Emergency Medical Services L.P.
Form 10-Q
May 06, 2009
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended March 31, 2009

Or

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

For the transition period from to

Commission file numbers:

001-32701

333-127115

EMERGENCY MEDICAL SERVICES CORPORATION

EMERGENCY MEDICAL SERVICES L.P.

(Exact name of Registrants as Specified in their Charters)

Delaware (State or other jurisdiction of incorporation or organization)	**20-3738384** **20-2076535** (IRS Employer Identification Numbers)
6200 S. Syracuse Way, Suite 200 **Greenwood Village, CO** (Address of principal executive offices)	**80111** (Zip Code)

Registrants telephone number, including area code: **303-495-1200**

Former name, former address and former fiscal year, if changed since last report:

Not applicable

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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

o Yes o No

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

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company 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 x

Shares of class A common stock outstanding at May 4, 2009 10,039,272; shares of class B common stock outstanding at May 4, 2009 142,545; LP exchangeable units outstanding at May 4, 2009 32,107,500.

Table of Contents

EMERGENCY MEDICAL SERVICES CORPORATION

INDEX TO QUARTERLY REPORT

ON FORM 10-Q

FOR THE THREE MONTHS ENDED

MARCH 31, 2009

Table of Contents

EMERGENCY MEDICAL SERVICES CORPORATION

PART I. FINANCIAL INFORMATION

FOR THE THREE MONTHS ENDED

MARCH 31, 2009

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

Emergency Medical Services Corporation

Consolidated Statements of Operations and Comprehensive Income

(unaudited; in thousands, except share and per share data)

	Quarter ended March 31, 2009		Quarter ended March 31, 2008	
Net revenue	$	613,022	$	565,786
Compensation and benefits		426,534		394,351
Operating expenses		84,672		83,223
Insurance expense		22,504		20,963
Selling, general and administrative expenses		15,036		14,592
Depreciation and amortization expense		16,768		17,717
Income from operations		47,508		34,940
Interest income from restricted assets		1,266		1,755
Interest expense		(10,190)		(9,916)
Realized gain on investments		639		672
Interest and other income		517		302
Income before income taxes and equity in earnings (loss) of unconsolidated subsidiary		39,740		27,753
Income tax expense		(15,726)		(10,684)
Income before equity in earnings (loss) of unconsolidated subsidiary		24,014		17,069
Equity in earnings (loss) of unconsolidated subsidiary		57		(50)
Net income		24,071		17,019
Other comprehensive income (loss), net of tax:				
Unrealized holding (losses) gains during the period		(1,157)		1,347
Unrealized holding gains (losses) on derivative financial instruments		351		(2,925)
Comprehensive income	$	23,265	$	15,441
Basic earnings per common share	$	0.57	$	0.41
Diluted earnings per common share	$	0.56	$	0.40
Weighted average common shares outstanding, basic		41,924,218		41,570,412
Weighted average common shares outstanding, diluted		43,094,597		43,083,642

The accompanying notes are an integral part of these financial statements.

3

Table of Contents

Emergency Medical Services Corporation

Consolidated Balance Sheets

(in thousands, except share and per share data)

	March 31, 2009 (Unaudited)	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	$ 194,148	$ 146,173
Insurance collateral	45,315	55,052
Trade and other accounts receivable, net	475,126	472,501
Parts and supplies inventory	21,180	21,160
Prepaids and other current assets	36,218	28,378
Current deferred tax assets	91,249	91,910
Total current assets	863,236	815,174
Non-current assets:		
Property, plant and equipment, net	119,641	124,869
Intangible assets, net	76,495	76,141
Non-current deferred tax assets	22,233	36,351
Insurance collateral	114,914	119,644
Goodwill	341,308	346,013
Other long-term assets	22,728	23,027
Total assets	$ 1,560,555	$ 1,541,219
Liabilities and Equity		
Current liabilities:		
Accounts payable	$ 64,383	$ 57,318
Accrued liabilities	241,479	257,918
Current portion of long-term debt	4,543	4,905
Total current liabilities	310,405	320,141
Long-term debt	452,803	453,600
Insurance reserves and other long-term liabilities	231,121	228,439
Total liabilities	994,329	1,002,180
Equity:		
Preferred stock ($0.01 par value; 20,000,000 shares authorized, 0 issued and outstanding)		
Class A common stock ($0.01 par value; 100,000,000 shares authorized, 9,871,084 and 9,606,766 issued and outstanding in 2009 and 2008, respectively)	99	96
Class B common stock ($0.01 par value; 40,000,000 shares authorized, 142,545 issued and outstanding in 2009 and 2008)	1	1
Class B special voting stock ($0.01 par value; 1 share authorized, issued and outstanding in 2009 and 2008)		
LP exchangeable units (32,107,500 shares issued and outstanding in 2009 and 2008)	212,361	212,361
Additional paid-in capital	128,289	124,370
Retained earnings	227,874	203,803
Accumulated other comprehensive loss	(2,398)	(1,592)
Total equity	566,226	539,039
Total liabilities and equity	$ 1,560,555	$ 1,541,219

The accompanying notes are an integral part of these financial statements.

Table of Contents

Emergency Medical Services Corporation

Consolidated Statements of Cash Flows

(unaudited; in thousands)

	Three months ended March 31, 2009	2008
Cash Flows from Operating Activities		
Net income	$ 24,071	$ 17,019
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	17,080	18,296
Gain on disposal of property, plant and equipment	(2)	(13)
Equity-based compensation expense	650	562
Equity in (earnings) loss of unconsolidated subsidiary	(57)	50
Dividends received	713	
Deferred income taxes	14,595	10,356
Changes in operating assets/liabilities, net of acquisitions:		
Trade and other accounts receivable	(2,625)	(26,308)
Parts and supplies inventory	(20)	(20)
Prepaids and other current assets	(7,840)	(5,932)
Accounts payable and accrued liabilities	(8,500)	(13,389)
Insurance accruals	3,877	(3,399)
Net cash provided by (used in) operating activities	41,942	(2,778)
Cash Flows from Investing Activities		
Purchases of property, plant and equipment	(7,207)	(2,527)
Proceeds from sale of property, plant and equipment	21	63
Acquisition of businesses, net of cash received		(13,278)
Net change in insurance collateral	13,310	2,125
Other investing activities	(670)	653
Net cash provided by (used in) investing activities	5,454	(12,964)
Cash Flows from Financing Activities		
EMSC issuance of class A common stock	898	12
Borrowings under revolving credit facility		14,000
Repayments of capital lease obligations and other debt	(1,159)	(15,151)
Increase in bank overdrafts	840	4,122
Net cash provided by financing activities	579	2,983
Change in cash and cash equivalents	47,975	(12,759)
Cash and cash equivalents, beginning of period	146,173	28,914
Cash and cash equivalents, end of period	$ 194,148	$ 16,155

The accompanying notes are an integral part of these financial statements.

Table of Contents

Emergency Medical Services Corporation

Notes to Unaudited Consolidated Financial Statements

(in thousands, except share and per share data)

1. General

Basis of Presentation of Financial Statements

The accompanying interim consolidated financial statements for Emergency Medical Services Corporation (EMSC or the Company) have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) 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 a fair presentation have been included. All such adjustments are of a normal, recurring nature. Operating results for the three months ended March 31, 2009 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2009. 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 December 31, 2008.

The consolidated financial statements of EMSC include those of its direct subsidiary, Emergency Medical Services L.P. (EMS LP), a Delaware limited partnership. The Company s business is conducted primarily through two operating subsidiaries, American Medical Response, Inc. (AMR), its healthcare transportation services segment, and EmCare Holdings Inc. (EmCare), its outsourced hospital-based physician services segment.

The Company is party to a management agreement with a wholly-owned subsidiary of Onex Corporation, the Company s principal equityholder. In exchange for an annual management fee of $1.0 million, the Onex subsidiary provides the Company with corporate finance and strategic planning consulting services. For the three months ended March 31, 2009 and 2008, the Company expensed $250 in respect of this fee.

2. Summary of Significant Accounting Policies

Consolidation

The consolidated financial statements include all wholly-owned subsidiaries of EMSC, including AMR and EmCare and their respective subsidiaries. All significant intercompany transactions and balances have been eliminated.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions relating to the reporting of results of operations, financial condition and related disclosure of contingent assets and liabilities at the date of the financial statements. Actual results may differ from those estimates under different assumptions or conditions.

Insurance

Insurance collateral is comprised principally of government and investment grade securities and cash deposits with third parties and supports the Company s insurance program and reserves. Certain of these investments, if sold or otherwise liquidated, would have to be replaced by other suitable financial assurances and are, therefore, considered restricted.

Insurance reserves are established for automobile, workers compensation, general liability and professional liability claims utilizing policies with both fully-insured and self-insured components. This includes the use of an off-shore captive insurance program through a wholly-owned subsidiary for certain professional liability (malpractice) programs for EmCare. In those instances where the Company has obtained third-party insurance coverage, the Company normally retains liability for the first $1 to $2 million of the loss. Insurance reserves cover known claims and incidents within the level of Company retention that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from activities through the balance sheet date.

The Company establishes reserves for claims based upon an assessment of actual claims and claims incurred but not reported. The reserves are established based on quarterly consultation with third-party independent actuaries using actuarial principles and assumptions that consider a number of factors, including historical claim payment patterns (including legal costs) and changes in case reserves and the assumed rate of inflation in healthcare costs and property damage repairs.

The Company s most recent actuarial valuation was completed in March 2009. As a result of this and previous actuarial valuations, the Company recorded an increase in its provision for insurance liabilities of approximately $0.7 million in the three months ended March 31, 2009 compared to a decrease of $2.8 million during the same period in 2008.

Table of Contents

The long-term portion of insurance reserves was $141.0 million and $139.0 million as of March 31, 2009 and December 31, 2008, respectively.

Trade and Other Accounts Receivable, net

The Company estimates its allowances based on payor reimbursement schedules, historical collections and write-off experience and other economic data. The allowances for contractual discounts and uncompensated care are reviewed monthly. Account balances are charged off against the uncompensated care allowance when it is probable the receivable will not be recovered. Write-offs to the contractual allowance occur when payment is received. The allowance for uncompensated care is related principally to receivables recorded for self-pay patients. The Company s accounts receivable and allowances are as follows:

	March 31, 2009	December 31, 2008
Gross trade accounts receivable	$ 1,792,126	$ 1,792,546
Allowance for contractual discounts	882,166	885,401
Allowance for uncompensated care	513,143	514,475
Net trade accounts receivable	396,817	392,670
Other receivables, net	78,309	79,831
Net accounts receivable	$ 475,126	$ 472,501

Other receivables represent EmCare hospital fees and subsidies and AMR fees for stand-by and special events and subsidies from community organizations.

AMR contractual allowances are primarily determined on payor reimbursement schedules that are included and regularly updated in the billing systems, and by historical collection experience. The billing systems calculate the difference between payor specific gross billings and contractually agreed to, or governmentally driven, reimbursement rates. The allowance for uncompensated care at AMR is related principally to receivables recorded for self-pay patients. AMR s allowances on self-pay accounts receivable are estimated on claim level, historical write-off experience.

Accounts receivable allowances at EmCare are estimated based on cash collection and write-off experience at a facility level contract and facility specific payor mix. These allowances are reviewed and adjusted monthly through revenue provisions. In addition, a look-back analysis is done, typically after 15 months, to compare actual cash collected on a date of service basis to the revenue recorded for that period. Any adjustment necessary for an overage or deficit in these allowances based on actual collections is recorded through a retroactive revenue adjustment in the current period.

Revenue Recognition

Revenue is recognized at the time of service and is recorded net of provisions for contractual discounts and estimated uncompensated care. Provisions for contractual discounts and estimated uncompensated care as a percentage of gross revenue and as a percentage of gross revenue less provision for contractual discounts are as follows:

	Quarter ended March 31, 2009	2008
Gross revenue	100.0%	100.0%
Provision for contractual discounts	47.9%	45.7%
Revenue net of contractual discounts	52.1%	54.3%
Provision for uncompensated care as a percentage of gross revenue	19.6%	18.7%
Provision for uncompensated care as a percentage of gross revenue less contractual discounts	37.7%	34.4%

Healthcare billing and collection is complex and may involve lengthy delays. Third-party payors are continuing their efforts to control expenditures for healthcare, including proposals to revise reimbursement policies. The Company has from time to time experienced delays in reimbursement from third-party payors. In addition, third-party payors may disallow, in whole or in part, claims for reimbursement based on determinations that certain amounts are not reimbursable under plan coverage, on determinations of medical necessity, or the need for additional information. Laws and regulations governing the Medicare and Medicaid programs are very complex and subject to interpretation. As a result, there is a reasonable possibility that recorded estimates will change materially in the short-term. Retroactive adjustments may change the amounts realized from third-party payors and are considered in the recognition of revenue on an estimated basis in the period the related services are rendered. Such amounts, including adjustments between provisions for contractual discounts and uncompensated

Table of Contents

care, are adjusted in future periods, as adjustments become known. These adjustments were less than 1% of net revenue for the three month periods ended March 31, 2009 and 2008.

The Company also provides services to patients who have no insurance or other third-party payor coverage. In certain circumstances, federal law requires providers to render services to any patient who requires emergency care regardless of their ability to pay.

Equity Structure

On December 21, 2005, the Company effected a reorganization and issued 8.1 million shares of class A common stock in an initial public offering. Pursuant to the reorganization, EMS LP, the former top-tier holding company of AMR and EmCare, became the consolidated subsidiary of EMSC, a newly formed corporation. To effect the reorganization, the holders of the capital stock of the sole general partner of EMS LP contributed that capital stock to the Company in exchange for class B common stock; the general partner was merged into the Company and the Company became the sole general partner of EMS LP. Concurrently, the holders of class B units of EMS LP contributed their units to the Company in exchange for shares of the Company s class A common stock, and the holders of certain class A units of EMS LP contributed their units to the Company in exchange for shares of the Company s class B common stock.

As of March 31, 2009, the Company holds 23.8% of the equity interests in EMS LP. LP exchangeable units, held by persons affiliated with the Company s principal equity holder, represent the balance of the EMS LP equity. The LP exchangeable units are exchangeable at any time, at the option of the holder, for shares of the Company s class B common stock on a one-for-one basis. The holders of the LP exchangeable units have the right to vote, through the trustee holder of the Company s class B special voting stock, at all stockholder meetings at which holders of the Company s class B common stock or class B special voting stock are entitled to vote.

In the EMS LP partnership agreement, the Company has agreed to maintain the economic equivalency of the LP exchangeable units and the class B common stock, and the holders of the LP exchangeable units have no general voting rights. The LP exchangeable units, when considered with the class B special voting stock, have the same rights, privileges and characteristics of the Company s class B common stock. The LP exchangeable units are intended to be economically equivalent to the class B common stock of the Company in that the LP exchangeable units carry the right to vote (by virtue of the class B special voting stock) with the holders of class B common stock as one class, and entitle holders to receive distributions only if the equivalent dividends are declared on the Company s class B common stock. Accordingly, the Company accounts for the LP exchangeable units as if the LP exchangeable units were shares of its common stock, including reporting the LP exchangeable units in the equity section of the Company s balance sheet and including the number of outstanding LP exchangeable units in both its basic and diluted earnings per share calculations.

Fair Value Measurement

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 157 *Fair Value Measurements (SFAS 157)* effective January 1, 2008, which among other things, requires additional disclosures about financial instruments that are reported at fair value. SFAS 157 establishes a hierarchal disclosure framework which ranks the level of market price observability used in measuring financial instruments at fair value. Market price observability is impacted by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Financial instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. As required by SFAS 157, the Company does not adjust the quoted price for these assets or liabilities.

Level 2 Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 Pricing inputs are unobservable as of the reporting date and reflect the Company s own assumptions about the fair value of the asset or liability.

The following table summarizes the valuation of EMSC s financial instruments by the above SFAS 157 fair value hierarchy levels as of March 31, 2009:

Description	Total	Level 1	Level 2	Level 3
Assets:				
Securities	$ 80,368	$ 59,006	$ 21,362	$
Liabilities:				
Derivatives	$ 5,195	$	$ 5,195	$

FASB Staff Position No. 157-2 (FSP 157-2) delayed the application of SFAS 157 to nonfinancial assets and liabilities until January 1, 2009. Adoption of FSP 157-2 did not have an impact on the Company s financial statements during the three months ended March 31, 2009.

3. Acquisitions

The Company adopted SFAS No. 141 (revised 2007) *Business Combinations* (SFAS 141(R)) effective January 1, 2009. The impact to the Company s consolidated financials statements and related disclosures will depend on the nature and terms of the business combinations entered into subsequent to adoption of SFAS 141(R). The Company expensed $720 upon adoption of this standard during the three months ended March 31, 2009.

In January 2009, the Company entered into an agreement for the acquisition of the air ambulance business of Skyservice Business Aviation Inc. (Skyservice Air Ambulance), a fixed-wing air ambulance operator based in Montreal, Canada, with operations in Quebec, Ontario and British Columbia. Founded in 1989, Skyservice Air Ambulance provides worldwide air ambulance service. The transaction is subject to customary closing conditions and Canadian regulatory approval.

4. Accrued Liabilities

Accrued liabilities were as follows at March 31, 2009 and December 31, 2008:

	March 31, 2009	December 31, 2008
Accrued wages and benefits	$ 90,288	$ 95,029
Accrued paid time-off	26,209	25,505
Current portion of self-insurance reserves	63,004	61,099
Accrued restructuring	195	200
Current portion of compliance and legal	3,799	2,616
Accrued billing and collection fees	3,773	4,127
Accrued profit sharing	13,963	22,954
Accrued interest	3,534	9,964
Other	36,714	36,424
Total accrued liabilities	$ 241,479	$ 257,918

5. Long-Term Debt

Long-term debt consisted of the following at March 31, 2009 and December 31, 2008:

	March 31, 2009	December 31, 2008
Senior subordinated notes due 2015	$ 250,000	$ 250,000
Senior secured term loan due 2012 (3.02% at March 31, 2009)	201,338	201,862
Notes due at various dates from 2009 to 2022 with interest rates from 6% to 10%	1,563	1,632
Capital lease obligations due at various dates from 2010 to 2018 (see note 7)	4,445	5,011
	457,346	458,505
Less current portion	(4,543)	(4,905)
Total long-term debt	$ 452,803	$ 453,600

6. Derivative Instruments and Hedging Activities

The Company manages its exposure to changes in market interest rates. The Company s use of derivative instruments is limited to highly effective fixed interest rate swap agreements used to manage well-defined interest rate risk exposures. The Company monitors its positions and the credit ratings of its counterparties and does not anticipate non-performance by the counterparties. The Company does not enter into interest rate swap agreements for trading purposes.

Table of Contents

In March 2009, the Company amended the interest rate swap agreement originally entered into in December 2007. The amendment changed the hedged interest rate from the 3-month LIBOR to the 1-month LIBOR. The swap agreement is with major financial institutions with a notional principal balance of $200 million. The amended swap agreement effectively converts $200 million of variable rate debt to fixed rate debt with an effective rate of 6.1%. The Company continues to make interest payments based on the variable rate associated with the debt (based on LIBOR which had a rate of 1% at March 31, 2009) and periodically settles with its counterparties for the difference between the rate paid and the fixed rate. The swap agreement will expire in December 2009. The Company recorded a decrease to the liability associated with the fair value of the fixed interest rate swap agreement in the amount of $0.6 million for the three months ended March 31, 2009 and an increase of $4.0 million during the same period in 2008 before applicable tax impacts as a component of other comprehensive income. The net additional interest payments made or received under this swap agreement are recognized in interest expense. Over the remaining term of the agreement, the Company expects to reclassify $5.2 million of deferred loss before applicable tax impacts, which represents the difference in our fixed interest rate and the projected variable interest rates, from accumulated other comprehensive loss to interest expense as related interest payments that are being hedged are recognized.

7. Commitments and Contingencies

Lease Commitments

The Company leases various facilities and equipment under operating lease agreements.

The Company also leases certain vehicles and leasehold improvements under capital leases. Assets under capital leases are capitalized using inherent interest rates at the inception of each lease. Capital leases are collateralized by the underlying assets.

Forward Purchase Commitment

In March 2009, AMR entered into a series of forward purchase contracts which fix the price for a portion of its total monthly diesel fuel usage from April 1, 2009 through June 30, 2010. For the nine months ending December 31, 2009, the Company is under contract to purchase 200,000 gallons of diesel fuel per month at prices ranging from $2.63 to $2.79 per gallon. In addition, for the twelve months ending June 30, 2010, the Company is under contract to purchase 50,000 gallons of diesel fuel per month at prices ranging from $2.85 to $2.99 per gallon. These forward purchase contracts represent approximately 40% of the Company s total monthly diesel fuel usage. Based on the terms of the contracts, the Company has concluded they do not qualify as derivatives.

Services

The Company is subject to the Medicare and Medicaid fraud and abuse laws which prohibit, among other things, any false claims, or any bribe, kickback 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 and regulations but there can be no assurance the Company will not be found to have violated certain of these laws and regulations. From time to time, the Company receives requests for information from government agencies pursuant to their regulatory or investigational authority. Such requests can include subpoenas or demand letters for documents to assist the government in audits or investigations. The Company is cooperating with the government agencies conducting these investigations and is providing requested information to the government agencies. Other than the proceedings described directly below under Other Legal Matters , management believes that the outcome of any of these investigations would not have a material adverse effect on the Company.

Other Legal Matters

On December 13, 2005, a lawsuit purporting to be a class action was commenced against AMR in Spokane, Washington in Washington State Court, Spokane County. The complaint alleges that AMR billed patients and third party payors for transports it conducted between 1998 and 2005 at higher rates than contractually permitted. The court has certified a class in this case, but the size and membership of the class has not been determined. At this time, AMR does not believe that any incorrect billings are material in amount.

In December 2006, AMR received a subpoena from the DOJ. The subpoena requested copies of documents for the period from January 2000 through the present. The subpoena required AMR to produce a broad range of documents relating to the operations of certain AMR affiliates in New York. The Company continues to cooperate with governmental requests for documents and information.

Three different lawsuits purporting to be class actions have been filed against AMR and certain subsidiaries in California alleging violations of California wage and hour laws. On April 16, 2008, Lori Bartoni commenced a suit in the Superior Court for the State of California, County of Alameda, which has since been removed to the United States District Court,

Table of Contents

Northern District of California; on July 8, 2008, Vaughn Banta filed suit in the Superior Court of the State of California, County of Los Angeles; on January 22, 2009, Laura Karapetian filed suit in the Superior Court of the State of California, County of Los Angeles. At the present time, courts have not certified classes in any of these cases. Plaintiffs allege principally that the AMR entities failed to pay daily overtime rates pursuant to California law, and failed to provide required meal breaks or pay premium compensation for missed meal breaks. Plaintiffs are seeking to certify the classes and seeking lost wages, punitive damages, attorneys fees and other sanctions permitted under California law for violations of wage and hour laws. The Company is unable at this time to estimate the amount of potential damages, if any.

8. Equity Based Compensation

The Company adopted the provisions of SFAS No. 123 (revised 2004) *Share-Based Payment* (SFAS 123R) on January 1, 2006 using the prospective transition method. Stock options are valued using the Black-Scholes valuation method on the date of grant.

Equity Option Plan

Under the Company s Equity Option Plan, key employees were granted options that permit the individuals to purchase class A common shares and vest ratably generally over a period of four years. In addition, certain performance measures must be met for 50% of the options to become exercisable; these performance measures were satisfied during the first quarter of 2009 with respect to the options granted in first quarter of 2005. Options with similar provisions were granted to non-employee directors. The Company recorded a compensation charge of $97 and $431 for the three months ended March 31, 2009 and 2008, respectively. Options are no longer granted under the Equity Option Plan, but rather under the Company s Amended and Restated 2007 Long-Term Incentive Plan described below.

Long-Term Incentive Plan

The Company s original 2007 Long-Term Incentive Plan was approved by stockholders in May 2007 and an Amended and Restated 2007 Long-Term Incentive Plan (the Plan) was approved by stockholders in May 2008. The Plan provides for the grant of long-term incentives, including various equity-based incentives, to those persons with responsibility for the success and growth of the Company and its subsidiaries.

The Company granted options and restricted stock to key employees during the three months ended March 31, 2009 under the Plan. The options permit employees to purchase 206,625 shares of class A common stock at a weighted average exercise price of $29.65 per share, vest ratably over a period of four years and have a maximum term of ten years. The Company also granted 206,625 shares of restricted stock pursuant to the Plan, which vest ratably over a period of three years.

The Company recorded a compensation charge of $428 and $31 during the three months ended March 31, 2009 and 2008, respectively, in connection with the Plan.

Non-Employee Director Compensation Plan

The Non-Employee Director Compensation Plan, approved in May 2007, is available to non-employee directors of the Company, other than the Chair of the Compliance Committee. Under this plan, eligible directors are granted Restricted Stock Units (RSUs) following each annual stockholder meeting with each RSU representing one share of the Company s class A common stock. Eligible directors receive a grant of RSUs having a fair market value of $100 on the date of grant based on the closing price of the Company s class A common stock on the business day immediately preceding the grant date. The Non-Employee Director Compensation Plan allows directors to defer income from the grant of RSUs, which vest immediately prior to the election of directors at the next annual stockholder meeting. In connection with this plan, the Company granted 4,145 RSUs per director after the Company s 2008 annual stockholder meeting, plus an additional prorated amount of 2,374 RSUs to a director upon his election to the board of directors in October 2008. The Company granted 2,705 RSUs per director in 2007. The Company expensed $125 and $100 for the three months ended March 31, 2009 and 2008, respectively.

9. Segment Information

The Company is organized around two separately managed business units: healthcare transportation services and hospital-based physician services, which have been identified as operating segments. The healthcare transportation services reportable segment focuses on providing a full range of medical transportation services from basic patient transit to the most advanced emergency care and pre-hospital assistance. The hospital-based physician services reportable segment provides outsourced business services to hospitals primarily for emergency departments and urgent care centers, as well as for hospitalist/inpatient, radiology and anesthesiology services. The Chief Executive Officer has been identified as the chief operating decision maker (CODM) for purposes of SFAS No. 131 *Disclosures about Segments of an Enterprise and Related Information*

Table of Contents

(SFAS 131), as he assesses the performance of the business units and decides how to allocate resources to the business units.

Net income before equity in earnings (loss) of unconsolidated subsidiary, income tax expense, interest and other income, realized gain on investments, interest expense, and depreciation and amortization (Adjusted EBITDA) is the measure of profit and loss that the CODM uses to assess performance, measure liquidity and make decisions. The accounting policies for reported segments are the same as for the Company as a whole.

	Quarter ended March 31, 2009	Quarter ended March 31, 2008
Healthcare Transportation Services		
Revenue	$ 336,446	$ 326,316
Segment Adjusted EBITDA	33,888	28,398
Hospital-Based Physician Services		
Revenue	276,576	239,470
Segment Adjusted EBITDA	31,654	26,014
Total		
Total revenue	613,022	565,786
Total Adjusted EBITDA	65,542	54,412
Reconciliation of Adjusted EBITDA to Net Income		
Adjusted EBITDA	$ 65,542	$ 54,412
Depreciation and amortization expense	(16,768)	(17,717)
Interest expense	(10,190)	(9,916)
Realized gain on investments	639	672
Interest and other income	517	302
Income tax expense	(15,726)	(10,684)
Equity in earnings (loss) of unconsolidated subsidiary	57	(50)
Net income	$ 24,071	$ 17,019

A reconciliation of Adjusted EBITDA to cash flows provided by (used in) operating activities is as follows:

	Quarter ended March 31, 2009	Quarter ended March 31, 2008
Adjusted EBITDA	$ 65,542	$ 54,412
Interest paid	(9,877)	(9,337)
Change in accounts receivable	(2,625)	(26,308)
Change in other operating assets/liabilities	(12,483)	(22,740)
Equity based compensation	650	562
Other	735	633
Cash flows provided by (used in) operating activities	$ 41,942	$ (2,778)

10. Guarantors of Debt

EMS LP financed the acquisition of AMR and EmCare in part by issuing $250.0 million principal amount of senior subordinated notes and borrowing $370.2 million under its senior secured credit facility. Its wholly-owned subsidiaries, AMR HoldCo, Inc. and EmCare HoldCo, Inc., are the issuers of the senior subordinated notes and the borrowers under the senior secured credit facility. As part of the transaction, AMR and its subsidiaries became wholly-owned subsidiaries of AMR HoldCo, Inc. and EmCare and its subsidiaries became wholly-owned subsidiaries of EmCare HoldCo, Inc. The senior subordinated notes and the senior secured credit facility include a full, unconditional and joint and several guarantee by EMSC, EMS LP and EMSC s domestic subsidiaries. The senior subordinated notes and senior secured credit facility do not include a guarantee by the Company s captive insurance subsidiary. All of the operating income and cash flow of EMSC, EMS LP, AMR HoldCo, Inc. and EmCare HoldCo, Inc. is generated by AMR, EmCare and their subsidiaries. As a result, funds necessary to meet the debt service obligations under the senior secured notes and senior secured credit facility described above are provided by the distributions or advances from the subsidiary companies, AMR and EmCare. Investments in subsidiary operating companies are accounted for on the equity method. Accordingly, entries necessary to consolidate EMSC, EMS LP, AMR HoldCo, Inc., EmCare HoldCo, Inc. and all of their subsidiaries are reflected in the Eliminations/Adjustments column. Separate complete financial statements of the issuers, EMS LP and subsidiary guarantors would not provide additional material information that would be useful in assessing the financial composition of the issuers, EMS LP or the subsidiary guarantors. The condensed consolidating financial statements for EMSC, EMS LP, the issuers, the guarantors and the non-guarantor are as follows:

Table of Contents

Consolidating Statement of Operations

For the three months ended March 31, 2009

	EMSC	EMS LP	Issuer AMR HoldCo, Inc.	Issuer EmCare HoldCo, Inc.	Subsidiary Guarantors	Subsidiary Non-Guarantor	Eliminations/ Adjustments	Total
Net revenue	$	$	$	$	$ 613,022	$ 6,883	$ (6,883)	$ 613,022
Compensation and benefits					426,534			426,534
Operating expenses					84,672			84,672
Insurance expense					21,154	8,233	(6,883)	22,504
Selling, general and administrative expenses					15,036			15,036
Depreciation and amortization expense					16,768			16,768
Income (loss) from operations					48,858	(1,350)		47,508
Interest income from restricted assets					555	711		1,266
Interest expense					(10,190)			(10,190)
Realized gain on investments						639		639
Interest and other income					517			517
Income before income taxes					39,740			39,740
Income tax expense					(15,726)			(15,726)
Income before equity in earnings of unconsolidated subsidiaries					24,014			24,014
Equity in earnings of unconsolidated subsidiaries	24,071	24,071	9,344	14,728	57		(72,214)	57
Net income	$ 24,071	$ 24,071	$ 9,344	$ 14,728	$ 24,071	$	$ (72,214)	$ 24,071

Consolidating Statement of Operations
For the three months ended March 31, 2008

	EMSC	EMS LP	Issuer AMR HoldCo, Inc.	Issuer EmCare HoldCo, Inc.	Subsidiary Guarantors	Subsidiary Non-Guarantor	Eliminations/ Adjustments	Total
Net revenue	$	$	$	$	$ 565,786	$ 10,757	$ (10,757)	$ 565,786
Compensation and benefits					394,351			394,351
Operating expenses					83,223			83,223
Insurance expense					19,218	12,502	(10,757)	20,963
Selling, general and administrative expenses					14,592			14,592
Depreciation and amortization expense					17,717			17,717
Income (loss) from operations					36,685	(1,745)		34,940
Interest income from restricted assets					682	1,073		1,755
Interest expense					(9,916)			(9,916)

Realized gain on investments						672		672
Interest and other income					302			302
Income before income taxes					27,753			27,753
Income tax expense					(10,684)			(10,684)
Income before equity in earnings (loss) of unconsolidated subsidiaries					17,069			17,069
Equity in earnings (loss) of unconsolidated subsidiaries	17,019	17,019	5,061	11,958	(50)		(51,057)	(50)
Net income	$ 17,019	$ 17,019	$ 5,061	$ 11,958	$ 17,019	$	$ (51,057)	$ 17,019

Table of Contents

Consolidating Balance Sheet

As of March 31, 2009

	EMSC	EMS LP	Issuer AMR HoldCo, Inc.	Issuer EmCare HoldCo, Inc.	Subsidiary Guarantors	Subsidiary Non-Guarantor	Eliminations/ Adjustments	Total
Assets								
Current assets:								
Cash and cash equivalents	$	$	$	$	$ 177,516	$ 16,632	$	$ 194,148
Insurance collateral					17,587	58,496	(30,768)	45,315
Trade and other accounts receivable, net					474,272	854		475,126
Parts and supplies inventory					21,180			21,180
Other current assets					33,528	2,690		36,218
Current deferred tax assets					87,415	3,834		91,249
Current assets					811,498	82,506	(30,768)	863,236
Non-current assets:								
Property, plant, and equipment, net					119,641			119,641
Intercompany receivable	14,989	113,400	265,042	182,146			(575,577)	
Intangible assets, net					76,495			76,495
Non-current deferred tax assets					26,548	(4,315)		22,233
Insurance collateral					39,588	72,771	2,555	114,914
Goodwill					340,850	458		341,308
Other long-term assets			5,342	2,356	15,030			22,728
Investment and advances in subsidiaries	551,237	437,837	250,380	187,443	41,125		(1,468,022)	
Assets	$ 566,226	$ 551,237	$ 520,764	$ 371,945	$ 1,470,775	$ 151,420	$ (2,071,812)	$ 1,560,555
Liabilities and Equity								
Current liabilities:								
Accounts payable	$	$	$	$	$ 64,317	$ 66	$	$ 64,383
Accrued liabilities			1,915	1,619	204,615	34,581	(1,251)	241,479
Current portion of long-term debt			1,447	650	2,446			4,543
Current liabilities			3,362	2,269	271,378	34,647	(1,251)	310,405
Long-term debt			265,976	183,265	3,562			452,803
Other long-term liabilities					187,930	70,153	(26,962)	231,121
Intercompany					570,082	5,495	(575,577)	
Liabilities			269,338	185,534	1,032,952	110,295	(603,790)	994,329
Equity:								
Class A common stock	99					30	(30)	99
Class B common stock	1							1
Partnership equity	212,361	325,761	189,394	22,967	212,361		(750,483)	212,361
Additional paid-in capital	128,289					4,316	(4,316)	128,289
Retained earnings	227,874	227,874	64,751	163,123	227,860	33,403	(717,011)	227,874
Comprehensive income (loss)	(2,398)	(2,398)	(2,719)	321	(2,398)	3,376	3,818	(2,398)
Equity	566,226	551,237	251,426	186,411	437,823	41,125	(1,468,022)	566,226
Liabilities and Equity	$ 566,226	$ 551,237	$ 520,764	$ 371,945	$ 1,470,775	$ 151,420	$ (2,071,812)	$ 1,560,555

14

Table of Contents

Consolidating Balance Sheet

As of December 31, 2008

	EMSC	EMS LP	Issuer AMR HoldCo, Inc.	Issuer EmCare HoldCo, Inc.	Subsidiary Guarantors	Subsidiary Non-Guarantor	Eliminations/ Adjustments	Total
Assets								
Current assets:								
Cash and cash equivalents	$	$	$	$	$ 140,452	$ 5,721	$	$ 146,173
Insurance collateral					18,618	40,751	(4,317)	55,052
Trade and other accounts receivable, net					471,546	955		472,501
Parts and supplies inventory					21,160			21,160
Other current assets					28,339	39		28,378
Current deferred tax assets					88,076	3,834		91,910
Current assets					768,191	51,300	(4,317)	815,174
Non-current assets:								
Property, plant, and equipment, net					124,869			124,869
Intercompany receivable	11,067	113,400	268,581	185,250				