LAIDLAW INTERNATIONAL INC
Form 10-Q
July 06, 2007

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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, 2007
Commission file number 000-10657
LAIDLAW INTERNATIONAL, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	**98-0390488**
(State or other jurisdiction of incorporation or organization)	(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 þ NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES o NO þ

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 þ NO o

As of June 30, 2007, there were 79,406,577 shares of common stock, par value $0.01 per share, outstanding.

LAIDLAW INTERNATIONAL, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	May 31, 2007 (unaudited)	August 31, 2006
ASSETS		
Current assets		
Cash and cash equivalents	**$ 190.5**	$ 318.7
Accounts receivable	**345.3**	210.5
Insurance collateral	**61.5**	106.4
Parts and supplies	**36.6**	40.7
Deferred income tax assets	**43.0**	39.6
Other current assets	**32.3**	24.8
Total current assets	**709.2**	740.7
Property and equipment		
Land	**173.5**	164.6
Buildings	**198.8**	191.0
Vehicles	**1,882.4**	1,753.4
Other	**151.5**	137.1
	2,406.2	2,246.1
Less: Accumulated depreciation	**(794.2)**	(648.2)
	1,612.0	1,597.9
Other assets		
Insurance collateral	**269.8**	303.4
Other long-term investments	**28.0**	29.3
Contracts and customer relationships	**74.6**	68.5
Deferred income tax assets	**193.0**	267.4
Deferred charges and other assets	**38.4**	31.5
	603.8	700.1
Total assets	**$ 2,925.0**	$ 3,038.7

The accompanying notes are an integral part of these statements.

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

	May 31, 2007 (unaudited)	August 31, 2006
LIABILITIES		
Current liabilities		
Accounts payable	**$ 78.9**	$ 140.3
Accrued employee compensation	**121.2**	112.7
Other accrued liabilities	**80.9**	95.8
Current portion of insurance reserves	**133.2**	147.8
Current portion of long-term debt	**55.0**	34.7
Total current liabilities	**469.2**	531.3
Long-term debt	**714.4**	772.6
Insurance reserves	**325.0**	339.7
Pension liability	**103.2**	104.5
Other long-term liabilities	**76.3**	82.7
Total liabilities	**1,688.1**	1,830.8
SHAREHOLDERS EQUITY		
Common shares; $0.01 par value per share; issued and outstanding 79.4 million (August 31, 2006 81.6 million)	**0.8**	0.8
Additional paid in capital	**750.8**	814.5
Accumulated other comprehensive income	**91.4**	77.8
Retained earnings	**393.9**	314.8
Total shareholders equity	**1,236.9**	1,207.9
Total liabilities and shareholders equity	**$ 2,925.0**	$ 3,038.7

The accompanying notes are an integral part of these statements.

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LAIDLAW INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
($ in millions except per share amounts)
(unaudited)

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2007	2006	**2007**	2006
Revenue	**$ 868.9**	$ 860.7	**$ 2,517.9**	$ 2,496.5
Compensation expense	**423.6**	420.2	**1,246.0**	1,222.9
Vehicle related costs	**57.9**	61.3	**178.8**	186.2
Fuel	**70.6**	68.7	**206.4**	194.3
Insurance and accident claim costs	**24.6**	46.7	**97.7**	128.3
Occupancy costs	**41.6**	40.9	**120.7**	121.5
Depreciation and amortization	**66.1**	62.1	**189.0**	177.8
Other operating expenses	**84.8**	77.3	**244.8**	220.0
Operating income	**99.7**	83.5	**234.5**	245.5
Interest expense	**(14.2)**	(5.4)	**(43.4)**	(16.3)
Other income (expense), net	**8.7**	1.9	**(1.9)**	5.7
Income from continuing operations before income taxes	**94.2**	80.0	**189.2**	234.9
Income tax expense	**(33.2)**	(36.5)	**(69.6)**	(95.6)
Income from continuing operations	**61.0**	43.5	**119.6**	139.3
Loss from discontinued operations		(9.4)		(12.9)
Net income	**$ 61.0**	$ 34.1	**$ 119.6**	$ 126.4
Basic earnings (loss) per share				
Continuing operations	**$ 0.77**	$ 0.44	**$ 1.50**	$ 1.40
Discontinued operations		(0.09)		(0.13)
Net income	**$ 0.77**	$ 0.35	**$ 1.50**	$ 1.27
Diluted earnings (loss) per share				
Continuing operations	**$ 0.76**	$ 0.44	**$ 1.50**	$ 1.40

Discontinued operations		(0.09)		(0.13)
Net income	**$ 0.76**	$ 0.35	**$ 1.50**	$ 1.27
Dividends per share	**$ 0.17**	$ 0.15	**$ 0.51**	$ 0.45
Average shares outstanding	**79.3**	97.8	**79.5**	99.3
Effect of dilutive securities	**0.6**	0.5	**0.5**	0.4
Average diluted shares outstanding	**79.9**	98.3	**80.0**	99.7

The accompanying notes are an integral part of these statements.

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

	Nine Months Ended May 31,	
	2007	2006
Operating activities		
Net income	**$ 119.6**	$ 126.4
Loss from discontinued operations		12.9
Non-cash adjustments to net income		
Depreciation and amortization	**189.0**	177.8
Deferred income taxes	**67.6**	89.0
Other non-cash items	**(2.8)**	1.6
Net change in certain operating assets and liabilities		
Accounts receivable	**(147.6)**	(125.7)
Insurance collateral	**72.1**	41.8
Accounts payable and accrued liabilities	**2.4**	17.0
Insurance reserves	**(18.0)**	6.6
Other assets and liabilities	**(21.7)**	(25.8)
Net cash provided by operating activities	**$ 260.6**	$ 321.6
Investing activities		
Purchase of property and equipment	**$ (236.1)**	$ (219.0)
Proceeds from sale of property and equipment	**29.3**	19.5
Net cash expended on acquisitions	**(25.9)**	(4.5)
Net decrease in performance bond collateral	**4.2**	0.6
Net proceeds from sale of businesses		5.8
Other investing activities	**1.9**	7.5
Net cash used by investing activities	**$ (226.6)**	$ (190.1)
Financing activities		
Repurchase of common stock	**$ (74.3)**	$ (76.8)
Dividend payments	**(40.5)**	(44.6)
Principal payments on long-term debt	**(25.0)**	(15.0)
Net decrease in revolver	**(20.8)**	
Other financing activities	**(1.5)**	(3.6)
Net cash used by financing activities	**$ (162.1)**	$ (140.0)
Effect of exchange rate changes on cash	**$ (0.1)**	$ 3.3
Net decrease in cash and cash equivalents	**$ (128.2)**	$ (5.2)

Cash and cash equivalents	**beginning of period**		**318.7**		217.3
Cash and cash equivalents	**end of period**	**$**	**190.5**	$	212.1

The accompanying notes are an integral part of these statements.

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LAIDLAW INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTH PERIODS ENDED MAY 31, 2007
(Unaudited)

Note 1 Corporate overview and basis of presentation

Corporate overview

Laidlaw International, Inc. (the Company or Laidlaw) 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 paratransit bus transportation for riders with disabilities and fixed-route municipal bus service.

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, 2007 are not necessarily indicative of the results that may be expected for the full year ending August 31, 2007. 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, 2006.

Note 2 FirstGroup merger

On February 8, 2007 the Company entered into an Agreement and Plan of Merger (the Merger Agreement) with FirstGroup plc under which FirstGroup will acquire all of the Company s outstanding common shares for $35.25 per share in cash. Laidlaw s stockholders approved the merger transaction at a Special Meeting held on April 20, 2007. Likewise, FirstGroup shareholders passed resolutions to approve the acquisition of Laidlaw at an Extraordinary General Meeting held on April 20, 2007. The Merger Agreement contains specified termination rights for the parties, and provides that in certain circumstances, either the Company or FirstGroup will be required to pay the other party a termination fee of up to $78 million and £22 million, respectively. The Company s Proxy Statement, filed with the Securities Exchange Commission on March 21, 2007, provides further detail and explanation of the Merger Agreement and sale transaction.

The merger transaction is subject to certain closing conditions, including further regulatory approval in the U.S. Under the notification requirements of the Hart-Scott-Rodino Antitrust Improvements Act (HSR), the Antitrust Division of the U.S. Department of Justice (DOJ) requested additional information from both FirstGroup and Laidlaw, primarily related to student transportation. The Company continues to work with the DOJ regarding this request for additional information.

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Note 3 Comprehensive income

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

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2007	2006	**2007**	2006
Net income	**$ 61.0**	$ 34.1	**$ 119.6**	$ 126.4
Net unrealized gain (loss) on:				
Securities		(2.4)	**3.8**	(5.6)
Interest rate swaps	**0.3**	0.9	**(0.4)**	2.8
Fuel hedge	**0.6**	0.4	**1.5**	0.4
Foreign currency translation adjustments	**20.7**	12.9	**8.7**	29.8
Total comprehensive income	**$ 82.6**	$ 45.9	**$ 133.2**	$ 153.8

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 grant date and recorded expenses related to these plans of approximately $2.3 million and $7.1 million during the three and nine months ended May 31, 2007 compared to $1.9 million and $5.6 million during the three and nine months ended May 31, 2006. A summary of stock based awards and options issued during the current fiscal year, is as follows:

Stock options During the nine months ended May 31, 2007, the Company issued 359,125 non-qualified stock options to employees and non-employee directors with an average exercise price of $28.64 per share. The exercise price is equal to the fair market value of the Company s stock at the date of grant. The option holder has no voting or dividend rights. The stock options have a ten-year life and vest ratably over three years.

Restricted Shares During the nine months ended May 31, 2007, the Company issued 25,313 shares of restricted common stock to non-employee directors. The restricted shares vest at the end of a two 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 nine months ended May 31, 2007, the Company granted 192,500 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 participants have no voting or dividend rights with the deferred shares.

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Note 5 Pension plans

The components of net pension cost for the Company s pension plans were as follows ($ in millions):

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2007	2006	**2007**	2006
Components of net pension cost				
Service cost	**$ 2.7**	$ 2.7	**$ 7.9**	$ 8.2
Interest cost	**14.4**	13.0	**41.2**	39.2
Expected return on plan assets	**(14.7)**	(13.8)	**(42.3)**	(41.3)
Net pension cost	**$ 2.4**	$ 1.9	**$ 6.8**	$ 6.1

Note 6 Material contingencies

Legal proceedings

Contingent Liabilities Relating to Sale of EmCare Holdings, Inc. and American Medical Response, Inc.

On February 10, 2005, the Company completed the sale to affiliates of Onex Corporation (collectively, the Purchaser) of EmCare Holdings Inc. and its subsidiaries and American Medical Response, Inc. and its subsidiaries in accordance with two Stock Purchase Agreements, each dated December 6, 2004, as amended (collectively, the Stock Purchase Agreements).

On June 13, 2007, the Purchaser asserted claims against the Company under the Stock Purchase Agreements for indemnification of potential tax liabilities. The Company is currently investigating this matter and at this juncture it is not possible to predict the ultimate outcome of the Company s investigation, nor is it possible to calculate the possible financial exposure, if any, to the Company, pursuant to the terms of the Stock Purchase Agreements.

Other

The Company is also a defendant in various lawsuits and claims arising in the ordinary course of business, primarily cases involving personal injury, property damage, environmental 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 legal proceeding either threatened or pending against us relating to personal injury, property damage, environmental 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. The Company has incurred, and expects 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, management is investigating or engaged in remediation of past contamination at other

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sites used in the Company s business. 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 owed, if any.

Note 7 Acquisitions

During the nine months ended May 31, 2007, the Company acquired two Canadian school bus companies, adding approximately 700 buses which are expected to generate over $26 million of annualized revenue. The Company paid $25.9 million in net cash and assumed $8.6 million in debt for an aggregate purchase price of $34.5 million. The fair value of net tangible assets acquired was $23.8 million, with the remaining $10.7 million of purchase price allocated to contract values.

Note 8 Statement of cash flows

During the nine months ended May 31, 2007, purchase of property and equipment on the Company s Consolidated Statements of Cash Flows includes $66.3 million for vehicles purchased in the prior year but paid for in the current year.

Note 9 Repurchase of common stock

In September and October of 2006 the Company repurchased approximately 2.5 million shares of its common stock at an average cost of $27.92 per share through open market purchases, completing the $500 million repurchase program authorized in July 2006.

Note 10 Business interruption settlement

During the first nine months of 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 recorded in other operating expenses on the Company s Consolidated Statements of Operations .

Note 11 Recent accounting pronouncement

In February 2007, the Financial Accounting Standards Board issued SFAS No. 159 The Fair Value Option for Financial Assets (SFAS 159). SFAS 159 permits entities to choose to measure certain financial assets and liabilities at fair value. Unrealized gains and losses, arising subsequent to adoption, are reported in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007 and the Company will be required to adopt SFAS 159 in the first quarter of fiscal 2009. The Company is currently assessing the impact of SFAS 159 on its consolidated financial statements.

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Note 12 Segment information

The Company has three reportable segments: education services, Greyhound and public transit. The education services segment provides school bus transportation throughout the United States and Canada. The Greyhound segment provides intercity bus transportation throughout the United States and Canada. Public transit provides paratransit and municipal bus transportation within the United States.

The Company evaluates performance and allocates resources based on operating income before depreciation and amortization (EBITDA). The Company s reportable segments are business units that offer different services and are each managed separately.

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2007	2006	**2007**	2006
Revenue				
Education services	**$ 520.0**	$ 483.7	**$ 1,466.1**	$ 1,367.9
Greyhound	**269.9**	297.9	**820.7**	896.3
Public transit	**79.0**	79.1	**231.1**	232.3
Consolidated	**$ 868.9**	$ 860.7	**$ 2,517.9**	$ 2,496.5
EBITDA				
Education services	**$ 134.7**	$ 117.7	**$ 338.8**	$ 325.0
Greyhound	**23.6**	22.9	**66.4**	84.1
Public transit	**7.5**	5.0	**18.3**	14.2
Consolidated	**165.8**	145.6	**423.5**	423.3
Depreciation and amortization	**(66.1)**	(62.1)	**(189.0)**	(177.8)
Operating income	**99.7**	83.5	**234.5**	245.5
Interest expense	**(14.2)**	(5.4)	**(43.4)**	(16.3)
Other income (expense), net	**8.7**	1.9	**(1.9)**	5.7
Income tax expense	**(33.2)**	(36.5)	**(69.6)**	(95.6)
Income from continuing operations	**61.0**	43.5	**119.6**	139.3
Loss from discontinued operations		(9.4)		(12.9)
Net income	**$ 61.0**	$ 34.1	**$ 119.6**	$ 126.4

Total identifiable assets for each of the reportable segments has not changed materially since August 31, 2006 with the exception of the education services segment where total identifiable assets at May 31, 2007 were $1,349.3 million compared to $1,235.0 million at August 31, 2006. The increase was primarily due to seasonal accounts receivable changes.

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

General

Corporate overview

The following discussion and analysis presents factors which affected the Company s consolidated results of operations for the three and nine month periods ended May 31, 2007 and 2006 and the Company s consolidated financial position at May 31, 2007. Our continuing operations consist of three reportable segments: education services, Greyhound and public transit services. See Note 12 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, 2006. As used in this Report, all references to the Company, we, us, our and similar references are to Laidlaw International, Inc.

Results of Operations

	Three Months Ended May 31,		**Nine Months Ended May 31,**	
Percentage of revenue	**2007**	2006	**2007**	2006
Revenue	**100.0%**	100.0%	**100.0%**	100.0%
Compensation expense	**48.7**	48.8	**49.5**	48.9
Vehicle related costs	**6.7**	7.1	**7.1**	7.5
Fuel	**8.1**	8.0	**8.2**	7.8
Insurance and accident claim costs	**2.8**	5.4	**3.9**	5.1
Occupancy costs	**4.8**	4.8	**4.8**	4.9
Depreciation and amortization	**7.6**	7.2	**7.5**	7.2
Other operating expenses	**9.8**	9.0	**9.7**	8.8
Operating income	**11.5**	9.7	**9.3**	9.8
Interest expense	**(1.7)**	(0.6)	**(1.7)**	(0.6)
Other income (expense), net	**1.0**	0.2	**(0.1)**	0.2
Income from continuing operations before income taxes	**10.8**	9.3	**7.5**	9.4
Income tax expense	**(3.8)**	(4.2)	**(2.8)**	(3.8)
Income from continuing operations	**7.0**	5.1	**4.7**	5.6
Loss from discontinued operations		(1.1)		(0.5)
Net income	**7.0%**	4.0%	**4.7%**	5.1%

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Revenue and EBITDA by business segment

Education services

($ in millions)	Revenue	EBITDA	EBITDA Margin
Three months ended			
May 31, 2007	$ 520.0	$134.7	25.9%
May 31, 2006	483.7	117.7	24.3
Percentage increase	7.5%	14.4%	160 BP*
Nine months ended			
May 31, 2007	$1,466.1	$338.8	23.1%
May 31, 2006	1,367.9	325.0	23.8
Percentage increase (decrease)	7.2%	4.2%	(70)BP*

* Increase (decrease) in EBITDA margin is expressed in basis points

Revenue in the education services segment increased by $36.3 million and $98.2 million for the three and nine months ended May 31, 2007, respectively, compared to the three and nine months ended May 31, 2006 as new contracts along with price and volume increases from existing clients, more than offset lost business. Additionally, during the nine months ended May 31, 2007, lost days due to bad weather reduced revenues by $5.8 million, most of which is expected to be recovered during the fourth quarter. Changes in the exchange rate of the Canadian dollar did not have a significant effect on revenue.

During the three months ended May 31, 2007, EBITDA margins increased 160 basis points over the three months ended May 31, 2006 primarily driven by reduced insurance costs due to improvements in current period accident claim costs and favorable development on estimates for older claims. EBITDA margin for the nine months ended May 31, 2007 decreased 70 basis points over the corresponding nine months ended May 31, 2006 as favorable insurance results were more than offset by increased project costs related to initiatives to improve our technological capabilities, costs resulting from driver shortages in some areas of the country and increased average fuel prices.

Greyhound

($ in millions)	Revenue	EBITDA	EBITDA Margin
Three months ended			
May 31, 2007	$269.9	$ 23.6	8.7%
May 31, 2006	297.9	22.9	7.7
Percentage increase (decrease)	(9.4)%	3.1%	100 BP*
Nine months ended			
May 31, 2007	$820.7	$ 66.4	8.1%
May 31, 2006	896.3	84.1	9.4

Percentage decrease	(8.4)%	(21.0)%	(130)BP*

* Increase (decrease) in EBITDA margin is expressed in basis points

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Revenue in the Greyhound segment during the three and nine months ended May 31, 2007 decreased $28.0 million and $75.6 million from the three and nine months ended May 31, 2006, respectively. The decline was principally due to passenger reductions resulting from the elasticity effects of previous price increases, network changes and the non-recurrence of prior year hurricane related volume. Additionally, during the three months ended May 31, 2007, a short strike in western Canada reduced revenues by approximately $5 million. Changes in the exchange rate of the Canadian dollar did not have a significant effect on revenue.

EBITDA for the third quarter of 2007 increased by $0.7 million compared to the third quarter of 2006 while EBITDA for the nine months ended May 31, 2007 decreased $17.7 million compared to the nine months ended May 31, 2006. The results of the nine months ended May 31, 2006 benefited from a one-time gain of $5 million due to a business interruption settlement received as compensation for losses incurred following the September 11, 2001 terrorist attacks. Excluding the business interruption settlement, the EBITDA margin decreased by 70 basis points for the nine months ended May 31, 2007 compared to the prior year primarily due to higher margins earned on the increased volume in the prior year. The EBITDA margin increased by 100 basis points for the third quarter of 2007 compared to the third quarter of 2006 reflecting reduced compensation expense and insurance costs.

Public transit

($ in millions)	Revenue	EBITDA	EBITDA Margin
Three months ended			
May 31, 2007	$ 79.0	$ 7.5	9.5%
May 31, 2006	79.1	5.0	6.3
Percentage increase (decrease)	(0.1)%	50.0%	320BP*
Nine months ended			
May 31, 2007	$231.1	$18.3	7.9%
May 31, 2006	232.3	14.2	6.1
Percentage increase (decrease)	(0.5)%	28.9%	180BP*

* Increase in EBITDA margin is expressed in basis points

Revenue declined slightly for the three and nine month periods ended May 31, 2007 compared to the same periods in fiscal 2006 as price increases and revenue from new contract wins were generally offset by lost revenue from a large contract that was not renewed.

EBITDA in the three and nine months ended May 31, 2007 increased by $2.5 million and $4.1 million, respectively, compared to the three and nine months ended May 31, 2006 primarily due to improvements in current period accident claim costs and favorable development on estimates for older claims, partly offset by increased legal costs.

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Depreciation and amortization expense

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

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2007	2006	**2007**	2006
Education services	**$ 47.5**	$ 40.4	**$ 132.4**	$ 113.5
Greyhound	**16.2**	19.3	**49.5**	57.1
Public transit services	**2.4**	2.4	**7.1**	7.2
Total	**$ 66.1**	$ 62.1	**$ 189.0**	$ 177.8

Education services depreciation and amortization for the three and nine months ended May 31, 2007 increased by $7.1 million and $18.9 million compared to the three and nine months ended May 31, 2006 primarily due to an increased number of buses in operation and the significant drop in depreciation in the prior year resulting from an increase in the estimated lives of certain vehicle models. Depreciation declined in the Greyhound segment principally due to a reduction in the number of buses used in operations.

Interest expense

For the three and nine months ended May 31, 2007 interest expense increased by $8.8 million and $27.1 million, respectively, compared to the prior year periods, primarily due to the addition of the $500 million term B debt in the fourth quarter of 2006 and a higher average revolving credit line balance during 2007.

Other income (expense), net

Other income, net of $8.7 million for the three months ended May 31, 2007, primarily consists of $11.1 million of currency exchange gain on $125 million of U.S. denominated debt that is carried by our Canadian subsidiaries along with $2.9 of investment income that was partially offset by $5.3 million of transaction costs associated with the proposed FirstGroup merger. Other expenses, net of $1.9 million for the nine months ended May 31, 2007, primarily consists of $11.2 million of transaction costs associated with the proposed FirstGroup merger mostly offset by $4.1 million of currency exchange gain and $5.2 of investment income.

The $1.9 million and $5.7 million of other income, net recorded in the three and nine months ended May 31, 2006 consists primarily of income earned on investments.

Income tax expense

Tax expense during the three month period ended May 31, 2006 included a $4.7 million charge related to the repatriation of approximately $190 million from the Company s Canadian subsidiaries. Excluding this item, the effective tax rates were 35% and 37% for the three and nine months ended May 31, 2007 compared to 40% and 39% for the three and nine months ended May 31, 2006. The decreases in the current year effective tax rates were primarily due to an increase in employment tax credits.

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Discontinued operations

The loss from discontinued operations for the three and nine months ended May 31, 2006 principally relates to changes in reserves related to contingent obligations of previously sold businesses that were partially indemnified by the Company.

Liquidity and capital resources

Cash provided by operating activities was $260.6 million for the nine months ended May 31, 2007 compared to $321.6 million for the nine months ended May 31, 2006. The decrease was primarily due to a reduction in income from continuing operations before income taxes and a larger increase in trade accounts receivable due to increased education services revenue.

Net expenditures for the purchase of capital assets were $206.8 million for the nine months ended May 31, 2007, only slightly above the $199.5 million spent in the nine months ended May 31, 2006.

During the first three quarters of 2007 we paid dividends of $0.51 per share or $40.5 million, compared to $0.45 per share or $44.6 million in the first three quarters of 2006. During the nine months ended May 31, 2007 we repurchased approximately 2.5 million shares of our common stock at an average cost of $27.92 per share through open market purchases, completing the $500 million repurchase program authorized in July 2006.

As of May 31, 2007 there were no cash borrowings under our $300 million Revolver and letters of credit issued were $115.7 million, leaving $184.3 million of availability. We believe that existing cash and cash flow from operations, together with borrowing availability under our Revolver, 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 8 Commitments and contingencies of Notes to the Consolidated Financial Statements in the Company s Form 10-K for the year ended August 31, 2006 for a description of the Company s material commitments. Reference is made to Note 2 FirstGroup merger and Note 6 Material contingencies of Notes to Consolidated Financial Statements in this Report for a description of the Company s material contingencies.

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Forward-looking statements

Certain statements contained in this 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,

Risks and uncertainties related to the proposed merger with FirstGroup, including but not limited to receiving approval from the required regulatory agencies as well as other customary closing conditions;

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 and indemnification obligations;

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 pay dividends;

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, in particular the Company s Risk Factors as set forth in its most recently filed Annual Report on Form 10-K.

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LAIDLAW INTERNATIONAL, INC.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company protects a portion of its future fuel procurements from price fluctuations by entering into future purchase contracts (FPCs), fuel price swaps (Swaps) and option contracts (Fuel Collars). The FPCs generally stipulate that the Company take delivery of set bulk volumes of fuel at prearranged prices for a set period. Swaps are financial contracts that lock in the future price of a set amount of fuel at a fixed rate. Fuel Collars effectively create a cap on the future purchase price of a certain amount of fuel and at the same time, limit the amount of benefit to the Company in a falling future price market. A Fuel Collar is created by purchasing a call option for diesel fuel while simultaneously selling a put option that covers the identical amount of fuel with the same underlying terms and conditions as the call option.

At May 31, 2007 the Company had outstanding FPCs for 1.8 million gallons of fuel at an average price of $2.26 per gallon, outstanding Swaps covering 1.0 million gallons of fuel at a price of $1.73 per gallon and outstanding Fuel Collars for 4.8 million gallons of fuel with a weighted average call price of $2.04 per gallon and a weighted average put price of $1.89 per gallon. All outstanding FPCs, Swaps and Fuel Collars will be settled within the current fiscal year. If the price of fuel remains at the May 31, 2007 level, the Company will pay $0.1 million less for diesel fuel during the remainder of fiscal 2007 than if the price of fuel had not been effectively fixed by these contracts.

Other than a change in the amount of fuel subject to FPCs, Swaps and Fuel Collars, 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, 2006.

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.

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LAIDLAW INTERNATIONAL, INC.

PART II. OTHER INFORMATION

Item 1. Legal proceedings

Contingent Liabilities Relating to Sale of EmCare Holdings, Inc. and American Medical Response, Inc.

On February 10, 2005, the Company completed the sale to affiliates of Onex Corporation (collectively, the Purchaser) of EmCare Holdings Inc. and its subsidiaries and American Medical Response, Inc. and its subsidiaries in accordance with two Stock Purchase Agreements, each dated December 6, 2004, as amended (collectively, the Stock Purchase Agreements).

On June 13, 2007, the Purchaser asserted claims against the Company under the Stock Purchase Agreements for indemnification of potential tax liabilities. The Company is currently investigating this matter and at this juncture it is not possible to predict the ultimate outcome of the Company s investigation, nor is it possible to calculate the possible financial exposure, if any, to the Company, pursuant to the terms of the Stock Purchase Agreements.

Other

The Company is also a defendant in various lawsuits and claims arising in the ordinary course of business, primarily cases involving personal injury, property damage, environmental 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 legal proceeding either threatened or pending against us relating to personal injury, property damage, environmental or employment related claims that would have a material adverse effect on the Company.

Item 1A. Risk factors

The trading price for our common stock is close to the acquisition price per share proposed in the Merger Agreement.

As a result of the proposed merger with FirstGroup, our common stock is currently trading at a level close to the acquisition price. If the Merger Agreement is terminated or the transaction fails to close, the trading price of our common stock could decrease to a much lower level, particularly if the termination fee specified in the Merger Agreement is incurred.

Significant fees may be incurred if the Merger Agreement is terminated under certain conditions.

The Merger Agreement contains specified termination rights and the Company could be required to pay FirstGroup a termination fee of up to $78 million if the transaction was terminated under certain circumstances.

Except for the additional risks described above, there have been no other material changes in the risk factors provided in Item 1A of the Company s Form 10-K for the year ended August 31, 2006.

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

A special meeting of stockholders was held on April 20, 2007 to vote on Laidlaw s proposed merger with FirstGroup Acquisition Corporation, a wholly owned subsidiary of FirstGroup plc.

The proposal passed with 66,213,837 votes for the proposal, 273,805 votes against the proposal, 4,108 votes abstained and the remaining 12,892,747 shares were not voted.

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).

SIGNATURE

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

LAIDLAW INTERNATIONAL, INC.

By: /s/ Jeffrey W. Sanders
Jeffrey W. Sanders
Vice President, Chief Financial Officer
Duly Authorized Officer and Principal Financial Officer

Date: July 6, 2007