respectively, had there been no change in the exchange rate.

The 5.7% and 3.9% increase in revenue during the three and six months ended February 29, 2004, respectively, in the Public Transit services segment is primarily attributable to additional routes and services.

The 4.5% increase in revenue during the three and six months ended February 29, 2004, in the Greyhound segment is principally due to a favorable foreign currency exchange rate and, to a lesser extent, an increase in tour and charter revenue due to new contracts. Had there been no change in the exchange rate, revenue would have increased 1.2% and 1.4% during the three and six months ended February 29, 2004, respectively.

The 4.1% and 5.0% increase in revenue during the three and six months ended February 29, 2004, respectively, in the Healthcare Transportation services segment is primarily due to an increase in transports.

The nearly 18% increase in revenue in the Emergency Management services segment during the three and six months ended February 29, 2004, is primarily attributable to an increase in the number of patient visits from both new and existing contracts.

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The increase in the Restricted Subsidiaries revenue during the three and six months ended February 29, 2004, is primarily a result of the increase in revenue in the Healthcare Transportation services and Emergency Management services segments discussed above.

The Unrestricted Subsidiaries revenue was up slightly during the three and six months ended February 29, 2004, primarily due to an increase in tour and charter revenue due to new contracts.

EBITDA

EBITDA is presented solely as a supplemental disclosure with respect to liquidity because management believes it provides useful information regarding our ability to service or incur debt. EBITDA is not calculated the same way by all companies. We define EBITDA as income from continuing operations before interest, income taxes, depreciation, amortization, other expenses, net and cumulative effect of a change in accounting principles. EBITDA is the same as operating income before depreciation and amortization as reported for each of our segments in Note 8 Segmented information of Notes to Consolidated Financial Statements included in this Report. EBITDA is not intended to represent cash flow for the period, is not presented as an alternative to operating income as an indicator of operating performance, should not be considered in isolation or as a substitute for measures of performance prepared in accordance with generally accepted accounting principles (GAAP) and is not indicative of operating income or cash flow from operations as determined under GAAP.

The following is a reconciliation of our EBITDA to the net income (loss) and net cash used in operating activities, the GAAP measures management believes to be most directly comparable to EBITDA:

	Three Months ended		**Six Months ended**	
	February 29, 2004	February 28, 2003	**February 29, 2004**	February 28, 2003
EBITDA	**$ 115.1**	$ 109.8	**$ 265.3**	$ 241.9
Depreciation and amortization	**(73.7)**	(75.7)	**(154.4)**	(152.1)
Interest expense	**(34.6)**	(6.5)	**(67.3)**	(13.0)
Other expenses, net	**(4.5)**	(9.9)	**(3.6)**	(16.6)
Income tax benefit (expense)	**4.9**	(1.5)	**(10.2)**	(3.0)
Income before cumulative effect of a change in accounting principle	**7.2**	16.2	**29.8**	57.2
Cumulative effect of a change in accounting principle				(2,205.4)
Net income (loss)	**$ 7.2**	$ 16.2	**$ 29.8**	$ (2,148.2)

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	Three Months ended February 29, 2004	Three Months ended February 28, 2003	Six Months ended February 29, 2004	Six Months ended February 28, 2003
EBITDA	**$ 115.1**	$ 109.8	**$ 265.3**	$ 241.9
Cash paid for interest	**(39.2)**	(1.9)	**(59.4)**	(13.2)
Cash received (paid) for income taxes	**10.1**	(0.6)	**11.2**	(1.6)
Increase in claims liabilities and professional liability reserves	**28.7**	20.0	**34.5**	48.7
Cash provided by (used in) financing other working capital items	**33.3**	(26.8)	**(156.3)**	(170.6)
Increase in restricted cash and cash equivalents	**(0.6)**	(21.9)	**0.6**	(33.0)
Other	**(1.2)**	(6.4)	**(1.3)**	(8.1)
Net cash provided by operating activities	**$ 146.2**	$ 72.2	**$ 94.6**	$ 64.1
Net cash used in investing activities	**$ (67.5)**	$ (62.2)	**$ (114.5)**	$ (142.0)
Net cash provided by (used In) financing activities	**$ (60.7)**	$ 12.4	**$ 12.7**	$ 15.0

EBITDA by segment and by Restricted Subsidiaries and Unrestricted Subsidiaries is as follows ($ in millions):

	EBITDA			
	Three Months ended		Six Months ended	
	February 29, 2004	February 28, 2003	**February 29, 2004**	February 28, 2003
Education services	**$ 75.7**	$ 79.3	**$185.2**	$185.9
Public Transit services	**(4.8)**	1.8	**(4.3)**	1.7
Greyhound	**12.1**	3.9	**22.7**	2.4
Healthcare Transportation services	**22.4**	18.2	**41.4**	37.3
Emergency Management services	**9.7**	6.6	**20.3**	14.6
Total	**$ 115.1**	$ 109.8	**$265.3**	$241.9
Restricted Subsidiaries	**$ 107.7**	$ 113.5	**$249.1**	$244.8
Unrestricted Subsidiaries	**7.4**	(3.7)	**16.2**	(2.9)
Total	**$ 115.1**	$ 109.8	**$265.3**	$241.9

In the three and six months ended February 29, 2004, EBITDA in the Education services segment was $3.6 million and $0.7 million lower than the three and six months ended February 28, 2003, respectively, due to the reduced revenue from lost operating days due to weather, offset somewhat by the favorable Canadian exchange rate and, during the six-month period ended February 29, 2004, lower accident claims costs. It is anticipated that substantially all of the EBITDA lost due to weather related issues will be recovered in the fourth quarter.

In the three and six months ended February 29, 2004, EBITDA in the Public Transit services segment was $6.6 million and $6.0 million, respectively, lower than the same periods in 2003 as increased accident claims costs and driver wages more than offset increased revenue.

In the three and six months ended February 29, 2004, EBITDA in the Greyhound segment was $8.2 million and $20.3 million, respectively, better than the three and six months ended February 28, 2003. The improvement in Greyhound s EBITDA is primarily due to management s continued focus on improving revenue per mile and reducing operating costs. Increased revenue combined with a reduction in miles operated and reductions in workforce were the primary contributors to this increase.

In the three and six months ended February 29, 2004, EBITDA in the Healthcare Transportation services segment was $4.2 million and $4.1 million, respectively, higher than 2003 principally due to lower insurance costs in the second quarter. Increased revenue during the year has been largely offset by an increase in compensation expense.

The $3.1 million and $5.7 million increase in the Emergency Management Services segment EBITDA during the three and six month periods ended February 29, 2004, respectively, is primarily attributable the contribution associated with increased revenues.

In the three months ended February 29, 2004, EBITDA in the Restricted Subsidiaries was $5.8 million lower than the three months ended February 28, 2003 primarily due to the adverse results in the Education Services and Public Transit Services segments. During the six months ended February 29, 2004, EBITDA in the Restricted Subsidiaries increased $4.3 million compared to the six months ended February 28, 2003, as the improvements in the Healthcare Transportation services and Emergency Management services segments exceeded the declines in the Education services and Public Transit services segments.

In the three and six months ended February 29, 2004, EBITDA in the Unrestricted Subsidiaries was $11.1 million and $19.1 million, respectively, higher than the three and six months ended February 28, 2003 due to improved revenue per mile and reduced operating costs.

Depreciation expense

Depreciation expense for the three and six months ended February 29, 2004 decreased $6.3 million and $6.4 million, respectively, over the three and six months ended February 28, 2003, reflecting a $5.2 million and $3.6 million, respectively, decrease in depreciation for the Restricted Subsidiaries and a $1.1 million and $2.8 million, respectively, decrease in depreciation for the Unrestricted Subsidiaries. The decline in the Restricted Subsidiaries is principally due to a slight increase in the estimated useful lives of certain model school buses, while the decline in the Unrestricted Subsidiaries is principally due to the revaluation of property and equipment that occurred under fresh start accounting.

Amortization expense

Amortization expense for the three and six months ended February 29, 2004, increased $4.3 million and $8.7 million, respectively, compared to the same periods in 2003. Amortization is primarily related to customer contracts capitalized under fresh start accounting. All of the amortization expense was recorded by the Restricted Subsidiaries.

Interest expense

In the three and six months ended February 29, 2004, interest expense increased $28.1 million and $54.3 million, respectively, compared to the three and six months ended February 28, 2003. The increase is primarily due to interest incurred on long-term debt associated with our senior secured credit facility and the senior notes. No interest expense was incurred on pre-petition debt for the three and six months ended February 28, 2003. Interest expense for the Unrestricted Subsidiaries increased $1.8 million and $4.1 million, respectively, reflecting a higher effective interest rate on borrowings as a result of discounts on long-term debt recorded as fair value adjustments at fresh start.

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Other expenses, net

Other expenses, net was $4.5 million and $3.6 million in the three and six months ended February 29, 2004, respectively and primarily related to legal fees to defend former directors and officers of the Predecessor Company from shareholder and creditor lawsuits that originated prior to the Company s emergence from bankruptcy.

The $9.9 million and $16.6 million of other expenses, net in the three and six months ended February 28, 2003, respectively, was mostly due to financing, accounting, legal and consulting services incurred by the Predecessor Company during the reorganization process. This was partially offset by $12.5 million of income related to the settlement of certain bondholder actions.

Income tax expense

Income tax benefit for the three months ended February 29, 2004 was $4.9 million and income tax expense for the six months ended February 29, 2004 was $10.2 million. During the three and six month periods ended February 29, 2004, the Company recorded a one-time benefit of $6.6 million due to a change in a Canadian tax rate. In addition to this one-time benefit, the three and six month periods ended February 29, 2004, include $1.0 million and $2.0 million, respectively, of cash taxes payable and the balance reflects the utilization of deferred tax assets.

Income tax expense in the three and six month periods ended February 28, 2003 was $1.5 million and $3.0 million, respectively. Tax expense in the prior period only represented estimated cash taxes as the Predecessor Company had established a full valuation allowance against its net deferred tax assets.

Cumulative effect of a change in accounting principle

Effective September 1, 2002, we adopted SFAS 142 and, as a result, recorded a non-cash charge of $2,205.4 million on September 1, 2002 as a cumulative effect of a change in accounting principle.

Liquidity and capital resources

For the six months ended February 29, 2004, cash provided by operating activities was $94.6 million compared to $64.1 million in the six months ended February 28, 2003. The increase in cash provided by operating activities in the current year is principally due to an increase in the prior year period in restricted cash and cash equivalents.

Net expenditures for the purchase of capital assets for normal replacement requirements and increases in service was $105.1 million in the six months ended February 29, 2004, relatively unchanged from $104.5 million for the six months ended February 28, 2003.

The Company utilizes a senior secured revolving credit facility (the Revolver) due June 2008, to finance current operating needs. As of February 29, 2004, $60.0 million was drawn on the Revolver for cash borrowings, $23.2 million for the issuance of letters of credit and $71.3 million was reserved for guarantee obligations on Greyhound Lines vehicle leases. As of March 31, 2004, the Company had repaid all drawn cash borrowings and had issued new letters of credit totaling $18.4 million, leaving total availability of $62 million under the most restrictive covenant. Greyhound Lines utilizes its own revolving line of credit (the Greyhound Facility). As of February 29, 2004, Greyhound Lines had $5.0 million of cash borrowings under the Greyhound Facility, issued letters of credit of $56.6 million and had availability of $56.8 million. However, Greyhound Lines may not be able to access any availability under the Greyhound Facility if an event of default or default exists under the respective facility. See Note 6 Material

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contingencies of Notes to Consolidated Financial Statements in this Report for additional information regarding the Greyhound Facility.

The Company requires significant cash flows to finance capital expenditures and to meet its debt service and other continuing obligations. Although we will continue to be substantially leveraged, we believe that borrowings under our Revolver, together with existing cash and cash flow from operations, will be sufficient to fund our anticipated capital expenditures and working capital requirements for the foreseeable future, including payment obligations under our debt agreements and other commitments.

Under the terms of the Company s various debt agreements the Company is required to meet certain financial covenants including a fixed charge coverage ratio, leverage ratio, interest coverage ratio, net tangible asset ratio and maximum senior secured leverage ratio as well as certain non-financial covenants. As of February 29, 2004, the Company was in compliance with all such covenants.

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 our most critical accounting policies, which are those that require management s most difficult, subjective and complex judgments, requiring 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

We are self-insured up to certain limits for costs associated with workers compensation claims, vehicle accidents, professional liability claims and general business liabilities. Reserves are established for estimates of the loss that we will ultimately incur on claims that have been reported but not paid and claims that have been incurred but not reported. These reserves are based upon actuarial valuations that are prepared quarterly by our outside actuaries. The actuarial valuations 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 and ultimate court awards. Historical experience and recent trends in the historical experience are the most significant factors in the determination of these reserves. We believe the use of actuarial methods to account for these reserves provides a consistent and effective way to measure these subjective accruals. However, given the magnitude of the claims involved and the length of time until the ultimate cost is known, the use of any estimation technique in this area is inherently sensitive. Accordingly, our recorded reserves could differ from our ultimate costs related to these claims due to changes in our accident reporting, claims payment and settlement practices or claims reserve practices, as well as differences between assumed and future cost increases.

Revenue Recognition in the Healthcare Services Businesses

A significant portion of the revenue in our healthcare services businesses is derived from Medicare, Medicaid and private insurance payors that receive discounts from our standard charges (referred to as contractual allowances). Additionally, we are also subject to significant collection risk for services provided to uninsured patients or for the deductible or co-pay portion of services for insured patients (referred to as uncompensated care). We record our healthcare services revenue net of an estimated provision for the contractual allowances and uncompensated care.

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 certain amounts are not reimbursable under plan coverage, were for services provided that were not determined medically necessary, or insufficient supporting information was provided. In addition, multiple payors with different requirements can be involved with each claim.

Management utilizes sophisticated information systems and financial models to estimate the provisions for contractual allowances and uncompensated care. The estimate for contractual allowances is determined on a payor-specific basis and is predominantly based on prior collection experience, adjusted as needed for known changes in reimbursement rates and recent changes in payor mix and patient acuity factors. The estimate for uncompensated care is principally based on historical collection rates, write-off percentages and accounts receivable agings. These estimates are continually analyzed and updated by management by monitoring reimbursement rate trends from governmental and private insurance payors, recent trends in collections from self-pay patients, the ultimate cash collection patterns from all payors, accounts receivable aging trends, operating statistics and ratios, and the overall trends in accounts receivable write-offs.

The evaluation of these factors, as well as the interpretation of governmental regulations and private insurance contract provisions, involves complex, subjective judgments. As a result of the inherent complexity of these calculations, our actual revenues and net income, and our accounts receivable, could vary from the amounts reported.

Income Tax Valuation Allowance

We have significant net deferred tax assets resulting from net operating losses, or NOL, and interest deduction carry forwards and other deductible temporary differences that will reduce taxable income in future periods. Statement of Financial Accounting Standards No. 109 Accounting for Income Taxes requires that a valuation allowance be established when it is more likely than not that all or a portion of net deferred tax assets will not be realized. A review of all available positive and negative evidence needs to be considered, including expected reversals of significant deductible temporary differences, a company s recent financial performance, the market environment in which a company operates, tax planning strategies and the length of NOL and interest deduction carryforward period. Furthermore, the weight given to the potential effect of negative and positive evidence should be commensurate with the extent to which it can be objectively verified. Due to the highly leveraged capital structure (and related interest expense) and uncertainty surrounding the level of debt we would carry post-emergence, management of the Predecessor Company concluded that it was appropriate to record a full valuation allowance against its net deferred income tax assets. Pursuant to the plan of reorganization, the level of debt we carried upon emergence from bankruptcy was reduced by approximately $2.6 billion. As a result, management concluded that it was more likely than not that $313.6 million of deferred tax assets would not be realized and, as part of our fresh start adjustment at June 1, 2003, we recorded a valuation allowance for that amount. Certain future events may result in the reduction of the valuation allowance. Up to $313.6 million of such reduction would reduce goodwill and other intangibles in existence at fresh start and thereafter, would be reported as an addition to share premium.

Pension

Our obligation and expense for pension benefits are determined using actuarial methods that are 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 increases as determined by management. The pension plan rate assumptions are shown in Note 11 Pension plans of Notes to the Consolidated Financial Statements in the Company s Form 10-K for the year ended August 31, 2003. We determine the discount rate based upon

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yields available on quality long-term corporate bonds (generally by reference to the Moody s Aa bond index and similar U.S. and Canadian bond indices). The expected return on plan assets is based on plan-specific historical long-term portfolio performance, asset allocations and investment strategies and the views of the plans investment advisors. Our rate of increase in future compensation levels is based primarily on labor contracts currently in effect with our employees under collective bargaining agreements and expected future pay rate increases for other employees. In addition, our actuarial consultants also use factors to estimate such items as retirement age and mortality tables, which are primarily based upon historical plan experience. The assumptions and factors we use 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 us. During fiscal 2002 and 2003, we experienced a reduction in interest rates and deterioration in plan returns. If this trend continues, we may have to fund amounts to the pension plans in future years in addition to the funding discussed in Note 11 - Pension plans of Notes to the Consolidated Financial Statements in the Company s Form 10-K for the year ended August 31, 2003, whereby we have committed to make substantial cash contributions to the Greyhound Lines Plans, in addition to contributions required under applicable law.

Contingencies

As discussed in Note 6 Material contingencies of Notes to Consolidated Financial Statements in this Report, management is unable to make a reasonable estimate of the liabilities that may result from the final resolution of certain contingencies disclosed. Further assessments of the potential liability will be made as additional information becomes available. Management currently does not believe that these matters will have a material adverse affect on our consolidated financial position. It is possible, however, that results of operations could be materially affected by changes in management s assumptions relating to these matters or the actual final resolution of these proceedings.

Commitments and Contingencies

Reference is made to Note 22 Commitments and contingencies of Notes to the Consolidated Financial Statements in the Company s Form 10-K for the year ended August 31, 2003 for a description of the Company s material commitments. Reference is made to Note 6 Material contingencies of Notes to Consolidated Financial Statements in this Report for a description of the Company s material contingencies.

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Forward looking statements

Certain statements contained in this report, including statements regarding the status of 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; Greyhound Lines 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 significant restrictive covenants in the senior secured credit facility; 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; the ability to implement initiatives designed to increase operating efficiencies and improve results; 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. For further risks, uncertainties and contingencies relating to the Company, see Note Regarding Forward-Looking Statements and Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Risk Factors in the Company s Form 10-K for the year ended August 31, 2003, Risk Factors in the Company s Amendment No. 1 to its Registration Statement of Form S-4 (File No. 333-112309) and in the Company s other filings from time to time with the Securities and Exchange Commission.

LAIDLAW INTERNATIONAL, INC.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in market risk from the disclosures provided in Item 7A. Quantitative and Qualitative Disclosures About Market Risk as set forth in the Company s 2003 Form 10-K for the year ended August 31, 2003 except as follows:

In December 2003, the Company modified the terms of its $625.0 million loan maturing in June 2009 (the Term B Facility). The interest rate charged on the loan was reduced by 1.25%, to LIBOR plus 3.75% from LIBOR plus 5.0%. Additionally, the LIBOR floor or minimum LIBOR rate was reduced 0.25% to 1.75% from the previous floor of 2.0%. Additionally, the Company entered into an interest rate swap agreement (Swap) that effectively converted $110 million of Term B Facility floating rate debt to fixed rate debt with an interest rate of 6.8%. The Swap was entered into because the Company is required under the Term B Facility to have a fixed interest rate on a portion of the underlying debt. The Swap is considered a cash flow hedge and expires in September 2006.

Item 4. Controls and Procedures

On November 10, 2004 we announced the need to restate deferred tax expense for our second fiscal quarter of 2004. As part of our year-end processes and procedures to determine the Company s annual tax provision, management identified a $6.6 million increase in our Canadian deferred tax assets and a corresponding tax benefit to reflect a change in the Ontario, Canada provincial tax rates. As the rate changes became effective in our second fiscal quarter, the $6.6 million tax benefit should have been reflected as a reduction of our second quarter tax expense. However, the adjustment was not reflected in our originally reported second quarter results because our quarterly processes did not include procedures to verify enacted tax rates and adjust the rate used to value our deferred tax assets for any changes that might have occurred.

Management determined that the internal control deficiency that resulted in this restatement represents a material weakness, as defined by the Public Company Accounting Oversight Board s Auditing Standard No.2. The Public Company Accounting Oversight Board has defined material weakness as a significant deficiency or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Management s conclusion is that the noted control deficiency surrounding the calculation of the quarterly tax provision constitutes a material weakness, since, if not corrected, would more than likely result in a material misstatement in future quarterly financial statements if further tax rate changes are passed by a taxing authority in a jurisdiction in which we conduct business. Management has also concluded that this material weakness only relates to the quarterly controls and procedures; the annual controls and procedures provide for the verification and adjustment, if needed, of the effective tax rates used by us.

Going forward, management s quarterly controls and procedures have been strengthened to require verification of applicable tax rates and adjust, if needed, our effective tax rate for tax changes enacted during such period by taxing authorities in the jurisdictions in which we conduct business. No change in our annual process is required as management believes we have disclosure controls and procedures which operate at a reasonable assurance level on an annual basis.

To reflect the adjustment described above, management has decided to amend our unaudited consolidated financial statements contained in our Quarterly Reports on Form 10-Q for the quarter ended February 29, 2004. Management and the audit committee of our board of directors discussed with our independent auditors, PricewaterhouseCoopers

LLP, who

concurred with management s decision to amend such Quarterly Reports on Form 10-Q. On November 9, 2004, management and the audit committee of our board of directors concluded that our unaudited consolidated financial statements contained in our Quarterly Report on Form 10-Q for the quarter ended February 29, 2004 should no longer be relied upon because of the error described above in such financial statements.

As required by Rule 13a-15(b) of the Securities Exchange Act of 1934, as amended, management carried out an evaluation under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures that were in effect as of the end of the quarters covered by the subject Quarterly Reports on Form 10-Q. Based on the material weakness described above, our Chief Executive Officer and Chief Financial Officer each concluded that our disclosure controls and procedures were not effective at a reasonable assurance level as of February 29, 2004. However, in light of the implementation of the new corrective measures described above, our Chief Executive Officer and Chief Financial Officer believe, as of the date of this report, management has taken appropriate action to strengthen our internal controls over financial reporting relating to the quarterly tax calculation process and has remediated this material weakness.

Except as stated above, there have been no other changes in our internal controls over financial reporting during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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LAIDLAW INTERNATIONAL, INC.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Reference is made to Part I, Item 3 of the Company s Form 10-K for the year ended August 31, 2003 and Part II, Item 1 of the Company s Form 10-Q for the quarter ended November 30, 2003 for a description of certain legal proceedings presently pending. There are no material new cases to report against the Company or its subsidiaries and there have been no material changes in the previously reported proceedings, except as set forth below:

Proceedings Prior to or During Bankruptcy of Laidlaw, Inc.

Reference is made to the description in Item 3. Legal Proceedings under the caption Proceedings Prior to or During Bankruptcy of Laidlaw, Inc. in the Company s Form 10-K for the year ended August 31, 2003, of proceedings in the cases captioned In Re Laidlaw Stockholders Litigation and In Re Safety-Kleen Corp. Securities Litigation. These cases involved actions against Laidlaw Inc. and individual defendants who were former officers and directors of the Company. These cases were both settled shortly before trial was scheduled to commence in March of this year. As previously disclosed, as a result of the bankruptcy court s subordination of these claims against the debtors, Laidlaw, Inc. and Laidlaw International, Inc. no longer participate in the cases and were not involved in the settlement of the cases. The Company now considers the Company s involvement in these cases to be closed and does not intend to report further on these matters.

General Litigation and Other Disputes

Reference is made to the description in Item 3. Legal Proceedings under the caption General Litigation and Other Proceedings in the Company s Form 10-K for the year ended August 31, 2003, of proceedings affecting Sistema Internacional de Transporte de Autobuses, Inc. (SITA) and Golden State Transportation. The bankruptcy court in the Golden State case approved the settlement and authorized Golden State to conclude the criminal proceedings by pleading guilty, which it has done. As previously disclosed, none of the Company, SITA or Greyhound Lines were a defendant in these actions. The Company now considers Greyhound Line s involvement in these cases to be closed and does not intend to report further on these matters.

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Item 4. Submission of Matters to a Vote of Security Holders

The Company s annual stockholders meeting was held on February 10, 2004. At the meeting, the following proposal was voted on:

Proposal: Election of three Directors for a term of three years.

The following persons were elected to the Company s Board of Directors by the number of votes shown:

	Number of Votes	
	For	Authority Withheld
John F. Chlebowski	80,003,552	7,117,767
James F. Dickerson, Jr.	80,001,064	7,120,255
Maria A. Sastre	79,969,324	7,151,995

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10.1 Amendment No. 3 to Credit Agreement, dated as of January 28, 2004, among Laidlaw International, Inc., certain of its subsidiaries and the financial institutions named herein (incorporated by reference to exhibit 10.18 to the Company s Registration Statement on Form S-4 (Reg. No. 333-112309)).

31.1 Principal Executive Officer s Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Principal Financial Officer s Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification Pursuant to 18 U.S.C. § 1350 (Section 906 of Sarbanes-Oxley Act of 2002)

(b) Reports on Form 8-K during the quarter ended February 29, 2004

Current Report on Form 8-K, dated January 13, 2004, furnished to the Securities and Exchange Commission and relating to the Company s press release announcing its financial results for the quarter ended November 30, 2003 and the date of its annual shareholder meeting.

Current Report on Form 8-K, dated January 27, 2004, filed with the Securities and Exchange Commission and relating to the Company s press release announcing it has applied to list its common stock on the New York Stock Exchange.

Current Report on Form 8-K, dated February 2, 2004, filed with the Securities and Exchange Commission and relating to the Company s press release announcing that its wholly-owned subsidiary, Greyhound Lines, Inc., has reached a tentative agreement with the Amalgamated Transit Union National Local 1700 for a new collective bargaining agreement.

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SIGNATURES

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.

LAIDLAW INTERNATIONAL, INC.

Date: November 15, 2004

By: /s/ Douglas A. Carty
Douglas A. Carty
Senior Vice President and Chief Financial Officer
Duly Authorized Officer and Principal Financial Officer