LAIDLAW INTERNATIONAL INC
Form 10-Q
January 10, 2005

Table of Contents

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

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

For the quarterly period ended **November 30, 2004**

Commission file number 000-13109

**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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). YES þ NO o

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 December 31, 2004, there were 103,988,731 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, 2004 (Unaudited) and August 31, 2004 | 2 |
| | Consolidated Statements of Operations for the Three Months Ended November 30, 2004 and 2003 (Unaudited) | 4 |
| | Consolidated Statements of Comprehensive Income for the Three Months Ended November 30, 2004 and 2003 (Unaudited) | 5 |
| | Consolidated Statements of Cash Flows for the Three Months Ended November 30, 2004 and 2003 (Unaudited) | 6 |
| | Notes to Consolidated Financial Statements (Unaudited) | 7 |
| Item 2. | Management s Discussion and Analysis of Financial Condition and Results of Operations | 22 |
| Item 3. | Quantitative and Qualitative Disclosures About Market Risk | 29 |
| Item 4. | Controls and Procedures | 29 |
| **PART II.** | **OTHER INFORMATION** | |
| Item 1. | Legal Proceedings | 30 |
| Item 6. | Exhibits and Reports on Form 8-K | 31 |
| **SIGNATURES** | | 32 |

Section 302 Certification
Section 302 Certification
Section 906 Certification

Table of Contents

# PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

**LAIDLAW INTERNATIONAL, INC.**

**CONSOLIDATED BALANCE SHEETS**
**($ in millions)**

| | November 30, 2004 (unaudited) | August 31, 2004 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ 99.4 | $ 158.0 |
| Restricted cash and cash equivalents | 92.2 | 95.0 |
| Short-term deposits and marketable securities | 12.6 | 17.4 |
| Accounts receivable | 742.3 | 588.0 |
| Parts and supplies | 51.7 | 50.6 |
| Deferred income tax assets | 56.5 | 75.5 |
| Other current assets | 45.8 | 47.4 |
| **Total current assets** | 1,100.5 | 1,031.9 |
| **Long-term investments** | 637.3 | 608.6 |
| **Property and equipment** | | |
| Land | 189.6 | 186.2 |
| Buildings | 177.7 | 171.9 |
| Vehicles | 1,428.1 | 1,381.1 |
| Other | 188.1 | 182.7 |
| | 1,983.5 | 1,921.9 |
| Less: Accumulated depreciation | 377.4 | 296.1 |
| | 1,606.1 | 1,625.8 |
| **Other assets** | | |
| Goodwill | 139.1 | 139.1 |
| Contracts and customer relationships | 199.3 | 203.0 |
| Deferred income tax assets | 235.0 | 228.5 |
| Deferred charges and other assets | 66.2 | 68.3 |
| | 639.6 | 638.9 |

| | | | | |
|---|---|---|---|---|
| **Total assets** | **$** | **3,983.5** | $ | 3,905.2 |

The accompanying notes are an integral part of these statements.

2

Table of Contents

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

| | November 30, 2004 (unaudited) | August 31, 2004 |
|---|---|---|
| **LIABILITIES** | | |
| **Current liabilities** | | |
| Accounts payable | **$ 102.1** | $ 115.0 |
| Accrued liabilities | **525.1** | 535.2 |
| Current portion of long-term debt | **36.8** | 36.4 |
| **Total current liabilities** | **664.0** | 686.6 |
| **Long-term debt** | **1,129.4** | 1,114.2 |
| **Pension liability** | **184.5** | 188.3 |
| **Other long-term liabilities** | **557.3** | 539.6 |
| **Total liabilities** | **2,535.2** | 2,528.7 |
| **SHAREHOLDERS EQUITY** | | |
| Common shares; $0.01 par value per share; issued and outstanding 104.0 million (August 31, 2004 103.8 million) | **1.0** | 1.0 |
| Additional paid in capital | **1,362.4** | 1,360.9 |
| Common shares held in trust; 3.8 million issued | **(50.0)** | (50.0) |
| Accumulated other comprehensive income | **52.7** | 12.8 |
| Retained earnings | **82.2** | 51.8 |
| **Total shareholders equity** | **1,448.3** | 1,376.5 |
| **Total liabilities and shareholders equity** | **$ 3,983.5** | $ 3,905.2 |

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, | |
|---|---|---|
| | **2004** | 2003 |
| **Revenue** | **$ 1,227.3** | $ 1,210.3 |
| Compensation expense | **688.7** | 685.0 |
| Accident claims and professional liability expenses | **80.0** | 89.6 |
| Vehicle related costs | **68.2** | 69.9 |
| Occupancy costs | **48.9** | 49.9 |
| Fuel | **56.5** | 44.4 |
| Depreciation | **76.5** | 76.1 |
| Amortization | **4.7** | 4.6 |
| Other operating expenses | **123.7** | 121.3 |
| **Operating income** | **80.1** | 69.5 |
| Interest expense | **(30.4)** | (32.7) |
| Other income, net | **1.4** | 0.9 |
| **Income before income taxes** | **51.1** | 37.7 |
| Income tax expense | **(20.7)** | (15.1) |
| **Net income** | **$ 30.4** | $ 22.6 |
| **Basic earnings per share** | **$ 0.30** | $ 0.23 |
| **Diluted earnings per share** | **$ 0.29** | $ 0.22 |

The accompanying notes are an integral part of these statements.

Table of Contents

**LAIDLAW INTERNATIONAL, INC.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**($ in millions)**
**(unaudited)**

| | Three Months Ended November 30, | |
|---|---|---|
| | **2004** | 2003 |
| **Net income** | **$ 30.4** | $ 22.6 |
| Net unrealized gains (losses) on securities | **(0.7)** | 2.0 |
| Net unrealized gain in interest rate swap | **0.7** | |
| Foreign currency translation adjustments | **39.9** | 23.1 |
| **Comprehensive income** | **$ 70.3** | $ 47.7 |

The accompanying notes are an integral part of these statements.

Table of Contents

**LAIDLAW INTERNATIONAL, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**($ in millions)**
**(unaudited)**

| | Three Months Ended November 30, | |
|---|---|---|
| | **2004** | 2003 |
| **Operating activities** | | |
| Net income | **$ 30.4** | $ 22.6 |
| Non-cash items included in net income: | | |
| Depreciation and amortization | **81.2** | 80.7 |
| Deferred income taxes | **19.7** | 14.1 |
| Other items | **5.9** | 3.8 |
| Increase in claims liability and professional liability insurance accruals | **9.4** | 5.8 |
| Cash used in financing other working capital items | **(180.2)** | (180.1) |
| Change in pension liability | **(3.6)** | 0.3 |
| Decrease (increase) in restricted cash and cash equivalents | **(6.5)** | 1.2 |
| **Net cash used in operating activities** | **$ (43.7)** | $ (51.6) |
| **Investing activities** | | |
| Purchase of property, equipment and other assets, net of proceeds from sale | **$ (22.9)** | $ (39.3) |
| Net increase in investments | **(5.0)** | (7.7) |
| **Net cash used in investing activities** | **$ (27.9)** | $ (47.0) |
| **Financing activities** | | |
| Net increase in long-term debt | **$ 13.2** | $ 69.4 |
| Net increase (decrease) in other long-term liabilities | **(0.2)** | 4.0 |
| **Net cash provided by financing activities** | **$ 13.0** | $ 73.4 |
| **Net decrease in cash and cash equivalents** | **$ (58.6)** | $ (25.2) |
| **Cash and cash equivalents beginning of period*** | **158.0** | 100.3 |
| **Cash and cash equivalents end of period*** | **$ 99.4** | $ 75.1 |

**These amounts represent the unrestricted cash and cash equivalents*

The accompanying notes are an integral part of these statements.

**LAIDLAW INTERNATIONAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**FOR THE THREE MONTH PERIOD ENDED NOVEMBER 30, 2004**

## Note 1 Corporate overview and basis of presentation

***Corporate overview***

Laidlaw International, Inc. (the Company ) operates in five reportable business segments: education services, public transit services, Greyhound, healthcare transportation services and emergency management services. The education services segment provides school bus transportation, including scheduled home-to-school, extra-curricular and charter and transit school bus services, throughout the United States and Canada. The public transit services segment provides fixed-route municipal bus service and paratransit bus transportation for riders with disabilities. Greyhound, a national provider of inter-city bus transportation in the United States and Canada, provides scheduled passenger service, package delivery service, charter bus service and, in certain terminals, food service. The healthcare transportation service segment provides critical care transportation services, non-emergency ambulance and transfer services and emergency response services in the United States. The emergency management services segment provides outsourced emergency department physician services throughout the United States.

***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, 2004 are not necessarily indicative of the results that may be expected for the full year ending August 31, 2005. For further information, see the Company s consolidated financial statements, including the accounting policies and notes thereto, included in the Company s Annual Report on Form 10-K for the fiscal year ended August 31, 2004.

Certain prior period amounts have been reclassified to conform to the current period presentation.

## Note 2 Accounts receivable and revenue

Trade accounts receivable as of November 30, 2004 are net of $623.3 million (August 31, 2004 - $588.6 million) of allowances for uncompensated care and contractual allowances in the Company s healthcare transportation and emergency management business segments and net of an allowance for doubtful accounts of $5.8 million (August 31, 2004 $4.9 million) in the Company s other three reportable segments.

## Note 3 Intangible assets

The contracts and customer relationships are net of $27.4 million of accumulated amortization at November 30, 2004 (August 31, 2004 $22.5 million).

Included in deferred charges and other assets are radio frequency licenses totalling $12.0 million at November 30, 2004 (August 31, 2004 $12.0 million). The licenses are considered to be assets with indefinite lives and as such, are not amortized.

7

Table of Contents

## Note 4 Stock awards and options

Pursuant to the Company s 2003 Equity and Performance Incentive Plan, the Company 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 $1.5 million during the three month period ended November 30, 2004. A summary of stock based compensation issued during the current fiscal year is as follows:

*Stock options* On December 8, 2004, the Company issued 452,625 non-qualified stock options to employees and non-employee directors with a strike price of $18.85 per share. The grant price was equal to the fair market value of the Company s stock at the date of grant. The stock options have a ten-year life and vest ratably over three years.

*Restricted Shares* On December 8, 2004, the Company issued 25,313 shares of restricted common stock to non-employee directors. The restricted shares vest at the end of a three-year period and during the vesting period the participant has the rights of a shareholder with respect to voting and dividend rights but is restricted from transferring the shares.

*Deferred Shares* Deferred shares are issued to key employees and 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 the deferred shares. During the three months ended November 30, 2004, 153,933 of previously issued deferred shares vested and the common shares were issued to the employees. On December 8, 2004, the Company issued 275,000 deferred shares.

## Note 5 Pension plans

The Company, collectively with all of its wholly-owned U.S. subsidiaries, including Greyhound (the Laidlaw Group ), is party to an agreement with the Pension Benefit Guaranty Corporation ( PBGC ) regarding the funding levels of the Company s pension plans (the PBGC Agreement ). Under the PBGC Agreement, 3.8 million shares of the Company s common stock were issued to a trust formed for the benefit of the pension plans (the Pension Plan Trust ). The trustee of the Pension Plan Trust is to sell the stock at the Company s direction, but in no event later than April 15, 2005, with all net proceeds from the stock sales being contributed directly to the pension plans. As discussed in Note 9 Subsequent events , the Company intends to use a portion of the proceeds from the sale of the healthcare companies to purchase some or all of these shares.

If the net proceeds from the stock sales exceed $50 million, the excess amount may be credited against any future required minimum funding obligations. If the net proceeds from the stock sales are less than $50 million, the Laidlaw Group will be required to contribute the amount of the shortfall in cash to the pension plans by April 15, 2005. At November 30, 2004, all 3.8 million shares of Laidlaw common stock remained in the Pension Plan Trust. Based upon the closing price of the common stock on the NYSE, the shares had an aggregate market value of $80.8 million at December 31, 2004

Table of Contents

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

| | Three Months Ended November 30, | |
|---|---|---|
| ($ in millions) | **2004** | 2003 |
| **Components of net pension benefit cost** | | |
| Service cost | **$ 2.1** | $ 1.4 |
| Interest cost | **14.3** | 13.6 |
| Expected return on plan assets | **(14.4)** | (12.8) |
| **Net pension benefit cost** | **$ 2.0** | $ 2.2 |

**Note 6 Material contingencies**

***Legal proceedings***

*Health Care*

The Company s healthcare businesses are subject to the Medicare and Medicaid fraud and abuse laws, which prohibit, among other things, any false claims, or any bribe, kick-back or rebate in return for the referral of Medicare and Medicaid patients. Violation of these prohibitions may result in civil and criminal penalties and exclusion from participation in the Medicare and Medicaid programs. Management has implemented policies and procedures that management believes will assure that the Company is in substantial compliance with these laws. Laidlaw or its subsidiaries continually undergo investigations by certain government agencies regarding compliance with Medicare fraud and abuse statutes. The Company is cooperating with the government agencies conducting these investigations and is providing requested information to the government agencies. Other than the investigations described in the following two paragraphs, management believes that the outcome of any of these investigations would not have a material adverse effect on the Company.

On May 9, 2002, the Company s wholly owned subsidiary American Medical Response Inc. ( 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 relating to Huguley Hospital and Regional Emergency Services contracts in Texas, Georgia and Colorado. The claims in Texas were resolved in fiscal 2004 pursuant to a settlement agreement whereby AMR was required to pay $5 million. The government investigations in Georgia and Colorado are continuing.

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

*Greyhound Default Judgment*

On September 20, 2004, the Company s wholly owned subsidiary Greyhound Lines, Inc. ( Greyhound ) responded to proceedings brought in Georgia state court in August 2004 ( August Proceedings ) seeking to enforce a default garnishment judgment on funds in a Greyhound bank account. While this action has since been dismissed, it stemmed from an October 1995 default judgment in the amount of approximately $7 million ( 1995 Judgment )

**Table of Contents**

against Gary Jones, a former consultant to Greyhound. More than four years later, in October 2000, the plaintiff who obtained the 1995 Judgment ( Plaintiff ) began garnishment proceedings against Greyhound in Georgia state court seeking to recover amounts owed to Gary Jones, who then allegedly owed the Plaintiff the amount of approximately $11 million based on the 1995 Judgment plus post-judgment interest. On May 2, 2001, a default judgment for $11 million ( Default Judgment ) was entered by the Georgia state court against Greyhound. Greyhound first learned of the Default Judgment through the August Proceedings and, therefore, was unaware of the garnishment and the Default Judgment and inadvertently failed to contest it. Had the garnishment been timely answered, Greyhound believes that the amount due in response to the garnishment summons would not have exceeded $1,500.

It is now alleged that Greyhound is liable to the Plaintiff in the amount of $15 million, based on the $11 million Default Judgment plus post-judgment interest. Greyhound has filed a Motion to Vacate the Default Judgment in the Court where such judgment was rendered. Based on several legal grounds, Greyhound believes that the Default Judgment is null and void and not enforceable. Greyhound intends to vigorously defend its interests in the litigation. Also refer to the discussion of the potential impact of this litigation on the Greyhound Facility included below.

*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.

***Greyhound Facility***

Greyhound is party to a revolving credit facility to fund working capital needs and for general corporate purposes (the Greyhound Facility ) that expires on October 24, 2006. The Greyhound Facility is subject to certain affirmative and negative operating and financial covenants, including maximum total debt to cash flow ratio; minimum cash flow to interest expense ratio; minimum cash flow; limitation on non-bus capital expenditures; limitations on additional liens, indebtedness, guarantees, asset disposals, advances, investments and loans; and restrictions on the redemption or retirement of certain subordinated indebtedness or equity interests, payment of dividends and transactions with affiliates, including Laidlaw International, Inc. Although Greyhound s most recent financial forecast indicates they will remain in compliance with the financial covenants under the Greyhound Facility, increases in fuel prices, softness in discretionary travel or other unforeseen events or changes in assumptions may occur and result in material differences between Greyhound s future results and the current financial forecast. Those differences could result in management concluding in the future that Greyhound may not be able to remain in compliance with the financial covenants under the Greyhound Facility.

As described above in Legal proceedings, in August 2004, Greyhound became aware of proceedings brought in Georgia state court seeking to enforce a default garnishment judgment. Although Greyhound is seeking to overturn the Default Judgment, unless and until it is declared void, stayed, bonded or paid, the Default Judgment could be deemed to be an event of default under the Greyhound Facility. To date, Greyhound s lenders have indicated they do not wish to give notice of default or accelerate the repayment of Greyhound s outstanding obligations under the Greyhound Facility. Any accelerated repayment of Greyhound s indebtedness could cause defaults under Greyhound s other debt agreements and force Greyhound to refinance and/or renegotiate all or a significant portion of its outstanding indebtedness. Should the Greyhound Facility be accelerated and Greyhound is unable to renegotiate or refinance its outstanding

10

indebtedness, then Greyhound may not be able to satisfy its obligations as they become due and may not be able to continue as a going concern. If the going concern basis on which Greyhound s consolidated financial statements were prepared was not appropriate for those consolidated financial statements, then significant adjustments would need to be made to the carrying value of the assets and liabilities, the reported revenue and expenses and balance sheet classifications used by Greyhound. Accordingly, if such changes were made to Greyhound s consolidated financial statements, significant adjustments would be required to the Company s consolidated financial statements.

Compliance by the Company with the financial and other covenants in its senior secured credit facility is generally not dependent on the financial results or financial condition of Greyhound, as Greyhound s performance has been excluded for purposes of determining compliance with such provisions. Moreover, consistent with the intent to exclude events solely related to Greyhound, the Company s senior secured credit facility specifies that a default by Greyhound under the Greyhound Facility or a bankruptcy filing by Greyhound would not be an event of default under the Company s senior secured credit facility.

However, should Greyhound be unable to continue as a going concern, the Company may be required to honor certain of Greyhound s lease commitments and pension obligations. The Company s management believes that any required expenditures with respect to such liabilities would not materially impact the Company s financial condition.

***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 its 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 our waste was allegedly disposed. In addition, management is investigating or engaged in remediation of past contamination at other sites used in the 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.

***Contingent bonuses***

The Company and two of its subsidiaries, AMR and EmCare Holdings, Inc. ( EmCare ), are parties to an employment agreement effective October 1, 2002 with William A. Sanger under which Mr. Sanger serves as President and Chief Executive Officer of AMR and as Chief Executive Officer of EmCare. Pursuant to the agreement, Mr. Sanger is entitled to a bonus payment upon a sale, or an initial public offering, of the stock of AMR and/or EmCare. This bonus is also payable if Mr. Sanger remains employed on October 1, 2007 and neither a sale nor an initial public offering has occurred. With respect to AMR, the bonus is equal to 5% of the enterprise value of AMR in excess of $410 million at the time of the event that entitles Mr.

Table of Contents

Sanger to the payment. With respect to EmCare, the bonus is equal to 5% of the enterprise value of EmCare in excess of $125 million at the time of the event that entitles Mr. Sanger to the payment.

EmCare Holdings, Inc. is party to an employment agreement effective April 1, 2003 with Don S. Harvey under which Mr. Harvey serves as President and Chief Operating Officer of EmCare. Pursuant to the agreement, Mr. Harvey is entitled to a bonus payment upon a sale of, or an initial public offering of, the stock of EmCare, provided Mr. Harvey remains employed under the agreement upon the occurrence of such event. The bonus is equal to 2% of the enterprise value of EmCare in excess of $125 million at the time of the event that entitles Mr. Harvey to the payment.

As discussed in Note 9 Subsequent events , on December 6, 2004 the Company announced that it had entered into definitive agreements to sell both of its healthcare companies, AMR and EmCare. Completion of the sales transaction, anticipated no later than the end of March 2005, would trigger the payment of these bonuses in accordance with the employment agreements.

**Note 7 Earnings per share**

The basic earnings per share figures are calculated using the weighted average number of shares outstanding during the respective periods. The diluted earnings per share for the three month periods ended November 30, 2004 and 2003 assumes the sale on the open market of the Company s common shares held in trust and the dilutive effect of the Company s stock based compensation.

| | **Three Months Ended November 30,** | |
|---|---|---|
| (in millions except per share amounts) | **2004** | 2003 |
| Net earnings available to common shareholders | **$ 30.4** | $ 22.6 |
| Weighted average number of common shares outstanding | | |
| Basic | **100.0** | 100.0 |
| Shares held in pension plan trust | **3.8** | 3.8 |
| Stock based compensation | **0.3** | |
| Diluted | **104.1** | 103.8 |
| Net earnings per common share | | |
| Basic | **$ 0.30** | $ 0.23 |
| Diluted | **$ 0.29** | $ 0.22 |

Table of Contents

## Note 8 Segment information

The Company has five reportable segments: education services, public transit services, Greyhound, healthcare transportation services and emergency management services. Revenues and EBITDA (operating income before depreciation and amortization) of the segments for the three months ended November 30, 2004 and 2003 are as follows:

| ($ in millions) | Three Months Ended November 30, 2004 | Three Months Ended November 30, 2003 |
|---|---|---|
| **Education services** | | |
| Revenue | **$ 451.9** | $ 455.7 |
| EBITDA | **114.2** | 109.5 |
| **Public transit services** | | |
| Revenue | **$ 77.0** | $ 72.1 |
| EBITDA | **3.6** | 0.5 |
| **Greyhound** | | |
| Revenue | **$ 284.8** | $ 287.1 |
| EBITDA | **12.2** | 10.6 |
| **Healthcare transportation services** | | |
| Revenue | **$ 269.9** | $ 262.0 |
| EBITDA | **22.8** | 19.0 |
| **Emergency management services** | | |
| Revenue | **$ 143.7** | $ 133.4 |
| EBITDA | **8.5** | 10.6 |
| **Consolidated Total** | | |
| Revenue | **$ 1,227.3** | $ 1,210.3 |
| EBITDA | **161.3** | 150.2 |
| Depreciation and amortization expense | **(81.2)** | (80.7) |
| Operating income | **80.1** | 69.5 |
| Interest expense | **(30.4)** | (32.7) |
| Other income, net | **1.4** | 0.9 |
| Income tax expense | **(20.7)** | (15.1) |
| Net income | **$ 30.4** | $ 22.6 |

The Company s goodwill balance of $139.1 million (August 31, 2004 $139.1 million) is composed of goodwill from the Education services segment.

Total identifiable assets for each of the reportable segments has not changed materially since August 31, 2004 with the exception of the education services segment where total identifiable assets at November 30, 2004 were $1,338.7 million compared to $1,222.8 million at August 31, 2004. The increase is primarily due to seasonal accounts receivable changes.

**Table of Contents**

## Note 9 Subsequent events

On December 6, 2004 the Company announced that it had entered into definitive agreements to sell both of its healthcare companies, AMR and EmCare, to EMSC, Inc., an affiliate of Onex Partners LP and Onex Corporation, for approximately $818 million. Completion of the transactions is anticipated to occur by the end of March, 2005, and is subject to normal and customary closing conditions.

Net cash proceeds to the Company are expected to be approximately $775 million after debt assumed by the buyer and payment of transaction costs. Proceeds from the transactions will be used in part to retire all outstanding borrowings under the Company s Term B senior secured term facility ($579 million at November 30, 2004). The Company also intends to use a portion of the proceeds from the sale of the healthcare companies to purchase some or all of the shares held in the Pension Plan Trust. While the Company will realize a substantial gain on sale, there will be no federal cash tax obligation as a result of the transactions.

Table of Contents

**Note 10 Condensed financial statements of restricted subsidiaries**

Pursuant to the terms of the Company s $406.0 million Senior Notes, the Company is required to segregate the consolidated results of operations between the subsidiaries of the Company that are not a party to the agreement, which are comprised of the U.S. based businesses in the Greyhound segment (the Unrestricted Subsidiaries ), and the Company and its remaining subsidiaries (the Restricted Subsidiaries ).

**Condensed Consolidated Statement of Operations**
**Three Months Ended November 30, 2004**

| ($ millions) | Restricted Subsidiaries | Unrestricted Subsidiaries | Consolidated Totals |
|---|---|---|---|
| Revenue | $ 1,004.7 | $ 222.6 | $ 1,227.3 |
| Compensation expense | 594.7 | 94.0 | 688.7 |
| Accident claims and professional liability expenses | 62.9 | 17.1 | 80.0 |
| Vehicle related costs | 36.9 | 31.3 | 68.2 |
| Occupancy costs | 29.4 | 19.5 | 48.9 |
| Fuel | 37.8 | 18.7 | 56.5 |
| Depreciation | 64.4 | 12.1 | 76.5 |
| Amortization | 4.7 | | 4.7 |
| Other operating expenses | 89.4 | 34.3 | 123.7 |
| Operating income (loss) | 84.5 | (4.4) | 80.1 |
| Interest expense | (21.7) | (8.7) | (30.4) |
| Other income, net | 1.2 | 0.2 | 1.4 |
| Income (loss) before income taxes | 64.0 | (12.9) | 51.1 |
| Income tax benefit (expense) | (25.9) | 5.2 | (20.7) |
| Net income (loss) | $ 38.1 | $ (7.7) | $ 30.4 |

**Condensed Consolidated Statement of Operations**
**Three Months Ended November 30, 2003**

| ($ millions) | Restricted Subsidiaries | Unrestricted Subsidiaries | Consolidated Totals |
|---|---|---|---|