

LAIDLAW INTERNATIONAL INC

Form 10-Q

January 05, 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 November 30, 2006**  
**Commission file number 000-10657**  
**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 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  Accelerated filer  Non-accelerated filer

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, 2006, there were 79,373,163 shares of common stock, par value \$0.01 per share, outstanding.

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**LAIDLAW INTERNATIONAL, INC.**

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

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

	<b>November 30, 2006 (unaudited)</b>	August 31, 2006
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 95.9	\$ 318.7
Accounts receivable	369.8	210.5
Insurance collateral	62.8	106.4
Parts and supplies	35.9	40.7
Deferred income tax assets	42.5	39.6
Other current assets	27.5	24.8
<b>Total current assets</b>	<b>634.4</b>	<b>740.7</b>
<b>Property and equipment</b>		
Land	163.2	164.6
Buildings	192.2	191.0
Vehicles	1,784.3	1,753.4
Other	142.9	137.1
	<b>2,282.6</b>	<b>2,246.1</b>
Less: Accumulated depreciation	<b>(685.1)</b>	<b>(648.2)</b>
	<b>1,597.5</b>	<b>1,597.9</b>
<b>Other assets</b>		
Insurance collateral	350.4	303.4
Other long-term investments	26.0	29.3
Contracts and customer relationships	66.7	68.5
Deferred income tax assets	239.2	267.4
Deferred charges and other assets	34.0	31.5
	<b>716.3</b>	<b>700.1</b>
<b>Total assets</b>	<b>\$ 2,948.2</b>	<b>\$ 3,038.7</b>

The accompanying notes are an integral part of these statements.



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

	<b>November 30, 2006 (unaudited)</b>	August 31, 2006
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 86.6	\$ 140.3
Accrued employee compensation	108.7	112.7
Other accrued liabilities	104.1	95.8
Current portion of insurance reserves	140.5	147.8
Current portion of long-term debt	34.7	34.7
<b>Total current liabilities</b>	<b>474.6</b>	531.3
Long-term debt	777.2	772.6
Insurance reserves	349.3	339.7
Pension liability	105.3	104.5
Other long-term liabilities	80.3	82.7
<b>Total liabilities</b>	<b>1,786.7</b>	1,830.8
<b>SHAREHOLDERS EQUITY</b>		
Common shares; \$0.01 par value per share; issued and outstanding 79.3 million (August 31, 2006 81.6 million)	0.8	0.8
Additional paid in capital	745.5	814.5
Accumulated other comprehensive income	73.8	77.8
Retained earnings	341.4	314.8
<b>Total shareholders equity</b>	<b>1,161.5</b>	1,207.9
<b>Total liabilities and shareholders equity</b>	<b>\$ 2,948.2</b>	\$ 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)

	<b>Three Months Ended</b>	
	<b>November 30,</b>	
	<b>2006</b>	<b>2005</b>
<b>Revenue</b>	<b>\$ 858.1</b>	<b>\$ 846.8</b>
Compensation expense	421.3	406.7
Vehicle related costs	59.6	63.1
Fuel	69.9	65.3
Insurance and accident claim costs	43.8	47.1
Occupancy costs	38.4	38.7
Depreciation and amortization	62.0	58.6
Other operating expenses	83.3	70.6
<b>Operating income</b>	<b>79.8</b>	<b>96.7</b>
Interest expense	(14.9)	(5.5)
Other income (expense), net	(1.9)	1.8
<b>Income from continuing operations before income taxes</b>	<b>63.0</b>	<b>93.0</b>
Income tax expense	(22.9)	(35.0)
<b>Income from continuing operations</b>	<b>40.1</b>	<b>58.0</b>
<b>Income from discontinued operations</b>		0.3
<b>Net income</b>	<b>\$ 40.1</b>	<b>\$ 58.3</b>
<b>Basic earnings per share</b>		
Continuing operations	\$ 0.50	\$ 0.58
Discontinued operations		
Net income	\$ 0.50	\$ 0.58
<b>Diluted earnings per share</b>		
Continuing operations	\$ 0.50	\$ 0.58
Discontinued operations		

Net income	\$ 0.50	\$ 0.58
<b>Dividends per share</b>	<b>\$ 0.17</b>	\$ 0.15
<b>Average shares outstanding</b>	<b>79.9</b>	100.2
Effect of dilutive securities	<b>0.6</b>	0.4
<b>Average shares outstanding assuming dilution</b>	<b>80.5</b>	100.6

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)

	<b>Three Months Ended November</b>	
	<b>30,</b>	
	<b>2006</b>	<b>2005</b>
<b>Operating activities</b>		
Net income	\$ 40.1	\$ 58.3
Income from discontinued operations		(0.3)
Non-cash adjustments to net income		
Depreciation and amortization	62.0	58.6
Deferred income taxes	22.0	34.2
Other non-cash items	3.5	3.2
Net change in certain operating assets and liabilities		
Accounts receivable	(176.6)	(162.1)
Insurance collateral	2.7	(4.8)
Accounts payable and accrued liabilities	(0.5)	1.7
Insurance reserves	2.9	12.1
Other assets and liabilities	(4.3)	(16.8)
<b>Net cash used by operating activities</b>	<b>\$ (48.2)</b>	<b>\$ (15.9)</b>
<b>Investing activities</b>		
Purchase of property and equipment	\$ (129.5)	\$ (57.9)
Proceeds from sale of property and equipment	19.2	3.4
Net decrease in performance bond collateral	4.2	0.6
Net decrease in other investments		0.1
<b>Net cash used by investing activities</b>	<b>\$ (106.1)</b>	<b>\$ (53.8)</b>
<b>Financing activities</b>		
Repurchase of common stock	\$ (74.3)	\$
Proceeds from issuance of long term debt	13.4	
Principal payment on Term A debt	(7.5)	
Net decrease in other long-term debt	(0.2)	(1.2)
Other financing activities	0.1	
<b>Net cash used by financing activities</b>	<b>\$ (68.5)</b>	<b>\$ (1.2)</b>
<b>Discontinued operations</b>		
Operating cash flows from discontinued operations	\$	\$ 0.5
<b>Net cash provided by discontinued operations</b>	<b>\$</b>	<b>\$ 0.5</b>

<b>Net decrease in cash and cash equivalents</b>	<b>\$ (222.8)</b>	<b>\$ (70.4)</b>
<b>Cash and cash equivalents beginning of period</b>	<b>318.7</b>	<b>217.3</b>
<b>Cash and cash equivalents end of period</b>	<b>\$ 95.9</b>	<b>\$ 146.9</b>

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 MONTH PERIOD ENDED November 30, 2006**  
**(Unaudited)**

**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 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 months ended November 30, 2006 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 Comprehensive income**

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

	<b>Three Months Ended November</b>	
	<b>30,</b>	
	<b>2006</b>	<b>2005</b>
<b>Net income</b>	<b>\$ 40.1</b>	<b>\$ 58.3</b>
Net unrealized gain (loss) on securities	<b>4.6</b>	(4.8)
Net (loss) gain on interest rate swaps	<b>(0.9)</b>	1.4
Net loss on fuel hedge	<b>(0.8)</b>	
Foreign currency translation adjustments	<b>(6.9)</b>	7.2
<b>Total comprehensive income</b>	<b>\$ 36.1</b>	<b>\$ 62.1</b>

**Table of Contents****Note 3 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 an expense related to these plans of approximately \$2.3 million and \$1.7 million during the three months ended November 30, 2006 and 2005, 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, 2006, the Company issued 319,125 non-qualified stock options to employees and non-employee directors with an average exercise price of \$28.60 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 three months ended November 30, 2006, 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 three months ended November 30, 2006, the Company granted 182,500 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.

**Note 4 Pension plans**

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

	<b>Three Months Ended November</b>	
	<b>30,</b>	
	<b>2006</b>	<b>2005</b>
<b>Components of net pension cost</b>		
Service cost	\$ 2.7	\$ 2.2
Interest cost	13.5	12.2
Expected return on plan assets	(14.2)	(12.6)
<b>Net pension cost</b>	<b>\$ 2.0</b>	<b>\$ 1.8</b>

**Note 5 Material contingencies***Legal proceedings*

The Company is 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 proceeding either threatened or pending against us that would have a material adverse effect on the Company.

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***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 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 6 Repurchase of common stock**

During the three months ended November 30, 2006 the Company 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.

**Note 7 Statement of cash flows**

During the three month periods ended November 30, 2006 and 2005 the Company expended cash of \$56.8 million and \$19.3 million, respectively, for vehicles that were purchased in the previous fiscal year and financed through accounts payable at year end.

**Table of Contents****Note 8 Segment information**

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

	<b>Three Months Ended November 30,</b>	
	<b>2006</b>	<b>2005</b>
<b>Revenue</b>		
Education services	\$ 501.7	\$ 463.7
Greyhound	279.5	304.6
Public transit	76.9	78.5
Consolidated	\$ 858.1	\$ 846.8
<b>EBITDA</b>		
Education services	\$ 111.9	\$ 115.4
Greyhound	25.6	34.9
Public transit	4.3	5.0
Consolidated	141.8	155.3
Depreciation and amortization	(62.0)	(58.6)
Operating income	79.8	96.7
Interest expense, net	(14.9)	(5.5)
Other income (expense), net	(1.9)	1.8
Income tax expense	(22.9)	(35.0)
Income from continuing operations	40.1	58.0
Income from discontinued operations		0.3
Net income	\$ 40.1	\$ 58.3

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 November 30, 2006 were \$1,422.9 million compared to \$1,235.0 million at August 31, 2006. The increase was primarily due to seasonal accounts receivable changes.

**Note 9 Business interruption settlement**

During the three months ended November 30, 2005, 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****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, 2006 and 2005 and the Company's consolidated financial position at November 30, 2006. 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, 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 November 30, 2006, and 2005*

	<b>Percentage of Revenue Three Months ended November 30,</b>	
	<b>2006</b>	2005
Revenue	<b>100.0%</b>	100.0%
Compensation expense	<b>49.2</b>	48.0
Vehicle related costs	<b>6.9</b>	7.5
Fuel	<b>8.1</b>	7.7
Insurance and accident claim costs	<b>5.1</b>	5.6
Occupancy costs	<b>4.5</b>	4.6
Depreciation and amortization	<b>7.2</b>	6.9
Other operating expenses	<b>9.7</b>	8.3
Operating income	<b>9.3</b>	11.4
Interest expense	<b>(1.8)</b>	(0.6)
Other income (expense), net	<b>(0.2)</b>	0.2
Income before income taxes	<b>7.3</b>	11.0
Income tax expense	<b>(2.6)</b>	(4.2)
Income from continuing operations	<b>4.7</b>	6.8
Income from discontinued operations		0.1
Net income	<b>4.7%</b>	6.9%

**Table of Contents***Education services*  
(\$ in millions)

	Revenue	EBITDA	EBITDA Margin
Three months ended November 30, 2006	\$501.7	\$111.9	22.3%
November 30, 2005	463.7	115.4	24.9
Percentage increase (decrease)	8.2%	(3.0)%	(260) BP*

\* Decrease in  
EBITDA  
margin is  
expressed in  
basis points

Revenue in the education services segment increased by \$38.0 million for the three months ended November 30, 2006 compared to the three months ended November 30, 2005 as new contracts together with price and volume increases from existing clients, more than offset lost business. Additionally, an increase in the value of the Canadian currency increased revenues \$3.2 million compared to the prior year quarter.

EBITDA for the three months ended November 30, 2006 decreased by \$3.5 million compared to the three months ended November 30, 2005. The EBITDA margin declined by 260 basis points primarily due to project costs related to initiatives to improve our technological capabilities, start-up costs that resulted from driver shortages in some areas of the country and new contracts, and increased average fuel prices.

*Greyhound*  
(\$ in millions)

	Revenue	EBITDA	EBITDA Margin
Three months ended November 30, 2006	\$279.5	\$25.6	9.2%
November 30, 2005	304.6	34.9	11.5
Percentage decrease	(8.2)%	(26.6)%	(230) BP*

\* Decrease in  
EBITDA  
margin is  
expressed in  
basis points

Revenue in the Greyhound segment during the three months ended November 30, 2006 decreased \$25.1 million compared to the three months ended November 30, 2005. Over half of the revenue decline was due to hurricane related volume in the prior year. The remaining decline is due to ticket price increases and a favorable Canadian dollar exchange rate being more than offset by passenger reductions stemming from both the price increases and network changes. The increase in the value of the Canadian currency increased revenues \$3.0 million compared to the prior year quarter.

EBITDA in the three months ended November 30, 2006 decreased by \$9.3 million compared to the three months ended November 30, 2005. EBITDA for the three months ended November 30, 2005 benefited from 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 margin declined by 70 basis points, primarily due to higher margins earned on the increased volume in the prior year.

**Table of Contents***Public transit*  
(\$ in millions)

	Revenue	EBITDA	EBITDA Margin
Three months ended November 30, 2006	\$76.9	\$ 4.3	5.6%
November 30, 2005	78.5	5.0	6.4
Percentage decrease	(2.0)%	(14.0)%	(80) BP*

\* Decrease in EBITDA margin is expressed in basis points

Revenue decreased by \$1.6 million for the three months ended November 30, 2006 compared to the three months ended November 30, 2005 as price increases and revenue from new contract wins were offset by lost revenue from a large contract that was not renewed.

EBITDA for the three months ended November 30, 2006 declined by \$0.7 million compared to the three months ended November 30, 2005. EBITDA margin for the three month period declined 80 basis points compared to the prior year period due to severance costs.

**Depreciation and amortization expense**

Depreciation and amortization expense by reportable segment for the three months ended November 30, 2006 and 2005 was as follows (\$ in millions):

	2006	2005
Education services	\$ 43.2	\$ 37.9
Greyhound	16.5	18.2
Public transit	2.3	2.5
Consolidated	\$ 62.0	\$ 58.6

Education services depreciation and amortization for the three months ended November 30, 2006 increased by \$5.3 million compared to the three months ended November 30, 2005 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**

In the three months ended November 30, 2006 interest expense increased by \$9.4 million compared to the prior year period, primarily due to the addition of the \$500 million term B debt and increased borrowings on the revolving credit line.

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**Other income (expense), net**

The \$1.9 million other expense, net recorded in the three months ended November 30, 2006, primarily consists of a \$3.8 million currency exchange loss on \$125.0 million of U.S. denominated debt that is carried by our Canadian subsidiaries, partially offset by income earned on investments. The \$1.8 million other income, net recorded in the three months ended November 30, 2005 consists primarily of income earned on investments.

**Income tax expense**

Income tax expense for the three month period ended November 30, 2006 includes a \$1.4 million benefit realized upon finalization of an IRS audit. Income tax expense for the three months ended November 30, 2005 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 these benefits, the effective tax rate was 39% for both the three months ended November 30, 2006 and 2005, respectively.

**Liquidity and capital resources**

For the three months ended November 30, 2006, cash used by operating activities was \$48.2 million compared to \$15.9 million for the three months ended November 30, 2005. The increase in cash used by operations during the current period was principally due to a decrease in operating income, an increase in interest expense and a larger increase in trade accounts receivable due to increased education services revenue.

Net expenditures for the purchase of capital assets were \$110.3 million for the three months ended November 30, 2006 compared to \$54.5 million for the three months ended November 30, 2005, primarily reflecting an earlier spend pattern in the current year at education services.

As of November 30, 2006 there were \$34.1 million of cash borrowings under our \$300 million Revolver and issued letters of credit were \$116.0 million, leaving \$149.9 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.

During the three months ended November 30, 2006 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.

**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 5 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,

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 ) 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. 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 November 30, 2006 the Company had outstanding FPCs for 7.3 million gallons of fuel at an average price of \$2.29 per gallon and had outstanding Fuel Collars for 13.8 million gallons with a weighted average call price of \$2.26 per gallon and a weighted average put price of \$2.11 per gallon. All outstanding FPCs and Fuel Collars will be settled within the current fiscal year.

Since these contracts were established the price of diesel fuel has decreased. If the price of fuel remains at the November 30, 2006 level, the Company will pay \$8.5 million more 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 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.

**Table of Contents****LAIDLAW INTERNATIONAL, INC.****PART II. OTHER INFORMATION****Item 1. Legal proceedings**

The Company is 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 proceeding either threatened or pending against us that would have a material adverse effect on the Company.

**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, 2006.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds****(c) Purchases of Equity Securities by the Issuer**

Purchases made under the Company's stock repurchase plan for the quarter ended November 30, 2006 were as follows:

<b>Repurchase period</b>	<b>Total number of shares purchased</b>	<b>Average price paid per share</b>	<b>Total number of shares purchased as part of a publicly announced program</b>	<b>Approximate dollar value of shares that may yet be purchased under the program (millions)</b>
September 1 – September 30	1,194,400	\$ 27.26	1,194,400	\$ 36.3
October 1 – October 31	1,272,750	28.53	1,272,750	
November 1 – November 30		NA		
<b>Total</b>	<b>2,467,150</b>	<b>27.92</b>	<b>2,467,150</b>	

All shares were purchased on the open market. Effective October 31, 2006, the Company had completed the \$500 million repurchase program authorized in July 2006.

*Dividend restrictions* There are no contractual restrictions on the payment of dividends as long as the Company is in pro-forma compliance with the financial covenants of its credit facilities immediately after payment of the dividend.

**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)

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**SIGNATURES**

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

LAIDLAW INTERNATIONAL, INC.

By: /s/ Jeffrey W. Sanders

Date: January 5, 2007

Jeffrey W. Sanders  
Vice President, Chief Financial Officer  
Duly Authorized Officer and Principal Financial Officer

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