

METHANEX CORP
Form 10-K
March 26, 2004

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

(Mark one)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Fiscal Year Ended December 31, 2003

or
**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934**
For The Transition Period From ____ to ____

Commission File Number 1-15629

IMPERIAL PARKING CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

91-2161409

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

601 West Cordova Street, Suite 300
Vancouver, BC Canada

V6B 1G1

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (604) 681-7311

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class

Name of Each Exchange
On Which Registered

Common Stock, \$0.01 Par Value

American Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act:

None

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

The aggregate market value of the Registrant's voting and non-voting common equity held by non-affiliates of the Registrant on June 30, 2003 (based on the closing price of the Registrant's Common Stock on the American Stock Exchange on June 30, 2003) was approximately \$20,399,000. Shares of the Registrant's common stock held by each executive officer and director and by each entity that owns 5% or more of the Registrant's outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares outstanding of the Registrant's Common Stock at March 5, 2004 was 1,828,326.

Portions of the Registrant's definitive Proxy Statement to be filed for its 2004 Annual Meeting of Stockholders are incorporated by reference into Part III of this Report.

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Important Information Regarding Forward-Looking Statements

Certain matters discussed under the captions **Business**, **Management's Discussion and Analysis of Financial Condition and Results of Operations**, **Quantitative and Qualitative Disclosures About Market Risk** and elsewhere in this Annual Report on Form 10-K and the information incorporated by reference in this report may constitute forward-looking statements for purposes of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements include statements related to our operating strategy, growth strategy, cost savings initiatives, industry and economic conditions and future financial performance and other matters related to the future, and sometimes are preceded by, followed by or otherwise include the words **believes**, **expects**, **anticipates**, **intends**, **estimates** or similar expressions in these discussions. Our actual future performance, achievements and may differ materially from those expressed or implied by these forward-looking statements as a result of such known and unknown risks, uncertainties, assumptions and other factors. Representative examples of these factors include, without limitation:

- costs and expenses associated with the proposed merger with The Gates Group, LLC (including the risk that the merger agreement could be terminated under circumstances that would require the Company to pay a fee of \$2.0 million and reimburse expenses of up to \$750,000);
- failure to consummate the proposed merger, for any reason;
- successfully integrating past and future acquisitions in light of challenges in retaining key employees, synchronizing business processes and efficiently integrating facilities, marketing, and operations;
- successful implementation of our operating and growth strategy, including possible strategic acquisitions;
- fluctuations in quarterly operating results caused by a variety of factors including the timing of gains on sales of owned facilities, pre-opening costs, changes in our cost of borrowing, effect of weather on travel and transportation patterns, player strikes or other events affecting major league sports and local, national and international economic conditions;
- our ability to form and maintain our strategic relationships with certain large real estate owners and operators;
- global and regional economic factors; and
- compliance with laws and regulations, including, without limitation, environmental, antitrust and consumer protection laws and regulations at the federal, state, provincial, local and international levels.

Additional factors are described in Item 7. **Management's Discussion and Analysis of Financial Condition and Results of Operations** **Certain Factors Affecting Future Operating Results**.

Readers are cautioned that the Company's actual results could differ materially from those set forth in such forward-looking statements.

PART I

Item 1. **Business**

General

Imperial Parking Corporation (as used in this report, the terms Impark , we , us or the Company mean Imperial Parking Corporation, including its consolidated subsidiaries), a Delaware corporation, is a leading provider of parking services in North America. As of December 31, 2003, we managed, leased or owned 1,360 parking lots in Canada and 327 parking lots in the United States, containing more than 350,000 parking spaces in aggregate, making us the leading parking provider in Canada and one of the four largest in North America. We also provide parking lot patrolling, ticketing and collection services for our own lots and for those operated by other parties.

On January 22, 2004, we announced that we had entered into a definitive merger agreement to be acquired by IPK Acquisition Corporation, an affiliate of The Gates Group, LLC (Gates). Under the terms of the merger agreement, which remains subject to our stockholders approval, stockholders would receive \$26.00 per share in cash, without interest, subject to a downward adjustment to the extent that the Company s post November 30, 2003 transaction costs exceed \$1.55 million. The aggregate value of the merger transaction exceeds \$55.7 million, including the repayment of indebtedness. A special committee of our board of directors unanimously approved the transaction. We currently anticipate consummating the merger in the second calendar quarter of 2004.

Industry

The parking industry is highly fragmented and competitive. Industry participants, the vast majority of which are privately held companies, consist of a relatively few national companies and a large number of small regional or local operators, including a substantial number of companies providing parking as an ancillary service in connection with property management or ownership. The parking industry has experienced consolidation as smaller operators have found that they lack the capital, economies of scale and sophisticated management techniques required to compete with larger providers. We expect this trend to continue and to provide opportunities for us to acquire smaller existing providers.

We expect a number of other trends in the commercial property management business to continue to provide opportunities for large, specialized providers of high-quality parking services. We believe that:

The trend toward consolidation of property management companies favors larger, nationwide parking providers, as increasingly centralized property management companies and property owners seek to minimize the number of separate parking providers they deal with;

As the property management industry becomes increasingly sophisticated and professional, property management companies and property owners will likely seek to work with specialized, professional parking service providers;

Parking is increasingly seen by building owners as a profit center, and owners are seeking parking providers who can help them to maximize profitability, increase efficiency and reduce financial unpredictability; and

The owners of premier properties, as they recognize that the parking experience often provides both the first and last impression of their properties to tenants and users, are seeking to offer the highest possible level of quality in their parking services as a means of distinguishing their properties from those of competitors.

We believe that the industry trends toward outsourcing by private-sector owners and some privatization by government entities provide additional growth opportunities for parking facility operators. Private-sector parking owners have begun to move from owner-operator of their parking facilities to outsourcing the management of operations to specialized operators. This allows them to focus on their core competencies while increasing overall returns on parking assets. In addition, governments and government agencies, particularly cities and municipal authorities, sometimes retain private firms to operate facilities and parking-related services in an effort to reduce operating budgets and increase efficiency.

Operating Arrangements

We operate parking facilities under three general types of arrangements: leases, management contracts, and fee ownership. As of December 31, 2003, we leased 592 parking facilities, operated 1,080 parking facilities through management contracts and owned 15 parking facilities.

The general terms and benefits of these types of arrangements are described below:

Leases. Under a lease arrangement, we generally pay either a fixed annual rent, a percentage of gross customer collections, or a combination thereof to the property owner. We collect all revenues and are responsible for most operating expenses, but are typically not responsible for major maintenance or structural improvements. In contrast to management contracts, lease arrangements are typically for terms of three to ten years and may have a renewal term, and usually provide for a fixed payment to the facility owner regardless of the operating earnings of the parking facility. As a result, leased facilities generally require a longer commitment and a larger capital investment by us than do managed facilities, but generally provide a greater opportunity for long-term revenue growth and profitability.

Management Contracts. Under a management contract, we generally receive a base monthly fee for managing the facilities and often receive an incentive fee based on the achievement of facility revenues above a base amount. We generally charge fees for various ancillary services such as accounting, supervision, payroll processing, auditing, banking, equipment leasing and consulting. Responsibilities under a management contract include hiring, training and staffing parking personnel, and providing collections, accounting, record-keeping, insurance, auditing and facility marketing services. In general, the facility owner is responsible for operating expenses such as taxes, license and permit fees, insurance premiums, payroll, as well as, non-routine maintenance, repair costs and capital improvements. The typical management contract is for a term of one to three years (often the owner reserves the right to terminate, without cause, on 30 days notice) and may contain a renewal clause.

Fee ownership. Under fee ownership arrangements, we own the property and fixtures. Ownership of parking facilities typically requires a larger capital investment than managed or leased facilities but provides maximum control over the operation of the parking facility, and all increases in revenue flow directly to us. Ownership provides the potential for realizing capital gains from the appreciation in the value of the underlying real estate, but it also subjects us to risks including reduction in value of the property and additional potential liabilities, as well as additional costs such as real estate taxes and structural, environmental, mechanical or electrical maintenance or repairs.

Enforcement and Collections

Approximately 60% of our parking lots are operated with parking meters and without parking lot attendants. We enforce user payment at these lots by having patrollers circulate regularly through lots to identify delinquent parkers and issue violation notices. We use technology that enables our patrollers to monitor and identify first-time and repeat offenders using hand-held computers. The hand-held computers are uploaded daily to mainframe computers that track violation history. This hand-held equipment generates violation notices for offenders. Payments on account of these violation notices, or follow-up notices, are handled by our collections operation and are included in our revenues.

Our collection practices are currently being challenged in Alberta, Canada, see [Certain Factors Affecting Future Operating Results](#) [Changes in Privacy Legislation Could Harm Our Business By Making Collections More Difficult and Costly](#) for more information.

Growth Strategy

Our strategy is to strengthen our position as the leading parking provider in Canada while significantly expanding our presence into selected markets in the United States. Key elements of this growth strategy include:

Increase penetration of existing core markets. We will seek to leverage our long-standing relationships with real estate owners in cities where we currently have significant operations. Our reputation for premium service, our local market knowledge and our management infrastructure, allows us to compete aggressively for new business in these core

cities. Because existing parking operations are sufficient to cover the costs of local and regional personnel, we expect that additional parking operations in these markets will provide a greater contribution to our profits than the operations in new markets. As we compete for new business, we will also strive to retain and improve the profitability of existing contracts.

Pursue aggressive growth in other urban markets. We have targeted major cities in the United States where we currently have little or no presence for aggressive expansion. In the past five years, we have added New York, San Francisco, Chicago, Philadelphia, Seattle, Cincinnati, Cleveland, Atlanta, Columbus and Miami to our U.S. portfolio. We believe that continued expansion in the United States is a key component to enhancing our overall profitability. The United States is the largest parking market in the world, and members of our management have significant experience in the United States. Also, there are greater opportunities to bid for contracts in the United States than in Canada where we are already a leader in our industry. Additionally, we believe parking rates and average profits per facility can be higher in the United States than in Canada. Our strategy is to enter a new market only if we believe we can quickly gain a significant position in the market, with sufficient critical mass to compete effectively and realize economies of scale. Certain markets are dominated by national parking companies that have established strong relationships with facility owners. However, where a market is fragmented by a number of smaller less sophisticated parking operators we believe there is an opportunity to gain market share by providing superior systems and controls to prospective customers. We expect to pursue opportunities in these markets either through acquisition or by establishing our own operations there. We believe that there are several markets in the United States in which we anticipate gaining market share over the next three to four years.

Pursue acquisition opportunities. We believe there are opportunities to expand our business through the acquisition of smaller operators, both in existing core markets and in other targeted cities where we believe we can attain market share. The parking industry is highly fragmented and we believe that many of our smaller competitors have limited access to capital or do not have the systems or the scale to compete effectively. We have completed four acquisitions in the last six years, adding approximately 130 facilities. Typically, we seek to acquire small to medium-sized local operators with several years of experience in their market. We believe this allows for the immediate understanding of the market and provides a platform for increased penetration in the same city.

Operating Strategy

We seek to increase the revenues and profitability of our parking facilities through a variety of operating strategies, including the following:

Focus on larger urban markets. We intend to focus on larger urban markets. We believe that (i) urban markets are more resistant to economic downturns, (ii) property owners and real estate asset managers in these markets typically have a presence in other cities, which provides opportunities to leverage these relationships to expand to new locations, (iii) the typically higher prices charged in these markets can support our premium service levels, and (iv) our senior management has significant expertise in these markets. Together, Charles Huntzinger and Bryan Wallner have over 40 years of parking experience in urban markets including New York, Philadelphia, Baltimore, Washington, Boston, Richmond, Jacksonville, Pittsburgh, Cleveland, Columbus, Cincinnati, Milwaukee, Denver, San Francisco, Los Angeles, Seattle, St. Louis, and Indianapolis, as well as Toronto and Ottawa in Canada.

Increase proportion of leased facilities. We intend over time to increase the number of facilities we operate under lease relative to the number we operate under management contracts, especially in larger US cities. Historically, our net profits have been higher on leased facilities than on managed facilities. Although our net profits have been higher from leased facilities, typically these profits increase year over year over the term of the leases. Therefore, we experience lower profits and sometimes losses during the first one or two years of a lease term. This is illustrated by the table below, which groups our leased locations that were active at December 31, 2003 by the year that we opened

the location.

Year opened	Number of Locations ⁽¹⁾	Year ended December 31, 2003		
		Revenue (\$ 000)	Gross margin (\$ 000)	Coverage (²)
Before 1999	328	\$34,392	\$ 4,383	1.15
1999	24	2,619	385	1.17
2000	44	14,372	1,477	1.11
2001	76	18,968	36	1.00
2002	48	11,393	773	1.07
2003	72	12,118	251	1.02
Total	592	\$93,862	\$ 7,305	1.08

(1) Includes only those leased locations open as at December 31, 2003 and does not include leased locations operated during the year, but closed by year-end.

(2) Coverage is calculated by dividing Revenue by the amount that Revenue exceeds Gross margin. Coverage should not be considered in isolation or as a substitute for measures of performance prepared in accordance with generally accepted accounting principles. Coverage is not an accepted measure under generally accepted accounting principles and other companies will use different measures or different calculations of profitability.

Included in the 592 locations above were 133 locations that incurred a loss for 2003 totaling \$3.0 million. Of these 133 locations incurring a loss, 39 were opened in 2003 and incurred a total loss of \$0.7 million.

Our goal is to increase the proportion of leased facilities to managed facilities. We believe a more balanced mix of leased and managed parking facilities will diversify our operations, providing us with a balance of lower risk and lower profit managed operations, and higher risk and higher profit leased and owned operations.

Provide consistently high level of service. Our goal is to provide a uniformly high level of quality and service across all of the facilities we manage, characterized by clean, well-lit, secure and pleasant surroundings, attractive graphics and signage, and professional, courteous and well dressed staff. We offer a wide range of optional premium services, including valet parking, concierge services, car washing, dry cleaning drop off and pick up and vehicle repair. These premium services are typically offered to owners of first-class properties who seek to provide their tenants with the highest possible level of service to help differentiate their property from competing properties.

Continue to implement standardized systems and controls. As a result of our experience in the parking management business, we have developed sophisticated and comprehensive management systems and controls, which we seek to implement uniformly at the facilities we manage. These systems include accounting and financial management and reporting practices, general operating procedures, training, employment policies, cash controls, marketing procedures and visual image. We believe that our standardized systems and controls enhance our ability to successfully expand our operations into new markets.

Aggressively implement technology and automation. We believe that automation and technology can enhance customer convenience, lower labor costs, improve cash management and increase our overall profitability. We have been a leader in the field of introducing automation and technology to the parking business and we were among the first to widely adopt innovations such as the use of credit card payment systems, payment using cellular telephones at unmanned locations, hand held computers to track violators and issue citations, bar-code scanners to ensure monthly parkers are using the correct lot and are up-to-date in payment and entry and exit gates incorporating sensing equipment that can automatically recognize and admit authorized vehicles. We believe that our higher proportion of unmanned facilities gives us a cost advantage as we compete for business. We have also developed a sophisticated management information system that enables us to track revenue and manage cash on a daily basis and generate a wide variety of internal reports, as well as customized reports requested by our clients.

Implement incentive compensation program. We have adopted a performance-based compensation system for city managers, vice presidents and others based on the profitability of each individual's area of responsibility. We believe this program will enhance the entrepreneurship of our management employees by tying their compensation directly to improvements in the profitability of the operations they manage and we believe these incentives will encourage them to improve operations and control costs.

Provide profitable patrol, enforcement and ticketing service. We seek to increase the profitability of our overall operations by providing parking lot patrol, enforcement and ticketing services, both at our own facilities and at facilities operated by others. We believe there are opportunities to market these services to facilities we do not operate, especially those owned by municipalities or by suburban retail centers, who wish to discourage all-day parkers by enforcing parking regulations which favor short-term parkers.

Maintain strict cash control. Strict cash control is critical to our success and that of our clients. Our cash control procedures are based on an auditing system supervised by professional managers and auditors, and include on-site spot checks, video surveillance, multiple daily cash deposits, reconciliation of tickets and gate counts to cash collected, local audit functions, managerial supervision and review, and internal audit procedures. We believe our cash control procedures can be effective in minimizing loss of revenues at parking facilities. With banks providing better access to account information on a daily basis via the internet, we are able centrally to independently review daily deposits and identify unusual trends for further review.

Specialization. We believe by focusing on specific market segments such as stadiums, arenas, universities and hospitals, we can create additional market share from those segments. We started a stadium/arena division in 2003, which successfully acquired the parking contracts at Miller Park in Milwaukee and RFK Stadium in Washington, DC during the year. Our subsidiary, DLC Management specializes in managing parking facilities in and around hospitals. We are also looking to expand the premium management service that is offered by our Advanced Parking division.

Acquisitions

We continue to look for opportunities to acquire small or medium-sized parking operators in target markets. However, none of the opportunities reviewed in 2003 resulted in an acquisition being completed during the year.

Seasonality

We may experience fluctuations in our income from quarter to quarter caused by fluctuations in revenues and related expenses due to the impact of weather and calendar related events on travel and transportation patterns. Additionally, we manage the parking for a number of sports stadiums and arenas and our income from such facilities can be affected by the seasonality of revenue and by the relative degree of success of various sports teams. Historically, our results have been strongest during the quarters that end on June 30 and September 30.

Competition

The parking industry is fragmented and highly competitive, with relatively few barriers to entry. We compete regularly with a wide variety of parking services providers to retain our existing operations and to expand our operations in existing and new markets. We compete for clients based on the pricing of our services and our ability to increase revenues and control expenses for each of our client's parking facilities.

Our largest competitors in North America are Central Parking Corporation, Standard Parking, Inc. and Ampco System Parking. We are substantially smaller in number of locations and revenue than Central Parking, but we have approximately the same number of locations as Standard and Ampco System. We have lower revenues than Standard because Standard is principally located in the United States where gross revenues generated from a location are typically higher than in Canada. However, being principally in Canada gives us a solid Canadian base, as Canadian corporations typically prefer to do business with an established Canadian parking company. Additionally, since profit per location is generally lower in Canada, most U.S. competitors have historically focused their efforts in the U.S. marketplace where there is higher potential profit.

We also compete with many regional or local parking service providers, as well as municipalities and other governmental entities, property owners and others.

Regulation

Our business has not been substantially affected by direct governmental regulation. However, a number of state, provincial and local laws have been passed in recent years that encourage car pooling and the use of mass transit. Laws

and regulations that reduce the number of cars and vehicles could negatively affect our business. Although we do not generate a significant portion of our business from parking at airports, restrictions have been imposed following the September 11 terrorist attacks that limit parking at some US airport terminals. Changes in personal privacy or freedom of information legislation at the federal, state or provincial level could also harm our business by making collections of outstanding parking violations more difficult or costly. See **Certain Factors Affecting Future Operating Results Changes in Privacy Legislation Could Harm Our Business by Making Collections More Difficult and Costly** . We are also affected by laws and regulations (such as zoning ordinances and business taxes) that are common to any business that owns or leases real estate and by regulations (such as labor and tax laws) that affect companies with a large number of employees.

Under various federal, state, provincial and local environmental laws, ordinances and regulations, a current or previous owner or operator of real property may be liable for the cost of removal or remediation of hazardous or toxic substances on, under or in such property. Such laws typically impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. In connection with ownership or operation of parking facilities, we may be potentially liable for such costs. Although we are not currently aware of any material environmental claims pending or threatened against us or any of our owned or operated parking facilities, there can be no assurance that a material environmental claim will not be asserted against us or against any of our owned or operated parking facilities. The cost of defending against claims of liability, or of remediating a contaminated property, could have a material adverse effect on our financial condition or results of operations.

Various other governmental regulations affect our operations of parking facilities, both directly and indirectly. In the United States, these include the Americans with Disabilities Act, or the ADA. Under the ADA, all public accommodations in the United States, including parking facilities, are required to meet certain federal requirements related to access and use by disabled persons. For example, the ADA requires parking facilities to include handicapped spaces, headroom for wheelchair vans, attendants booths that accommodate wheelchairs, and elevators that are operable by disabled persons. We believe that the parking facilities we own and operate are in substantial compliance with these requirements.

Employees

As of December 31, 2003, we employed approximately 3,400 individuals. We believe that our employee relations are satisfactory. Approximately 39% of our employees (some 1,345 employees) are represented by unions, including the Construction and Specialized Workers Union (British Columbia), Christian Labour Association of Canada (British Columbia), Manitoba Government and General Employees Union (Winnipeg), Teamsters (San Francisco, New York City and Chicago), SEIU, UFCW (Toronto), SEIU (London), and Garage Employees (New York).

Segment Information

Information about our foreign and domestic operations appears in Note 14 to our 2003 Consolidated Financial Statements that are included in response to Item 8 and are listed in Item 15 to this Annual Report on Form 10-K.

Available Information

We maintain a company website at www.impark.com. We make copies of our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports filed with or furnished to the Securities and Exchange Commission (SEC) available to investors on or through our website free of charge as soon as reasonably practicable after we have electronically filed them with or furnished them to the SEC. The contents of our website do not constitute a portion of this report.

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The public may read and copy any materials filed by us with the SEC at the SEC's Public Reference Room, located at 450 Fifth Street, NW, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains a website at which reports, proxy and information statements and other information regarding issuers that file electronically with the SEC are available. This website may be accessed at www.sec.gov.

Item 2. Properties

The following table summarizes certain information regarding our parking facilities and surface lots as of December 31, 2003. We believe that our owned facilities generally are in good condition and adequate for our present needs. Our owned facilities are also not subject to a mortgage or other significant encumbrance.

Location	Leased		Managed		Owned		Total	
	Lots	Spaces	Lots	Spaces	Lots	Spaces	Lots	Spaces
CANADA								
Western	226	22,698	662	131,212	5	968	893	154,878
Prairies	142	8,995	119	17,518	9	687	270	27,200
Eastern	65	6,435	131	66,475	1	50	197	72,960
Total	433	38,128	912	215,205	15	1,705	1,360	255,038
USA								
Western	35	8,379	31	12,330			66	20,709
Mid-west	71	23,983	51	23,876			122	47,859
Eastern	53	12,394	86	16,912			139	29,306
Total	159	44,756	168	53,118			327	97,874
TOTAL	592	82,884	1,080	268,323	15	1,705	1,687	352,912

The cities included in the regions listed above are as follows:

Western Canada Vancouver, Kamloops, Kelowna, Edmonton, Calgary and Banff

Prairies (Canada) Regina, Saskatoon and Winnipeg

Eastern Canada Toronto, Hamilton, London, Ottawa, Windsor, Montreal, Halifax and St. John's

Western USA Seattle, San Francisco and Oakland

Mid-western USA Minneapolis, Milwaukee, Chicago, Cleveland, Cincinnati and Columbus

Eastern USA New York City, Buffalo, Philadelphia, Atlanta, Washington DC, Wilmington, Atlantic City and Miami

Item 3. Legal Proceedings

The provision of services to the public entails an inherent risk of liability. We are engaged from time to time in routine litigation incidental to our business. Other than cases involving Sterling Parking Ltd. and the City of Calgary in Calgary, Alberta and certain employees in Seattle, Washington, described below, there is no legal proceeding to which we are a party which, if decided adversely we anticipate could have a material adverse effect on our results of operation or financial condition. We attempt to disclaim liability for personal injury in facilities we operate. We also carry liability insurance that we believe meets or exceeds industry standards as determined by our landlords. We can provide no assurances, however, that any future legal proceedings (including any related judgments, settlements or costs) will not have a material adverse effect on our financial condition, liquidity or results of operations. Apart from developments in the City of Calgary business tax matter and the Seattle matter, which are discussed below, there has been no material change in the status of the litigation described below since our quarterly report on Form 10-Q for the quarter ended September 30, 2003.

Impark Canada is a defendant in a lawsuit brought by Newcourt Financial Ltd. (Newcourt) as the assignee of Oracle Corporation Canada Inc. (Oracle). The suit was filed in Ontario Superior Court on September 11, 1999. The co-defendant is First Union Management, Inc. (FUMI). At the time of the material events alleged in the lawsuit, FUMI was an affiliate of Impark Canada. The lawsuit alleges that Impark Canada and FUMI owe approximately \$825,000 under a software licence and services agreement, plus interest and legal costs. We believe the claim is largely without merit. In response to the claim, Impark Canada and FUMI commenced their own action in British Columbia on November 12, 1999, seeking a declaration that no amounts are owing to either Newcourt or Oracle under the license and services agreement. The Ontario lawsuit has been stayed pending the resolution of the B.C. action. The B.C. action is in pre-trial

proceedings and a trial date has been scheduled for June 7, 2004. First Union Real Estate Equity and Mortgage Investments (FUR) has agreed in writing to indemnify Impark Canada with respect to all liabilities and damages that may be incurred by Impark with respect to this claim. FUR is an affiliate of FUMI and is publicly listed on the New York Stock Exchange.

Impark Canada is a defendant in a lawsuit brought by Sterling Parking Ltd., which was filed April 3, 2001 in the Queen's Bench of Alberta. The suit involves an alleged breach by Impark Canada of a confidentiality agreement entered into with Sterling in October 2000 relating to the potential management by Impark Canada of certain Sterling lots in Calgary. The agreement prohibited Impark Canada from bidding on any Sterling lots while negotiations of such transaction were underway. During negotiations, Impark Canada successfully bid on two Sterling lots. The proposed transaction with Sterling was not completed. Sterling claims in the lawsuit that Impark Canada wrongfully bid on the two lots and an additional three lots, as well as improperly used Sterling confidential information, all in breach of the confidentiality agreement. The total damages claimed by Sterling are approximately \$7.9 million (C\$11.6 million). The lawsuit is in pre-trial proceedings. A trial has been scheduled to commence on November 22, 2004. We believe that Sterling's allegations are largely without merit and that the amount of damages claimed is far in excess of the actual damages suffered by Sterling, if any. We have accrued at December 31, 2003 our best estimate of costs related to this action. However, any damages awarded against Impark Canada in excess of this amount could have a material effect on our financial position and results of operation.

Impark Canada commenced a lawsuit against the City of Calgary in Alberta, Canada in the Queen's Bench of Alberta on April 12, 2001. The City of Calgary had earlier passed a business tax bylaw in 2001 imposing a revised method for calculating the business tax payable by commercial parking lot operators in that city. The new bylaw imposes a business tax on the basis of the square footage of the premises leased or operated, as opposed to the historical method of assessing business taxes on the basis of rent paid by the lessee. Impark Canada is applying for a court ruling that the 2001 bylaw is void for vagueness or that it is invalid because of its discriminatory effect. Impark Canada is also appealing the increased business taxes through the government assessment review process. We were unsuccessful in our first stage of appeal of the 2001 business taxes at the Calgary City Assessment Review Board (ARB) and again at our second stage of appeal at the Alberta Municipal Government Board (MGB). In February 2002, the City of Calgary passed a 2002 Business Tax Bylaw, which approximately tripled the business tax for Impark operations in Calgary for the 2002 calendar year to approximately \$1.1 million (C\$1.4 million). We were unsuccessful in our first stage of appeal of the 2002 business taxes at the ARB and appealed this decision to the MGB in November 2002. The MGB released its decision in July 2003 and determined that the assessment method used by the City in 2002 was not assessed fairly in that year. The City chose not to appeal the MGB's decision, and accordingly Impark Canada was entitled to a refund of a substantial portion of the assessed taxes for 2002, which in turn was applied directly by the City against amounts owing in respect of 2003. We are still determining the impact, if any, of this decision upon amounts paid to the City in 2001 and 2003. In February 2003, the City of Calgary passed a 2003 Business Tax Bylaw, which imposed the same rate and assessment method of business tax for Impark operations in Calgary for the 2003 calendar year as was used by the City in their initial assessments for 2002, at an amount of approximately \$1.0 million (C\$1.3 million). We were unsuccessful in our first stage of appeal of the 2003 business taxes at the ARB in April 2003 and have appealed this decision to the MGB. We do not expect to receive the MGB's decision prior to September 2004. In February 2004, the City of Calgary passed a 2004 Business Tax Bylaw, which imposed the same rate and assessment method of business tax for Impark operations in Calgary for the 2004 calendar year as was used in 2003, at an amount of approximately \$1.0 million (C\$1.3 million). We will appeal the 2004 business taxes to the ARB. We have amended our lawsuit against the City of Calgary to include the 2002 and 2003 assessments, and intend to amend the lawsuit to include the 2004 assessment. The lawsuit is currently in pre-trial proceedings and no trial date has been set. We believe that the City's 2001, 2002, 2003 and 2004 business tax bylaws are void and invalid. With respect to the 2001 business tax assessment, if we are unsuccessful in our lawsuit against the City of Calgary, then we will not be entitled to the return of any portion of the 2001 business tax assessment, which we have already paid in 2001. With respect to the 2003 business tax assessment, if we are unsuccessful in appealing the assessment and if we

are unsuccessful in our lawsuit against the City of Calgary, we will not be entitled to any refund of the amounts already paid in respect of 2003. With respect to the 2004 business tax assessment, if we are unsuccessful in appealing the assessment and if we are unsuccessful in our lawsuit against the City of Calgary, we will be required to pay the full amount of the 2004 assessment, currently \$1.0 million, for which we intend to accrue the proportionate amount throughout the fiscal 2004 year.

On February 13, 2003, three former employees of Imperial Parking (U.S.), Inc. (Impark US) in Seattle, Washington started a lawsuit in the Superior Court of the State of Washington, King County, against Impark US in respect of alleged violations of the Washington Industrial Welfare Act. The plaintiffs are seeking to have the lawsuit certified as a class

action on behalf of all current and former parking attendants of Impark US in Seattle. The plaintiffs allege that Impark US, during the three year period prior to the lawsuit and continuing to date: (a) failed to provide attendants with one ten-minute paid rest break for each four hours of work, and (b) failed to pay overtime pay to attendants. The plaintiffs seek monetary damages, statutory penalties and injunctive relief on behalf of the class. The total damages claimed by the plaintiffs are unspecified at this time and are stated to be proven at trial. The lawsuit is in pre-trial proceedings. On December 19, 2003, the court denied the plaintiff's motion to certify the class, without making any findings on the underlying merits of the claim. The plaintiff has indicated its intention to appeal this decision. No trial date has been set. We believe that the plaintiffs' allegations are without merit, the lawsuit should not be certified as a class action, and that the actual damages suffered by the plaintiffs, if any, are minimal. We have accrued at December 31, 2003 our best estimate of costs related to this action; however, any damages awarded against Impark US in excess of this amount could have a material effect on our financial position and results of operation.

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

No matter was submitted to a vote of the Company's stockholders during the fourth quarter of fiscal 2003.

PART II.**Item 5. Market for Registrant's Common Equity and Related Stockholder Matters**

The Company's common stock is listed on the American Stock Exchange (AMEX). The following table sets forth for the periods indicated the high and low sales prices for our common stock as reported by AMEX. In the event the merger is consummated, the Company's common stock will cease to be listed on the American Stock Exchange.

Fiscal 2002	High	Low
First quarter	27.09	25.50
Second quarter	27.23	23.75
Third quarter	24.70	22.10
Fourth quarter	22.99	21.15
Fiscal 2003	High	Low
First quarter	24.50	18.40
Second quarter	22.90	19.40
Third quarter	22.60	21.10
Fourth quarter	25.50	18.40

The number of holders of record of our common stock as of March 5, 2004, was approximately 1,131.

No dividends have been declared on our common stock since their distribution in March 2000. Our policy is to reinvest earnings to fund future growth. Accordingly, we do not anticipate declaring dividends on our common stock in the foreseeable future.

No shares of common stock were repurchased and no unregistered equity securities were issued during the quarter ended December 31, 2003.

Equity Compensation Plan Information

The following table provides information as of December 31, 2003 regarding shares of common stock of the Company that may be issued under our existing equity compensation plans, including the Company's 2000 Stock Incentive Plan.

Equity Compensation Plan Information

Number of securities to be	Weighted Average	Number of securities remaining available for future issuance under
-----------------------------------	-------------------------	---

Plan category	issued upon exercise of outstanding options, warrants and rights	exercise price of outstanding options, warrants and rights	equity compensation plan (excluding securities referenced in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders ⁽¹⁾	275,405	\$ 18.79	6,342
Equity compensation plans not approved by security holders	_____	_____	_____
Total	275,405	\$ 18.79	6,342

⁽¹⁾ Consists of the 2000 Stock Incentive Plan

Item 6. Selected Financial Data

The Company resulted from the combination on March 27, 2000 of the Canadian parking assets and operations of First Union Real Estate Equity and Mortgage Investments (First Union) and the parking related business of First Union Management, Inc. (FUMI). The businesses combined into Impark are referred to in this report for periods prior to the combination as follows:

FUR Parking Business. The FUR Parking Business, constituting the parking assets and operations of First Union, consisted primarily of 15 owned parking properties in Canada. Between April 1997 and March 2000, subsidiaries of First Union operated this business, including leasing the properties to FUMI for operations and management.

FUMI Parking Business. The FUMI Parking Business consisted of the parking services and related ancillary activities that have been continued into the Company. Between April 1997 and March 2000, subsidiaries of FUMI carried on these activities. The operations of FUMI 's indirect subsidiaries, Imperial Parking Limited and Impark Services Ltd., consisted of operating and managing parking facilities in Canada and the United States and carrying on other parking related activities.

The selected financial data presented below as at and for periods commencing prior to January 1, 2000 has been calculated by combining information in the combined financial statements of the FUR Parking Business and the FUMI Parking Business. The selected financial data for these periods has been extracted from audited financial statements. For further information on these financial statements, refer to our Information Statement on Form 10 dated March 27, 2000 that was filed with the Securities and Exchange Commission.

The selected financial data presented below for the year ended December 31, 2000 has been calculated by combining information in our audited consolidated financial statements for fiscal 2000 with the unaudited combined financial statements of the FUMI Parking Business for the three months ended March 31, 2000. The selected balance sheet data as at December 31, 2000 has been extracted from our audited consolidated financial statements at that date.

The selected financial data for all periods prior to 2001 is presented on a pro forma basis after giving effect to the following pro forma transactions:

- (i) the elimination of inter-entity lease fees and interest costs;
- (ii) the elimination of the asset management fee earned during the period January 1, 1999 to March 27, 2000 for managing the United States parking properties of First Union. The fee agreement was cancelled on March 27, 2000; and
- (iii) the elimination of interest expense on long-term debt repaid and the note payable capitalized on the combination on March 27, 2000.

For purposes of presenting selected financial data, an adjustment has not been made for interest income on additional cash balances contributed on the combination on March 27, 2000.

This financial data should be read in conjunction with the Consolidated Financial Statements and Management 's Discussion and Analysis of Financial Condition and Results of Operations.

Year ended December 31,				
1999 ⁽¹⁾	2000 ⁽¹⁾	2001	2002	2003

Statement of Operations Data

Total revenues	<u>\$83,531</u>	<u>\$93,779</u>	<u>\$117,898</u>	<u>\$139,842</u>	<u>\$154,497</u>
Parking and management contract revenues	<u>59,065</u>	<u>67,809</u>	<u>90,548</u>	<u>109,351</u>	<u>121,130</u>
Gross margin	<u>14,706</u>	<u>17,121</u>	<u>20,521</u>	<u>22,191</u>	<u>23,289</u>
Operating income (loss) ⁽²⁾	(557)	935	1,716	3,459	(29,955)

	Year ended December 31,				
	1999 ⁽¹⁾	2000 ⁽¹⁾	2001	2002	2003
Interest expense			(298)	(420)	(356)
Other income (expense) ⁽³⁾	(39)	744	577	514	(1,016)
Income tax expense	(240)	(333)	(822)	(1,630)	(2,185)
Income (loss) from continuing operations	\$ (836)	\$ 1,346	\$ 1,173	\$ 1,923	\$(33,512)
Per share data					
Income (loss) from continuing operations					
- Basic	\$ (0.39)	\$ 0.64	\$ 0.65	\$ 1.06	\$ (18.35)
- Diluted	(0.39)	0.64	0.63	1.02	(18.35)
Balance Sheet Data (end of period)					
Cash and cash equivalents	\$ 3,378	\$ 5,615	\$10,991	\$15,138	\$ 18,804
Working capital	(30,144)	96	291	1,541	(608)
Goodwill	43,344	41,131	44,259	45,213	18,839
Total assets	76,176	79,391	89,245	92,428	75,215
Long-term liabilities	40,048	3,356	8,201	6,829	5,732
Total stockholders equity (deficiency)	(8,230)	60,029	58,261	61,472	38,254
Other information					
Goodwill amortization ⁽⁴⁾	2,284	2,194	2,206		
Goodwill impairment ⁽⁴⁾					33,526

(1) The amounts presented for these captions have been accumulated as follows:

	Year ended December 31, 1999				Year ended December 31, 2000			
	FUMI	FUR	Elimination	Total	FUMI ⁽⁶⁾	The Company	Elimination	Total
	(thousands of dollars)				(thousands of dollars)			
Statement of Operations Data								
Total revenues	84,611	582	(1,662)	83,531	21,298	72,878	(397)	93,779
Parking and management contract	60,145	582	(1,662)	59,065	14,901	53,305	(397)	67,809

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revenues

	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Gross margin	15,206	580	(1,080)	14,706	3,904	13,487	(270)	17,121
Operating income								
(loss)	(14)	537	(1,080)	(557)	186	1,019	(270)	935
Interest expense	(5,872)	(3,044)	8,916		(1,446)	(786)	2,232	
Other income								
(expense)	(105)	(14,902)	14,968	(39)		1,779	(1,035)	744
Income taxes	(326)	86		(240)	(61)	(272)		(333)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Income (loss) from continuing operations	(6,317)	(17,323)	22,804	(836)	(1,321)	1,740	927	1,346

**Balance Sheet Data
(end of year)**

Cash and cash equivalents	1,394	1,984		3,378		5,615		5,615
Working capital	(33,218)	3,074		(30,144)		96		96
Goodwill	43,344			43,344		41,131		41,131
Total assets	65,109	30,113	(19,046)	76,176		79,391		79,391
Long-term liabilities	48,292	28,085	(36,329)	40,048		3,356		3,356
Total stockholders equity (deficiency)	(28,601)	1,371	19,000	(8,230)		60,029		60,029
Other								
Goodwill amortization	2,284			2,284	493	1,701		2,194
Goodwill impairment								

- (2) The operating loss for 1999 includes a recovery of previously overprovided amounts for severance of \$1.8 million. The operating loss for 2003 includes a goodwill impairment charge of \$33.5 million.
- (3) Other income (expense) principally includes interest income, except that in 2003, it also reflects \$1.5 million of other expenses incurred related to the review of strategic alternatives available to the Company in the context of a significant shareholder's decision to sell its ownership interest.
- (4) There was no amortization of goodwill commencing fiscal 2002. This is a result of adopting Financial Accounting Statement No. 142, which does not permit amortization of goodwill, but requires goodwill to be reviewed annually for any impairment in value. The annual test in 2003 resulted in a determination of the fair value of goodwill in excess of its carrying value and accordingly an impairment charge of \$33.5 million was recorded. The basis of the fair value was the offer by affiliates of the Gates Group, LLC to purchase the common stock of the Company, pursuant to a merger agreement signed by the Company in January 2004.
- (5) There were no cash dividends declared on common shares during any of the periods disclosed in the Selected Financial Data table above.
- (6) Results of the FUMI Parking Business for 2000 are for the three months ended March 31, 2000.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of our historical results of operations and financial condition should be read in conjunction with the Consolidated Financial Statements and the Selected Financial Data, which are included in this document.

Executive Summary

We operate parking facilities under leases, management contracts, and fee ownership. These three types of arrangements are discussed further in this report under Item 1. Business.

Our results for fiscal 2003 were significantly impacted by the decision of Gotham Partners, L.P. and its affiliated investment funds to sell its shareholding in the Company. We incurred \$1.5 million in costs during the year in connection with the review by a Special Committee of the Board of Directors of the alternatives available to the Company in light of Gotham's decision. On January 22, 2004, we signed a merger agreement with IPK Acquisition Corporation, an affiliate of The Gates Group, LLC, whereby our shareholders would be entitled to receive \$26.00 in cash per common share, subject to a downward adjustment to the extent that post-November 30, 2003 transactions costs exceed \$1.55 million. As this transaction has not completed at the date of this annual report, we cannot provide guidance on the specific impacts the merger will have on our operations or financial results. However, as structured, the merger would result in us no longer being a publicly traded company.

In our review of the carrying value of goodwill at year-end, we concluded that, in light of the value that a number of independent bidders placed on the Company, the carrying value of goodwill exceeded its fair value and we recorded a goodwill impairment charge of \$33.5 million.

Our net loss for 2003 was \$33.5 million, which includes the \$1.5 million of Special Committee costs and the \$33.5 million goodwill impairment charge. On a pro forma basis, excluding these two items, our pro forma net income for 2003 would be \$1.5 million, which compares to net income of \$1.9 million in fiscal 2002. We refer to pro forma earnings because we believe it is a measure used by some investors as an indicator of our performance excluding the impact of the transactions and events arising from Gotham's decision to sell its interest in the Company. We believe that excluding the charges arising from or related to the sale enhances management's and investor's ability to evaluate our historical operating results. This measure should not be considered in isolation to or as a substitute to net earnings as determined in accordance with GAAP. For a reconciliation of our pro forma earning to our net income for the year, please refer to our press release dated February 13, 2004, which is filed as an exhibit to our Current Report on Form 8-K filed with the SEC on February 17, 2004.

Our revenues consist of parking revenues from leased and owned facilities, and revenues earned in accordance with the terms of management contracts. The following table sets out the revenues earned from each of the three operating arrangements for each of the three years ended December 31, 2003:

	Year ended December 31,					
	2001		2002		2003	
	(dollars in thousands)					
Leased Facilities	\$ 74,279	82.0%	\$ 86,860	79.4%	\$ 97,185	80.2%
Managed Facilities	14,601	16.1%	20,796	19.0%	21,963	18.1%
Owned Facilities	1,668	1.9%	1,695	1.6%	1,982	1.7%

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Parking and management contract revenues	\$ 90,548	<u>100.0%</u>	\$ 109,351	<u>100.0%</u>	\$ 121,130	<u>100.0%</u>
Reimbursement of management contract expenses	<u>27,350</u>		<u>30,491</u>		<u>33,367</u>	
Total revenues	<u>\$ 117,898</u>		<u>\$ 139,842</u>		<u>\$ 154,497</u>	

The number of facilities operated as at each fiscal year end under each of these arrangements is as follows:

	As at December 31,		
	2001	2002	2003
Leased Facilities	559	568	592
Managed Facilities	1,025	1,054	1,080
Owned Facilities	15	15	15
	<u>1,599</u>	<u>1,637</u>	<u>1,687</u>

The performance of our leases, with their high fixed cost component, are significantly impacted by changes in revenue or operating costs. The poor winter weather in the first quarter of 2003 in most of Canada and the Eastern US resulted in lower parking revenues and higher snow clearing costs. The SARS health crisis in Canada had a negative effect on tourism and related businesses, depressing parking revenues at hotels and other tourist destinations. In addition, the general economic weakness in the U.S. and Canada affected our business in much of 2003. Also, as a significant component of our business operations are in Canada and transacted in Canadian dollars, we are exposed to the impact that changes in exchange rates can have on our US dollar reported results. These events contributed to our gross margin increasing from \$22.2 million for 2002 to \$23.3 million for 2003, as we benefited from an 11% improvement in the Canadian dollar from 2002 to 2003; a successful appeal of our 2002 business tax assessment in Calgary, Alberta; and an increase in total revenue of 3.9%, excluding the foreign currency effect. However, the percentage that our gross margin is of sales declined from 20.3% in 2002 to 19.1% in 2003, again reflecting the net impact of the factors described above.

During 2003 we generated \$6.3 million of cash from operations and used this to fund \$2.3 million of capital expenditures, \$0.7 million in acquiring other long-term assets, \$0.6 million of bank debt repayments, and \$0.6 million to repay other long-term liabilities. After including \$1.6 million for the effect of changes in exchange rates on cash balances, our cash balances increased by \$3.7 million during the year.

We also used our credit facility to entirely fund a \$3.0 million advance license fee in acquiring a ten-year license agreement for the parking at Miller Park in Milwaukee, Wisconsin.

During 2003 we also paid the second annual instalment of \$1.1 million to the vendors of DLC Management, Inc, in accordance with the terms of the acquisition we completed in 2001. This payment was primarily funded by \$1.0 million of cash received in final settlement of a note receivable from the San Francisco Giants for their share of development costs on the parking facilities at the PacBell baseball stadium in San Francisco.

Results of Operations

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Total revenues for fiscal 2003 increased \$14.7 million, or 10.5%, to \$154.5 million from \$139.8 million for fiscal 2002. Excluding an increase of \$2.9 million in the reimbursement of management contract expenses, which are directly offset by an equivalent increase in reimbursed management contract expenses classified within direct costs,

there was an increase of \$11.8 million in revenues. This was generally as a result of continuing to open new facilities and from a stronger Canadian dollar. If the Canadian dollar exchange rate in 2003 had remained the same as it was in 2002, total revenues for fiscal 2003 would have increased by only \$5.4 million, or 3.9%.

Revenues from leased facilities for fiscal 2003 increased to \$97.2 million from \$86.9 million in fiscal 2002, an increase of \$10.3 million, or 11.9 %. There was an increase of \$4.7 million in the United States largely as a result of opening new locations, notably in Milwaukee, with Miller Park the baseball stadium for the Milwaukee Brewers, and in Miami, which increased its number of leased facilities from six at December 31, 2002 to fourteen at December 31, 2003. This increase in revenue in the U.S. is net of a decrease of \$4.6 million in Chicago and Minneapolis. The decrease in these cities was the result of the sale, by a landlord, of a significant leased facility in Chicago and the subsequent renewal of the agreement by the new landlord as a management contract effective January 2003, and our decision not to renew an unprofitable lease in Minneapolis in the fourth quarter of 2002. These two facilities contributed approximately \$6.2 million of leased revenue in fiscal 2002. In Canada, there was a \$5.6 million increase in leased revenue, which was largely due to a stronger Canadian dollar. The average exchange rate for 2003 was C\$1.00 = US\$0.71, compared to US\$0.64 for

2002. In local currency terms, however, leased revenue in Canada increased by only C\$0.1 million in 2003, compared to 2002. An increase of C\$2.1 million in Toronto, largely from a net increase of two lease locations during the year, was offset by a decrease of C\$2.0 million in other Canadian cities as a result of severe winter weather in 2003 and a decline in hotel, tourism and other traffic.

Management contract revenues for fiscal 2003 increased by \$1.2 million, or 5.6%, to \$22.0 million from \$20.8 million for fiscal 2002. Of this increase, approximately \$0.8 million is due to the stronger Canadian dollar and \$0.4 million to new contracts.

The direct costs incurred in providing services under parking and management contracts in 2003 increased to \$97.8 million from \$87.2 million in 2002, an increase of \$10.6 million, or 12.3%. Rent expense increased by \$7.5 million, or 13.4%, to \$63.3 million for 2003 from \$55.8 million for 2002. Rent as a percentage of leased revenues, increased to 65.1% in 2003 from 64.2% in 2002. The increase is due to an increase in Canada in rent as a percentage of leased revenues. We opened several new lease locations in Toronto, and as with any new lease we expect that rent as a percentage of leased revenues will be higher at the start of the lease term. The increase in other direct costs of \$3.2 million, or 10.2%, from \$31.4 million to \$34.6 million, includes \$1.2 million of costs associated with operating the new contracts at the Mirabel and Dorval airports in Montreal, Quebec and Miller Park in Milwaukee; \$0.6 million for the effect of the stronger Canadian dollar on other direct costs; an increase in snow clearing and removal costs of \$0.2 million from the harsher winter in 2003; and a discount of \$0.1 million granted on the early settlement of the outstanding balance due from the San Francisco Giants for their share of development costs. The increases in other direct costs for fiscal 2003 were offset by recoveries of \$0.8 million and \$0.3 million for amounts previously accrued in 2002 for business taxes in Calgary and a property tax assessment, respectively, which we successfully appealed in 2003. The cost of parking and management contracts as a percentage of revenue from parking and management contracts increased to 80.8% in fiscal 2003 from 79.7% in fiscal 2002.

In 2003 we were successful in appealing our 2002 business tax assessments for our operations in Calgary, Alberta. The appeal resulted in City of Calgary reducing the 2002 assessment by \$0.8 million from \$1.0 million to \$0.2 million. The City applied the reduction against amounts we owed for 2003 and, at December 31, 2003, there were no amounts owing to the City for either 2002 or 2003. We are continuing to appeal the 2003 assessments. We have provided further details of this issue in Part I, Item 3 - Legal Proceedings.

General and administrative expenses increased \$1.0 million, or 6.4%, from \$16.2 million for fiscal 2002 to \$17.2 million for fiscal 2003. \$0.9 million of the increase resulted from the stronger Canadian dollar. The remainder of the increase largely occurred in our U.S. expansion cities of Chicago and Miami, and from relocating our U.S. head office to Philadelphia, offset by a realized foreign exchange gain of \$0.1 million. General and administrative expenses, as a percentage of total revenues, decreased to 11.1% for fiscal 2003 from 11.6% for fiscal 2002.

Prior to 2003, we accounted for stock options issued to employees using the intrinsic value method in accordance with the provisions of APB 25, *Accounting for Stock Issued to Employees*, and related interpretations, and recognized compensation expense to the extent the current market price of the underlying stock exceeded the exercise price. Effective January 1, 2003, we adopted the fair value recognition provisions of Statement of Financial Accounting No. 123 (SFAS 123), *Accounting for Stock-Based Compensation*, for stock-based employee compensation. All prior periods presented have been restated to reflect the compensation costs that would have been recognized had the recognition provisions of SFAS 123 been applied to all awards granted to employees after December 15, 1994. The effect of restating the results for fiscal 2002 is that stock-based compensation expense for the period, which is included in general and administrative expenses, increased by \$398,000 from a recovery of \$65,000, as previously reported, to an expense of \$333,000.

As a result of the decision by our principal shareholder, Gotham Partners, L.P. and its affiliated investment funds (Gotham), to sell its ownership interest, a Special Committee of the Board of Directors was formed in January 2003 to explore the alternatives available to the Company. During 2003 we incurred \$1.5 million of professional fees related to this review and these costs are included in other non-operating expenses for the year. In January 2004, the Company entered into a merger agreement with IPK Acquisition Corporation, an affiliate of The Gates Group, LLC, and pursuant to which the Company s shareholders would be entitled to receive \$26.00 in cash per share, subject to downward adjustment in the event that certain of the Company s transaction costs exceed \$1.55 million.

We completed our annual review of goodwill in the fourth quarter of 2003 to determine whether there had been any impairment in its carrying value. Based on the share price offer in the merger agreement above, details of which were available at the time of the impairment test, we determined that the amount of the Company s fair value attributed to goodwill was less than its carrying value. As a result, we recorded a goodwill impairment charge of \$33.5 million in 2003.

Income tax expense for fiscal 2003 includes our current tax liability for Canadian operating profits, and capital and state taxes, and a deferred tax recovery for operating losses in the U.S. for fiscal 2003. The deferred tax recovery has been reduced by a deferred tax expense in Canada as we utilized the remainder of our previously recognized benefits of net operating losses for tax purposes in Canada. During the third quarter of 2003, we utilized all of our net operating losses in Canada, and have now started to incur a current, rather than a deferred, tax liability for any operating profits in Canada. We also provided a valuation allowance of \$0.5 million in 2003 against the deductibility of \$1.5 million in Special Committee expenses, as these costs are only deductible for tax purposes on a limited basis.

Excluding the goodwill impairment charge of \$33.5 million in 2003, earnings for 2003 were \$14,000 a decrease of \$1.9 million from earnings for 2002 of \$1.9 million. This decrease is primarily due to higher general and administrative expenses of \$1.0 million; higher depreciation and amortization of \$0.2 million; \$1.5 million of Special Committee expenses; and higher income tax expense of \$0.6 million; offset by higher gross margin of \$1.1 million; and an improvement in our share of Limited Liability company results of \$0.3 million.

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

Total revenues for fiscal 2002 increased \$21.9 million, or 18.6%, to \$139.8 million from \$117.9 million for fiscal 2001. The increase was due largely to an increase in revenue on leased facilities in the U.S., and includes the results for DLC, which was acquired effective July 1, 2001.

Revenues from leased facilities for fiscal 2002 increased to \$86.9 million from \$74.3 million in fiscal 2001, an increase of \$12.6 million, or 16.9%. There was an increase of \$12.9 million in the United States as a result of starting operations in Atlanta (August 2001) and Chicago (November 2001) and the acquisition of DLC in Philadelphia (July 2001). However, we have also experienced a drop in volume and in rates in our established cities of Minneapolis and Milwaukee as a result of layoffs by businesses operating downtown and pressure from competitors to lower rates. Consequently, we decided not to renew a significant lease in Minneapolis in the fourth quarter of 2002. Revenue from these two cities declined \$0.6 million in 2002 from 2001. There was a \$0.3 million decrease in leased revenue in Canada substantially due to a decline in the value of the Canadian dollar from an average rate for fiscal 2001 of C\$1.00 = US\$0.65 to US\$0.64 for 2002, and to higher traffic volumes in fiscal 2001 as a result of public transit strikes in Calgary, Alberta and Vancouver, B.C. Leased revenue in Canada for fiscal 2001 also included the recovery of \$0.2 million for taxes previously provided on parking violation revenue.

Management contract revenues for fiscal 2002 increased by \$6.2 million, or 42.4%, to \$20.8 million from \$14.6 million for fiscal 2001. \$5.7 million of the increase was due to a full year of operations from DLC, which was acquired in July 2001.

The cost of parking and management contracts in 2002 increased to \$87.2 million from \$70.0 million in 2001, an increase of \$17.2 million, or 24.5%. Of this increase, \$9.0 million was attributable to higher rent expense and \$8.2 million to other direct costs. Rent expense increased \$9.0 million, or 19.2%, from \$46.8 million for 2001 to \$55.8 million for 2002. Rent as a percentage of leased revenues, increased to 64.2% in 2002 from 63.0% for 2001. The increase is due to many of the leases in the U.S. being in the first or second year of their terms. As we continue to operate these leased facilities, we would expect growth in revenue to exceed any growth in rent and, therefore, rent as a percentage of revenues would decline. The increase in other direct costs of \$8.2 million, or 35.0%, from \$23.2 million to \$31.4 million, is due to the acquisition of DLC, an increase in our business taxes in Calgary and the increase in leased revenues. Our business tax assessment in Calgary for 2002 was approximately \$1.0 million, which was three times the amount of our assessment for 2001 of approximately \$0.3 million. Although we appealed the 2002 assessment and were successful with the appeal in 2003, we recorded the full amount of the original assessment in 2002. The cost of parking and management contracts as a percentage of revenues from parking and management contracts increased to 79.7% in fiscal 2002 from 77.3% in fiscal 2001. The increase is due to a higher proportion of

our business in 2002, compared to 2001, being generated in the U.S. where we are in a start-up phase in many cities. We expect only to be in a break-even position, or marginally profitable, in these new cities during their first one or two years of operation. The current weak U.S. economy may prolong this period, during which we may generate lower than average returns in these new cities.

General and administrative expenses increased \$2.3 million, or 16.6%, from \$13.9 million for fiscal 2001 to \$16.2 million for fiscal 2002. The increase in general and administrative expenses is due, in large part, to including DLC for a full year, which added \$1.5 million of general and administrative expenses and to an additional \$0.2 million for cities started during 2001. General and administrative expenses, as a percentage of total revenues, decreased to 11.6% for fiscal 2002 compared to 11.8 % for fiscal 2001.

Prior to 2003, we accounted for stock options issued to employees using the intrinsic value method in accordance with the provisions of APB 25, *Accounting for Stock Issued to Employees*, and related interpretations, and recognized compensation expense to the extent the current market price of the underlying stock exceeded the exercise price. Effective January 1, 2003, we adopted the fair value recognition provisions of Statement of Financial Accounting No. 123 (SFAS 123), *Accounting for Stock-Based Compensation*, for stock-based employee compensation. All prior periods presented have been restated to reflect the compensation costs that would have been recognized had the recognition provisions of SFAS 123 been applied to all awards granted to employees after December 15, 1994. The effect of restating the results for fiscal 2002 is that stock-based compensation expense for the period, which is included in general and administrative expenses, increased by \$398,000 from a recovery of \$65,000, as previously reported, to an expense of \$333,000. Restating the results for fiscal 2001 resulted in stock-based compensation expense for the period decreasing by \$454,000 from \$780,000, as previously reported, to \$326,000.

There was no amortization of goodwill in fiscal 2002, compared to \$2.2 million for fiscal 2001. This is a result of adopting Financial Accounting Statement No. 142, which does not permit amortization of goodwill, but requires goodwill to be reviewed annually for any impairment in value.

Interest income decreased \$0.1 million from \$0.6 million for fiscal 2001 to \$0.5 million for fiscal 2002 principally due to lower prevailing interest rates. Interest expense of \$0.4 million was incurred in fiscal 2002 on the bank and other indebtedness to finance the DLC acquisition, which was \$0.1 million more than the \$0.3 million incurred in fiscal 2001. The expense in 2001 was for a partial year as the acquisition of DLC occurred during 2001.

Income tax expense for fiscal 2002 includes our current tax liability for capital and state taxes, and a deferred tax expense as we utilize our previously recognized benefits of net operating losses for tax purposes in Canada. The deferred tax expense has been reduced by a deferred tax recovery for operating losses in the U.S. for fiscal 2002.

The net income for 2002 was \$1.9 million, an increase of \$0.7 million from the net income for 2001 of \$1.2 million. This increase is primarily due to higher gross margin of \$1.7 million; lower depreciation and amortization of management and lease agreements of \$0.1 million; and discontinuation of goodwill amortization of \$2.2 million; offset by higher general and administrative expenses of \$2.3 million; a decrease in net interest income of \$0.2 million and higher income tax expense of \$0.8 million.

Liquidity and Capital Resources

As at December 31, 2003, we had cash and cash equivalents of \$18.8 million. This represents an increase of \$3.7 million for fiscal 2003 from the balance at December 31, 2002. The increase resulted from \$6.4 million of cash generated from operations, \$1.8 million provided by financing activities and \$1.6 million for the effect of exchange rate changes on cash; offset by \$6.1 million used in investing activities.

In fiscal 2003 we utilized the remaining net operating losses that we had in Canada to offset taxable income. Accordingly, we started to accrue for income taxes payable in Canada during the year and had accrued \$1.4 million at December 31, 2003 in respect of the portion of profits in Canada for 2003 that were taxable after utilizing the remainder of the net operating losses. We started paying tax instalments in Canada in the fourth quarter of fiscal 2003 totalling \$0.3 million on account of income taxes payable for fiscal 2003.

The cash used in investing activities during fiscal 2003 included \$3.0 million in respect of an advance license fee under a ten year license agreement to manage the parking operations at Miller Park in Milwaukee, Wisconsin. This prepayment is included in other assets and is being amortized on a straight-line basis over the term of the agreement. We also paid \$1.1 million to the former shareholders of DLC during fiscal 2003. This was the second of five annual deferred payments and was calculated pursuant to the Amended and Restated Share Purchase Agreement

(Exhibit 10.8) and was based on the earnings of the acquired operations for the year ended June 30, 2003. We had previously accrued this payment as part of our acquisition. The difference of \$135,000 from the amount previously accrued has been allocated to goodwill. We also received during fiscal 2003, \$1.0 million from the San Francisco Giants in final settlement of the outstanding balance due from them of \$1.1 million for their share of the parking facility development costs. The discount of \$0.1 million was expensed in fiscal 2003. The balance was originally to be recovered from any future participation rent payable to the Giants.

At December 31, 2003, we had \$5.7 million of bank debt outstanding. We borrowed \$3.0 million under our credit facility during 2003 to fund the advance license fee for Miller Park. After originally drawing down \$6.9 million on the non-revolving loan facility and using \$2.4 million for outstanding letters of credit, we have \$10.7 million remaining of a \$20.0 million credit facility with HSBC Canada to fund working capital requirements, acquisitions and other capital investment opportunities.

In April 2003, under the terms of the acquisition agreement for the purchase of E-Z Park Company Ltd., LLC in April 2000, we repaid the note payable of \$0.5 million, including accrued interest, due to the vendor as deferred consideration.

In the next 12 months, we anticipate the working capital necessary to satisfy current obligations will be generated from operations, available cash, and our bank facility.

Depending on the timing and magnitude of future investment opportunities, which could be in the form of leased or purchased properties, joint ventures or acquisitions, we anticipate the cash required to come from operations, the bank credit facility, or an equity offering.

In the future, if we identify investment opportunities requiring cash in excess of operating cash flows and credit facilities, we may seek additional sources of capital, including the sale or issuance of our common stock or a rights offering, or amending our credit facility to obtain additional indebtedness. No assurances can be given that such increases would be available at the time needed to complete any such acquisition.

Contractual Obligations and Commercial Commitments

The following tables summarize our contractual obligations and commercial commitments as of December 31, 2003:

	Payments due by period (amounts in thousands)				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Bank indebtedness ⁽¹⁾	\$ 5,706	\$ 5,706	\$	\$	\$
Operating leases	223,053	53,751	73,066	38,062	58,174
Other long-term obligations ⁽²⁾	3,822	1,333	2,017	118	354
Total contractual cash obligations	\$232,581	\$60,790	\$75,083	\$38,180	\$58,528

(1) The bank indebtedness has been reflected as payable within one year as it is repayable on demand. However, it is currently being repaid in blended monthly instalments of principal and interest of \$105,000 through December 2007, and \$43,000 thereafter until June 2010.

(2) Other long-term obligations include an estimated \$2.7 million payable to the former shareholders of DLC. The amounts ultimately payable to the former shareholders are calculated relative to the actual operating results of the acquired business for the three remaining annual periods ending June 30, 2006 and may differ from the

amount estimated at December 31, 2003 to be payable.

	Amount of commitment expiration per period (amounts in thousands)				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Standby letters of credit	\$2,356	2,356			
Guarantees	—	—	—	—	—
Total commercial commitments	<u>\$2,356</u>	<u>2,356</u>	—	—	—

Critical accounting policies

Impark is involved in the ownership, management and operation of parking facilities in the United States and Canada. In preparing the consolidated financial statements, estimates and judgments are applied that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities for the reporting periods. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable in the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily available from other sources. On an on-going basis, we evaluate areas of estimate or judgment to ensure they reflect currently available assessments and knowledge. Actual results may differ from these estimates under different assumptions and conditions.

We believe that the following critical accounting policies affect our more significant judgments and estimates.

The consolidated financial statements reflect our estimates of the value of goodwill, management agreements and fixed assets arising from historical transactions. In assessing the underlying value of these assets, we consider estimates of future cash flows to be generated from the assets over their estimated useful life. Various factors, including customer demand, weather, transit use and government policies, could change thereby impacting these estimates, possibly materially. These factors are substantially outside of our control.

Beginning January 1, 2002, we have accounted for goodwill under the provisions of SFAS No. 142 Goodwill and Other Intangible Assets. As of December 31, 2003, we had \$18.8 million of goodwill. The determination of fair value of goodwill, and any impairment loss, utilizes cash flow projections that assume certain future revenue and costs levels, assumed earnings multiples based upon current market conditions and other valuation factors, all of which involve the use of significant judgment and estimation. Future events may indicate that judgments and estimates that we made to support the carrying value of goodwill at December 31, 2003 are no longer appropriate. This could, in turn, result in impairment charges in the future. Future events that may result in impairment charges include increases in interest rates, which would impact earnings multiples, unfavourable economic conditions or other factors, which could decrease revenues and profitability of existing locations, and changes in the cost structure of existing facilities. Factors that could potentially have an unfavourable economic effect on our judgment and estimates include, among others: changes imposed by government and regulatory agencies, such as assessment of parking-related taxes; construction or other events that could change traffic patterns; and terrorism or other catastrophic events.

The consolidated financial statements reflect deferred income tax assets based on our assessment that we are more likely than not to be able to utilize certain deductions in the future, primarily loss carry-forwards. Changes in the timing of the recognition and amount of revenues and expenses in the future may impact our ability to utilize these deductions. The carrying value of our net deferred tax assets assumes that we will be able to generate sufficient future taxable income in certain tax jurisdictions, based on estimates and assumptions. If these estimates and related assumptions change in the future, we will be required to adjust our deferred tax valuation allowance.

Under the terms of the agreement to acquire DLC, we are required to make further annual payments to the former shareholders of DLC for each of the twelve month periods ending June 30, 2004 through 2006. The payments are calculated relative to the actual operating results of the acquired business determined in accordance with generally accepted accounting principles. Each twelve month period calculation is independent and separable from each other twelve month period calculation. In making this calculation, a multiple of 6.5 is applied to each future twelve month period's earnings before interest, taxes, depreciation and amortization (EBITDA) less depreciation of any new capital expenditure on the acquired parking facilities, and one-tenth of that amount is payable in cash at that time. At December 31, 2003 we estimated this liability, based on operating results of the acquired business for 2003, to be approximately \$1.0 million per annum for each of the periods through June 30, 2006. We have accrued for this amount in our Consolidated Financial Statements as at December 31, 2003. The actual amount to be paid for any

given year may differ significantly from our estimate as it depends on the actual operating performance of DLC and is not subject to any limit. However, the former shareholders of DLC are required to make up any shortfall, up to \$350,000, in the EBITDA of the acquired business below \$1.35 million for any of the twelve month periods through June 30, 2006. A change of 10% in our estimate of operating results would result in a change of approximately \$0.1 million per annum in the amount payable to the former shareholders of DLC for each of the periods through June 30, 2006.

New Accounting Pronouncements

During 2003, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard No. 150, Accounting for certain Financial Instruments with Characteristics of both Liabilities and Equity (SFAS No. 150) and related interpretations. SFAS No. 150 requires that certain financial instruments issued in the form of shares that are mandatorily redeemable as well as certain other financial instruments be classified as liabilities in the financial statements. SFAS No. 150 is effective for the Company's December 31, 2003 financial statements. As the Company has no financial instruments with characteristics of both liabilities and equity or shares which are mandatorily redeemable, adoption of SFAS 150 had no impact on the consolidated financial statements.

FASB has issued Financial Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities , which addresses the consolidation of variable interest entities (including those referred to as Special-Purpose Entities). The disclosure and measurement provisions of this Interpretation, as revised, are effective no later than the end of interim or annual periods ending after March 15, 2004. The Company is currently considering whether any of its contractual relationships, including management and lease agreements, notes receivable and equity method investments disclosed in these financial statements, will be subject to the provisions of the Interpretation.

Foreign Currency Exposure

We operate wholly owned subsidiaries in Canada. Total historical revenues (excluding reimbursement of management contract expenses) from Canadian operations amounted to \$53.1 million and \$60.8 million for fiscal years 2002 and 2003, respectively. We intend to continue to invest in Canadian facilities, and may identify expansion opportunities in other foreign countries. Our exposure to foreign currency fluctuations is limited, as our Canadian dollar revenues to date have been significantly offset by Canadian dollar operating costs. Our net earnings, before the impairment in goodwill, in Canada for 2003 were approximately \$3.6 million, or approximately C\$5.0 million translated at the average exchange rate for 2003 of C\$1.00 = US\$0.71. If the exchange rate used in 2003 had been US\$0.67 instead of US\$0.71, the effect would be to reduce our net earnings, before the impairment in goodwill, by approximately \$0.2 million. Presently, we have no formal hedging programs. We would consider implementing a hedging program if such risk materially increases.

Impact of Inflation and Changing Prices

Our primary sources of revenues are parking revenues from owned and leased locations and management contract revenue (net of expense reimbursements). In the years ended December 31, 2001, 2002 and 2003 inflation had a limited impact on our operations.

Quarterly Results

We may experience fluctuations in our income from quarter to quarter due to fluctuations in revenues and related expenses due to acquisitions, pre-opening costs, travel and transportation patterns affected by weather and calendar related events, and local and national economic conditions. Additionally, we manage the parking for a number of sports stadiums and arenas and our income can be affected by the relative degree of success of various sports teams. Information on our quarterly reported revenues, net earnings (loss) and earnings (loss) per share is disclosed in Note 15 to the Consolidated Financial Statements in this report.

CERTAIN FACTORS AFFECTING FUTURE OPERATING RESULTS

This Annual Report, including the information incorporated herein by reference contain certain statements that may be considered forward-looking statements under the Private Securities Litigation Reform Act of 1995. You can identify forward-looking statements by the use of the words believe, expect, anticipate, intend, estimate, assume, will, should, and other expressions which predict or indicate future events or trends and which do not relate to historical matters. The Company's actual results could differ materially from those projected in the forward-looking statements as a result of, among other factors, the factors discussed below, our ability to successfully integrate past and future acquisitions, our ability to form and maintain strategic relationships with certain large real estate owners, and changes in assumptions used in making such forward-looking statements. Readers should carefully review the factors described on below and should not place undue reliance on our forward looking statements. The Company assumes no obligations to update any forward-looking statements.

We may incur significant expenses in connection with the proposed merger.

On January 22, 2004, the Company signed a merger agreement with IPK Acquisition Corporation, an affiliate of The Gates Group, LLC, pursuant to which the Company's shareholders would be entitled to receive \$26.00 in cash per share, subject to downward adjustment in the event that certain of the Company's transaction costs incurred or paid after November 30, 2003 exceed \$1.55 million. We expect to incur significant transaction costs to complete the merger. We estimate that we will incur an additional \$1.2 million in expenses in addition to those already reflected in our results for the year ended December 31, 2003. This estimate is based on a number of assumptions regarding the timing of the merger and the expenses that we will incur to consummate the merger. No assurances can be made that our actual expenses will not significantly exceed our estimate. If the merger is not consummated we may be required to pay a termination fee of \$2.0 million and reimburse expenses of up to \$750,000. These costs could have a materially adverse effect on our future results of operations and on our financial condition.

Our growth strategy may not succeed

As part of our business strategy, we intend to pursue acquisitions of other parking operators. In executing our acquisition strategy, we may be unable to identify suitable acquisition candidates. In addition, we expect to face competition from other parking providers for acquisition candidates, making it more difficult to acquire suitable companies on favorable terms. If we pursue any acquisition, our management could spend a significant amount of time and effort in identifying and completing the acquisition. If we complete an acquisition, we may have to devote a significant amount of management resources to integrating the acquired business with our existing business. An acquisition might not produce the revenue or earnings that we anticipated, and an acquired operation may not perform as expected. Accordingly, our acquisition efforts may not succeed. In addition, from an accounting perspective, an acquisition may result in non-recurring charges or involve significant write-offs of goodwill that could adversely affect our operating results.

To pay for an acquisition, we might use capital stock or cash. Alternatively, we might borrow money from a bank or other lender. If we use capital stock, our stockholders may experience dilution. If we use cash or debt financing, our financial liquidity would be reduced. We cannot be certain that we will have sufficient access to capital to permit us to implement our acquisition strategies.

We also intend to pursue aggressive growth in targeted major cities in the United States. However, we may not be able to sign up parking contracts in these cities due to competition from existing operators or reluctance from landlords to enter into agreements with an operator who is new in the local market. Furthermore, if we are able to add new facilities, we may incur losses on these new locations during the first or second year of operations as we attempt to

achieve projected revenue targets by optimizing parking rates and marketing the facility.

Severe winter weather may adversely affect our business

The parking business depends on the free flow of vehicular traffic. Severe winter weather conditions in Canada and the northern United States could close or significantly slow roadways. This, in turn, may harm our business and adversely affect our cash flow by reducing the demand for parking and increasing our snow removal costs.

Changes in privacy legislation could harm our business by making collections more difficult and costly

City Collection Company Limited (City Collections), an Impark subsidiary, identifies vehicle owners in Canada through searches based on license plate numbers. The license plate data are maintained by each province in Canada. Although most provinces have enacted privacy legislation regulating access to such data, City Collections has entered into access agreements with several provinces. Should more restrictive privacy legislation be enacted it could adversely affect City Collections' business. In February 2004, the provincial government of Alberta terminated our access to motor vehicle records for the province of Alberta, Canada. We are presently appealing this decision. If we are unsuccessful in reinstating our access to motor vehicle records, it could adversely impact our collection efforts and reduce the revenue we earn from parking violations in Alberta, Canada. In addition, fees charged for searches of motor vehicle registration are also set by provincial governments and any increase in these fees will have an adverse effect on City Collections' business.

An increase in the cost of insurance claims and changes in the insurance marketplace could increase our costs

We typically have a large number of small property or personal injury claims. We have insurance to cover the cost of these claims, to the extent such costs exceed a deductible amount. However, a major increase in the number and cost of claims to the insurance company could significantly increase the amount that we pay to insure against these claims.

Additionally, due to changes in the insurance marketplace, including changes related to the terrorist attacks on September 11, 2001, we have experienced an increase in the premiums we pay for most types of insurance coverage. Changes in the insurance marketplace, including increased premium costs, could have a material adverse effect on our future results of operations and on our financial condition.

Currency fluctuations could adversely affect our financial results

While our consolidated financial statements are prepared in United States dollars, many of our operations are conducted in Canadian dollars. Fluctuations in exchange rates may have a material adverse effect on our financial results, particularly our operating margins, and could also result in exchange losses. To date we have not sought to hedge these risks, but may undertake hedging transactions in the future. We cannot be certain, however, that any hedging techniques would be successful in preventing or limiting the adverse financial effects of exchange rate fluctuations.

We face risks associated with environmental regulations

Various federal, state, provincial and local environmental laws and regulations impose liabilities on a current or previous owner or operator of real property for the cost of removal or remediation of hazardous or toxic substances on the property. These laws typically impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence of the hazardous or toxic substances. In connection with our ownership, operation or acquisition of parking facilities, we may be potentially liable for such costs. Although we are currently not aware of any material environmental claims pending or threatened against us or any of our owned or operated parking facilities, we cannot give any assurance that a material environmental claim will not be asserted against us or against our owned or operated parking facilities. We could face significant costs in defending against claims of liability or in remediating a contaminated property.

An increase in government regulation or taxation could harm our business

The parking business is subject to a significant degree of government regulation. The regulations include potentially costly matters such as requiring improvements to meet civic by-laws, worker's compensation regulations and labor

standards, as well as, environmental and other potentially costly legislation. Any new or increased levels of regulation could adversely impact our business.

The parking industry is also subject to increased taxation from the various levels of government. Historically, it has been considered as an environmentally unfriendly industry due to its primary purpose, which is to park automobiles driven into downtown business districts. Consequently the parking industry has been the subject of significant taxation including federal, state and provincial sales taxes, property taxes, business taxes and federal and provincial/state income taxes. Our business will be adversely affected by any significant new tax legislation or increased levels of taxation, any of which could be retroactive.

Various other governmental regulations affect our operation of parking facilities, both directly and indirectly, including air quality laws, licensing laws and the Americans with Disabilities Act of 1990. Under the ADA, all public accommodations, including parking facilities, are required to meet certain federal requirements related to access and use by disabled persons. Although we believe that the parking facilities we own and operate are in substantial compliance with these requirements, a determination that we or the facility owner is not in compliance with the ADA could result in the imposition of fines or damage awards against us.

In addition, several state, provincial and local laws have been passed in recent years that encourage car pooling and the use of mass transit, including, for example, laws prohibiting employers from reimbursing employee parking expenses. Laws and regulations that reduce the number of cars and vehicles being driven could hurt our business.

We have significant competition from a variety of sources

The parking industry is highly competitive. Our competitors range from small single-lot operators to large regional and national multi-facility operators, and include municipal and other governmental entities. Some of our present and potential competitors have or may obtain greater financial and marketing resources than we have. Furthermore, we compete for qualified management personnel with other parking facility operators, with property management companies and with property owners. We may encounter increased competition in the future. Among other things, increased construction of parking facilities could limit our ability to attract customers, expand our business or maintain profitable pricing levels and could decrease our market share. We compete for acquisitions with other parking facility operators, real estate developers and real estate investment trusts. We may encounter increased competition for acquisitions in the future, and this competition could hurt our ability to complete acquisitions or have the effect of increasing the prices we must pay for acquisitions.

We believe that there will be rapid business consolidation in the parking services industry. If this occurs and we are unable to participate successfully in the business consolidation, our business and financial results could be harmed.

A labor strike could hurt our competitiveness

A significant number of our employees are members of labor unions. As a result there is more risk of work stoppages due to strikes, which could potentially be costly to us because increased labor costs could adversely affect our ability to retain management contracts and to remain competitive in the marketplace.

The large number of leased facilities increases the risk that we may not be able to cover the fixed costs of our leased facilities

We leased 592 and owned 15 facilities as of December 31, 2003. Although there is more potential for income from leased and owned facilities than from management contracts, they also carry more risk if there is a downturn in property performance or commercial real estate occupancy rates because a significant part of the costs to operate such facilities typically is fixed. For example, in the case of leases, there are typically minimum lease payments, and in the case of owned facilities, there are the normal risks of ownership and costs of capital. In addition, maintenance and operating expenses for both leased and owned facilities are borne by us and are not passed through to the owner, as is the case with management contracts. Generally, performance of our parking facilities depend, in part, on our ability to negotiate favorable contract terms, our ability to control operating expenses, financial conditions prevailing generally and in areas where parking facilities are located, the nature and extent of competitive parking facilities in the area, weather conditions and the real estate market generally. The relative significance of our leases can be viewed in relation to the term remaining on currently active leases and the extent to which the direct costs of operating those leased facilities historically have been covered by revenue generated by the facilities. This is illustrated by the table below, which groups our leased locations that were active at December 31, 2003 by the year that the related agreement

will expire, as follows:

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Term expires	Number of facilities ⁽¹⁾	Year ended December 31, 2003		
		Revenue	Direct costs ⁽²⁾	Coverage ⁽³⁾
2004	279	\$28,222	\$ 25,633	1.10
2005	95	13,342	12,031	1.11
2006	79	11,368	10,021	1.13
2007	35	5,892	5,699	1.03
2008 and thereafter	104	35,038	33,173	1.06
Total	592	\$93,862	\$ 86,557	1.08

(1) For leased locations that were open as at December 31, 2003.

(2) Direct costs included minimum rental payments, contingent payments based upon a percentage of revenues, property taxes and other operating expenses.

(3) Coverage is calculated by dividing Revenue by Direct costs. Coverage should not be considered in isolation or as a substitute of measures of performance prepared in accordance with generally accepted accounting principles. Coverage is not an accepted measure under generally accepted accounting principles and other companies will use different measures or different calculations of profitability.

Several of our locations are dependent on sports-related traffic

Several of our leased facilities are located beside or in the vicinity of major sporting arenas. A significant proportion of the revenue earned at these locations occurs during regular and post-season games. In 2003, approximately 8% of our revenue was earned from customers attending baseball games. A player strike or other work stoppage leading to the cancellation of games, or a reduction in attendance at games, would substantially reduce the revenue earned at these locations. However, our fixed rent commitments on these locations would be unchanged. As a result, the profit we earn from these facilities would decrease significantly.

The threat of terrorist activity could affect demand for parking

The threat of, or actual, terrorist activity in urban centres in North America may lead to restrictions on access to streets or buildings in the downtown areas. This may result in the access to parking facilities being more difficult, or not permitted at all, which will have an adverse effect on revenue generated from those facilities.

Furthermore, the threat of terrorist activity may affect consumer confidence. A loss of confidence may lead to the public being less likely to incur discretionary spending on restaurants, sporting events and theatres, which in turn means less demand and lower revenues at adjacent parking facilities.

Item 7a. Quantitative and Qualitative Disclosure about Market Risk

To December 31, 2003, we have not entered into significant derivative instruments either for hedging or speculative purposes. As of December 31, 2003, we had no such instruments outstanding. We will periodically hold excess available cash in cash equivalents, which are short-term deposits at major financial institutions with terms to maturity at the date of acquisition of three months or less.

Interest Rates :

Our primary exposure to market risk consists of changes in interest rates on cash invested in short-term deposits which are all included in cash equivalents on our consolidated balance sheet. As of December 31, 2003, we did not have any cash invested in short-term deposits. Changes in interest rates could impact our anticipated real rate of return. However, due to the short-term nature of such investments, the risk of loss to market is not expected to be significant.

Our bank indebtedness of \$5.7 million at December 31, 2003 bears interest at rates which vary with changes in the London Interbank Offered Rate (LIBOR). Based on our current borrowing level, a 1% change in LIBOR would impact net income by less than \$0.1 million annually.

Foreign Currency Exposure:

We operate wholly owned subsidiaries in Canada. Total revenues (excluding reimbursement of management contract expenses) from Canadian operations amounted to \$60.8 million for the year ended December 31, 2003 as detailed in Note 14 to the Financial Statements. We intend to continue to invest in Canadian facilities, and may identify expansion opportunities in other foreign countries. We believe that our exposure to foreign currency fluctuations is limited because our Canadian dollar revenues have to date been significantly offset by Canadian dollar operating costs. Our net earnings, before the impairment in goodwill, in Canada for 2003 were approximately \$3.6 million, or approximately C\$5.0 million translated at the average exchange rate for 2003 of C\$1.00 = US\$0.71. If the exchange rate used in 2003 had been US\$0.67 instead of US\$0.71, the effect would be to reduce our net earnings, before the impairment in goodwill, by approximately \$0.2 million. Presently, we have no formal hedging programs, other than investing any excess Canadian cash in U.S. Treasury bills. We would consider implementing a hedging program if such risk materially increases.

Item 8. Financial Statements and Supplementary Data

The consolidated financial statements listed in Item 15(a)1 and 15(a)2 are included in this report on pages F-1 through F-7.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A. Controls and Procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the Exchange Act), the Company s management conducted an evaluation with the participation of the Company s Chief Executive Officer and Chief Financial Officer, regarding the effectiveness of the Company s disclosure controls and procedures, as of the end of the last fiscal quarter. In designing and evaluating the Company s disclosure controls and procedures, the Company and its management recognize that any controls and procedures, no matter how well designed and operated, can provide only a reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating and implementing possible controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that they believe the Company s disclosure controls and procedures are reasonably effective to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms. We intend to continue to review and document our disclosure controls and procedures, including our internal controls and procedures for financial reporting, and we may from time to time make changes to the disclosure controls and procedures to enhance their effectiveness and to ensure that our systems evolve with our business.

Part III

Item 10. Directors and Executive Officers of the Registrant

Information concerning this Item is incorporated by reference to the Company's definitive proxy materials for the Company's 2004 Annual Meeting of Shareholders.

Item 11. Executive Compensation

Information concerning this Item is incorporated by reference to the Company's definitive proxy materials for the Company's 2004 Annual Meeting of Shareholders.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Information concerning this Item is incorporated by reference to the Company's definitive proxy materials for the Company's 2004 Annual Meeting of Shareholders.

Item 13. Certain Relationships and Related Transactions

Information concerning this Item is incorporated by reference to the Company's definitive proxy materials for the Company's 2004 Annual Meeting of Shareholders.

Item 14. Principal Accounting Fees and Services

Information concerning this Item is incorporated by reference to the Company's definitive proxy materials for the Company's 2004 Annual Meeting of Shareholders.

Part IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) 1. Financial Statements

The following financial statements are filed as part of this report:

	Page
Independent Auditors Report	F-1
Consolidated Financial Statements:	
Balance Sheets as of December 31, 2003 and 2002	F-2
Statements of Operations for the years ended December 31, 2003, 2002 and 2001	F-3
Statements of Stockholders Equity for the years ended December 31, 2003, 2002 and 2001	F-4
Statement of Cash Flows for the years ended December 31, 2003, 2002 and 2001	F-5
Notes to Consolidated Financial Statements	F-7

2. Financial Statements Schedules

None

Financial statement schedules have been omitted because they are not applicable.

3. Exhibits

Each exhibit listed below in the Index to Exhibits is filed as a part of this report. Exhibits not incorporated by reference to a prior filing are designated by an asterisk (*); all exhibits not so designated are incorporated herein by reference to a prior filing as indicated.

Index to Exhibits

Exhibit No.	Description
2.1	Memorandum of Understanding regarding the Distribution between First Union Real Estate Equity and Mortgage Investments (First Union) and the Registrant (incorporated by reference to Exhibit 2.1 to the Company s Registration Statement No. 001-15629 on Form 10/A as filed on March 2, 2000).
2.2	Agreement and Plan of Merger by and among Imperial Parking Corporation, Imperial Parking Management, LLC and IPK Acquisition Corporation, dated January 22, 2004 (incorporated by reference to Exhibit 2.1 to the Company s Current Report on Form 8-K filed on January 26, 2004).
3.1	Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 to the Company s Registration Statement No. 001-15629 on Form 10/A as filed on March 2, 2000).
3.2	Amended and Restated By-Laws of the Registrant (incorporated by reference to Exhibit 3.2 to the Company s Registration Statement No. 001-15629 on Form 10/A as filed on March 2, 2000).
3.3	Certificate of Designations, Preferences and Rights of a Series of Preferred Stock of Imperial Parking Corporation classifying and designating the Series A Junior Participating Cumulative Preferred Stock (incorporated by reference to Exhibit 3.1 to the Company s Form 8-A/A filed on May 15, 2003).
4.1	Specimen certificate for shares of common stock of the Registrant (incorporated by reference to Exhibit 4.1 to the Company s Registration Statement No. 001-15629 on Form 10/A as filed on March 2, 2000).
4.2	Shareholder Rights Agreement, dated as of May 12, 2003, between Imperial Parking Corporation and National City Bank, as Rights Agent (incorporated by reference to Exhibit 4.1 to the Company s Form 8-A/A filed on May 15, 2003).
4.3	Amendment No. 1 to Shareholder Rights Agreement, dated as of January 22, 2004, between Imperial Parking Corporation and National City Bank, as Rights Agent (incorporated by reference to Exhibit 4.2 to the Company s Form 8-A/A filed on January 26, 2004).
10.1	2000 Stock Incentive Plan of the Registrant (incorporated by reference to Exhibit 10.1 to the Company s Registration Statement No. 001-15629 on Form 10/A as filed on March 2, 2000).
10.2	Indemnification Agreement (incorporated by reference to Exhibit 10.4 to the Company s Registration Statement No. 001-15629 on Form 10/A as filed on March 2, 2000) and First Amendment to Indemnification Agreement. (Incorporated by reference to Exhibit 10.2 to the Company s Annual Report on Form 10-K as filed on March 26, 2002).
10.3	Huntzinger Employment Agreement (incorporated by reference to Exhibit 10.6 to the Company s Registration Statement No. 001-15629 on Form 10/A as filed on March 21, 2000).
10.4	Wallner Employment Agreement (incorporated by reference to Exhibit 10.7 to the Company s Registration Statement No. 001-15629 on Form 10/A as filed on March 21, 2000).

- 10.5 Newsome Employment Agreement (incorporated by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K as filed on March 27, 2003).
- 10.6 \$20.0 million Credit Facility (incorporated by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K as filed on March 28, 2001).
- 10.7 Restricted Stock Agreement for Annual Stock Grant to Directors (incorporated by reference to Exhibit 10.11 to the Company's Quarterly Report on Form 10-Q as filed on November 13, 2001).
- 10.8 Amended and Restated Share Purchase Agreement between Imperial Parking (U.S.), Inc. and the shareholders of DLC (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K as filed on July 12, 2001).
- 10.9 Standstill Agreement between Gotham Partners and the Registrant (incorporated by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K as filed on January 23, 2003).
- 10.10 Gottlin Employment Agreement (incorporated by reference to Exhibit 10.10 on the Company's Quarterly Report on Form 10-Q as filed on May 12, 2003).

Exhibit No.	Description
10.11	Voting Agreement dated January 22, 2004 by and among Imperial Parking Management, LLC and certain of the Company's stockholders (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed on January 26, 2004).
21.1	Subsidiaries of the Registrant (incorporated by reference to Exhibit 21.1 to the Company's Quarterly Report on Form 10-Q as filed on November 13, 2003).
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 (Attached herewith)
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 (Attached herewith)
32.1*	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Attached herewith)
32.2*	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Attached herewith)

(b) Report on Form 8-K

The following reports were filed on Form 8-K during the quarter ended December 31, 2003.

November 3, 2003 Item 5.	Other Events – Announcement that the Special Committee of the Board of Directors had received indications of interest from a number of third parties.
November 14, 2003 Item 12.	Results of Operations and Financial Condition – Announcement of third quarter earnings.

Signatures

Pursuant to the requirements of Section 13 or 15(d) 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.

IMPERIAL PARKING CORPORATION

Date: March 24, 2004

By: /s/ J. BRUCE NEWSOME
J. Bruce Newsome
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Name	Title	Date
<u>/s/ CHARLES E. HUNTZINGER</u> Charles E. Huntzinger	President, Chief Executive Officer and Director (Principal Executive Officer)	March 24, 2004
<u>/s/ J. BRUCE NEWSOME</u> J. Bruce Newsome	Senior Vice President, Finance and Chief Financial Officer (Principal Financial and Accounting Officer)	March 24, 2004
<u>/s/ WILLIAM A. ACKMAN</u> William A. Ackman	Chairman of the Board of Directors	March 24, 2004
<u>/s/ DANIEL P. FRIEDMAN</u> Daniel P. Friedman	Vice-Chairman of the Board of Directors	March 24, 2004
<u>/s/ TALTON R. EMBRY</u> Talton R. Embry	Director	March 24, 2004
<u>/s/ ARMAND E. LASKY</u> Armand E. Lasky	Director	March 24, 2004
<u>/s/ BETH A. STEWART</u> Beth A. Stewart	Director	March 24, 2004
<u>/s/ MARY ANN TIGHE</u> Mary Ann Tighe	Director	March 24, 2004
<u>/s/ DAVID J. WOODS</u> David J. Woods	Director	March 24, 2004

AUDITORS REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Imperial Parking Corporation as at December 31, 2003 and 2002 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three year period ended December 31, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Imperial Parking Corporation as at December 31, 2003 and 2002 and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 2(j) to the consolidated financial statements, effective January 1, 2002 the Company adopted the provisions of Statement of Financial Accounts Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets* , as required for goodwill and intangible assets resulting from business combinations consummated prior to July 1, 2001. As discussed in note 2(p) to the consolidated financial statements, effective January 1, 2003 the Company adopted the fair value recognition provisions of SFAS No. 123, *Accounting for Stock Based Compensation* , for stock-based employee compensation.

Chartered Accountants

Vancouver, Canada

January 30, 2004

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IMPERIAL PARKING CORPORATION

Consolidated Balance Sheets

(Stated in thousands of United States dollars)

December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
		(restated - note 2(p))
Assets		
Current assets:		
Cash and cash equivalents	\$ 18,804	\$ 15,138
Accounts receivable	7,188	6,408
Current portion of recoverable development costs	906	781
Inventory	1,229	960
Deposits and prepaid expenses	2,494	1,347
Deferred income taxes (note 10)		1,034
	<u>30,621</u>	<u>25,668</u>
Recoverable development costs	1,680	2,435
Fixed assets (note 4)	16,773	14,350
Management and lease agreements (note 5)	599	867
Other assets (note 6)	6,703	3,895
Goodwill (note 7)	18,839	45,213
	<u>\$ 75,215</u>	<u>\$ 92,428</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Management accounts payable	\$ 7,849	\$ 5,889
Trade accounts payable and other accrued liabilities	8,285	7,479
Due to employees and former employees	2,908	2,302
Sales and other taxes payable	2,988	1,542
Bank indebtedness (note 8)	5,706	3,349
Current portion of other long-term liabilities	1,052	1,581
Deferred revenue	2,441	1,985
	<u>31,229</u>	<u>24,127</u>
Other long-term liabilities (note 9)	3,783	4,139
Deferred income taxes (note 10)	1,949	2,690
	<u>75,215</u>	<u>92,428</u>

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	36,961	30,956
Stockholders' equity (note 11):		
Common stock \$0.01 par value; 10,000,000 shares authorized: 1,826,264 (2002 - 1,822,639 shares) shares issued and outstanding	18	18
Additional paid-in capital	61,024	60,674
Retained earnings (deficit)	(28,952)	4,560
Accumulated other comprehensive loss:		
Foreign currency translation adjustment	6,164	(3,780)
	<u>38,254</u>	<u>61,472</u>
	<u>\$ 75,215</u>	<u>\$92,428</u>

Commitments and contingencies (note 17)

Subsequent events (note 19)

See accompanying notes to consolidated financial statements.

IMPERIAL PARKING CORPORATION

Consolidated Statements of Operations

(Stated in thousands of United States dollars, except per share amounts)

Years ended December 31, 2003, 2002 and 2001

	<u>2003</u>	<u>2002</u>	<u>2001</u>
		(restated	note 2(p))
Revenue:			
Parking and management contract	\$ 121,130	\$ 109,351	\$ 90,548
Reimbursement of management contract expenses	33,367	30,491	27,350
	<u> </u>	<u> </u>	<u> </u>
Total revenue	154,497	139,842	117,898
Direct costs:			
Cost of parking and management contracts	97,841	87,160	70,027
Reimbursed management contract expenses	33,367	30,491	27,350
	<u> </u>	<u> </u>	<u> </u>
Total direct costs	131,208	117,651	97,377
	<u> </u>	<u> </u>	<u> </u>
Gross margin	23,289	22,191	20,521
Other expenses:			
General and administrative	17,257	16,219	13,908
Depreciation and amortization of management and lease agreements	2,608	2,397	2,523
Amortization of goodwill			2,206
Equity share of limited liability company losses	(147)	116	168
Goodwill impairment (note 7)	33,526		
	<u> </u>	<u> </u>	<u> </u>
	53,244	18,732	18,805
	<u> </u>	<u> </u>	<u> </u>
Operating income (loss)	(29,955)	3,459	1,716
Other income (expense):			
Interest income	437	514	577
Interest expense	(356)	(420)	(298)
Other expense (note 13)	(1,453)		
	<u> </u>	<u> </u>	<u> </u>
	(1,372)	94	279
	<u> </u>	<u> </u>	<u> </u>
Earnings (loss) before income taxes	(31,327)	3,553	1,995

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Income taxes (note 10):			
Current	1,863	346	173
Deferred	322	1,284	649
	<u>2,185</u>	<u>1,630</u>	<u>822</u>
Net earnings (loss)	(33,512)	1,923	1,173
Other comprehensive income (loss):			
Foreign currency translation adjustments	9,944	878	(3,214)
	<u>\$ (23,568)</u>	<u>\$ 2,801</u>	<u>\$ (2,041)</u>
Earnings per share (note 12):			
Basic	\$ (18.35)	\$ 1.06	\$ 0.65
Diluted	\$ (18.35)	\$ 1.02	\$ 0.63

See accompanying notes to consolidated financial statements.

IMPERIAL PARKING CORPORATION

Consolidated Statements of Stockholders' Equity
(Stated in thousands of United States dollars)

Years ended December 31, 2003, 2002 and 2001

	<u>Common stock</u>		Additional paid-in capital (restated note 2(p))	Retained earnings (deficit) (restated note 2(p))	Foreign currency translation adjustment	Total
	Number	Amount				
Balance, December 31, 2000	1,843,000	\$ 18	\$59,991	\$ 1,464	\$(1,444)	\$ 60,029
Net earnings				1,173		1,173
Foreign currency translation adjustment in period					(3,214)	(3,214)
Stock-based compensation			732			732
Options exercised	5,875		84			84
Shares repurchased	(30,858)		(543)			(543)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance, December 31, 2001	1,818,017	18	60,264	2,637	(4,658)	58,261
Net earnings				1,923		1,923
Foreign currency translation adjustment in period					878	878
Stock-based compensation			333			333
Options exercised	4,622		77			77
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance, December 31, 2002	1,822,639	18	60,674	4,560	(3,780)	61,472
Net loss				(33,512)		(33,512)
Foreign currency translation adjustment in period					9,944	9,944
Stock-based compensation	3,250		344			344
Options exercised	375		6			6
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total stockholders' equity, December 31, 2003	<hr/> 1,826,264	<hr/> \$ 18	<hr/> \$61,024	<hr/> \$(28,952)	<hr/> \$ 6,164	<hr/> \$ 38,254

See accompanying notes to consolidated financial statements.

IMPERIAL PARKING CORPORATION

Consolidated Statements of Cash Flows

(Stated in thousands of United States dollars)

Years ended December 31, 2003, 2002 and 2001

	2003	2002	2001
		(restated	note 2(p))
Cash provided by (used in):			
Operations:			
Net earnings (loss)	\$(33,512)	\$ 1,923	\$ 1,173
Adjustments to reconcile net earnings (loss) to cash provided by operating activities:			
Depreciation and amortization of management and lease agreements	2,608	2,397	2,523
Amortization of goodwill			2,206
Recovery of recoverable development costs	627	640	1,057
Equity share of limited liability company losses	(147)	116	168
Non-cash interest expense	207	128	154
Rent expense in excess of lease payments	552	370	
Stock-based compensation	344	333	326
Deferred income taxes	322	1,284	649
Discount on settlement of note receivable	100		
Goodwill impairment	33,526		
Changes in non-cash working capital items:			
Restricted cash			2,688
Accounts receivable	152	843	(1,026)
Inventory	(68)	(171)	(80)
Deposits and prepaid expenses	(595)	(214)	(126)
Management accounts payable	856	(591)	270
Trade accounts payable and other accrued liabilities	(362)	3,082	879
Due to employees and former employees	300	348	(486)
Sales and other taxes payable	1,238	164	(97)
Deferred revenue	202	(106)	444
	<u>6,350</u>	<u>10,546</u>	<u>10,722</u>
Investments:			
Purchase of fixed assets	(2,315)	(1,675)	(2,624)
Acquisition of parking business, net of cash acquired (note 3)	(1,108)	(1,836)	(4,601)
Change in other assets	(3,741)	(233)	(686)
Increase in recoverable development costs		(1,491)	(266)
Acquisition of management and lease agreements		(828)	
Settlement of note receivable	1,036		
	<u>(6,128)</u>	<u>(6,063)</u>	<u>(8,177)</u>

IMPERIAL PARKING CORPORATION

Consolidated Statements of Cash Flows, (Continued)

(Stated in thousands of United States dollars)

Years ended December 31, 2003, 2002 and 2001

	<u>2003</u>	<u>2002</u>	<u>2001</u>
		(restated	note 2(p))
Financing:			
Proceeds from bank indebtedness	3,000		3,900
Repayment of bank indebtedness	(646)	(552)	
Change in other liabilities	(562)	122	(75)
Options exercised	6	77	84
Purchase of common shares			(543)
	<u>1,798</u>	<u>(353)</u>	<u>3,366</u>
Effect of exchange rate changes on cash and cash equivalents	1,646	17	(535)
	<u>3,666</u>	<u>4,147</u>	<u>5,376</u>
Increase in cash and cash equivalents	15,138	10,991	5,615
Cash and cash equivalents, beginning of year			
	<u>\$18,804</u>	<u>\$15,138</u>	<u>\$10,991</u>
Cash and cash equivalents, end of year			
Supplementary information:			
Interest paid	\$ 89	\$ 129	\$ 87
Income taxes paid	825	402	254
Non-cash transactions:			
Participation rent payable applied to reduce note receivable		829	
	<u> </u>	<u> </u>	<u> </u>

See accompanying notes to consolidated financial statements.

IMPERIAL PARKING CORPORATION

Notes to Consolidated Financial Statements

(Tabular dollar amounts stated in thousands of United States dollars, except per share amounts)

Years ended December 31, 2003, 2002 and 2001

1. Operations:

Imperial Parking Corporation (the Company) is the corporation, which resulted from the combination, on March 27, 2000, of the Canadian parking facilities of First Union Real Estate Equity and Mortgage Investments and the parking related businesses of First Union Management, Inc.

The Company's operations consist of operating and managing parking facilities in Canada and the United States and carrying on other parking related activities.

2. Significant accounting policies:

(a) Basis of presentation:

These financial statements are prepared on a consolidated basis to present the financial positions and results of operations of the Company and its subsidiaries all of which are wholly owned. The results of parking business acquired in the year are included in these financial statements from the date of their acquisition. All significant intercompany balances and transactions have been eliminated. Limited liability companies over which the Company exercises significant influence are accounted for by the equity method.

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States.

(b) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to assessment of the outcome of contingencies, valuation of goodwill, estimation of the useful lives of fixed assets and management and lease agreements in determining depreciation and amortization, and the extent and timing of recoverability of deferred tax assets. Actual amounts may differ from the estimates applied in the preparation of these financial statements.

(c) Cash equivalents:

Cash equivalents includes certificates of deposit and other highly liquid instruments with original terms to maturity of three months or less when acquired.

(d) Inventory:

The Company's inventory consists of equipment parts and supplies and is recorded at the lower of cost, determined on a first-in, first-out basis, and replacement cost.

IMPERIAL PARKING CORPORATION

Notes to Consolidated Financial Statements

(Tabular dollar amounts stated in thousands of United States dollars, except per share amounts)

Years ended December 31, 2003, 2002 and 2001

2. Significant accounting policies (continued):

(e) Fixed assets:

Fixed assets are recorded at cost. Depreciation and amortization is provided as follows:

Asset	Basis	Rate
Buildings and improvements	straight-line	over 40 years
Furniture and fixtures	declining-balance	20%
Equipment	declining-balance	30%
Automotive equipment	declining-balance	30%

Leasehold improvements are depreciated straight-line over the shorter of the lease term or the estimated useful life of the asset. Routine maintenance and repairs are expensed as incurred.

(f) Management and lease agreements:

Management and lease agreements are recorded at cost and represent the Company's investment in parking lot agreements. Cost is based upon the estimated fair value of the agreements at the time of acquisition determined using the discounted estimated future cash flow from these agreements. Amortization is provided over the lives of the related agreements in amounts equal to the discounted future cash flows used to measure their original cost.

(g) Impairment of fixed assets and management and lease agreements:

The Company assesses impairment of long-lived assets including certain identifiable intangibles whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying value of the asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value. Assets to be disposed of are reported at the lower of their carrying value or fair value less costs to sell.

IMPERIAL PARKING CORPORATION

Notes to Consolidated Financial Statements

(Tabular dollar amounts stated in thousands of United States dollars, except per share amounts)

Years ended December 31, 2003, 2002 and 2001

2. Significant accounting policies (continued):

(h) Asset retirement obligations

Effective January 1, 2003, the Company adopted Statement of Financial Accounting Standards 143, *Accounting for Asset Retirement Obligations* (SFAS 143) which applies to legal obligations associated with the retirement of a long-lived asset that result from the acquisition, construction, development and/or the normal operation of a long-lived asset including leased facilities. Under the new standard, the Company is required to recognize the fair value of a liability for an asset retirement obligation in the period in which it incurs a legal obligation, if a reasonable estimate of fair value can be made. Upon initial recognition of the liability, the Company capitalizes an asset retirement cost by increasing the carrying amount of the related long-lived asset. This asset retirement cost is depreciated over the life of the related asset. At the end of each period, the liability is increased to reflect the passage of time (accretion expense) and changes in estimated future cash flows underlying the initial fair value measurement (additional asset retirement costs).

As of January 1, 2003 and December 31, 2003, the Company determined that no material legal obligations associated with the retirement of long-lived assets, including its owned and leased facilities, existed and accordingly, no amounts have been accrued. Adoption of this new standard had no impact on any prior period presented.

(i) Recoverable development costs:

Recoverable development costs are recoverable from landlords on a straight-line basis over the term of the related parking lot leases which range from 1.5 to 9.5 years.

(j) Goodwill:

Goodwill represents the excess of cost over the value assigned to the net assets acquired on business acquisitions.

In June 2001, the FASB issued SFAS No. 141, *Business Combinations* , and SFAS No. 142, *Goodwill and Other Intangible Assets* . SFAS No. 141 specifies criteria that intangible assets acquired in a business combination must meet to be recognized and reported separately from goodwill. SFAS No. 142 requires, in part, that recorded goodwill be tested at least annually for impairment rather than being amortized over the estimated useful life of the underlying business. The Company adopted the provisions of SFAS No. 141 as of July 1, 2001, and SFAS No. 142 effective January 1, 2002. Goodwill acquired in a purchase business combination completed after June 30, 2001, but before SFAS No. 142 was adopted in full, was not amortized. Goodwill acquired in business combinations completed before July 1, 2001 continued to be amortized and tested for impairment prior to the full adoption of SFAS No. 142. Accordingly, amortization of all goodwill ceased as of January 1, 2002. Upon adoption of SFAS No. 142, the Company evaluated its existing intangible assets and goodwill that were acquired in purchase business combinations, and considered whether any necessary reclassifications were required in order to conform with the new classification criteria in SFAS No. 141 for recognition separate from goodwill. No such reclassifications were required.

IMPERIAL PARKING CORPORATION

Notes to Consolidated Financial Statements

(Tabular dollar amounts stated in thousands of United States dollars, except per share amounts)

Years ended December 31, 2003, 2002 and 2001

2. Significant accounting policies (continued):

(j) Goodwill (continued):

In connection with goodwill impairment evaluation, SFAS No. 142 requires the Company to perform an annual assessment of whether there is an indication that goodwill is impaired. The Company completes its annual test of impairment on November 30 of each fiscal year. To accomplish this the Company determines the carrying value of each of its reporting units by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units. The Company has identified reporting units by geographical operations for Canada and the United States. Within the United States, separate reporting units have been identified based on operational characteristics and, as they are one level below an operating segment, discrete financial information exists and segment management directly reviews these units. The Company has determined the fair value of its reporting units and compared them to each reporting unit's carrying amount.

The Company determined that the carrying value of the reporting units in Canada, Cincinnati and Philadelphia exceeded their fair value as at November 30, 2003. Therefore the Company was required to perform the second step of the impairment test, which involved allocating the fair value of each unit amongst its assets and liabilities, including goodwill. The amount of fair value allocated to goodwill was then compared to the carrying value of goodwill to determine the amount of any impairment. This resulted in an impairment of \$33.5 million as at November 30, 2003. See also note 7.

(k) Income taxes:

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to (i) differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and (ii) operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. To the extent that it is not more likely than not that deferred tax assets will be realized, a valuation allowance is provided.

(l) Revenue recognition:

Revenue consists of the parking revenue from managed and leased locations. Revenue from managed locations represent revenue (both fixed fees and additional payments based upon parking revenue) from facilities managed for other parties and miscellaneous management fees for accounting, insurance and other ancillary services such as consulting and transportation management services. Parking and management contract revenues are recognized when earned in accordance with the terms of the agreements. Revenue from leased locations are recognized in accordance with the terms of the agreements. Deferred revenue primarily represents revenue received in advance of its due date.

IMPERIAL PARKING CORPORATION

Notes to Consolidated Financial Statements

(Tabular dollar amounts stated in thousands of United States dollars, except per share amounts)

Years ended December 31, 2003, 2002 and 2001

2. Significant accounting policies (continued):

(l) Revenue recognition (continued):

The Company classifies the reimbursement of costs incurred on behalf of managed parking facilities as revenue from reimbursement of management contract expenses, and the costs incurred on behalf of the owners of managed parking facilities as reimbursed management contract expenses. These costs relate primarily to payroll and other operating costs of managed parking facilities where the Company is the manager of the facility.

(m) Foreign currency translation:

The functional currency of the Company's operations in the United States is the United States dollar. For facilities and operations located in Canada, the functional currency is the Canadian dollar (CDN).

The assets and liabilities of the Canadian operations are translated into United States dollars at exchange rates in effect at the balance sheet date. Revenue and expense items are translated at the rates of exchange prevailing during the year. The gains or losses resulting from these translations are excluded from the determination of net earnings and included in the separate foreign currency translation account within shareholders' equity. Other exchange gains and losses are included in the determination of net earnings.

(n) Comprehensive income (loss):

To the Company, comprehensive income (loss) consists of net earnings and the change in the foreign currency translation adjustment amount for the year. Comprehensive income does not affect the Company's financial position, results of operations or earnings per share.

(o) Earnings per share:

Basic earnings per common share is calculated by dividing net earnings by the weighted average number of common shares outstanding during the year. Diluted earnings per common share is calculated by adjusting the weighted average number of outstanding shares by that number which assumes that the proceeds received on exercise of dilutive securities is applied to the repurchase of common shares at the average market price for the period.

IMPERIAL PARKING CORPORATION

Notes to Consolidated Financial Statements

(Tabular dollar amounts stated in thousands of United States dollars, except per share amounts)

Years ended December 31, 2003, 2002 and 2001

2. Significant accounting policies (continued):

(p) Stock option plan:

The Company has a stock incentive plan pursuant to which the Company grants stock options to executives and management. Prior to January 1, 2003, the Company accounted for those plans under the recognition and measurement provisions of APB 25, *Accounting for Stock Issued to Employees*, and related interpretations. Stock-based compensation for fixed stock option plans was recorded at the grant date only if the current market price of the underlying stock exceeded the exercise price. Compensation for variable stock option plans was recorded on an ongoing basis based on the change in intrinsic value of the options.

Effective January 1, 2003, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standard No. 123, *Accounting for Stock-Based Compensation* (SFAS 123), for stock-based employee compensation. In accordance with SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure*, the Company has elected to adopt the recognition and measurement provisions of SFAS 123 retroactively and all prior periods presented have been restated to reflect the compensation costs that would have been recognized had the recognition provisions of SFAS 123 been applied to all awards granted to employees.

For the year ended December 31, 2001, adoption of the recognition and measurement provisions of SFAS 123 resulted in a decrease in stock based compensation expense of \$454,000, a decrease of \$454,000 in additional paid in capital as at December 31, 2001 and an increase of \$454,000 in retained earnings as at December 31, 2001, from the amounts previously reported. For the year ended December 31, 2002, adoption of the recognition provisions of SFAS 123 resulted in an increase in stock based compensation expense of \$398,000, a decrease in additional paid in capital of \$56,000 as at December 31, 2002 and an increase of \$56,000 in retained earnings as at December 31, 2002.

(q) Comparative figures:

Certain comparative figures have been reclassified to conform with the presentation adopted in the current year.

3. Acquisition of businesses:

Effective July 1, 2001, the Company acquired all of the issued and outstanding shares of DLC Management Group, Inc. (DLC) for net cash of \$4.6 million, including acquisition costs of \$0.2 million. The former shareholders of DLC are also entitled to additional cash consideration equal to a proportion of the actual operating results of the acquired business, calculated in accordance with the acquisition agreement, for each of the twelve month periods ending June 30, 2002 through 2006. The present value of these future payments at July 1, 2001 was estimated to be \$4.4 million and has been included in the cost of the acquisition. The liability for these payments has been included on the Company's balance sheet in other long-term liabilities and current portion of other long-term liabilities as it is more likely than not at December 31, 2003 that these amounts will be payable.

IMPERIAL PARKING CORPORATION

Notes to Consolidated Financial Statements

(Tabular dollar amounts stated in thousands of United States dollars, except per share amounts)

Years ended December 31, 2003, 2002 and 2001

3. Acquisition of businesses (continued):

The acquisition of DLC has been accounted for by the purchase method and accordingly the aggregate purchase price, including related costs, has been allocated to assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date as follows:

Cost of acquisition:

Cash	\$4,601
Present value of future payments to former shareholders of DLC (note 9)	4,386
	<u> </u>
	\$8,987
	<u> </u>
Working capital, including cash acquired of \$259	\$ 796
Fixed assets	558
Management and lease agreements	344
Goodwill	7,289
	<u> </u>
	\$8,987
	<u> </u>

During the year ended December 31, 2003, the Company paid additional consideration of \$1.0 million, of which \$1.1 million was accrued when the purchase was initially recorded. The excess accrued of \$0.1 million was credited against goodwill during the year ended December 31, 2003. During the year ended December 31, 2002, the Company paid additional consideration of \$1.8 million, of which \$1.2 million was accrued when the purchase was initially recorded. The remaining \$0.6 million of this contingent payment was included in goodwill during the year ended December 31, 2002.

The results of operations of DLC from July 1, 2001, being the effective date of acquisition by the Company, are included in these consolidated financial statements.

IMPERIAL PARKING CORPORATION

Notes to Consolidated Financial Statements

(Tabular dollar amounts stated in thousands of United States dollars, except per share amounts)

Years ended December 31, 2003, 2002 and 2001

4. Fixed assets:

2003	Cost	Accumulated depreciation	Net book value
Land	\$ 7,919	\$	\$ 7,919
Buildings and improvements	2,392	348	2,044
Leasehold improvements	4,998	2,788	2,210
Furniture and fixtures	515	245	270
Equipment	9,008	5,013	3,995
Automotive equipment	782	447	335
	<u>\$25,614</u>	<u>\$8,841</u>	<u>\$16,773</u>

2002	Cost	Accumulated depreciation	Net book value
Land	\$ 6,508	\$	\$ 6,508
Buildings and improvements	1,970	236	1,734
Leasehold improvements	4,060	1,913	2,147
Furniture and fixtures	410	155	255
Equipment	6,487	3,085	3,402
Automotive equipment	593	289	304
	<u>\$20,028</u>	<u>\$5,678</u>	<u>\$14,350</u>

5. Management and lease agreements:

	2003	2002
Cost	\$ 2,134	\$ 1,982
Accumulated amortization	(1,535)	(1,115)
	<u>\$ 599</u>	<u>\$ 867</u>

IMPERIAL PARKING CORPORATION

Notes to Consolidated Financial Statements

(Tabular dollar amounts stated in thousands of United States dollars, except per share amounts)

Years ended December 31, 2003, 2002 and 2001

5. Management and lease agreements (continued):

Amortization expense related to management and lease agreements for the year ended December 31, 2003 was \$267,000 (2002 - \$311,000; 2001 - \$300,000). The estimated annual amortization for each of the next 5 years is as follows:

2004	\$179
2005	152
2006	152
2007	116
2008	—
	<u>\$599</u>

Under certain parking management agreements, the Company is committed to pay fees to landlords based on either a fixed monthly rate, a percentage of gross parking revenues or a percentage of net income. These fees payable are recognized in accordance with the terms of the specific agreement.

6. Other assets:

	<u>2003</u>	<u>2002</u>
Note receivable (a)	\$2,087	\$1,890
Note receivable (b)		1,141
Lease prepayments (c)	5,007	805
Other	290	419
	<u>7,384</u>	<u>4,255</u>
Current portion	681	360
	<u>\$6,703</u>	<u>\$3,895</u>

- (a) The note, which is denominated in Canadian dollars, is receivable from a director of a subsidiary of the Company and bears interest at 8% per annum to April 2004 and 9.25% thereafter. Principal repayments of \$19,000 are required each quarter. In addition, one principal payment of \$0.5 million is required on April 30,

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2004 and monthly blended interest and principal repayments of \$14,000 until April 30, 2004 and \$16,000 from May 1, 2004 until the note matures on April 30, 2009. The note is secured by all issued and outstanding shares of Robbins Parking Limited.

- (b) The note was receivable from a landlord in connection with the recovery of deferred development costs, and was repaid in February 2003.
- (c) Lease prepayments are amortized as rent expense over the term of the related leases.

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IMPERIAL PARKING CORPORATION

Notes to Consolidated Financial Statements

(Tabular dollar amounts stated in thousands of United States dollars, except per share amounts)

Years ended December 31, 2003, 2002 and 2001

7. Goodwill:

	<u>2003</u>	<u>2002</u>
Carrying value, beginning of year	\$ 45,213	\$44,259
Impairment of goodwill	(33,526)	
Adjustments to prior year acquisitions on payment of contingent payments	(135)	631
Effect of exchange rates	7,287	323
	<u> </u>	<u> </u>
Carrying value, end of year	<u>\$ 18,839</u>	<u>\$45,213</u>

The Company performed its annual test of impairment of goodwill as at November 30, 2003. In assessing fair value, the Company considered information it had received through the Special Committee's process to explore strategic alternatives as described in note 13, and updated its assessment to reflect the share price offer in the merger agreement signed by the Company with Imperial Parking Management, LLC and IPK Acquisition Corporation (note 19). The Company allocated the fair value of the offer amongst its reporting units. This allocation was made on a basis consistent with the allocation methodology previously applied in the annual impairment tests. As a result, the fair value of the reporting units in Canada, Cincinnati and Philadelphia exceeded their carrying values, which under SFAS 142 required the fair value of each of those units to be allocated amongst the unit's identifiable assets and liabilities. The residual amount of fair value was then allocated to goodwill in each unit and compared to the corresponding carrying value of the goodwill. As the carrying value of goodwill in all three units exceeded its calculated fair value, this resulted in an impairment charge of \$33.5 million in 2003.

The amount of the impairment charge was calculated as follows:

Fair value of reporting units having goodwill balances	\$ 47,484
Fair value of net identifiable assets and liabilities of reporting units with goodwill balances	<u>(28,673)</u>
Indicated fair value of goodwill	18,811
Carrying value of goodwill	<u>52,337</u>
Goodwill impairment charge	<u>\$ 33,526</u>

IMPERIAL PARKING CORPORATION

Notes to Consolidated Financial Statements

(Tabular dollar amounts stated in thousands of United States dollars, except per share amounts)

Years ended December 31, 2003, 2002 and 2001

7. Goodwill (continued):

The effects of adoption of SFAS No. 142 (note 2(j)) on results of operations for the years ended December 31, 2003, 2002 and 2001 are as follows (in thousands, except per share data):

	Year ended December 31		
	2003	2002	2001
Net earnings (loss):			
Reported net earnings (loss)	\$(33,512)	\$ 1,923	\$ 1,173
Goodwill amortization	—	—	2,206
Adjusted net earnings (loss)	<u>\$(33,512)</u>	<u>\$ 1,923</u>	<u>\$ 3,379</u>
Basic earnings per share:			
Reported net earnings (loss) per share	\$ (18.35)	\$ 1.06	\$ 0.65
Goodwill amortization	—	—	1.21
Adjusted net earnings (loss) per share	<u>\$ (18.35)</u>	<u>\$ 1.06</u>	<u>\$ 1.86</u>
Diluted earnings per share:			
Reported net earnings (loss) per share	\$ (18.35)	\$ 1.02	\$ 0.63
Goodwill amortization	—	—	1.18
Adjusted net earnings (loss) per share	<u>\$ (18.35)</u>	<u>\$ 1.02</u>	<u>\$ 1.81</u>

8. Bank indebtedness:

The Company has a credit facility (the Credit Facility) providing for borrowings of up to \$20 million, consisting of a \$12.5 million non-revolving loan; a \$5 million revolving credit facility; and \$2.5 million for standby letters of credit. The non-revolving loan facility bears interest at LIBOR plus 1.625% per annum and is repayable on demand. The revolving credit facility bears interest at the lending bank's prime rate. The amount outstanding under the Company's Credit Facility as of December 31, 2003 was \$5.7 million with a weighted average interest rate of 2.8% per annum (2002 - \$3.3 million with a weighted average interest rate of 3.4% per annum). This amount is

comprised of amounts drawn under the non-revolving loan facility and is currently being repaid in blended monthly payments of principal and interest of \$105,000 through December 2007, and \$43,000 thereafter until June 2010. The remaining amount available under the Credit Facility was \$10.7 million at December 31, 2003.

The bank credit facilities are secured by a general assignment by the Company in favour of the bank, debentures over certain real property, assignment of rents and leases, securities pledge agreements and assignment of insurance. Advances require certain conditions precedent to be met and are subject to the bank's written approval.

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IMPERIAL PARKING CORPORATION

Notes to Consolidated Financial Statements

(Tabular dollar amounts stated in thousands of United States dollars, except per share amounts)

Years ended December 31, 2003, 2002 and 2001

9. Other long-term liabilities:

	<u>2003</u>	<u>2002</u>
Present value of future payments to former shareholders of DLC (a)	\$2,694	\$3,612
Other	2,141	2,108
	<u>4,835</u>	<u>5,720</u>
Current portion	1,052	1,581
	<u>\$3,783</u>	<u>\$4,139</u>

(a) The present value of future payments represents the estimated additional cash consideration required to be paid in future years pursuant to the DLC purchase agreement (note 3). Interest on the balance is accrued at 7% per annum.

10. Income taxes:

Income tax expense (recovery) consists of:

	<u>Net earnings before tax</u>	<u>Income tax expense</u>		
		<u>Current</u>	<u>Deferred</u>	<u>Total</u>
Year ended December 31, 2003:				
Canada	\$(19,613)	\$1,470	\$ 999	\$ 2,469
United States	(11,714)	393	(677)	(284)
	<u>\$(31,327)</u>	<u>\$1,863</u>	<u>\$ 322</u>	<u>\$ 2,185</u>
Year ended December 31, 2002:				
Canada	\$ 5,567	\$ 106	\$ 2,184	\$ 2,290
United States	(2,014)	240	(900)	(660)
	<u>\$ 3,553</u>	<u>\$ 346</u>	<u>\$ 1,284</u>	<u>\$ 1,630</u>

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	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Year ended December 31, 2001:				
Canada	\$ 3,480	\$ 86	\$ 2,192	\$ 2,278
United States	(1,485)	87	(1,543)	(1,456)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	\$ 1,995	\$ 173	\$ 649	\$ 822
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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IMPERIAL PARKING CORPORATION

Notes to Consolidated Financial Statements

(Tabular dollar amounts stated in thousands of United States dollars, except per share amounts)

Years ended December 31, 2003, 2002 and 2001

10. Income taxes (continued):

Income tax expense attributable to income from continuing operations differed from the amounts computed by applying the U.S. federal income tax rate of 35% to earnings before income taxes as a result of the following:

	2003	2002	2001
	<u> </u>	<u> </u>	<u> </u>
Computed expected tax expense	\$(10,964)	\$1,244	\$ 698
Increase (reduction) in income taxes resulting from:			
Impact of difference between U.S. federal and Canadian effective tax rates	171	198	326
Effect of change in enacted tax rates			445
Change in valuation allowance	508	(266)	(829)
Reduction in deferred income tax liability on inter-company debt			(5,219)
Income from Canadian subsidiary taxable in the United States			4,434
Amortization of non-deductible goodwill			954
Impairment in non-deductible goodwill	11,734		
Corporation capital and state tax	507	346	173
Other	229	108	(160)
	<u> </u>	<u> </u>	<u> </u>
	<u>\$ 2,185</u>	<u>\$1,630</u>	<u>\$ 822</u>

The tax effect of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2003 and 2002 are as follows:

	2003	2002
	<u> </u>	<u> </u>
Deferred tax assets:		
Loss carry forwards	\$ 217	\$ 1,239
Accrued liabilities	271	269
Management agreements	183	245
Special Committee costs	508	
	<u> </u>	<u> </u>
	1,179	1,753
Valuation allowance	<u>(508)</u>	<u> </u>
Total deferred tax assets	671	1,753

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Deferred tax liabilities:		
Long-lived assets, principally due to differences in depreciation	(20)	(292)
Income from Canadian subsidiary taxable in the United States	(2,214)	(2,758)
Other assets	(386)	(359)
	<u> </u>	<u> </u>
Total deferred tax liabilities	(2,620)	(3,409)
	<u> </u>	<u> </u>
Net deferred tax liability	\$ (1,949)	\$ (1,656)
	<u> </u>	<u> </u>

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IMPERIAL PARKING CORPORATION

Notes to Consolidated Financial Statements

(Tabular dollar amounts stated in thousands of United States dollars, except per share amounts)

Years ended December 31, 2003, 2002 and 2001

10. Income taxes (continued):

	<u>2003</u>	<u>2002</u>
Reflected on consolidated balance sheet:		
Current deferred asset, net	\$	\$ 1,034
Non-current deferred liability, net	(1,949)	(2,690)
Net deferred tax liability	<u>\$(1,949)</u>	<u>\$(1,656)</u>

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

11. Stockholders equity:

(a) Treasury stock:

In January 2001, under a buy back program authorized by the Board of Directors, the Company repurchased 30,858 shares at a cost of \$543,500. No shares were repurchased during the years ended December 31, 2003 and 2002. As at December 31, 2003, the Company holds a total 315,620 shares in treasury, which were repurchased in prior years under various buy back programs, at a cost of \$5,240,401.

In September 2001, the Board of Directors increased the authorization limit for additional repurchases of the Company's outstanding common stock from \$1,250,000 to \$2,000,000. As of December 31, 2003, the Company may repurchase up to \$945,500 in common stock pursuant to this authorization.

(b) Stock options:

In May 2001, the stockholders of the Company approved the 2000 Stock Incentive Plan allowing the Company to grant stock options to executives and management at the date of grant. The plan includes variable stock options whereby the exercise price of the options increases during the term of the options. A total of 315,000 shares were reserved for issuance under the plan.

IMPERIAL PARKING CORPORATION

Notes to Consolidated Financial Statements

(Tabular dollar amounts stated in thousands of United States dollars, except per share amounts)

Years ended December 31, 2003, 2002 and 2001

11. Stockholders equity (continued):

(b) Stock options (continued):

A summary of the status of the Company's stock option plan as of December 31, 2003 and changes during the three years then ended is presented below:

	Options outstanding	Weighted average Exercise price
	<u> </u>	<u> </u>
Balance at January 1, 2001		\$
Options granted	272,652	13.04
Options exercised	(5,875)	14.09
Options cancelled/forfeited	(2,750)	12.81
	<u> </u>	<u> </u>
Balance at January 1, 2002	264,027	15.71
Options granted	16,250	23.91
Options exercised	(4,622)	16.20
Options cancelled/forfeited	(5,250)	18.05
	<u> </u>	<u> </u>
Balance at January 1, 2003	270,405	18.04
Options granted	10,500	24.11
Options exercised	(375)	16.53
Options cancelled/forfeited	(5,125)	19.35
	<u> </u>	<u> </u>
Balance at December 31, 2003	<u>275,405</u>	<u>\$ 18.79</u>

The Company measures employee stock compensation expense in these consolidated financial statements based on the fair value of the options at the date of grant.

The Company used the Black-Scholes option pricing model to determine the fair value of grants made in fiscal 2001, 2002 and 2003. The following assumptions were applied in determining the pro forma compensation cost:

<u>2003</u>	<u>2002</u>	<u>2001</u>
-------------	-------------	-------------

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Risk-free interest rate	2.98%	4.07%	4.04%
Expected dividend yield	0.00%	0.00%	0.00%
	5	5	5
Expected option life	years	years	years
Expected stock price volatility	30.0%	12.0%	22.0%
Weighted average fair value of options granted at market prices	\$ 7.52	\$ 5.11	\$ 3.97

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Notes to Consolidated Financial Statements

(Tabular dollar amounts stated in thousands of United States dollars, except per share amounts)

Years ended December 31, 2003, 2002 and 2001

11. Stockholders equity (continued):

(b) Stock options (continued):

The following table summarizes stock options outstanding and exercisable at December 31, 2003:

Exercise price range	Outstanding			Exercisable	
	Options	Weighted average remaining contractual life (years)	Weighted average exercise price	Options	Weighted average exercise price
\$17.05	227,155	6.3	\$17.05	209,588	\$17.05
\$22.57 - \$28.44	22,750	7.7	26.80	12,516	26.76
\$24.86 - \$29.54	16,500	8.4	28.91	6,417	28.97
\$21.50 - \$24.40	9,000	9.5	23.76	1,145	23.17
	<u>275,405</u>	<u>6.6</u>	<u>\$18.79</u>	<u>229,666</u>	<u>\$17.94</u>

12. Earnings per share:

The following table sets forth the computation of basic and diluted earnings per share:

	2003			2002			2001		
	Earnings available (\$000s)	Common shares (000s)	Per share amount	Earnings available (\$000s)	Common shares (000s)	Per share amount	Earnings available (\$000s)	Common shares (000s)	Per share amount
Basic earnings per share:									
Net earnings (loss)	\$ (33,512)	1,826	\$ (18.35)	\$ 1,923	1,821	\$ 1.06	\$ 1,173	1,816	\$ 0.65
Effect of dilutive stock options					65	(0.04)		50	(0.02)

	_____	_____	_____	_____	_____	_____	_____	_____	_____
Diluted earnings per share	\$(33,512)	1,826	\$(18.35)	\$1,923	1,886	\$ 1.02	\$1,173	1,866	\$ 0.63
	_____	_____	_____	_____	_____	_____	_____	_____	_____

13. Other expenses:

In January 2003, a Special Committee of the Company's Board of Directors was formed for the purpose of exploring strategic alternatives available to the Company in the context of the decision by Gotham Partners to sell its ownership interest in the Company. The Special Committee has engaged professional advisors to assist it in this review. The Company incurred \$1.5 million in professional fees payable to the advisors during the year ended December 31, 2003 (2002 and 2001 - nil), which have been expensed as incurred.

As a result of the merger agreement signed by the Company in January 2004 (see note 19), the Company is committed to payments of \$0.5 million in 2004 to the financial advisors, and a further payment of \$0.25 million to the advisors upon completion of the merger.

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IMPERIAL PARKING CORPORATION

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14. Business segments:

Senior management of the Company reviews the revenue and overall results of operations by geographic regions. The following table summarizes the revenue, operating results and assets for these geographic regions:

	2003			2002			2001		
	Canada	U.S.	Total	Canada	U.S.	Total	Canada	U.S.	Total
Revenue (excluding reimbursement of expenses)	\$ 60,847	\$60,283	\$121,130	\$53,085	\$56,266	\$109,351	\$53,451	\$37,097	\$ 90,548
Total revenue	84,787	69,710	154,497	74,593	65,249	139,842	74,938	42,960	117,898
Depreciation and amortization	1,348	1,260	2,608	1,249	1,148	2,397	3,785	944	4,729
Goodwill impairment	27,435	6,091	33,526						
Operating income (loss)	(20,788)	(9,166)	(29,955)	6,063	(2,604)	3,459	3,796	(2,080)	1,716
Income tax expense (recovery)	2,469	(284)	2,185	2,290	(660)	1,630	2,278	(1,456)	822
Goodwill	15,765	3,074	18,839	35,913	9,300	45,213	35,591	8,668	44,259
Long-lived assets	16,437	7,638	24,075	13,943	5,169	19,112	12,135	5,837	17,972
Total assets	51,404	23,811	75,215	65,734	26,694	92,428	60,870	28,375	89,245

15. Unaudited quarterly financial information:

The following tables sets forth selected unaudited quarterly information for the Company's last eight fiscal quarters.

	Fiscal 2003 Quarter End			
	December 31	September 30	June 30	March 31
Revenue (excluding reimbursement of expenses)	\$ 30,457	\$34,100	\$31,595	\$24,978
Gross margin	6,224	6,176	6,407	4,482
Net earnings (loss) for the period	(34,054)	534	757	(749)
Net earnings (loss) per share, basic	(18.66)	0.29	0.42	(0.41)
Net earnings (loss) per share, diluted	(18.66)	0.29	0.41	(0.41)

	Fiscal 2002 Quarter End			
	December 31	September 30	June 30	March 31
		(Restated - note 2(p))		
Revenue (excluding reimbursement of expenses)	\$27,610	\$28,615	\$28,317	\$24,809
Gross margin	4,773	6,032	6,612	4,774
Net earnings (loss) for the period	401	560	1,013	(51)
Net earnings (loss) per share, basic	0.21	0.31	0.56	(0.03)
Net earnings (loss) per share, diluted	0.21	0.29	0.53	(0.03)
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IMPERIAL PARKING CORPORATION

Notes to Consolidated Financial Statements

(Tabular dollar amounts stated in thousands of United States dollars, except per share amounts)

Years ended December 31, 2003, 2002 and 2001

16. Fair value of financial instruments:

The fair values of cash and cash equivalents, accounts receivable, management agreements payable, trade accounts payable and accrued liabilities, payable to employees and former employees and sales tax payable are estimated to equal their carrying value due to their short-term to maturity or ability for prompt liquidation. The carrying value of the bank indebtedness and other long-term liabilities approximate their fair values based on market rates of interest.

The fair value of notes receivable is not readily determinable due to the nature of the relationship between the Company and the other parties.

17. Commitments and contingencies:

(a) Operating lease commitments:

The Company and its subsidiaries conduct a significant portion of their operations on leased premises under operating leases expiring at various dates through 2020. Lease agreements provide for minimum payments or contingent payments based upon either a fixed annual rent, a percentage of gross customer collections, or a combination thereof to the property owner. The aggregate annual minimum lease commitments under operating leases on premises originally for a period of more than one year in each of the next five years are as follows:

2004	\$50,565
2005	38,477
2006	30,625
2007	22,502
2008	14,391

The Company also leases certain of its office premises, automobiles and office equipment under long-term operating leases. The aggregate annual minimum lease payments required under operating leases in each of the next five years are as follows:

2004	\$3,186
2005	2,683
2006	1,281
2007	804
2008	365

Total minimum and contingent lease payments included in results from operations for the year ended December 31, 2003 were \$64.5 million (2002 - \$57.6 million; 2001 - \$48.1 million).

IMPERIAL PARKING CORPORATION

Notes to Consolidated Financial Statements

(Tabular dollar amounts stated in thousands of United States dollars, except per share amounts)

Years ended December 31, 2003, 2002 and 2001

17. Commitments and contingencies (continued):

(b) Contingencies:

- (i) As part of its regular operations, the Company periodically becomes involved with legal claims or potential claims related to damage to vehicles or personal injuries for which the Company carries insurance, or disagreements with individual employees or on the interpretation of management or lease agreements. In the opinion of management, the resolution of these matters will not have a material effect on the financial condition, results of operations, or cash flows of the Company.
- (ii) Imperial Parking Canada Corporation, a wholly owned subsidiary of the Company, is a defendant in a lawsuit filed by Sterling Parking Ltd. (Sterling) in April 2001, in the Queen's Bench of Alberta. The suit involves an alleged breach by Imperial Parking Canada Corporation of a confidentiality agreement entered into with Sterling in October 2000 relating to the potential management of certain Sterling lots in Calgary. The proposed transaction with Sterling was not completed and Sterling claims in the lawsuit that Imperial Parking Canada Corporation wrongfully bid on certain lots and improperly used Sterling confidential information, all in breach of the confidentiality agreement. The total damages claimed by Sterling are approximately \$8.9 million (CDN\$11.6 million). The Company believes that Sterling's allegations are largely without merit and that the amount of damages claimed is far in excess of the actual damages suffered by Sterling, if any. The parties are currently negotiating a settlement. If a settlement is not reached, the Company intends to defend itself vigorously. At December 31, 2003, the Company has accrued its best estimate of the costs related to this action, but in the event that the Company is unsuccessful, any damages awarded to Sterling in excess of the amount accrued could have a material effect on the Company's financial position and results of operations.

(c) Letters of credit:

The Company has outstanding letters of credit totalling \$2.4 million.

18. Related parties:

The Company leased two properties from an entity controlled by the Company's Vice-Chairman and an employee of the Company. The terms of the leases are up to five years and minimum annual rent for the two properties is \$1.4 million, increasing to \$1.6 million over the lease terms. Percentage rent is also payable. The Company also sub-leases a portion of its office premises in New York City to the same entity, with rent revenue of \$0.2 million per annum. The net amount paid in 2003 under the terms of these leases was \$1.4 million (2002 - \$1.4 million; 2001 - \$1.1 million). In 2003, the Company incurred a combined operating loss of \$0.2 million (2002 - \$54,000; 2001 - \$110,000 profit) from operating these two properties.

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Notes to Consolidated Financial Statements

(Tabular dollar amounts stated in thousands of United States dollars, except per share amounts)

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18. Related parties (continued):

The Company leased three properties and operated one property under a management agreement from entities controlled by a director of the Company. One of the leased properties was sold to a third party during the year. The two remaining leased properties have combined minimum annual rent of \$0.8 million, increasing to \$0.9 million during the terms of the leases, which are up to 15 years. Under the management agreement, which has a one year term, the Company is entitled to an annual management fee of \$30,000. In 2003, the Company paid \$1.5 million (2002 - \$3.0 million; 2001 - \$2.4 million) under the terms of these agreements. In 2003, the Company incurred a combined operating loss of \$ 0.2 million (2002 - \$0.6 million; 2001 - \$0.1 million) from operating these four properties.

The Company operated one property under a management agreement from an entity controlled by the Chairman of the Company and leased one property from an entity in which the Chairman has a beneficial interest. The management agreement was cancelled during the year ended December 31, 2003. The leased property has minimum annual rent of \$60,000 and the lease term is for one year, although either party may terminate the lease upon 30 days notice. In 2003, the Company paid \$60,000 (2002 - \$45,000; 2001 - nil) under the terms of the lease agreement. In 2003, the Company generated a combined operating profit of \$5,000 (2002 - \$10,000; 2001 - nil) from operating these two properties.

In 1999, the Company entered into a ten year exclusive agreement for outdoor advertising on its parking facilities in Canada with an entity whose President at such time was and is now also a director of the Company. The director is no longer an employee of that entity. In 2003, the Company received \$0.6 million (2002 - \$0.5 million; 2001 - \$0.4 million) pursuant to this agreement.

The Company purchased \$ 0.5 million (2002 - \$0.6 million; 2001 - \$1.0 million) of parking equipment and supplies from a subsidiary of an entity whose chairman, in 2002 and 2001, was also the Company's Chairman.

Management believes that the transactions above have been on terms no less favourable to the Company than those that could have been obtained from unaffiliated persons at the time the transactions were entered into. The Board of Directors also approved all of the above transactions.

19. Subsequent event:

On January 22, 2004 the Company entered into a merger agreement with Imperial Parking Management, LLC, an affiliate of The Gates Group, LLC, and IPK Acquisition Corporation pursuant to which the Company's shareholders would be entitled to receive \$26.00 in cash per share, subject to downward adjustment in the event that certain of the Company's transaction costs incurred or paid after November 30, 2003 exceed \$1.55 million.

IMPERIAL PARKING CORPORATION

Notes to Consolidated Financial Statements

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20. Recent accounting pronouncements:

- (a) During 2003, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard No. 150, *Accounting for certain Financial Instruments with Characteristics of both Liabilities and Equity* (SFAS No. 150) and related interpretations. SFAS No. 150 requires that certain financial instruments issued in the form of shares that are mandatorily redeemable as well as certain other financial instruments be classified as liabilities in the financial statements. SFAS No. 150 is effective for the Company's December 31, 2003 financial statements. As the Company has no financial instruments with characteristics of both liabilities and equity or shares which are mandatorily redeemable, adoption of SFAS 150 had no impact on the consolidated financial statements.

- (b) FASB has issued Financial Interpretation No. 46 (FIN 46), *Consolidation of Variable Interest Entities* , which addresses the consolidation of variable interest entities (including those referred to as Special-Purpose Entities). The provisions of this Interpretation, as revised, are effective to the Company in the three months ending March 31, 2004. The Company is currently considering whether any of its contractual relationships, including management and lease agreements, notes receivable and equity method investments disclosed in these financial statements, will be subject to the provisions of the Interpretation.

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