

LAIDLAW INTERNATIONAL INC

Form 10-Q

January 06, 2006

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 November 30, 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

Indicate by check mark whether the registrant is a shell company (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 December 31, 2005, there were 100,411,348 shares of common stock, par value \$0.01 per share, outstanding.

Table of Contents

LAIDLAW INTERNATIONAL, INC.

Page No.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements:

Consolidated Balance Sheets as of November 30, 2005 (Unaudited) and August 31, 2005 2

Consolidated Statements of Operations for the Three Months Ended November 30, 2005 and 2004 (Unaudited) 4

Condensed Consolidated Statements of Cash Flows for the Three Months Ended November 30, 2005 and 2004 (Unaudited) 5

Notes to Consolidated Financial Statements (Unaudited) 6

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 11

Item 3. Quantitative and Qualitative Disclosures About Market Risk 17

Item 4. Controls and Procedures 17

PART II. OTHER INFORMATION

Item 1. Legal Proceedings 18

Item 1A. Risk Factors 18

Item 6. Exhibits 18

SIGNATURES 19

Certification

Certification

Certification

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

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

| | November 30, 2005 (unaudited) | August 31, 2005 |
|--------------------------------------|--|--------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 146.9 | \$ 217.3 |
| Accounts receivable | 363.5 | 202.6 |
| Insurance collateral | 74.9 | 81.9 |
| Parts and supplies | 33.3 | 32.5 |
| Deferred income tax assets | 45.0 | 42.4 |
| Other current assets | 28.2 | 29.2 |
| Total current assets | 691.8 | 605.9 |
| Property and equipment | | |
| Land | 167.3 | 166.9 |
| Buildings | 179.0 | 176.1 |
| Vehicles | 1,528.9 | 1,447.2 |
| Other | 118.3 | 116.4 |
| | 1,993.5 | 1,906.6 |
| Less: Accumulated depreciation | (535.6) | (471.5) |
| | 1,457.9 | 1,435.1 |
| Other assets | | |
| Insurance collateral | 396.9 | 392.2 |
| Other long-term investments | 39.2 | 40.3 |
| Contracts and customer relationships | 71.8 | 73.4 |
| Deferred income tax assets | 316.4 | 350.3 |
| Deferred charges and other assets | 10.7 | 11.5 |
| | 835.0 | 867.7 |
| Total assets | \$ 2,984.7 | \$ 2,908.7 |

The accompanying notes are an integral part of these statements.

Table of Contents

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

| | November 30, 2005 (unaudited) | August 31, 2005 |
|--|--|--------------------|
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable | \$ 102.1 | \$ 86.4 |
| Accrued liabilities | 215.7 | 192.6 |
| Current portion of insurance reserves | 146.8 | 141.6 |
| Current portion of long-term debt | 34.7 | 27.8 |
| Total current liabilities | 499.3 | 448.4 |
| Long-term debt | 278.5 | 286.6 |
| Insurance reserves | 351.3 | 344.4 |
| Pension liability | 127.4 | 128.4 |
| Other long-term liabilities | 80.4 | 100.7 |
| Total liabilities | 1,336.9 | 1,308.5 |
| SHAREHOLDERS EQUITY | | |
| Common shares; \$0.01 par value per share; issued and outstanding 100.4 million (August 31, 2005 100.2 million) | 1.0 | 1.0 |
| Additional paid in capital | 1,316.5 | 1,315.9 |
| Accumulated other comprehensive income | 37.9 | 34.1 |
| Retained earnings | 292.4 | 249.2 |
| Total shareholders equity | 1,647.8 | 1,600.2 |
| Total liabilities and shareholders equity | \$ 2,984.7 | \$ 2,908.7 |

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 Ended November | |
|--|------------------------------------|-------------|
| | 30, | |
| | 2005 | 2004 |
| | \$ | \$ |
| Revenue | 846.8 | 813.7 |
| Compensation expense | 406.7 | 403.6 |
| Vehicle related costs | 63.1 | 63.3 |
| Fuel | 65.3 | 50.9 |
| Insurance and accident claim costs | 47.1 | 56.1 |
| Occupancy costs | 38.7 | 37.2 |
| Depreciation and amortization | 58.6 | 68.2 |
| Other operating expenses | 70.6 | 75.3 |
| Operating income | 96.7 | 59.1 |
| Interest expense | (5.5) | (19.3) |
| Other income, net | 1.8 | 1.4 |
| Income from continuing operations before income taxes | 93.0 | 41.2 |
| Income tax expense | (35.0) | (16.4) |
| Income from continuing operations | 58.0 | 24.8 |
| Income from discontinued operations | 0.3 | 5.6 |
| Net income | \$ 58.3 | \$ 30.4 |
| Basic earnings per share | | |
| Continuing operations | \$ 0.58 | \$ 0.25 |
| Discontinued operations | | 0.05 |
| Net income | \$ 0.58 | \$ 0.30 |
| Diluted earnings per share | | |
| Continuing operations | \$ 0.58 | \$ 0.24 |
| Discontinued operations | | 0.05 |

| | | | | |
|---|----|--------------|----|-------|
| Net income | \$ | 0.58 | \$ | 0.29 |
| Dividends per share | \$ | 0.15 | \$ | |
| Average shares outstanding | | 100.2 | | 100.0 |
| Effect of dilutive securities | | 0.4 | | 4.1 |
| Average shares outstanding assuming dilution | | 100.6 | | 104.1 |

The accompanying notes are an integral part of these statements.

Table of Contents

LAIDLAW INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(\$ in millions)
(unaudited)

| | Three Months Ended November | |
|--|------------------------------------|------------------|
| | 30, | |
| | 2005 | 2004 |
| Operating activities | | |
| Net income | \$ 58.3 | \$ 30.4 |
| Less: income from discontinued operations | (0.3) | (5.6) |
| Non-cash adjustments to net income | | |
| Depreciation and amortization | 58.6 | 68.2 |
| Deferred income taxes | 34.2 | 15.7 |
| Other non-cash items | 3.2 | 7.6 |
| Net change in certain operating assets and liabilities | | |
| Accounts receivable | (162.1) | (142.7) |
| Insurance collateral | (4.8) | (9.3) |
| Accounts payable and accrued liabilities | 1.7 | (9.5) |
| Insurance reserves | 12.1 | 2.4 |
| Other assets and liabilities | (16.8) | 0.5 |
| Net cash used by operating activities | \$ (15.9) | \$ (42.3) |
| Investing activities | | |
| Net capital expenditures | \$ (54.5) | \$ (20.0) |
| Net decrease in performance bond collateral | 0.6 | 4.3 |
| Net decrease in other investments | 0.1 | 0.2 |
| Net cash used by investing activities | \$ (53.8) | \$ (15.5) |
| Financing activities | | |
| Net (decrease) increase in long-term debt | \$ (1.2) | \$ 14.7 |
| Net cash (used) provided by financing activities | \$ (1.2) | \$ 14.7 |
| Net cash provided (used) by discontinued operations | \$ 0.5 | \$ (12.1) |
| Net decrease in cash and cash equivalents | \$ (70.4) | \$ (55.2) |
| Cash and cash equivalents beginning of period | 217.3 | 154.2 |
| Cash and cash equivalents end of period | \$ 146.9 | \$ 99.0 |

The accompanying notes are an integral part of these statements.

Table of Contents

LAIDLAW INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTH PERIOD ENDED NOVEMBER 30, 2005

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

Laidlaw International, Inc. (the Company) operates in three reportable business segments: education services, Greyhound and public transit. 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. Greyhound, a national provider of inter-city bus transportation in the United States and Canada, provides scheduled passenger service, package delivery service, charter bus service and, in certain terminals, food service. The public transit segment provides fixed-route municipal bus service and paratransit bus transportation for riders with disabilities.

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 months ended November 30, 2005 are not necessarily indicative of the results that may be expected for the full year ending August 31, 2006. 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, 2005.

Prior period amounts have been reclassified to conform to the current period presentation.

Note 2 Comprehensive income

The following table summarizes total comprehensive income (\$ in millions):

| | Three Months Ended November | |
|--|------------------------------------|----------------|
| | 30, | |
| | 2005 | 2004 |
| Net income | \$ 58.3 | \$ 30.4 |
| Net unrealized loss on securities | (4.8) | (0.7) |
| Net gain on interest rate swaps | 1.4 | 0.7 |
| Foreign currency translation adjustments | 7.2 | 39.9 |
| Total comprehensive income | \$ 62.1 | \$ 70.3 |

Table of Contents**Note 3 Discontinued operations**

During the second quarter of fiscal 2005 the Company sold American Medical Response, Inc. (AMR) and Emcare Holdings, Inc., its healthcare transportation services and emergency management services segments, to an affiliate of Onex Corporation.

The following table details the components of income from discontinued operations (\$ in millions):

| | Three Months Ended November 30, | |
|-------------------------------------|--|-------------|
| | 2005 | 2004 |
| Revenue | \$ | \$ 413.6 |
| Pre-tax income from operations | 0.4 | 9.9 |
| Provision for income taxes | (0.1) | (4.3) |
| Income from discontinued operations | \$ 0.3 | \$ 5.6 |

For the three months ended November 30, 2004, the Company allocated interest expense under the previous term loan and revolver to discontinued operations since the Company was required by the creditors to pay off the debt upon sale of the healthcare businesses.

Note 4 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 \$1.7 million and \$0.9 million during the three months ended November 30, 2005 and 2004, respectively. A summary of stock based awards and options issued during the current fiscal year is as follows:

Stock options During the three months ended November 30, 2005, the Company issued 337,625 non-qualified stock options to employees and non-employee directors with an average strike price of \$22.89 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 three months ended November 30, 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 During the three months ended November 30, 2005, the Company granted 200,000 deferred shares to key employees. The deferred shares vest ratably over a four-year period. On each vesting date the employee receives common stock of the Company equal in number to the deferred shares that have vested. Upon delivery of the Company common stock an equal number of deferred shares are terminated. The participant has no voting rights with respect to the deferred shares.

Table of Contents**Note 5 Pension plans**

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

| (\$ in millions) | Three Months Ended November | |
|---|-----------------------------|-------------|
| | 2005 | 30, 2004 |
| Components of net pension benefit cost | | |
| Service cost | \$ 2.2 | \$ 2.1 |
| Interest cost | 12.2 | 14.3 |
| Expected return on plan assets | (12.6) | (14.4) |
| Net pension benefit cost | \$ 1.8 | \$ 2.0 |

Note 6 Material contingencies**Legal proceedings***Contingent Liabilities Relating to Sale of AMR*

The Company sold AMR to an affiliate of Onex Corporation (Onex) in accordance with a 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 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 may be 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.

Subsequent to the sale, AMR management advised the Company that they had determined that their accounts receivable reserves had been understated between \$39 million and \$50 million during 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.

Table of Contents

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 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 7 Business interruption settlement

During the first quarter of fiscal 2006, Greyhound received a \$5.0 million business interruption insurance settlement relating to losses incurred during the September 11, 2001 terrorist attacks. The recovery was applied against other operating expenses on the Company's Consolidated Statements of Operations .

Table of Contents**Note 8 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 months ended November 30, 2005 and 2004 were as follows:

| (\$ in millions) | Three Months Ended November | |
|---------------------------------------|-----------------------------|-------------|
| | 2005 | 30, 2004 |
| Education services | | |
| Revenue | \$ 463.7 | \$ 451.9 |
| EBITDA | 115.4 | 112.2 |
| Greyhound | | |
| Revenue | \$ 304.6 | \$ 284.8 |
| EBITDA | 34.9 | 11.8 |
| Public transit | | |
| Revenue | \$ 78.5 | \$ 77.0 |
| EBITDA | 5.0 | 3.3 |
| Consolidated Total | | |
| Revenue | \$ 846.8 | \$ 813.7 |
| EBITDA | 155.3 | 127.3 |
| Depreciation and amortization expense | (58.6) | (68.2) |
| Operating income | 96.7 | 59.1 |
| Interest expense | (5.5) | (19.3) |
| Other income, net | 1.8 | 1.4 |
| Income tax expense | (35.0) | (16.4) |
| Income from discontinued operations | 0.3 | 5.6 |
| Net income | \$ 58.3 | \$ 30.4 |

Total identifiable assets for each of the reportable segments has not changed materially since August 31, 2005 with the exception of the education services segment where total identifiable assets at November 30, 2005 were \$1,261.8 million compared to \$1,088.3 million at August 31, 2005. The increase was primarily due to seasonal accounts receivable changes.

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 month periods ended November 30, 2005 and 2004 and the Company's consolidated financial position at November 30, 2005. Our continuing operations consist of three reportable segments: education services, Greyhound and public transit services. See Note 8 Segment information of the Notes to Consolidated Financial Statements in this Report. 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, 2005. As used in this Report, all references to the Company, we, us, our and similar references are to Laidlaw International, Inc.

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 8 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 ended November 30, | |
|-----------------------------------|--|----------|
| | 2005 | 2004 |
| EBITDA | \$ 155.3 | \$ 127.3 |
| Depreciation and amortization | (58.6) | (68.2) |
| Interest expense | (5.5) | (19.3) |
| Other income, net | 1.8 | 1.4 |
| Income tax expense | (35.0) | (16.4) |
| Income from continuing operations | \$ 58.0 | \$ 24.8 |

Table of Contents**Results of Operations***Three months ended November 30, 2005, and 2004*

| | Percentage of Revenue | |
|-------------------------------------|--|-------------|
| | Three Months ended November 30, | |
| | 2005 | 2004 |
| Revenue | 100.0% | 100.0% |
| Compensation expense | 48.0 | 49.5 |
| Vehicle related costs | 7.5 | 7.8 |
| Fuel | 7.7 | 6.3 |
| Insurance and accident claim costs | 5.6 | 6.9 |
| Occupancy costs | 4.6 | 4.6 |
| Depreciation and amortization | 6.9 | 8.3 |
| Other operating expenses | 8.3 | 9.3 |
| Operating income | 11.4 | 7.3 |
| Interest expense | (0.6) | (2.4) |
| Other income, net | 0.2 | 0.2 |
| Income before income taxes | 11.0 | 5.1 |
| Income tax expense | (4.2) | (2.1) |
| Income from continuing operations | 6.8 | 3.0 |
| Income from discontinued operations | 0.1 | 0.7 |
| Net income | 6.9% | 3.7% |

Revenue and EBITDA by business segment are as follows (\$ in millions):

| | Three Months ended November 30, | |
|--------------------|--|-------------|
| | 2005 | 2004 |
| Revenue | | |
| Education services | \$ 463.7 | \$ 451.9 |
| Greyhound | 304.6 | 284.8 |
| Public transit | 78.5 | 77.0 |
| Total | \$ 846.8 | \$ 813.7 |

EBITDA

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| | | | | |
|--------------------|----|--------------|----|-------|
| Education services | \$ | 115.4 | \$ | 112.2 |
| Greyhound | | 34.9 | | 11.8 |
| Public transit | | 5.0 | | 3.3 |
| Total | \$ | 155.3 | \$ | 127.3 |

Table of Contents

Education services

Revenue in the education services segment increased by \$11.8 million for the three months ended November 30, 2005 compared to the three months ended November 30, 2004 as price and volume increases and a favorable Canadian dollar exchange rate more than offset lost business. The increase in the value of the Canadian currency increased revenues \$3.8 million in the quarter.

In the three months ended November 30, 2005, EBITDA improved \$3.2 million over the three months ended November 30, 2004. The increase in EBITDA was principally due to the increase in revenues as lower insurance and accident claim costs were offset by increases in fuel prices. EBITDA as a percentage of revenue increased slightly to 24.9% from 24.8% in the prior year.

Greyhound

Revenue in the Greyhound segment during the three months ended November 30, 2005 increased \$19.8 million from the three months ended November 30, 2004, principally due to higher ticket prices and a favorable Canadian dollar exchange rate as an increase in intercity bus travel in regions of the U.S. with high instances of dislocated individuals as a result of hurricanes largely offset reductions due to network changes. The higher traffic volume, due to the hurricanes, is not expected to continue throughout the remainder of the year. Management believes that higher retail fuel prices, particularly early in the quarter, contributed to the ability to obtain ticket price increases. The increase in the value of the Canadian currency increased revenues \$3.9 million in the quarter.

EBITDA in the three months ended November 30, 2005, increased by \$23.1 million compared to the three months ended November 30, 2004. Increased ticket prices, coupled with improvements in passenger load due to the on-going transformation of our networks resulted in significant increases in revenue per bus mile. Elimination of unproductive bus miles led to a reduction in variable costs as a percent of revenue, which more than offset an increase in fuel prices. The current period results include a one-time gain of \$5 million due to a business interruption settlement received as compensation for losses incurred during the September 11, 2001 terrorist attacks. Excluding the business interruption settlement, EBITDA as a percentage of revenue increased to 9.8% from 4.1% in the prior year.

Public transit

Revenue increased by \$1.5 million for the three months ended November 30, 2005 compared to the same period in 2004 principally due to increased billings from fuel price escalation clauses contained within customer contracts. EBITDA for the three months ended November 30, 2005, increased by \$1.7 million compared to the three months ended November 30, 2004 as lower insurance costs more than offset higher fuel prices. EBITDA as a percentage of revenue increased to 6.4% from 4.3% in the prior year.

Table of Contents**Depreciation and amortization expense**

Depreciation and amortization by business segment was as follows (\$ in millions):

| | Three Months ended November 30, | |
|--------------------|--|-------------|
| | 2005 | 2004 |
| Education services | \$ 37.9 | \$ 50.4 |
| Greyhound | 18.2 | 15.2 |
| Public transit | 2.5 | 2.6 |
| | | |
| Consolidated | \$ 58.6 | \$ 68.2 |

Education services depreciation and amortization for the three months ended November 30, 2005 decreased by \$12.5 million compared to the three months ended November 30, 2004, of which approximately \$9 million was due to an increase in the estimated useful lives of certain school bus models. The remaining decline was primarily due to an increase in the number of fully depreciated school buses and lower contract intangible amortization. The increase of \$3.0 million in the Greyhound segment was primarily due to a decrease in the estimated useful life and salvage value of certain older buses.

Interest expense

In the three months ended November 30, 2005 interest expense decreased \$13.8 million to \$5.5 million. The decrease is due to the reduced amount of debt outstanding and better interest rates obtained through changes made to our debt structure in the second half of fiscal 2005.

Other income, net

Other income, net was \$1.8 million and \$1.4 million for the three months ended November 30, 2005 and 2004, respectively, and primarily consisted of income on investments.

Income tax expense

Income tax expense for continuing operations for the three months ended November 30, 2005 was \$35.0 million compared to \$16.4 million in the three months ended November 30, 2004. Tax expense during the first quarter of 2006 includes a \$1.2 million benefit from the reversal of a portion of the valuation allowance related to capital loss carryforwards that were absorbed by capital gains recognized during the period. Excluding this benefit, the effective tax rate was 39% and 40% for the three months ended November 30, 2005 and 2004, respectively.

Discontinued operations

The \$0.3 million of net income from discontinued operations for the three months ended November 30, 2005 represents the favorable settlement of a claim related to a previously discontinued business. The \$5.6 million of net income for the three months ended November 30, 2004 represents operating income from the healthcare businesses that were subsequently discontinued.

Table of Contents

Liquidity and capital resources

For the three months ended November 30, 2005, cash used by operating activities was \$15.9 million compared to \$42.3 million for the three months ended November 30, 2004. The usage of cash for both periods is driven by the seasonal build up of receivables in the education services segment at the start of the school year. The decrease in cash used during the current period is due to increased EBITDA and lower interest costs.

Net expenditures for the purchase of capital assets was \$54.5 million for the three months ended November 30, 2005 compared to \$20.0 million for the three months ended November 30, 2004, reflecting increased investment in the fleet of the education services segment following two years of spending restraint.

Effective January 5, 2006, the Board of Directors authorized a stock repurchase program to acquire up to \$200 million of our outstanding stock. Stock repurchases under this program may be made through open market and privately negotiated transactions at times and in such amounts as management deems appropriate. The timing and amount of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements and other market conditions. The stock repurchase program does not have an expiration date and may be limited or terminated at any time without prior notice.

As of November 30, 2005 there were no cash borrowings under the \$300 million Revolver and issued letters of credit were \$116.9 million, leaving \$183.1 million of availability. 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 18 Commitments and contingencies of Notes to the Consolidated Financial Statements in the Company's Form 10-K for the year ended August 31, 2005 for a description of the Company's material commitments. Reference is made to Note 6 Material contingencies of Notes to Consolidated Financial Statements in this Report for a description of the Company's material contingencies.

Table of Contents

Forward-looking statements

Certain statements contained in this quarterly 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;
- Costs and risks associated with litigation;
- Changes in interpretations of existing, or the adoption of new, legislation, regulations or other laws;
- The potential for rising labor costs and actions taken by organized labor unions;
- Continued increases in prices of fuel and potential shortages;
- Control of costs related to accident and other risk management claims;
- Terrorism and other acts of violence;
- The ability to produce sufficient future taxable income to allow us to recover our deferred tax assets;
- The ability to repurchase the Company's common stock;
- Potential changes in the mix of businesses we operate; and
- The inability to earn sufficient returns on pension plan assets thus requiring increased funding.

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 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

At November 30, 2005 the Company had outstanding commitments to purchase 16.0 million gallons of fuel through August 31, 2006 at an average price of \$1.86.

With the exception of the change in the amount of advance purchase commitments for fuel, 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, 2005.

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

Reference is made to Part I, Item 3 Legal Proceedings of the Company's Form 10-K for the year ended August 31, 2005 for a description of certain legal proceedings presently pending. There are no material new matters to report against the Company or its subsidiaries and there have been no material changes in the previously reported proceedings.

Item 1A. Risk factors

There have been no material changes in the risk factors provided in Item 7 of the Company's Form 10-K for the year ended August 31, 2005.

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.

By: /s/ Douglas A. Carty

Date: January 6, 2006

Douglas A. Carty
Executive Vice President and Chief Financial
Officer
Duly Authorized Officer and Principal
Financial Officer

19