

LAIDLAW INTERNATIONAL INC

Form 10-Q

July 08, 2005

Table of Contents

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

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

For the quarterly period ended **May 31, 2005**

Commission file number 000-13109

**LAIDLAW INTERNATIONAL, INC.**

(Exact name of registrant as specified in its charter)

**DELAWARE**

(State or other jurisdiction of  
incorporation or organization)

**98-0390488**

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

**55 Shuman Boulevard, Suite 400  
Naperville, Illinois, 60563**

(Address of principal executive offices)

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

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 whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). YES  NO

**APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY  
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:**

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

As of June 30, 2005, there were 100,218,580 shares of common stock, par value \$0.01 per share, outstanding.



**Table of Contents**

**LAIDLAW INTERNATIONAL, INC.**

|  | <b>Page<br/>No.</b> |
|--|---------------------|
| <b><u>PART I.</u></b>  |                     |
| <b><u>FINANCIAL INFORMATION</u></b>  |                     |
| <u>Item 1.</u>   |                     |
| <u>Financial Statements:</u>   |                     |
| <u>Consolidated Balance Sheets as of May 31, 2005 and August 31, 2004 (Unaudited)</u>  | 2                   |
| <u>Consolidated Statements of Operations for the Three and Nine Months Ended May 31, 2005 and 2004 (Unaudited)</u>           | 4                   |
| <u>Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended May 31, 2005 and 2004 (Unaudited)</u> | 5                   |
| <u>Consolidated Statements of Cash Flows for the Nine Months Ended May 31, 2005 and 2004 (Unaudited)</u>                     | 6                   |
| <u>Notes to Consolidated Financial Statements (Unaudited)</u>  | 7                   |
| <u>Item 2.</u>   |                     |
| <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                                 | 23                  |
| <u>Item 3.</u>   |                     |
| <u>Quantitative and Qualitative Disclosures About Market Risk</u>  | 30                  |
| <u>Item 4.</u>   |                     |
| <u>Controls and Procedures</u>   | 30                  |
| <b><u>PART II.</u></b>   |                     |
| <b><u>OTHER INFORMATION</u></b>  |                     |
| <u>Item 1.</u>   |                     |
| <u>Legal Proceedings</u>   | 31                  |
| <u>Item 6.</u>   |                     |
| <u>Exhibits</u>  | 32                  |
| <b><u>SIGNATURES</u></b>   | 33                  |
| <u>Section 302 Certification of Principal Executive Officer</u>  |                     |
| <u>Section 302 Certification of Principal Financial Officer</u>  |                     |
| <u>Section 906 Certification</u>   |                     |

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****LAIDLAW INTERNATIONAL, INC.****CONSOLIDATED BALANCE SHEETS**

(\$ in millions)

(unaudited)

|  | <b>May 31,<br/>2005</b> | August 31,<br>2004 |
|--|-------------------------|--------------------|
| <b>ASSETS</b>  |                         |                    |
| <b>Current assets</b>  |                         |                    |
| Cash and cash equivalents  | \$ 427.5                | \$ 154.2           |
| Accounts receivable, less allowance for doubtful accounts of \$6.8 (\$4.9 - August 31, 2004) | 332.4                   | 194.1              |
| Insurance collateral   | 95.3                    | 98.9               |
| Parts and supplies   | 34.7                    | 32.0               |
| Deferred income tax assets   | 42.2                    | 41.3               |
| Other current assets   | 22.3                    | 22.7               |
| Discontinued operations  |                         | 488.8              |
| <b>Total current assets</b>  | <b>954.4</b>            | 1,032.0            |
| <b>Property and equipment</b>  |                         |                    |
| Land   | 182.6                   | 184.1              |
| Buildings  | 165.1                   | 157.7              |
| Vehicles   | 1,366.9                 | 1,295.9            |
| Other  | 107.8                   | 101.5              |
|  | <b>1,822.4</b>          | 1,739.2            |
| Less: Accumulated depreciation   | 412.9                   | 246.8              |
|  | <b>1,409.5</b>          | 1,492.4            |
| <b>Other assets</b>  |                         |                    |
| Insurance collateral   | 383.7                   | 354.5              |
| Other long-term investments  | 84.1                    | 155.2              |
| Goodwill   |                         | 139.1              |
| Contracts and customer relationships   | 73.6                    | 118.6              |
| Deferred income tax assets   | 290.2                   | 166.4              |
| Deferred charges and other assets  | 21.1                    | 60.9               |
| Discontinued operations  |                         | 429.3              |

|                     |                   |                   |
|---------------------|-------------------|-------------------|
|                     | <b>852.7</b>      | 1,424.0           |
| <b>Total assets</b> | <b>\$ 3,216.6</b> | <b>\$ 3,948.4</b> |

The accompanying notes are an integral part of these statements.

**Table of Contents**

**LAIDLAW INTERNATIONAL, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(\$ in millions)  
(unaudited)

|  | May 31,<br>2005   | August 31,<br>2004 |
|--|-------------------|--------------------|
| <b>LIABILITIES</b>   |                   |                    |
| <b>Current liabilities</b>   |                   |                    |
| Accounts payable   | \$ 69.9           | \$ 76.9            |
| Accrued liabilities  | 218.6             | 192.9              |
| Current portion of insurance reserves  | 177.4             | 175.0              |
| Current portion of long-term debt  | 3.2               | 29.2               |
| Discontinued operations  |                   | 212.6              |
| <b>Total current liabilities</b>   | <b>469.1</b>      | <b>686.6</b>       |
| Long-term debt   | 539.7             | 1,105.9            |
| Insurance reserves   | 318.4             | 325.2              |
| Pension liability  | 99.0              | 188.3              |
| Other long-term liabilities  | 94.7              | 84.0               |
| Discontinued operations  |                   | 181.9              |
| <b>Total liabilities</b>   | <b>1,520.9</b>    | <b>2,571.9</b>     |
| <b>SHAREHOLDERS EQUITY</b>   |                   |                    |
| Common shares; \$0.01 par value per share; issued and outstanding 100.2 million<br>(August 31, 2004 103.8 million) | 1.0               | 1.0                |
| Additional paid in capital   | 1,314.1           | 1,360.9            |
| Common shares held in trust; (August 31, 2004 - 3.8 million shares issued and<br>outstanding)                      |                   | (50.0)             |
| Accumulated other comprehensive income   | 32.8              | 12.8               |
| Retained earnings  | 347.8             | 51.8               |
| <b>Total shareholders equity</b>   | <b>1,695.7</b>    | <b>1,376.5</b>     |
| <b>Total liabilities and shareholders equity</b>   | <b>\$ 3,216.6</b> | <b>\$ 3,948.4</b>  |

The accompanying notes are an integral part of these statements.

Table of Contents

## LAIDLAW INTERNATIONAL, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(\$ in millions except per share amounts)  
(unaudited)

|  | Three Months<br>Ended<br>May 31, |          | Nine Months Ended<br>May 31, |            |
|--|----------------------------------|----------|------------------------------|------------|
|  | 2005                             | 2004     | 2005                         | 2004       |
| <b>Revenue</b>   | \$ 836.1                         | \$ 838.1 | \$ 2,413.5                   | \$ 2,414.6 |
| Compensation expense   | 413.2                            | 424.3    | 1,206.9                      | 1,234.1    |
| Insurance and accident claim costs                           | 47.6                             | 56.5     | 137.8                        | 182.7      |
| Vehicle related costs  | 64.5                             | 64.1     | 191.6                        | 193.1      |
| Fuel   | 54.8                             | 45.0     | 153.7                        | 126.1      |
| Occupancy costs  | 39.3                             | 38.6     | 116.4                        | 116.9      |
| Depreciation and amortization                                | 70.6                             | 61.6     | 203.8                        | 189.5      |
| Other operating expenses                                     | 84.1                             | 74.2     | 231.3                        | 226.7      |
| <b>Operating income</b>                                      | <b>62.0</b>                      | 73.8     | <b>172.0</b>                 | 145.5      |
| Interest expense   | (20.0)                           | (19.6)   | (59.1)                       | (57.6)     |
| Other income (expense), net                                  | 4.5                              | (0.2)    | 9.5                          | (3.9)      |
| <b>Income from continuing operations before income taxes</b> | <b>46.5</b>                      | 54.0     | <b>122.4</b>                 | 84.0       |
| Income tax expense   | (16.1)                           | (22.0)   | (46.5)                       | (27.2)     |
| <b>Income from continuing operations</b>                     | <b>30.4</b>                      | 32.0     | <b>75.9</b>                  | 56.8       |
| <b>Income (loss) from discontinued operations</b>            | <b>(1.0)</b>                     | 2.6      | <b>220.1</b>                 | 7.6        |
| <b>Net income</b>  | <b>\$ 29.4</b>                   | \$ 34.6  | <b>\$ 296.0</b>              | \$ 64.4    |
| <b>Basic earnings (loss) per share</b>                       |                                  |          |                              |            |
| Continuing operations  | \$ 0.30                          | \$ 0.32  | \$ 0.76                      | \$ 0.57    |
| Discontinued operations                                      | (0.01)                           | 0.03     | 2.20                         | 0.07       |
| Net income   | \$ 0.29                          | \$ 0.35  | \$ 2.96                      | \$ 0.64    |
| <b>Diluted earnings (loss) per share</b>                     |                                  |          |                              |            |



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|                         |                |         |                |         |
|-------------------------|----------------|---------|----------------|---------|
| Continuing operations   | \$ <b>0.30</b> | \$ 0.31 | \$ <b>0.74</b> | \$ 0.55 |
| Discontinued operations | <b>(0.01)</b>  | 0.02    | <b>2.14</b>    | 0.07    |
| Net income              | \$ <b>0.29</b> | \$ 0.33 | \$ <b>2.88</b> | \$ 0.62 |

The accompanying notes are an integral part of these statements.

Table of Contents**LAIDLAW INTERNATIONAL, INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(\$ in millions)  
(unaudited)

|   | <b>Three Months<br/>Ended<br/>May 31,</b> |         | <b>Nine Months Ended<br/>May 31,</b> |         |
|---|---|---------|--------------------------------------|---------|
|   | <b>2005</b>                               | 2004    | <b>2005</b>                          | 2004    |
| <b>Net income</b>   | <b>\$ 29.4</b>                            | \$ 34.6 | <b>\$ 296.0</b>                      | \$ 64.4 |
| Net unrealized gain (loss) on securities and interest rate swap | <b>1.3</b>                                | (6.3)   | <b>0.5</b>                           | (1.5)   |
| Foreign currency translation adjustments                        | <b>(7.0)</b>                              | (6.8)   | <b>19.5</b>                          | 4.1     |
| <b>Comprehensive income</b>                                     | <b>\$ 23.7</b>                            | \$ 21.5 | <b>\$ 316.0</b>                      | \$ 67.0 |

The accompanying notes are an integral part of these statements.

Table of Contents**LAIDLAW INTERNATIONAL, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(\$ in millions)

(unaudited)

|  | <b>Nine Months Ended May</b> |                  |
|--|------------------------------|------------------|
|  | <b>31,</b>                   |                  |
|  | <b>2005</b>                  | <b>2004</b>      |
| <b>Operating activities</b>                                |                              |                  |
| Net income   | \$ 296.0                     | \$ 64.4          |
| Less: income from discontinued operations                  | (220.1)                      | (7.6)            |
| Non-cash adjustments to net income                         |                              |                  |
| Depreciation and amortization                              | 203.8                        | 189.5            |
| Deferred income taxes                                      | 43.7                         | 24.9             |
| Other non-cash items                                       | 21.9                         | 12.5             |
| Net change in certain operating assets and liabilities     |                              |                  |
| Accounts receivable  | (137.3)                      | (129.6)          |
| Insurance collateral                                       | (24.5)                       | (59.4)           |
| Accounts payable and accrued liabilities                   | 17.3                         | 29.7             |
| Insurance reserves   | (5.2)                        | 22.4             |
| Other assets and liabilities                               | 3.9                          | 46.7             |
| <b>Net cash provided by operating activities</b>           | <b>\$ 199.5</b>              | <b>\$ 193.5</b>  |
| <b>Investing activities</b>                                |                              |                  |
| Net capital expenditures                                   | \$ (109.0)                   | \$ (123.9)       |
| Expended on acquisitions                                   | (2.0)                        | (1.3)            |
| Net decrease in investments                                | 13.1                         | 47.8             |
| Net proceeds received from sale of healthcare businesses   | 798.0                        |                  |
| Net proceeds received from sale of other businesses        | 10.6                         |                  |
| <b>Net cash provided by (used in) investing activities</b> | <b>\$ 710.7</b>              | <b>\$ (77.4)</b> |
| <b>Financing activities</b>                                |                              |                  |
| Pay down Term B facility                                   | \$ (593.8)                   | \$ (18.8)        |
| Net decrease in other long-term debt                       | (5.6)                        | (33.9)           |
| Decrease in credit facility cash collateral                | 60.5                         |                  |
| PBGC Trust share repurchase                                | (84.5)                       |                  |
| <b>Net cash used in financing activities</b>               | <b>\$ (623.4)</b>            | <b>\$ (52.7)</b> |
| <b>Net cash used by discontinued operations</b>            | <b>\$ (13.5)</b>             | <b>\$ (10.6)</b> |
| <b>Net increase in cash and cash equivalents</b>           | <b>\$ 273.3</b>              | <b>\$ 52.8</b>   |

|                                  |                            |                 |                 |
|----------------------------------|----------------------------|-----------------|-----------------|
| <b>Cash and cash equivalents</b> | <b>beginning of period</b> | <b>154.2</b>    | <b>94.0</b>     |
| <b>Cash and cash equivalents</b> | <b>end of period</b>       | <b>\$ 427.5</b> | <b>\$ 146.8</b> |

The accompanying notes are an integral part of these statements.

**Table of Contents**

**LAIDLAW INTERNATIONAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTH PERIODS ENDED MAY 31, 2005**

**Note 1 Corporate overview and basis of presentation**

*Corporate overview*

Laidlaw International, Inc. (the Company) operates in three reportable business segments: education services, public transit services and Greyhound. The education services segment provides school bus transportation, including scheduled home-to-school, extra-curricular and charter and transit school bus services, throughout the United States and Canada. The public transit services segment provides fixed-route municipal bus service and paratransit bus transportation for riders with disabilities. Greyhound, a national provider of inter-city bus transportation in the United States and Canada, provides scheduled passenger service, package delivery service, charter bus service and, in certain terminals, food service. As discussed in Note 2 Discontinued operations the healthcare transportation services and emergency management services segments were sold and are presented as discontinued operations.

*Basis of presentation*

The accompanying interim consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States for interim reporting and accordingly, do not include all of the disclosures required for annual financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included. All such adjustments are of a normal, recurring nature. Operating results for the three and nine months ended May 31, 2005 are not necessarily indicative of the results that may be expected for the full year ending August 31, 2005. For further information, see the Company's consolidated financial statements, including the accounting policies and notes thereto, included in the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2004.

Prior period amounts have been reclassified to reflect the discontinuance of the healthcare businesses and also to conform to the current period presentation.

**Note 2 Discontinued operations**

On February 10, 2005 the Company completed the sale of American Medical Response, Inc. (AMR) and Emcare Holdings, Inc., its healthcare transportation services and emergency management services segments, to an affiliate of Onex Corporation. After payment of transaction costs, net cash proceeds received by the Company were \$798.0 million. Proceeds from the transaction were used in part to retire all outstanding borrowings under the Company's Term B senior secured term facility aggregating \$574.1 million.

**Table of Contents**

The following table details the components of income from discontinued operations:

| (\$ in millions)                           | Three Months<br>Ended<br>May 31, |          | Nine Months Ended<br>May 31, |            |
|--|----------------------------------|----------|------------------------------|------------|
|  | 2005                             | 2004     | 2005                         | 2004       |
| Revenue                                    | \$ (50.0)                        | \$ 401.5 | \$ 646.2                     | \$ 1,197.8 |
| Pre-tax income (loss) from operations      | (50.8)                           | 4.0      | (32.3)                       | 14.0       |
| Provision for income taxes                 | 19.3                             | (1.4)    | 11.5                         | (6.4)      |
| Income (loss) from operations              | (31.5)                           | 2.6      | (20.8)                       | 7.6        |
| Pre-tax gain on sale of businesses         | 31.1                             |          | 232.1                        |            |
| Income tax benefit (expense)               | (0.6)                            |          | 8.8                          |            |
| Gain on sale after taxes                   | 30.5                             |          | 240.9                        |            |
| Income (loss) from discontinued operations | \$ (1.0)                         | \$ 2.6   | \$ 220.1                     | \$ 7.6     |

For all periods presented, the Company has allocated interest expense under the Term B and Revolver to discontinued operations since the Company was required by the creditors to pay off the debt upon sale of the healthcare businesses. Additionally, \$23.6 million of deferred financing fees related to the Term B and Revolver were written off against the gain on sale in discontinued operations. A tax benefit has been reflected for costs allocated against the gain, including the write-off of the deferred financing fees, which will give rise to ordinary deductions. While the remaining amount is a gain for book purposes, for tax purposes the sale generated a substantial capital loss. As discussed in Note 7

Income Taxes , the Company has provided a full valuation allowance against the capital loss carryforward.

During the third quarter of 2005, AMR management advised the Company that they had recently determined that their accounts receivable reserves have been understated for at least the last five years, including the date of sale. This adjustment was recorded by the Company in the third quarter of 2005 which resulted in a \$50 million decrease in revenues, a \$31 million loss from operations, and a \$31 million increase in the gain on sale from discontinued operations. The adjustment had no impact on net income, income from continuing operations or total income (loss) from discontinued operations.

**Note 3 Goodwill and other intangible assets**

On August 31, 2004, as a result of fresh start accounting, the Company had recorded goodwill of \$139.1 million and other intangibles including contract values of \$118.6 million. The Company also had established a valuation reserve against a portion of its deferred tax assets.

As discussed in Note 7 Income taxes , during fiscal 2005 the Company reduced its deferred tax valuation allowance and, as required under fresh start accounting, made a corresponding adjustment to eliminate goodwill and to reduce other intangibles by \$48.3 million. The contract values remaining are net of \$16.9 million of accumulated

amortization at May 31, 2005 and \$10.7 million at August 31, 2004.

**Table of Contents****Note 4 Long-term debt**

Components of long-term debt are as follows (\$ in millions):

|                                | <b>May 31,<br/>2005</b> | August 31,<br>2004 |
|--------------------------------|-------------------------|--------------------|
| Term B Facility                | \$                      | \$ 593.7           |
| 10 3/4% Senior Notes           | <b>399.1</b>            | 401.2              |
| Greyhound 11 1/2% Senior Notes | <b>128.6</b>            | 122.1              |
| Notes and other debt           | <b>15.2</b>             | 18.1               |
| <br>                           |                         |                    |
| Total debt                     | <b>542.9</b>            | 1,135.1            |
| Less: current portion          | <b>3.2</b>              | 29.2               |
| <br>                           |                         |                    |
| Long-term debt                 | <b>\$ 539.7</b>         | \$ 1,105.9         |

On June 30, 2005 the Company entered into a new \$600 million senior credit facility consisting of a \$300 million term loan payable in installments through 2010 and a \$300 million revolving credit facility available through 2010. The new revolving credit facility replaced the Company's previous \$200 million revolver and allowed the Company to replace Greyhound Lines' previous \$125 million revolver. Proceeds from the new term loan, along with cash on hand, were used to repurchase substantially all of the Company's 10.75% notes and will be used to redeem Greyhound Lines 11.5% notes and 8.5% convertible debentures.

On July 5, 2005, the tender offer and consent solicitation of the 10.75% senior notes was completed. In conjunction with the offer and solicitation, the Company repurchased \$399.2 million of the outstanding \$403.5 million principal amount of the notes, representing approximately 98.9% of the outstanding notes. Total consideration paid, including tender premiums and consent fees, was \$467.3 million. As part of the tender offer, the Company received the requisite consents to eliminate substantially all of the restrictive covenants under the 10.75% notes. Additionally, the Company is in the process of redeeming at par Greyhound Lines' \$150 million principal amount of 11.5% notes and \$5 million 8.5% convertible debentures. These redemptions are expected to be completed before the end of the fiscal year and will give rise to one time charges in the fourth quarter of approximately \$112 million for tender premiums, write-off of deferred financing fees and other fees and costs.

**Note 5 Stock awards and options**

Pursuant to the Company's Amended and Restated 2003 Equity and Performance Incentive Plan, the Company has issued stock based compensation to various employees and non-employee directors. These grants to employees represent the long-term incentive portion of the Company's overall compensation plan for management. The Company accounts for all stock-based compensation based on estimated fair value at the date of issue and recorded an expense related to these plans of approximately \$3.8 million and \$1.4 million during the nine month periods ended May 31, 2005 and 2004, respectively. A summary of stock based compensation issued during the current fiscal year is as follows:

*Stock options* During the first nine months ended May 31, 2005, the Company issued 452,625 non-qualified stock options to employees and non-employee directors with a strike price of \$18.85 per share. The grant price was equal to the fair market value of the Company's stock at the date of grant. The stock options have a ten-year life and vest ratably over three years.



*Restricted Shares* During the first nine months ended May 31, 2005, the Company issued 25,313 shares of restricted common stock to non-employee directors. The restricted shares vest at the end of a three-year period and during the vesting period the participant has the rights of a shareholder with respect to voting and dividend rights but is restricted from transferring the shares.

*Deferred Shares* Deferred shares are granted to key employees and vest ratably over a four-year period. On each vesting date the employee receives common stock of the Company equal

**Table of Contents**

in number to the deferred shares that have vested. Upon delivery of the Company common stock an equal number of deferred shares are terminated. The participant has no voting rights with respect to the deferred shares. During the first nine months ended May 31, 2005, the Company granted 360,000 deferred shares to key employees.

**Note 6 Pension plans**

The Company, collectively with all of its wholly-owned U.S. subsidiaries, is party to an agreement with the Pension Benefit Guaranty Corporation regarding the funding levels of the Company's pension plans (the PBGC Agreement). Under the PBGC Agreement, 3.8 million shares of the Company's common stock were issued to a trust formed for the benefit of the pension plans (the Pension Plan Trust).

In February 2005, the Company purchased all of the shares held in the Pension Plan Trust for \$22.37 per share, or aggregate consideration of \$84.5 million. The purchase price per share was based upon the closing price per share on the New York Stock Exchange on the date of purchase. All net proceeds from the stock sale were contributed directly to the pension plans and the 3.8 million shares were retired.

The components of net periodic benefit cost for the Company's pension plans were as follows:

| (\$ in millions)                              | Three Months Ended |               | Nine Months Ended |               |
|---|--------------------|---------------|-------------------|---------------|
|   | May 31,            |               | May 31,           |               |
|   | 2005               | 2004          | 2005              | 2004          |
| <b>Components of net pension benefit cost</b> |                    |               |                   |               |
| Service cost                                  | \$ 2.2             | \$ 1.4        | \$ 6.5            | \$ 4.2        |
| Interest cost                                 | 14.3               | 13.6          | 43.0              | 40.8          |
| Expected return on plan assets                | (14.6)             | (12.8)        | (43.1)            | (38.3)        |
| <b>Net pension benefit cost</b>               | <b>\$ 1.9</b>      | <b>\$ 2.2</b> | <b>\$ 6.4</b>     | <b>\$ 6.7</b> |

**Note 7 Income taxes**

At August 31, 2004, the Company had recorded a valuation allowance against its deferred tax assets of \$305 million. During the second quarter of fiscal 2005 the Company wrote-off \$127 million of deferred tax assets against the valuation allowance for carryforwards that will be used as part of a recent settlement with the IRS and for carryforwards which management believes will not likely be available for use against future income. The remaining \$178 million of valuation allowance was reversed in its entirety as recent historical, and current projected, results reflect a level of income that supports a conclusion that it is more likely than not that the Company will fully recover the remaining surviving carryforwards. The results of the Company incorporated the sale of the healthcare segments and the retirement of the Term B debt and reduction in related interest costs. As required under fresh start accounting rules, the reversal first eliminated all remaining goodwill established at fresh start, with the balance reducing other intangibles established in conjunction with fresh start accounting.

As discussed in Note 2 Discontinued operations, in the second quarter of fiscal 2005 the Company sold its healthcare segments generating a pre-tax book gain while for tax purposes the sale generated a substantial capital loss. As capital losses may only be applied against capital gains, and the Company does not generate capital gains in the ordinary course, a valuation allowance has been established for this deferred tax asset since the Company believes it is more likely than not that the capital loss carryforward will not be realized.



**Table of Contents**

**Note 8 Material contingencies**

***Legal proceedings***

***Contingent Liabilities Relating to Sale of AMR***

On February 10, 2005 the Company completed the sale of AMR to an affiliate of Onex Corporation ( Onex ) in accordance with the Stock Purchase Agreement dated December 6, 2004, as amended (the Stock Purchase Agreement ). Pursuant to the terms of the Stock Purchase Agreement, the Company may be subject to indemnification obligations related to certain investigations and matters previously disclosed relating to AMR, including potentially those set forth below.

On May 9, 2002, AMR received a subpoena duces tecum from the Office of Inspector General for the United States Department of Health and Human Services ( HHS ). The subpoena requested copies of documents for the period from January 1993 through May 2002. The subpoena required AMR to produce a broad range of documents, including those relating to Regional Emergency Services contracts in Georgia and Colorado. The government investigations in Georgia and Colorado are continuing.

During the first quarter of fiscal 2004, AMR was advised by the U.S. Department of Justice ( DOJ ), that it was investigating certain business practices at AMR. The specific practices at issue were (1) whether ambulance transports involving Medicare eligible patients complied with the medically necessary requirement imposed by Medicare regulations, (2) whether patient signatures, when required, were properly obtained from Medicare eligible patients; and (3) whether discounts in violation of the Federal Anti-Kickback Act were provided by AMR in exchange for referrals involving Medicare eligible patients. At this juncture, it is not possible to predict the ultimate conclusion of the investigations described in this and the preceding paragraph, nor is it possible to calculate any possible financial exposure, if any, to the Company, pursuant to the terms of the Stock Purchase Agreement.

As discussed in note 2 Discontinued operations , AMR management advised the Company that they had recently determined that their accounts receivable reserves have been understated for at least the last five years, including the date of sale. As a result of this matter, it is possible that Onex could assert a claim against the Company under the Stock Purchase Agreement, although no such claim has currently been asserted.

***Other***

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

***Environmental matters***

The Company s operations are subject to various federal, state, local and foreign laws and regulations relating to environmental matters, including those concerning emissions to the air; waste water discharges; storage, treatment and disposal of waste and remediation of soil and ground water contamination. We have incurred, and expect to incur, costs for our operations to comply with these legal requirements, and these costs could increase in the future. In particular, the Company has been named as a potentially responsible party under the United States Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, at various third-party sites at which

the Company's waste was allegedly disposed. In addition, the

**Table of Contents**

Company is investigating or engaged in remediation of past contamination at other sites used in its businesses. The Company records liabilities when environmental liabilities are either known or considered probable and can be reasonably estimated. On an ongoing basis, management assesses and evaluates environmental risk and, when necessary, conducts appropriate corrective measures. As of the date of this report, management believes that adequate accruals have been made related to all known environmental matters, however actual environmental liabilities could differ significantly from these estimates.

**Income tax matters**

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

**Note 9 Earnings per share**

The basic earnings per share figures are calculated using the weighted average number of shares outstanding during the respective periods. The diluted earnings per share for the three and nine month periods ended May 31, 2005 and 2004 include the dilutive effect of the Company's stock based compensation and the weighted average shares outstanding of the Company's common shares held in trust up until February 17, 2005, the date they were re-purchased and retired by the Company.

| (in millions except per share amounts)               | Three Months<br>Ended<br>May 31, |         | Nine Months<br>Ended<br>May 31, |         |
|--|----------------------------------|---------|---------------------------------|---------|
|  | 2005                             | 2004    | 2005                            | 2004    |
| Earnings (loss) available to common shareholders     |                                  |         |                                 |         |
| From continuing operations                           | \$ 30.4                          | \$ 32.0 | \$ 75.9                         | \$ 56.8 |
| From discontinued operations                         | (1.0)                            | 2.6     | 220.1                           | 7.6     |
| Net income   | \$ 29.4                          | \$ 34.6 | \$ 296.0                        | \$ 64.4 |
| Weighted average number of common shares outstanding |                                  |         |                                 |         |
| Basic  | 100.2                            | 100.0   | 100.1                           | 100.0   |
| Shares held in pension plan trust                    |                                  | 3.8     | 2.4                             | 3.8     |
| Stock based compensation                             | 0.3                              | 0.1     | 0.3                             | 0.1     |
| Diluted  | 100.5                            | 103.9   | 102.8                           | 103.9   |
| Basic earnings (loss) per common share               |                                  |         |                                 |         |
| Continuing operations                                | \$ 0.30                          | \$ 0.32 | \$ 0.76                         | \$ 0.57 |
| Discontinued operations                              | (0.01)                           | 0.03    | 2.20                            | 0.07    |
| Net income   | \$ 0.29                          | \$ 0.35 | \$ 2.96                         | \$ 0.64 |
| Diluted earnings (loss) per common share             |                                  |         |                                 |         |
| Continuing operations                                | \$ 0.30                          | \$ 0.31 | \$ 0.74                         | \$ 0.55 |

|                         |                |         |                |         |
|-------------------------|----------------|---------|----------------|---------|
| Discontinued operations | <b>(0.01)</b>  | 0.02    | <b>2.14</b>    | 0.07    |
| Net income              | <b>\$ 0.29</b> | \$ 0.33 | <b>\$ 2.88</b> | \$ 0.62 |

**Table of Contents****Note 10 Segment information**

The Company has three reportable segments: education services, Greyhound and public transit. Revenues and EBITDA (operating income before depreciation and amortization) of the segments for the three and nine months ended May 31, 2005 and 2004 are as follows:

| (\$ in millions)                           | Three Months<br>Ended<br>May 31, |          | Nine Months Ended<br>May 31, |            |
|--|----------------------------------|----------|------------------------------|------------|
|  | 2005                             | 2004     | 2005                         | 2004       |
| <b>Education services</b>                  |                                  |          |                              |            |
| Revenue                                    | \$ 464.0                         | \$ 459.7 | \$ 1,321.0                   | \$ 1,310.2 |
| EBITDA                                     | 119.0                            | 118.4    | 317.1                        | 300.4      |
| <b>Greyhound</b>                           |                                  |          |                              |            |
| Revenue                                    | \$ 294.5                         | \$ 299.7 | \$ 864.0                     | \$ 881.1   |
| EBITDA                                     | 9.6                              | 15.6     | 46.5                         | 37.6       |
| <b>Public transit</b>                      |                                  |          |                              |            |
| Revenue                                    | \$ 77.6                          | \$ 78.7  | \$ 228.5                     | \$ 223.3   |
| EBITDA                                     | 4.0                              | 1.4      | 12.2                         | (3.0)      |
| <b>Consolidated Total</b>                  |                                  |          |                              |            |
| Revenue                                    | \$ 836.1                         | \$ 838.1 | \$ 2,413.5                   | \$ 2,414.6 |
| EBITDA                                     | 132.6                            | 135.4    | 375.8                        | 335.0      |
| Depreciation and amortization expense      | (70.6)                           | (61.6)   | (203.8)                      | (189.5)    |
| Operating income                           | 62.0                             | 73.8     | 172.0                        | 145.5      |
| Interest expense                           | (20.0)                           | (19.6)   | (59.1)                       | (57.6)     |
| Other income (expense), net                | 4.5                              | (0.2)    | 9.5                          | (3.9)      |
| Income tax expense                         | (16.1)                           | (22.0)   | (46.5)                       | (27.2)     |
| Income (loss) from discontinued operations | (1.0)                            | 2.6      | 220.1                        | 7.6        |
| Net income                                 | \$ 29.4                          | \$ 34.6  | \$ 296.0                     | \$ 64.4    |

Corporate expenses previously allocated to the healthcare transportation services and emergency management services segments exceeded the amount of direct charges incurred and allocated to discontinued operations. The previously allocated corporate costs in excess of the direct charges related to the discontinued segments have been re-allocated to the remaining segments above. Because of this change in allocation, EBITDA as now reported for the continuing segments may not agree to amounts previously reported.

Total identifiable assets by segment on May 31, 2005 and August 31, 2004 are as follows:



| (\$ in millions)                      | <b>May 31,<br/>2005</b> | August 31,<br>2004 |
|---------------------------------------|-------------------------|--------------------|
| Education services                    | <b>\$ 1,151.3</b>       | \$ 1,222.8         |
| Greyhound                             | <b>901.5</b>            | 898.0              |
| Public transit                        | <b>98.9</b>             | 104.5              |
| Total identifiable assets of segments | <b>2,151.7</b>          | 2,225.3            |
| Corporate assets                      | <b>1,064.9</b>          | 805.0              |
| Discontinued operations               |                         | 918.1              |
| Total assets                          | <b>\$ 3,216.6</b>       | \$ 3,948.4         |

**Table of Contents****Note 11 Condensed financial statements of restricted subsidiaries**

Pursuant to the terms of the Company's 10 3/4% million Senior Notes, the Company is required to segregate the consolidated results of operations between the subsidiaries of the Company that are not a party to the agreement, which are comprised of the U.S. based businesses in the Greyhound segment (the Unrestricted Subsidiaries), and the Company and its remaining subsidiaries (the Restricted Subsidiaries).

**Condensed Consolidated Statement of Operations  
Three Months Ended May 31, 2005**

| (\$ millions)  | Restricted<br>Subsidiaries | Unrestricted<br>Subsidiaries | Consolidated<br>Totals |
|--|----------------------------|------------------------------|------------------------|
| Revenue  | \$ 602.3                   | \$ 233.8                     | \$ 836.1               |
| Compensation expense   | 321.6                      | 91.6                         | 413.2                  |
| Insurance and accident claim costs                           | 27.6                       | 20.0                         | 47.6                   |
| Vehicle related costs  | 33.6                       | 30.9                         | 64.5                   |
| Fuel   | 34.9                       | 19.9                         | 54.8                   |
| Occupancy costs  | 18.9                       | 20.4                         | 39.3                   |
| Depreciation and amortization                                | 55.3                       | 15.3                         | 70.6                   |
| Other operating expenses                                     | 45.5                       | 38.6                         | 84.1                   |
| Operating income (loss)                                      | 64.9                       | (2.9)                        | 62.0                   |
| Interest expense   | (11.0)                     | (9.0)                        | (20.0)                 |
| Other income, net  | 4.4                        | 0.1                          | 4.5                    |
| Income (loss) from continuing operations before income taxes | 58.3                       | (11.8)                       | 46.5                   |
| Income tax benefit (expense)                                 | (20.3)                     | 4.2                          | (16.1)                 |
| Net income (loss) from continuing operations                 | 38.0                       | (7.6)                        | 30.4                   |
| Net loss from discontinued operations                        | (1.0)                      |                              | (1.0)                  |
| Net income (loss)  | \$ 37.0                    | \$ (7.6)                     | \$ 29.4                |

**Condensed Consolidated Statement of Operations  
Nine Months Ended May 31, 2005**

| (\$ millions)                      | Restricted<br>Subsidiaries | Unrestricted<br>Subsidiaries | Consolidated<br>Totals |
|------------------------------------|----------------------------|------------------------------|------------------------|
| Revenue                            | \$ 1,739.2                 | \$ 674.3                     | \$ 2,413.5             |
| Compensation expense               | 930.5                      | 276.4                        | 1,206.9                |
| Insurance and accident claim costs | 89.6                       | 48.2                         | 137.8                  |
| Vehicle related costs              | 99.5                       | 92.1                         | 191.6                  |

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|  |          |           |          |
|--|----------|-----------|----------|
| Fuel   | 98.1     | 55.6      | 153.7    |
| Occupancy costs  | 56.7     | 59.7      | 116.4    |
| Depreciation and amortization                                | 161.4    | 42.4      | 203.8    |
| Other operating expenses                                     | 126.4    | 104.9     | 231.3    |
| Operating income (loss)                                      | 177.0    | (5.0)     | 172.0    |
| Interest expense   | (32.6)   | (26.5)    | (59.1)   |
| Other income, net  | 7.3      | 2.2       | 9.5      |
| Income (loss) from continuing operations before income taxes | 151.7    | (29.3)    | 122.4    |
| Income tax benefit (expense)                                 | (57.7)   | 11.2      | (46.5)   |
| Net income (loss) from continuing operations                 | 94.0     | (18.1)    | 75.9     |
| Net income from discontinued operations                      | 220.1    |           | 220.1    |
| Net income (loss)  | \$ 314.1 | \$ (18.1) | \$ 296.0 |

**Table of Contents**

**Condensed Consolidated Statement of Operations  
Three Months Ended May 31, 2004**

| (\$ millions)  | <b>Restricted<br/>Subsidiaries</b> | <b>Unrestricted<br/>Subsidiaries</b> | <b>Consolidated<br/>Totals</b> |
|--|------------------------------------|--------------------------------------|--------------------------------|
| Revenue  | \$ 595.8                           | \$ 242.3                             | \$ 838.1                       |
| Compensation expense   | 319.1                              | 105.2                                | 424.3                          |
| Insurance and accident claim costs                           | 37.7                               | 18.8                                 | 56.5                           |
| Vehicle related costs  | 30.9                               | 33.2                                 | 64.1                           |
| Fuel   | 28.4                               | 16.6                                 | 45.0                           |
| Occupancy costs  | 19.0                               | 19.6                                 | 38.6                           |
| Depreciation and amortization                                | 50.8                               | 10.8                                 | 61.6                           |
| Other operating expenses                                     | 37.3                               | 36.9                                 | 74.2                           |
| Operating income   | 72.6                               | 1.2                                  | 73.8                           |
| Interest expense   | (11.1)                             | (8.5)                                | (19.6)                         |
| Other income (expense), net                                  | (0.3)                              | 0.1                                  | (0.2)                          |
| Income (loss) from continuing operations before income taxes | 61.2                               | (7.2)                                | 54.0                           |
| Income tax (expense) benefit                                 | (22.4)                             | 0.4                                  | (22.0)                         |
| Net income (loss) from continuing operations                 | 38.8                               | (6.8)                                | 32.0                           |
| Net income from discontinued operations                      | 2.6                                |                                      | 2.6                            |
| Net income (loss)  | \$ 41.4                            | \$ (6.8)                             | \$ 34.6                        |

**Condensed Consolidated Statement of Operations  
Nine Months Ended May 31, 2004**

| (\$ millions)                      | <b>Restricted<br/>Subsidiaries</b> | <b>Unrestricted<br/>Subsidiaries</b> | <b>Consolidated<br/>Totals</b> |
|------------------------------------|------------------------------------|--------------------------------------|--------------------------------|
| Revenue                            | \$ 1,709.1                         | \$ 705.5                             | \$ 2,414.6                     |
| Compensation expense               | 924.4                              | 309.7                                | 1,234.1                        |
| Insurance and accident claim costs | 128.2                              | 54.5                                 | 182.7                          |
| Vehicle related costs              | 92.3                               | 100.8                                | 193.1                          |
| Fuel                               | 81.4                               | 44.7                                 | 126.1                          |
| Occupancy costs                    | 57.7                               | 59.2                                 | 116.9                          |
| Depreciation and amortization      | 157.6                              | 31.9                                 | 189.5                          |
| Other operating expenses           | 118.0                              | 108.7                                | 226.7                          |
| Operating income (loss)            | 149.5                              | (4.0)                                | 145.5                          |
| Interest expense                   | (33.5)                             | (24.1)                               | (57.6)                         |

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|  |         |           |         |
|--|---------|-----------|---------|
| Other expense, net   | (3.8)   | (0.1)     | (3.9)   |
| Income (loss) from continuing operations before income taxes | 112.2   | (28.2)    | 84.0    |
| Income tax benefit (expense)                                 | (36.3)  | 9.1       | (27.2)  |
| Net income (loss) from continuing operations                 | 75.9    | (19.1)    | 56.8    |
| Net income from discontinued operations                      | 7.6     |           | 7.6     |
| Net income (loss)  | \$ 83.5 | \$ (19.1) | \$ 64.4 |

Table of Contents

**Condensed Consolidated Statement of Cash Flows  
Nine Months Ended May 31, 2005**

| (\$ millions)   | <b>Restricted<br/>Subsidiaries</b> | <b>Unrestricted<br/>Subsidiaries</b> | <b>Consolidated<br/>Totals</b> |
|---|------------------------------------|--------------------------------------|--------------------------------|
| <b>Net cash provided by (used in) operating activities</b>  | <b>\$ 206.4</b>                    | <b>\$ (6.9)</b>                      | <b>\$ 199.5</b>                |
| <b>Cash flows from investing activities</b>                 |                                    |                                      |                                |
| Purchase of property and equipment, net                     | \$ (88.3)                          | \$ (20.7)                            | \$ (109.0)                     |
| Expended on acquisitions                                    | (2.0)                              |                                      | (2.0)                          |
| Net increase in investments                                 | 12.9                               | 0.2                                  | 13.1                           |
| Net proceeds received from sale of healthcare business      | 798.0                              |                                      | 798.0                          |
| Net proceeds received from sale of other business           | 10.6                               |                                      | 10.6                           |
| <b>Net cash provided by (used in) investing activities</b>  | <b>\$ 731.2</b>                    | <b>\$ (20.5)</b>                     | <b>\$ 710.7</b>                |
| <b>Cash flows from financing activities</b>                 |                                    |                                      |                                |
| Pay down Term B facility                                    | \$ (593.8)                         | \$                                   | \$ (593.8)                     |
| Net decrease in other long-term debt                        | (3.8)                              | (1.8)                                | (5.6)                          |
| Decrease in credit facility cash collateral                 | 60.5                               |                                      | 60.5                           |
| PBGC trust share repurchase                                 | (84.5)                             |                                      | (84.5)                         |
| <b>Net cash used in financing activities</b>                | <b>\$ (621.6)</b>                  | <b>\$ (1.8)</b>                      | <b>\$ (623.4)</b>              |
| <b>Net cash used by discontinued operations</b>             | <b>\$ (13.5)</b>                   | <b>\$</b>                            | <b>\$ (13.5)</b>               |
| <b>Net increase (decrease) in cash and cash equivalents</b> | <b>\$ 302.5</b>                    | <b>\$ (29.2)</b>                     | <b>\$ 273.3</b>                |
| Cash and cash equivalents at:                               |                                    |                                      |                                |
| Beginning of period   | 94.2                               | 60.0                                 | 154.2                          |
| <b>End of period</b>  | <b>\$ 396.7</b>                    | <b>\$ 30.8</b>                       | <b>\$ 427.5</b>                |

**Condensed Consolidated Statement of Cash Flows  
Nine Months Ended May 31, 2004**

| (\$ millions)                                    | <b>Restricted<br/>Subsidiaries</b> | <b>Unrestricted<br/>Subsidiaries</b> | <b>Consolidated<br/>Totals</b> |
|--|------------------------------------|--------------------------------------|--------------------------------|
| <b>Net cash provided by operating activities</b> | <b>\$ 160.1</b>                    | <b>\$ 33.4</b>                       | <b>\$ 193.5</b>                |

|   |           |               |           |               |           |               |
|---|-----------|---------------|-----------|---------------|-----------|---------------|
| <b>Cash flows from investing activities</b>                 |           |               |           |               |           |               |
| Purchase of property and equipment, net                     | \$        | (104.2)       | \$        | (19.7)        | \$        | (123.9)       |
| Expended on acquisitions                                    |           | (1.3)         |           |               |           | (1.3)         |
| Net (increase) decrease in investments                      |           | 48.7          |           | (0.9)         |           | 47.8          |
| <b>Net cash used in investing activities</b>                | <b>\$</b> | <b>(56.8)</b> | <b>\$</b> | <b>(20.6)</b> | <b>\$</b> | <b>(77.4)</b> |
| <b>Cash flows from financing activities</b>                 |           |               |           |               |           |               |
| Pay down Term B facility                                    | \$        | (18.8)        | \$        |               | \$        | (18.8)        |
| Net increase (decrease) in long-term debt                   |           | (1.7)         |           | (32.2)        |           | (33.9)        |
| <b>Net cash used in financing activities</b>                | <b>\$</b> | <b>(20.5)</b> | <b>\$</b> | <b>(32.2)</b> | <b>\$</b> | <b>(52.7)</b> |
| <b>Net cash used by discontinued operations</b>             | <b>\$</b> | <b>(10.6)</b> | <b>\$</b> |               | <b>\$</b> | <b>(10.6)</b> |
| <b>Net increase (decrease) in cash and cash equivalents</b> | <b>\$</b> | <b>72.2</b>   | <b>\$</b> | <b>(19.4)</b> | <b>\$</b> | <b>52.8</b>   |
| Cash and cash equivalents at:                               |           |               |           |               |           |               |
| Beginning of period   |           | 48.8          |           | 45.2          |           | 94.0          |
| <b>End of period</b>  | <b>\$</b> | <b>121.0</b>  | <b>\$</b> | <b>25.8</b>   | <b>\$</b> | <b>146.8</b>  |

**Table of Contents**

**Condensed Consolidated Balance Sheet**  
**May 31, 2005**

| (\$ millions)                        | <b>Restricted<br/>Subsidiaries</b> | <b>Unrestricted<br/>Subsidiaries</b> | <b>Consolidated<br/>Totals</b> |
|--------------------------------------|------------------------------------|--------------------------------------|--------------------------------|
| <b>Current assets</b>                |                                    |                                      |                                |
| Cash and cash equivalents            | \$ 396.7                           | \$ 30.8                              | \$ 427.5                       |
| Accounts receivable                  | 300.1                              | 32.3                                 | 332.4                          |
| Insurance collateral                 | 95.3                               |                                      | 95.3                           |
| Parts and supplies                   | 24.6                               | 10.1                                 | 34.7                           |
| Deferred income tax assets           | 21.1                               | 21.1                                 | 42.2                           |
| Other current assets                 | 9.6                                | 12.7                                 | 22.3                           |
| <b>Total current assets</b>          | <b>847.4</b>                       | <b>107.0</b>                         | <b>954.4</b>                   |
|                                      |                                    |                                      |                                |
| Property and equipment               | 1,083.1                            | 326.4                                | 1,409.5                        |
| Insurance collateral                 | 322.4                              | 61.3                                 | 383.7                          |
| Other long-term investments          | 70.0                               | 14.1                                 | 84.1                           |
| Contracts and customer relationships | 73.6                               |                                      | 73.6                           |
| Deferred income tax assets           | 114.1                              | 176.1                                | 290.2                          |
| Deferred charges and other assets    | 16.2                               | 4.9                                  | 21.1                           |
| <b>Total assets</b>                  | <b>\$ 2,526.8</b>                  | <b>\$ 689.8</b>                      | <b>\$ 3,216.6</b>              |
|                                      |                                    |                                      |                                |
| <b>Current liabilities</b>           |                                    |                                      |                                |
| Accounts payable                     | \$ 46.1                            | \$ 23.8                              | \$ 69.9                        |
| Accrued liabilities                  | 134.1                              | 84.5                                 | 218.6                          |
| Insurance reserves                   | 137.7                              | 39.7                                 | 177.4                          |
| Current portion of long-term debt    | 0.9                                | 2.3                                  | 3.2                            |
| <b>Total current liabilities</b>     | <b>318.8</b>                       | <b>150.3</b>                         | <b>469.1</b>                   |
|                                      |                                    |                                      |                                |
| Long-term debt                       | 399.3                              | 140.4                                | 539.7                          |
| Insurance reserves                   | 253.5                              | 64.9                                 | 318.4                          |
| Pension liability                    | 10.9                               | 88.1                                 | 99.0                           |
| Other long-term liabilities          | 67.3                               | 27.4                                 | 94.7                           |
| Intercompany payable (receivable)    | (197.1)                            | 197.1                                |                                |
| <b>Total liabilities</b>             | <b>852.7</b>                       | <b>668.2</b>                         | <b>1,520.9</b>                 |
| <b>Shareholders equity</b>           | <b>1,674.1</b>                     | <b>21.6</b>                          | <b>1,695.7</b>                 |



|  |            |          |            |
|--|------------|----------|------------|
| <b>Total liabilities and shareholders equity</b> | \$ 2,526.8 | \$ 689.8 | \$ 3,216.6 |
|--|------------|----------|------------|

**Table of Contents**

**Condensed Consolidated Balance Sheet**  
**August 31, 2004**

| (\$ millions)                                    | <b>Restricted<br/>Subsidiaries</b> | <b>Unrestricted<br/>Subsidiaries</b> | <b>Consolidated<br/>Totals</b> |
|--|------------------------------------|--------------------------------------|--------------------------------|
| <b>Current assets</b>                            |                                    |                                      |                                |
| Cash and cash equivalents                        | \$ 94.2                            | \$ 60.0                              | \$ 154.2                       |
| Accounts receivable                              | 164.2                              | 29.9                                 | 194.1                          |
| Insurance collateral                             | 98.9                               |                                      | 98.9                           |
| Parts and supplies                               | 22.2                               | 9.8                                  | 32.0                           |
| Deferred income tax assets                       | 18.4                               | 22.9                                 | 41.3                           |
| Other current assets                             | 13.0                               | 9.7                                  | 22.7                           |
| Discontinued operations                          | 488.8                              |                                      | 488.8                          |
| <b>Total current assets</b>                      | <b>899.7</b>                       | <b>132.3</b>                         | <b>1,032.0</b>                 |
|  |                                    |                                      |                                |
| Property and equipment                           | 1,144.4                            | 348.0                                | 1,492.4                        |
| Insurance collateral                             | 303.3                              | 51.2                                 | 354.5                          |
| Other long-term investments                      | 140.9                              | 14.3                                 | 155.2                          |
| Goodwill   | 139.1                              |                                      | 139.1                          |
| Contracts and customer relationships             | 118.6                              |                                      | 118.6                          |
| Deferred income tax assets                       | 36.3                               | 130.1                                | 166.4                          |
| Deferred charges and other assets                | 51.9                               | 9.0                                  | 60.9                           |
| Discontinued operations                          | 429.3                              |                                      | 429.3                          |
| <b>Total assets</b>                              | <b>\$ 3,263.5</b>                  | <b>\$ 684.9</b>                      | <b>\$ 3,948.4</b>              |
|  |                                    |                                      |                                |
| <b>Current liabilities</b>                       |                                    |                                      |                                |
| Accounts payable                                 | \$ 50.4                            | \$ 26.5                              | \$ 76.9                        |
| Accrued liabilities                              | 103.4                              | 89.5                                 | 192.9                          |
| Insurance reserves                               | 138.7                              | 36.3                                 | 175.0                          |
| Current portion of long-term debt                | 26.8                               | 2.4                                  | 29.2                           |
| Current liabilities of discontinued operations   | 212.6                              |                                      | 212.6                          |
| <b>Total current liabilities</b>                 | <b>531.9</b>                       | <b>154.7</b>                         | <b>686.6</b>                   |
|  |                                    |                                      |                                |
| Long-term debt                                   | 970.5                              | 135.4                                | 1,105.9                        |
| Insurance reserves                               | 247.3                              | 77.9                                 | 325.2                          |
| Pension liability                                | 13.8                               | 174.5                                | 188.3                          |
| Other long-term liabilities                      | 55.8                               | 28.2                                 | 84.0                           |
| Intercompany payable (receivable)                | (74.5)                             | 74.5                                 |                                |
| Long-term liabilities of discontinued operations | 181.9                              |                                      | 181.9                          |
| <b>Total liabilities</b>                         | <b>1,926.7</b>                     | <b>645.2</b>                         | <b>2,571.9</b>                 |
|  |                                    |                                      |                                |
| <b>Shareholders equity</b>                       | <b>1,336.8</b>                     | <b>39.7</b>                          | <b>1,376.5</b>                 |

|  |            |          |            |
|--|------------|----------|------------|
| <b>Total liabilities and shareholders equity</b> | \$ 3,263.5 | \$ 684.9 | \$ 3,948.4 |
|--|------------|----------|------------|

**Table of Contents****Note 12 Guarantors of Senior Notes**

The Company's 10 3/4% Senior Notes are guaranteed by the Company's subsidiaries, except for the Unrestricted Subsidiaries, the Company's Canadian subsidiaries and any of the Company's insurance subsidiaries. The condensed consolidated financial statements for the guarantors, the non-guarantors and the parent company (Laidlaw International, Inc.) are as follows:

**Condensed Consolidated Statement of Operations**  
**Three months ended May 31, 2005**

| (\$ millions)  | <b>Parent<br/>Company</b> | <b>Guarantors</b> | <b>Non-Guarantors</b> | <b>Eliminations</b> | <b>Consolidated<br/>Totals</b> |
|--|---------------------------|-------------------|-----------------------|---------------------|--------------------------------|
| Revenue  | \$                        | \$ 484.9          | \$ 351.2              | \$                  | \$ 836.1                       |
| Operating, selling, general and administrative expenses      | 0.1                       | 395.8             | 307.6                 |                     | 703.5                          |
| Depreciation and amortization expense                        |                           | 44.4              | 26.2                  |                     | 70.6                           |
| Intercompany management fees (income)                        |                           | (4.7)             | 4.7                   |                     |                                |
| Operating income (loss)                                      | (0.1)                     | 49.4              | 12.7                  |                     | 62.0                           |
| Interest expense   | (11.9)                    | (0.1)             | (8.0)                 |                     | (20.0)                         |
| Intercompany interest income (expense)                       | 1.9                       | (0.8)             | (1.1)                 |                     |                                |
| Other income, net  | 2.5                       | 1.8               | 0.2                   |                     | 4.5                            |
| Equity in earnings (loss) of intercompany investments        | 34.6                      | (7.6)             |                       | (27.0)              |                                |
| Income (loss) from continuing operations before income taxes | 27.0                      | 42.7              | 3.8                   | (27.0)              | 46.5                           |
| Income tax benefit (expense)                                 | 2.4                       | (17.3)            | (1.2)                 |                     | (16.1)                         |
| Income (loss) from continuing operations                     | 29.4                      | 25.4              | 2.6                   | (27.0)              | 30.4                           |
| Income (loss) from discontinued operations                   |                           | (0.4)             | (0.6)                 |                     | (1.0)                          |
| Net income (loss)  | \$ 29.4                   | \$ 25.0           | \$ 2.0                | \$ (27.0)           | \$ 29.4                        |

**Condensed Consolidated Statement of Operations**  
**Nine months ended May 31, 2005**

| (\$ millions)   | <b>Parent<br/>Company</b> | <b>Guarantors</b> | <b>Non-Guarantors</b> | <b>Eliminations</b> | <b>Consolidated<br/>Totals</b> |
|---|---------------------------|-------------------|-----------------------|---------------------|--------------------------------|
| Revenue   | \$                        | \$ 1,386.6        | \$ 1,026.9            | \$                  | \$ 2,413.5                     |
| Operating, selling, general and administrative expenses | 0.3                       | 1,132.6           | 904.8                 |                     | 2,037.7                        |
| Depreciation and amortization expense                   |                           | 129.3             | 74.5                  |                     | 203.8                          |

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|  |          |          |        |            |          |
|--|----------|----------|--------|------------|----------|
| Intercompany management fees (income)                        |          | (10.9)   | 10.9   |            |          |
| Operating income (loss)                                      | (0.3)    | 135.6    | 36.7   |            | 172.0    |
| Interest expense   | (35.2)   | (0.3)    | (23.6) |            | (59.1)   |
| Intercompany interest income (expense)                       | 0.8      | 2.4      | (3.2)  |            |          |
| Other income, net  | 4.3      | 2.4      | 2.8    |            | 9.5      |
| Equity in earnings (loss) of intercompany investments        | 314.9    | (18.1)   |        | (296.8)    |          |
| Income (loss) from continuing operations before income taxes | 284.5    | 122.0    | 12.7   | (296.8)    | 122.4    |
| Income tax benefit (expense)                                 | 11.5     | (53.2)   | (4.8)  |            | (46.5)   |
| Income (loss) from continuing operations                     | 296.0    | 68.8     | 7.9    | (296.8)    | 75.9     |
| Income from discontinued operations                          |          | 218.4    | 1.7    |            | 220.1    |
| Net income (loss)  | \$ 296.0 | \$ 287.2 | \$ 9.6 | \$ (296.8) | \$ 296.0 |

**Table of Contents**

**Condensed Consolidated Statement of Operations**  
**Three months ended May 31, 2004**

| (\$ millions)  | <b>Parent<br/>Company</b> | <b>Guarantors</b> | <b>Non-Guarantors</b> | <b>Eliminations</b> | <b>Consolidated<br/>Totals</b> |
|--|---------------------------|-------------------|-----------------------|---------------------|--------------------------------|
| Revenue  | \$                        | \$ 490.2          | \$ 347.9              | \$                  | \$ 838.1                       |
| Operating, selling, general and administrative expenses      | 0.4                       | 387.5             | 314.8                 |                     | 702.7                          |
| Depreciation and amortization expense                        |                           | 41.9              | 19.7                  |                     | 61.6                           |
| Intercompany management fees (income)                        |                           | (2.3)             | 2.3                   |                     |                                |
| Operating income (loss)                                      | (0.4)                     | 63.1              | 11.1                  |                     | 73.8                           |
| Interest expense   | (11.7)                    |                   | (7.9)                 |                     | (19.6)                         |
| Intercompany interest income (expense)                       | 4.1                       | (3.6)             | (0.5)                 |                     |                                |
| Other income (expense), net                                  | (0.4)                     | 0.1               | 0.1                   |                     | (0.2)                          |
| Equity in earnings (loss) of intercompany investments        | 38.4                      | (4.0)             |                       | (34.4)              |                                |
| Income (loss) from continuing operations before income taxes | 30.0                      | 55.6              | 2.8                   | (34.4)              | 54.0                           |
| Income tax benefit (expense)                                 | 4.6                       | (18.1)            | (8.5)                 |                     | (22.0)                         |
| Income (loss) from continuing operations                     | 34.6                      | 37.5              | (5.7)                 | (34.4)              | 32.0                           |
| Income from discontinued operations                          |                           | 2.6               |                       |                     | 2.6                            |
| Net income (loss)  | \$ 34.6                   | \$ 40.1           | \$ (5.7)              | \$ (34.4)           | \$ 34.6                        |

**Condensed Consolidated Statement of Operations**  
**Nine months ended May 31, 2004**

| (\$ millions)   | <b>Parent<br/>Company</b> | <b>Guarantors</b> | <b>Non-Guarantors</b> | <b>Eliminations</b> | <b>Consolidated<br/>Totals</b> |
|---|---------------------------|-------------------|-----------------------|---------------------|--------------------------------|
| Revenue   | \$                        | \$ 1,389.3        | \$ 1,025.3            | \$                  | \$ 2,414.6                     |
| Operating, selling, general and administrative expenses | 0.9                       | 1,126.2           | 952.5                 |                     | 2,079.6                        |
| Depreciation and amortization expense                   |                           | 130.8             | 58.7                  |                     | 189.5                          |
| Intercompany management fees (income)                   |                           | (6.3)             | 6.3                   |                     |                                |
| Operating income (loss)                                 | (0.9)                     | 138.6             | 7.8                   |                     | 145.5                          |
| Interest expense  | (34.9)                    | (0.2)             | (22.5)                |                     | (57.6)                         |
| Intercompany interest income (expense)                  | 2.4                       | (0.7)             | (1.7)                 |                     |                                |
| Other income (expense), net                             | (4.3)                     | 0.6               | (0.2)                 |                     | (3.9)                          |
| Equity in earnings (loss) of intercompany investments   | 84.6                      | (16.3)            |                       | (68.3)              |                                |

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|   |         |         |           |           |         |
|---|---------|---------|-----------|-----------|---------|
| Income (loss) from continuing operations<br>before income taxes | 46.9    | 122.0   | (16.6)    | (68.3)    | 84.0    |
| Income tax benefit (expense)                                    | 17.5    | (48.7)  | 4.0       |           | (27.2)  |
| Income (loss) from continuing operations                        | 64.4    | 73.3    | (12.6)    | (68.3)    | 56.8    |
| Income from discontinued operations                             |         | 7.6     |           |           | 7.6     |
| Net income (loss)   | \$ 64.4 | \$ 80.9 | \$ (12.6) | \$ (68.3) | \$ 64.4 |

**Table of Contents**

**Condensed Consolidated Statement of Cash Flows**  
**Nine months ended May 31, 2005**

| (\$ millions)   | <b>Parent<br/>Company</b> | <b>Guarantors</b> | <b>Non-Guarantors</b> | <b>Consolidated<br/>Totals</b> |
|---|---------------------------|-------------------|-----------------------|--------------------------------|
| <b>Net cash provided by (used in) operating activities</b>  | \$ (32.5)                 | \$ 193.4          | \$ 38.6               | \$ 199.5                       |
| <b>Cash flows from investing activities</b>                 |                           |                   |                       |                                |
| Purchase of property and equipment, net                     | \$                        | \$ (81.5)         | \$ (27.5)             | \$ (109.0)                     |
| Expended on acquisitions                                    |                           |                   | (2.0)                 | (2.0)                          |
| Net (increase) decrease in investments                      | 3.4                       | 10.0              | (0.3)                 | 13.1                           |
| Net proceeds from sale of healthcare businesses             |                           | 798.0             |                       | 798.0                          |
| Net proceeds from sale of other businesses                  |                           | 1.4               | 9.2                   | 10.6                           |
| <b>Net cash provided by (used in) investing activities</b>  | <b>\$ 3.4</b>             | <b>\$ 727.9</b>   | <b>\$ (20.6)</b>      | <b>\$ 710.7</b>                |
| <b>Cash flows from financing activities</b>                 |                           |                   |                       |                                |
| Pay down Term B facility                                    | \$ (593.8)                | \$                | \$                    | \$ (593.8)                     |
| Net decrease in long-term debt                              | (2.5)                     | (0.2)             | (2.9)                 | (5.6)                          |
| Decrease in credit facility cash collateral                 | 60.5                      |                   |                       | 60.5                           |
| PBGC Trust share repurchase                                 |                           |                   | (84.5)                | (84.5)                         |
| Increase (decrease) in intercompany advances                | 541.9                     | (634.4)           | 92.5                  |                                |
| <b>Net cash provided by (used in) financing activities</b>  | <b>\$ 6.1</b>             | <b>\$ (634.6)</b> | <b>\$ 5.1</b>         | <b>\$ (623.4)</b>              |
| <b>Net cash used by discontinued operations</b>             | <b>\$</b>                 | <b>\$ (6.7)</b>   | <b>\$ (6.8)</b>       | <b>\$ (13.5)</b>               |
| <b>Net increase (decrease) in cash and cash equivalents</b> | <b>\$ (23.0)</b>          | <b>\$ 280.0</b>   | <b>\$ 16.3</b>        | <b>\$ 273.3</b>                |
| Cash and cash equivalents at:                               |                           |                   |                       |                                |
| Beginning of period   | 71.4                      | 4.6               | 78.2                  | 154.2                          |
| <b>End of period</b>  | <b>\$ 48.4</b>            | <b>\$ 284.6</b>   | <b>\$ 94.5</b>        | <b>\$ 427.5</b>                |

**Condensed Consolidated Statement of Cash Flows**  
**Nine months ended May 31, 2004**

| (\$ millions)  | <b>Parent<br/>Company</b> | <b>Guarantors</b> | <b>Non-Guarantors</b> | <b>Consolidated<br/>Totals</b> |
|--|---------------------------|-------------------|-----------------------|--------------------------------|
| <b>Net cash provided by (used in) operating activities</b> | \$ (62.8)                 | \$ 158.9          | \$ 97.4               | \$ 193.5                       |



**Cash flows from investing activities**

|   |    |     |           |    |        |    |         |
|---|----|-----|-----------|----|--------|----|---------|
| Purchase of property and equipment, net | \$ |     | \$ (64.1) | \$ | (59.8) | \$ | (123.9) |
| Expended on acquisitions                |    |     |           |    | (1.3)  |    | (1.3)   |
| Net (increase) decrease in investments  |    | 0.7 | 47.6      |    | (0.5)  |    | 47.8    |

|  |           |            |           |               |           |               |           |               |
|--|-----------|------------|-----------|---------------|-----------|---------------|-----------|---------------|
| <b>Net cash provided by (used in) investing activities</b> | <b>\$</b> | <b>0.7</b> | <b>\$</b> | <b>(16.5)</b> | <b>\$</b> | <b>(61.6)</b> | <b>\$</b> | <b>(77.4)</b> |
|--|-----------|------------|-----------|---------------|-----------|---------------|-----------|---------------|

**Cash flows from financing activities**

|  |    |        |    |         |    |        |    |        |
|--|----|--------|----|---------|----|--------|----|--------|
| Pay down Term B facility                     | \$ | (18.8) | \$ |         | \$ |        | \$ | (18.8) |
| Net increase (decrease) in long-term debt    |    | 0.4    |    | (0.7)   |    | (33.6) |    | (33.9) |
| Increase (decrease) in intercompany advances |    | 127.8  |    | (121.1) |    | (6.7)  |    |        |

|  |           |              |           |                |           |               |           |               |
|--|-----------|--------------|-----------|----------------|-----------|---------------|-----------|---------------|
| <b>Net cash provided by (used in) financing activities</b> | <b>\$</b> | <b>109.4</b> | <b>\$</b> | <b>(121.8)</b> | <b>\$</b> | <b>(40.3)</b> | <b>\$</b> | <b>(52.7)</b> |
|--|-----------|--------------|-----------|----------------|-----------|---------------|-----------|---------------|

**Net cash provided (used) by discontinued operations**

|  |    |  |    |        |    |     |    |        |
|--|----|--|----|--------|----|-----|----|--------|
|  | \$ |  | \$ | (11.2) | \$ | 0.6 | \$ | (10.6) |
|--|----|--|----|--------|----|-----|----|--------|

|   |           |             |           |            |           |              |           |             |
|---|-----------|-------------|-----------|------------|-----------|--------------|-----------|-------------|
| <b>Net increase (decrease) in cash and cash equivalents</b> | <b>\$</b> | <b>47.3</b> | <b>\$</b> | <b>9.4</b> | <b>\$</b> | <b>(3.9)</b> | <b>\$</b> | <b>52.8</b> |
|---|-----------|-------------|-----------|------------|-----------|--------------|-----------|-------------|

Cash and cash equivalents at:

|                     |  |      |  |       |  |      |  |      |
|---------------------|--|------|--|-------|--|------|--|------|
| Beginning of period |  | 40.7 |  | (2.4) |  | 55.7 |  | 94.0 |
|---------------------|--|------|--|-------|--|------|--|------|

|                      |           |             |           |            |           |             |           |              |
|----------------------|-----------|-------------|-----------|------------|-----------|-------------|-----------|--------------|
| <b>End of period</b> | <b>\$</b> | <b>88.0</b> | <b>\$</b> | <b>7.0</b> | <b>\$</b> | <b>51.8</b> | <b>\$</b> | <b>146.8</b> |
|----------------------|-----------|-------------|-----------|------------|-----------|-------------|-----------|--------------|

**Table of Contents**

**Condensed Consolidated Balance Sheet**  
**As of May 31, 2005**

| (\$ millions)                                       | <b>Parent<br/>Company</b> | <b>Guarantors</b> | <b>Non-Guarantors</b> | <b>Eliminations</b> | <b>Consolidated<br/>Totals</b> |
|---|---------------------------|-------------------|-----------------------|---------------------|--------------------------------|
| Current assets                                      | \$ 51.5                   | \$ 583.1          | \$ 319.8              | \$                  | \$ 954.4                       |
| Intercompany receivables (payables) and investments | 1,970.2                   | 851.0             | (238.9)               | (2,582.3)           |                                |
| Property and equipment                              |                           | 794.0             | 615.5                 |                     | 1,409.5                        |
| Insurance collateral                                |                           | 8.9               | 374.8                 |                     | 383.7                          |
| Other long-term investments                         | 50.8                      | 15.4              | 17.9                  |                     | 84.1                           |
| Contracts and customer relationships                |                           | 70.9              | 2.7                   |                     | 73.6                           |
| Long-term deferred income tax assets                | 27.5                      | 14.5              | 248.2                 |                     | 290.2                          |
| Deferred charges and other assets                   | 15.4                      | 0.8               | 4.9                   |                     | 21.1                           |
|   | \$ 2,115.4                | \$ 2,338.6        | \$ 1,344.9            | \$ (2,582.3)        | \$ 3,216.6                     |
| Current liabilities                                 | \$ 20.7                   | \$ 121.2          | \$ 327.2              | \$                  | \$ 469.1                       |
| Non-current liabilities                             | 399.1                     | 58.7              | 594.0                 |                     | 1,051.8                        |
| Shareholders' equity                                | 1,695.6                   | 2,158.7           | 423.7                 | (2,582.3)           | 1,695.7                        |
|   | \$ 2,115.4                | \$ 2,338.6        | \$ 1,344.9            | \$ (2,582.3)        | \$ 3,216.6                     |

**Condensed Consolidated Balance Sheet**  
**As of August 31, 2004**

| (\$ millions)                                       | <b>Parent<br/>Company</b> | <b>Guarantors</b> | <b>Non-Guarantors</b> | <b>Eliminations</b> | <b>Consolidated<br/>Totals</b> |
|---|---------------------------|-------------------|-----------------------|---------------------|--------------------------------|
| Current assets                                      | \$ 75.1                   | \$ 644.4          | \$ 312.5              | \$                  | \$ 1,032.0                     |
| Intercompany receivables (payables) and investments | 2,144.2                   | 241.9             | (120.2)               | (2,265.9)           |                                |
| Property and equipment                              |                           | 835.7             | 656.7                 |                     | 1,492.4                        |
| Insurance collateral                                |                           |                   | 354.5                 |                     | 354.5                          |
| Other long-term investments                         | 114.7                     | 25.6              | 14.9                  |                     | 155.2                          |
| Goodwill  |                           | 139.1             |                       |                     | 139.1                          |
| Contracts and customer relationships                |                           | 116.4             | 2.2                   |                     | 118.6                          |
| Long-term deferred income tax assets                | 5.9                       |                   | 196.5                 | (36.0)              | 166.4                          |
| Deferred charges and other assets                   | 42.8                      | 9.1               | 9.0                   |                     | 60.9                           |
| Long term assets of discontinued operations         |                           | 377.9             | 51.4                  |                     | 429.3                          |
|   | \$ 2,382.7                | \$ 2,390.1        | \$ 1,477.5            | \$ (2,301.9)        | \$ 3,948.4                     |

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|                         |            |            |            |              |            |
|-------------------------|------------|------------|------------|--------------|------------|
| Current liabilities     | \$ 35.7    | \$ 315.5   | \$ 335.4   | \$           | \$ 686.6   |
| Non-current liabilities | 970.5      | 203.1      | 747.7      | (36.0)       | 1,885.3    |
| Shareholders' equity    | 1,376.5    | 1,871.5    | 394.4      | (2,265.9)    | 1,376.5    |
|                         | \$ 2,382.7 | \$ 2,390.1 | \$ 1,477.5 | \$ (2,301.9) | \$ 3,948.4 |

**Table of Contents****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****General***Corporate overview*

The following discussion and analysis presents factors which affected the Company's consolidated results of operations for the three and nine month periods ended May 31, 2005 compared to the three and nine month periods ended May 31, 2004 and the Company's consolidated financial position at May 31, 2005. The following information should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in this Form 10-Q and in the Company's Form 10-K for the year ended August 31, 2004. As used in this Report, all references to the Company, we, us, our and similar references are to Laidlaw International, Inc.

Our continuing operations consist of three reportable segments: education services, public transit services and Greyhound. See Note 10 "Segment information" of the Notes to Consolidated Financial Statements in this Report. As a result of the sale of our healthcare transportation services and emergency management services segments, prior period amounts have been reclassified to reflect the discontinuance of these segments.

Pursuant to the terms of the Company's 10 3/4% million Senior Notes, the Company is required to segregate the consolidated results of operations between the Restricted and Unrestricted Subsidiaries as defined in Note 11

Condensed financial statements of restricted subsidiaries of the Notes to the Consolidated Financial Statements included in this Report.

*Non-GAAP Measure*

EBITDA is presented solely as a supplemental disclosure with respect to liquidity because management believes it provides useful information regarding our ability to service or incur debt. EBITDA is not calculated the same way by all companies. We define EBITDA as operating income plus depreciation and amortization. EBITDA, as reported here, is the same as reported for each of our segments in Note 10 "Segment information" of the Notes to Consolidated Financial Statements included in this Report. EBITDA is not intended to represent cash flow for the period, is not presented as an alternative to operating income as an indicator of operating performance, should not be considered in isolation or as a substitute for measures of performance prepared in accordance with generally accepted accounting principles ( GAAP ) and is not indicative of operating income or cash flow from operations as determined under GAAP.

The following is a reconciliation of our EBITDA to income from continuing operations:

| (\$ in millions)              | Three Months<br>Ended<br>May 31, |          | Nine Months Ended<br>May 31, |          |
|-------------------------------|----------------------------------|----------|------------------------------|----------|
|                               | 2005                             | 2004     | 2005                         | 2004     |
| EBITDA                        | \$ 132.6                         | \$ 135.4 | \$ 375.8                     | \$ 335.0 |
| Depreciation and amortization | (70.6)                           | (61.6)   | (203.8)                      | (189.5)  |
| Interest expense              | (20.0)                           | (19.6)   | (59.1)                       | (57.6)   |

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|                                   |                |         |                |         |
|-----------------------------------|----------------|---------|----------------|---------|
| Other income (expense), net       | <b>4.5</b>     | (0.2)   | <b>9.5</b>     | (3.9)   |
| Income tax expense                | <b>(16.1)</b>  | (22.0)  | <b>(46.5)</b>  | (27.2)  |
| Income from continuing operations | <b>\$ 30.4</b> | \$ 32.0 | <b>\$ 75.9</b> | \$ 56.8 |

**Table of Contents****Results of Operations***Three and nine months ended May 31, 2005, and 2004*

|   | <b>Percentage of revenue</b> |             |                          |             |
|---|------------------------------|-------------|--------------------------|-------------|
|   | <b>Three Months</b>          |             | <b>Nine Months Ended</b> |             |
|   | <b>Ended</b>                 |             | <b>May 31,</b>           |             |
|   | <b>2005</b>                  | <b>2004</b> | <b>2005</b>              | <b>2004</b> |
| Revenue   | <b>100.0%</b>                | 100.0%      | <b>100.0%</b>            | 100.0%      |
| Compensation expense                                  | <b>49.3</b>                  | 50.6        | <b>50.0</b>              | 51.1        |
| Insurance and accident claim costs                    | <b>5.7</b>                   | 6.7         | <b>5.7</b>               | 7.6         |
| Vehicle related costs                                 | <b>7.7</b>                   | 7.6         | <b>7.9</b>               | 8.0         |
| Fuel  | <b>6.6</b>                   | 5.4         | <b>6.4</b>               | 5.2         |
| Occupancy costs                                       | <b>4.7</b>                   | 4.6         | <b>4.8</b>               | 4.8         |
| Depreciation and amortization                         | <b>8.5</b>                   | 7.4         | <b>8.5</b>               | 7.9         |
| Other operating expenses                              | <b>10.1</b>                  | 8.9         | <b>9.6</b>               | 9.4         |
| Operating income                                      | <b>7.4</b>                   | 8.8         | <b>7.1</b>               | 6.0         |
| Interest expense                                      | <b>(2.3)</b>                 | (2.4)       | <b>(2.4)</b>             | (2.3)       |
| Other income (expense), net                           | <b>0.5</b>                   |             | <b>0.4</b>               | (0.2)       |
| Income from continuing operations before income taxes | <b>5.6</b>                   | 6.4         | <b>5.1</b>               | 3.5         |
| Income tax expense                                    | <b>(2.0)</b>                 | (2.6)       | <b>(2.0)</b>             | (1.1)       |
| Income from continuing operations                     | <b>3.6</b>                   | 3.8         | <b>3.1</b>               | 2.4         |
| Income (loss) from discontinued operations            | <b>(0.1)</b>                 | 0.3         | <b>9.2</b>               | 0.3         |
| Net income  | <b>3.5%</b>                  | 4.1%        | <b>12.3%</b>             | 2.7%        |

*Revenue by business segment and Restricted and Unrestricted subsidiaries are as follows:*

| (\$ in millions)   | <b>Three Months</b> |             | <b>Nine Months Ended</b> |             |
|--------------------|---------------------|-------------|--------------------------|-------------|
|                    | <b>Ended</b>        |             | <b>May 31,</b>           |             |
|                    | <b>May 31,</b>      |             | <b>2005</b>              |             |
|                    | <b>2005</b>         | <b>2004</b> | <b>2005</b>              | <b>2004</b> |
| <b>Revenue</b>     |                     |             |                          |             |
| Education services | <b>\$ 464.0</b>     | \$ 459.7    | <b>\$ 1,321.0</b>        | \$ 1,310.2  |
| Greyhound          | <b>294.5</b>        | 299.7       | <b>864.0</b>             | 881.1       |
| Public transit     | <b>77.6</b>         | 78.7        | <b>228.5</b>             | 223.3       |

|                           |                 |          |                   |            |
|---------------------------|-----------------|----------|-------------------|------------|
| Total                     | <b>\$ 836.1</b> | \$ 838.1 | <b>\$ 2,413.5</b> | \$ 2,414.6 |
| Restricted Subsidiaries   | <b>602.3</b>    | 595.8    | <b>1,739.2</b>    | 1,709.1    |
| Unrestricted Subsidiaries | <b>233.8</b>    | 242.3    | <b>674.3</b>      | 705.5      |
| Total                     | <b>\$ 836.1</b> | \$ 838.1 | <b>\$ 2,413.5</b> | \$ 2,414.6 |

**Table of Contents**

*EBITDA by business segment and Restricted and Unrestricted subsidiaries are as follows:*

| (\$ in millions)          | Three Months<br>Ended<br>May 31, |          | Nine Months Ended<br>May 31, |          |
|---------------------------|----------------------------------|----------|------------------------------|----------|
|                           | 2005                             | 2004     | 2005                         | 2004     |
| <b>EBITDA</b>             |                                  |          |                              |          |
| Education services        | \$ 119.0                         | \$ 118.4 | \$ 317.1                     | \$ 300.4 |
| Greyhound                 | 9.6                              | 15.6     | 46.5                         | 37.6     |
| Public transit            | 4.0                              | 1.4      | 12.2                         | (3.0)    |
| Total                     | \$ 132.6                         | \$ 135.4 | \$ 375.8                     | \$ 335.0 |
| Restricted Subsidiaries   | 120.2                            | 123.4    | 338.4                        | 307.1    |
| Unrestricted Subsidiaries | 12.4                             | 12.0     | 37.4                         | 27.9     |
| Total                     | \$ 132.6                         | \$ 135.4 | \$ 375.8                     | \$ 335.0 |

*Education services*

Revenue in the education services segment increased by \$4.3 million and \$10.8 million for the three and nine months ended May 31, 2005 compared to the same periods in fiscal 2004. The increases in revenue are principally due to a strengthening of the Canadian dollar relative to the U.S. dollar that had the effect of increasing revenue compared to the corresponding periods last year by \$4.6 million and \$12.0 million for the three and nine months ended May 31, 2005, respectively. Revenue from new contracts and rate increases on existing contracts were largely offset by decreased revenue from lost contracts.

In the three and nine months ended May 31, 2005, EBITDA in the education services segment improved \$0.6 million and \$16.7 million over the three and nine months ended May 31, 2004 primarily due to lower accident claim costs somewhat offset by increased fuel prices and vehicle maintenance costs. Accident claims costs during the three and nine months ended May 31, 2005 were \$7.8 million and \$23.0 million, respectively, lower than the comparable periods in the prior year. Favorable trends in accident frequency along with improvements in development of insurance losses from previous years have led to the reduction in accident claims costs year over year. Although we believe our full year 2005 results will continue to reflect a significant year-over-year reduction in accident claims costs, we anticipate that these costs will be higher during the fourth quarter of fiscal 2005 than the amounts recorded during the fourth quarter of fiscal 2004.

*Greyhound*

Revenue in the Greyhound segment during the three and nine months ended May 31, 2005 declined \$5.2 million and \$17.1 million, respectively, from the three and nine months ended May 31, 2004, principally due to a decrease in passenger revenue somewhat offset by an increase in the Canadian exchange rate. Passenger revenue and miles driven are down due to management's focus on improving profitability by reducing lower yielding long-distance trips and eliminating low-performing routes or frequencies. Had there been no change in the exchange rate, revenue would have decreased by \$10.2 million and \$31.1 million for the three and nine months ended May 31, 2005, respectively, compared to the prior year periods.



EBITDA in the Greyhound segment in the three months ended May 31, 2005, declined by \$6.0 million compared to the three months ended May 31, 2004 due to a \$5.8 million loss recorded upon disposition of several tour and charter businesses in western Canada. During the quarter, higher fuel prices, advertising and insurance costs were mostly offset by gains made in improving revenue per bus mile. EBITDA in the nine months ended May 31, 2005 improved \$8.9 million compared to the nine months ended May 31, 2004 due to gains made in improving revenue per bus mile and lower accident claims costs somewhat offset by higher fuel costs and the loss on sale of the western Canada businesses.

**Table of Contents**

*Public transit*

Revenue in the public transit services segment decreased \$1.1 million for the three months ended May 31, 2005 compared to the same period in fiscal 2004 while revenue increased \$5.2 million for the nine months ended May 31, 2005 compared to the same period in fiscal 2004. The decline in the current quarter is primarily due to lost revenue as a result of the sale of a small charter operation in the second quarter of 2005. The increase during the nine month period is primarily due to route additions on current contracts.

EBITDA in the public transit services segment in the three and nine months ended May 31, 2005 improved \$2.6 million and \$15.2 million, respectively, over the same period in 2004 primarily due to lower accident claims costs. Accident claims costs during the three and nine months ended May 31, 2005 were \$3.6 million and \$13.9 million, respectively, lower than the comparable periods in the prior year. Favorable trends in accident frequency along with improvements in development of insurance losses from previous years have led to the reduction in accident claims costs year over year. Although we believe our full year 2005 results will continue to reflect a significant year-over-year reduction in accident claims costs, we anticipate that these costs will be higher during the fourth quarter of fiscal 2005 than the amounts recorded during the fourth quarter of fiscal 2004.

*Restricted Subsidiaries*

The \$6.5 million and \$30.1 million increase in the Restricted Subsidiaries revenue during the three and nine months ended May 31, 2005 compared to the prior year is primarily a result of the increases in revenue in education services and Greyhound Lines of Canada. A large portion of the increase was due to the increased strength of the Canadian dollar compared to the U.S. dollar. Had there been no change in the exchange rate, revenue would have decreased by \$3.1 million and would have increased \$4.1 million for the three and nine months ended May 31, 2005, respectively, compared to the prior year periods.

In the three months ended May 31, 2005, EBITDA for the Restricted Subsidiaries declined \$3.2 million over the three months ended May 31, 2004, while EBITDA for the nine months ended May 31, 2005 improved \$31.3 million over the nine months ended May 31, 2004. The decline during the current quarter is primarily due to the loss on sale of the western Canada businesses. During the nine month period the increase is primarily due to a \$38.6 million reduction in accident claims costs somewhat offset by the loss on sale of the western Canada businesses.

*Unrestricted Subsidiaries*

The Unrestricted Subsidiaries revenue decreased \$8.5 million and \$31.2 million during the three and nine months ended May 31, 2005, primarily due to reduced passenger revenue and miles driven as discussed in the Greyhound segment above.

In the three and nine months ended May 31, 2005, EBITDA in the Unrestricted Subsidiaries increased \$0.4 million and \$9.5 million, respectively, compared to the three and nine months ended May 31, 2004 due to increased revenue per mile and reduced operating costs as discussed in the Greyhound segment above, somewhat offset by fuel cost increases.

**Depreciation and amortization expense**

Depreciation expense for the three and nine months ended May 31, 2005 increased \$9.6 million and \$14.9 million over the three and nine months ended May 31, 2004. The increase is mostly attributable to the Unrestricted Subsidiaries and is principally due to a decrease in the estimated useful life and salvage value of certain older Greyhound buses.



## **Table of Contents**

Amortization expense for the three and nine months ended May 31, 2005 decreased slightly compared to the same periods in fiscal 2004. Amortization is primarily related to customer contracts capitalized under fresh start accounting. Virtually all of the amortization expense was recorded by the Restricted Subsidiaries.

### **Interest expense**

In the three and nine months ended May 31, 2005, interest expense was \$20.0 million and \$59.1 million, respectively, compared to \$19.6 million and \$57.6 million for the three and nine months ended May 31, 2004. The increase is attributable to a slightly higher average debt balance at Greyhound.

### **Other income (expense), net**

Other income (expense), net was \$4.5 million and \$9.5 million, respectively, for the three and nine months ended May 31, 2005. The income for the quarter ended May 31, 2005 primarily relates to income on investments and a refund of \$2.5 million related to legal fees, previously expensed, to defend former directors and officers of the Predecessor Company from shareholder and creditor lawsuits that originated prior to the Company's emergence from bankruptcy. Income for the nine months ended May 31, 2005 also includes proceeds received by the Company from the finalization of Greyhound's 1990 bankruptcy proceedings, offset somewhat by certain other non-operating expenses.

Other income (expense), net was (\$0.2) million and (\$3.9) million in the three and nine months ended May 31, 2004, respectively, and primarily related to legal fees to defend former directors and officers of the Predecessor Company from shareholder and creditor lawsuits that originated prior to the Company's emergence from bankruptcy offset somewhat by income on investments.

### **Discontinued operations**

Income from discontinued operations includes the operating results of our healthcare transportation services and emergency management services segments through the date of their sale on February 10, 2005. For the three months ended May 31, 2005, the \$1.0 million loss from discontinued operations was principally due to charges related to retained insurance claims. Income from discontinued operations was \$220.1 million for the nine months ended May 31, 2005, and is principally related to the gain on sale of the businesses. Income from discontinued operations was \$2.6 million and \$7.6 million for the three and nine months ended May 31, 2004.

### **Income tax expense**

Income tax expense for continuing operations for the three and nine months ended May 31, 2005 was \$16.1 million and \$46.5 million, respectively, compared to \$22.0 million and \$27.2 million in the three and nine months ended May 31, 2004. During the nine month period ended May 31, 2004, the Company recorded a one-time benefit of \$6.6 million due to a change in a Canadian tax rate. The effective tax rate was 35% and 38% for the three and nine months of fiscal 2005, respectively, compared to 41% and 40% in the three and nine months of fiscal 2004, excluding the effect of the one-time rate change.

Of the \$16.1 million and \$46.5 million provided in the three and nine months ended May 31, 2005, \$1.2 million and \$2.8 million, respectively, represents cash taxes payable and the balance reflects the utilization of deferred tax assets.

**Table of Contents**

**Liquidity and capital resources**

For the nine months ended May 31, 2005, cash provided by operating activities was \$199.5 million compared to \$193.5 million for the nine months ended May 31, 2004. Net expenditures for the purchase of capital assets was \$109.0 million for the nine months ended May 31, 2005 compared to \$123.9 million for the nine months ended May 31, 2004.

Net cash proceeds received by the Company from the sale of the healthcare businesses during the nine months ended May 31, 2005, totalled \$798.0 million of which \$574.1 million was used to retire all outstanding borrowings under the Company's Term B senior secured term facility. Additionally, following the pay down of the Term B facility, the Company was able to reduce \$60.5 million of the cash collateral under its cash collateralized letter of credit facility. Management expects to recover the remaining \$39.5 million of cash collateral under this facility before the end of the fiscal year. During the nine months ended May 31, 2005, the Company also purchased, and retired, all of the shares held in the Pension Plan Trust (as discussed in Note 6 - Pension Plans) for \$84.5 million.

On June 30, 2005 the Company entered into a new \$600 million senior credit facility consisting of a \$300 million term loan payable in installments through 2010 and a \$300 million revolving credit facility available through 2010. The new revolving credit facility replaced the Company's previous \$200 million revolver and allowed the Company to replace Greyhound Lines' previous \$125 million revolver. Proceeds from the new term loan, along with cash on hand, were used to repurchase substantially all of the Company's 10.75% notes and will be used to redeem Greyhound Lines' 11.5% notes and 8.5% convertible debentures.

On July 5, 2005, the tender offer and consent solicitation of the 10.75% senior notes was completed. In conjunction with the offer and solicitation, the Company repurchased \$399.2 million of the outstanding \$403.5 million principal amount of the notes, representing approximately 98.9% of the outstanding notes. Total consideration paid, including tender premiums and consent fees, was \$467.3 million. As part of the tender offer, the Company received the requisite consents to eliminate substantially all of the restrictive covenants under the 10.75% notes. Additionally, the Company is in the process of redeeming at par Greyhound Lines' \$150 million principal amount of 11.5% notes and \$5 million 8.5% convertible debentures. These redemptions are expected to be completed before the end of the fiscal year and will give rise to one time charges in the fourth quarter of approximately \$112 million for tender premiums, write-off of deferred financing fees, and other fees and costs.

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

**Commitments and Contingencies**

Reference is made to Note 21 - Commitments and contingencies of Notes to the Consolidated Financial Statements in the Company's Form 10-K for the year ended August 31, 2004 for a description of the Company's material commitments. Reference is made to Note 8 - Material contingencies of Notes to Consolidated Financial Statements in this Report for a description of the Company's material contingencies.

**Table of Contents**

**Forward-looking statements**

Certain statements contained in this report on Form 10-Q, including statements regarding the status of future operating results and market opportunities and other statements that are not historical facts, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements can be identified by the use of terminology such as: believe, hope, may, anticipate, should, intend, plan, will, expect, estimate, continue, project, positioned, strategy and similar expressions. Such statements involve certain risks, uncertainties and assumptions that include, but are not limited to:

- Economic and other market factors, including competitive pressures and changes in pricing policies;
- The ability to implement initiatives designed to increase operating efficiencies or improve results;
- Control of costs related to accident and other risk management claims;
- Costs and risks associated with litigation;
- Changes in interpretations of existing, or the adoption of new legislation, regulations or other laws;
- Changes in homeland security or terrorist activity;
- Potential changes in the mix of businesses we operate; and
- Increases in prices of fuel and shortages.

Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual outcomes may vary materially from those indicated. In the light of these risks and uncertainties you are cautioned not to place undue reliance on these forward-looking statements. The Company undertakes no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures the Company makes on related subjects as may be detailed in the Company's other filings made from time to time with the Securities and Exchange Commission.

**Table of Contents**

**LAIDLAW INTERNATIONAL, INC.**

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

There have been no material changes in market risk from the disclosures provided in Item 7A. Quantitative and Qualitative Disclosures About Market Risk as set forth in the Company's Form 10-K for the year ended August 31, 2004.

**Item 4. Controls and Procedures**

The Company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. As of the end of the period covered by this quarterly report, an evaluation was carried out under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of its disclosure controls and procedures. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective.

During the most recent fiscal quarter, there have not been any changes in the Company's internal controls over financial reporting or in other factors that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

**Table of Contents**

**LAIDLAW INTERNATIONAL, INC.**

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

*Contingent Liabilities Relating to Sale of AMR*

On February 10, 2005 the Company completed the sale of American Medical Response, Inc. ( AMR ) to an affiliate of Onex Corporation ( Onex ) in accordance with the Stock Purchase Agreement, dated December 6, 2004, as amended (the Stock Purchase Agreement ). Pursuant to the terms of the Stock Purchase Agreement, the Company may be subject to indemnification obligations related to certain investigations and matters previously disclosed relating to AMR, including potentially those set forth below.

On May 9, 2002, AMR received a subpoena duces tecum from the Office of Inspector General for the United States Department of Health and Human Services ( HHS ). The subpoena requested copies of documents for the period from January 1993 through May 2002. The subpoena required AMR to produce a broad range of documents including those relating to Regional Emergency Services contracts in Georgia and Colorado. The government investigations in Georgia and Colorado are continuing.

During the first quarter of fiscal 2004, AMR was advised by the U.S. Department of Justice ( DOJ ), that it was investigating certain business practices at AMR. The specific practices at issue were (1) whether ambulance transports involving Medicare eligible patients complied with the medically necessary requirement imposed by Medicare regulations, (2) whether patient signatures, when required, were properly obtained from Medicare eligible patients; and (3) whether discounts in violation of the Federal Anti-Kickback Act were provided by AMR in exchange for referrals involving Medicare eligible patients. At this juncture, it is not possible to predict the ultimate conclusion of the investigations described in this and the preceding paragraph, nor is it possible to calculate any possible financial exposure, if any, to the Company, pursuant to the terms of the Stock Purchase Agreement.

As discussed in note 2 Discontinued operations , AMR management advised the Company that they had recently determined that their accounts receivable reserves have been understated for at least the last five years, including the date of sale. As a result of this matter, it is possible that Onex could assert a claim against the Company under the Stock Purchase Agreement, although no such claim has currently been asserted.

*Other*

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

*Environmental*

The Company s operations are subject to various federal, state, local and foreign laws and regulations relating to environmental matters, including those concerning emissions to the air; waste water discharges; storage, treatment and



disposal of waste and remediation of soil and

**Table of Contents**

ground water contamination. We have incurred, and expect to incur, costs for our operations to comply with these legal requirements, and these costs could increase in the future. In particular, the Company has been named as a potentially responsible party under the United States Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, at various third-party sites at which the Company's waste was allegedly disposed. In addition, the Company is investigating or engaged in remediation of past contamination at other sites used in its businesses. The Company records liabilities when environmental liabilities are either known or considered probable and can be reasonably estimated. On an ongoing basis, management assesses and evaluates environmental risk and, when necessary, conducts appropriate corrective measures. As of the date of this report, management believes that adequate accruals have been made related to all known environmental matters, however actual environmental liabilities could differ significantly from these estimates.

**Item 6. Exhibits**

- 31.1 Principal Executive Officer's Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Principal Financial Officer's Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification Pursuant to 18 U.S.C. § 1350 (Section 906 of Sarbanes-Oxley Act of 2002)

**Table of Contents**

**SIGNATURES**

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

LAIDLAW INTERNATIONAL, INC.

Date: July 8, 2005

By: /s/ Douglas A. Carty  
Douglas A. Carty  
Senior Vice President and Chief Financial  
Officer  
Duly Authorized Officer and Principal  
Financial  
Officer  
33