Emergency Medical Services CORP
Form 10-Q
August 07, 2008
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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 June 30, 2008

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	**20-3738384** **20-2076535**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Numbers)
6200 S. Syracuse Way, Suite 200 **Greenwood Village, CO**	**80111**
(Address of principal executive offices)	(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 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 August 1, 2008 9,331,533; shares of class B common stock outstanding at August 1, 2008 142,545; LP exchangeable units outstanding at August 1, 2008 32,107,500.

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EMERGENCY MEDICAL SERVICES CORPORATION

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ON FORM 10-Q

FOR THE THREE AND SIX MONTHS ENDED

JUNE 30, 2008

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EMERGENCY MEDICAL SERVICES CORPORATION

PART I. FINANCIAL INFORMATION

FOR THE THREE AND SIX MONTHS ENDED

JUNE 30, 2008

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 June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Net revenue	$ 571,079	$ 516,712	$ 1,136,865	$ 1,040,031
Compensation and benefits	400,501	357,309	794,852	712,241
Operating expenses	83,704	76,262	166,927	156,258
Insurance expense	17,568	17,476	38,531	37,777
Selling, general and administrative expenses	15,520	14,901	30,112	28,206
Depreciation and amortization expense	17,446	17,577	35,163	34,356
Restructuring charges				2,242
Income from operations	36,340	33,187	71,280	68,951
Interest income from restricted assets	1,735	1,660	3,490	3,375
Interest expense	(10,354)	(11,395)	(20,270)	(22,629)
Realized gain on investments	1,571	22	2,243	59
Interest and other income	287	532	589	1,189
Income before income taxes and equity in earnings of unconsolidated subsidiary	29,579	24,006	57,332	50,945
Income tax expense	(11,348)	(9,012)	(22,032)	(19,474)
Income before equity in earnings of unconsolidated subsidiary	18,231	14,994	35,300	31,471
Equity in earnings of unconsolidated subsidiary	104	101	54	255
Net income	18,335	15,095	35,354	31,726
Other comprehensive income (loss), net of tax:				
Unrealized holding losses during the period	(3,107)	(723)	(1,760)	(425)
Unrealized gains (losses) on derivative financial instruments	2,165		(760)	
Comprehensive income	$ 17,393	$ 14,372	$ 32,834	$ 31,301
Basic earnings per common share	$ 0.44	$ 0.36	$ 0.85	$ 0.76
Diluted earnings per common share	$ 0.43	$ 0.35	$ 0.82	$ 0.74
Weighted average common shares outstanding, basic	41,573,893	41,544,901	41,572,162	41,533,093

Weighted average common shares outstanding, diluted	43,022,034	43,211,661	43,052,668	43,120,416

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

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Emergency Medical Services Corporation

Consolidated Balance Sheets

(in thousands, except share and per share data)

	June 30, 2008 (Unaudited)	December 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	$ 73,019	$ 28,914
Insurance collateral	41,226	37,776
Trade and other accounts receivable, net	512,027	495,348
Parts and supplies inventory	20,124	20,010
Prepaids and other current assets	16,398	11,715
Current deferred tax assets	78,566	76,997
Total current assets	741,360	670,760
Non-current assets:		
Property, plant and equipment, net	127,745	143,342
Intangible assets, net	76,112	81,717
Non-current deferred tax assets	76,587	94,961
Insurance collateral	126,572	146,638
Goodwill	329,300	313,124
Other long-term assets	24,508	29,021
Total assets	$ 1,502,184	$ 1,479,563
Liabilities and Equity		
Current liabilities:		
Accounts payable	$ 63,117	$ 64,855
Accrued liabilities	233,545	237,319
Current portion of long-term debt	4,828	4,717
Total current liabilities	301,490	306,891
Long-term debt	476,186	478,166
Insurance reserves and other long-term liabilities	240,945	245,010
Total liabilities	1,018,621	1,030,067
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, 9,331,533 and 9,320,347 issued and outstanding in 2008 and 2007, respectively)	93	93
Class B common stock ($0.01 par value; 40,000,000 shares authorized, 142,545 issued and outstanding in 2008 and 2007)	1	1
Class B special voting stock ($0.01 par value; 1 share authorized, issued and outstanding in 2008 and 2007)		
LP exchangeable units (32,107,500 shares issued and outstanding in 2008 and 2007)	212,361	212,361
Additional paid-in capital	118,312	117,079
Retained earnings	154,310	118,956
Accumulated other comprehensive (loss) income	(1,514)	1,006
Total equity	483,563	449,496
Total liabilities and equity	$ 1,502,184	$ 1,479,563

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

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Emergency Medical Services Corporation

Consolidated Statements of Cash Flows

(unaudited; in thousands)

	Six months ended June 30, 2008		2007	
Cash Flows from Operating Activities				
Net income	$	35,354	$	31,726
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization		36,269		35,376
Gain on disposal of property, plant and equipment		(103)		(181)
Equity-based compensation expense		1,124		800
Equity in earnings of unconsolidated subsidiary		(54)		(255)
Dividends received				416
Deferred income taxes		18,622		19,050
Changes in operating assets/liabilities, net of acquisitions:				
Trade and other accounts receivable		(13,752)		(63,934)
Parts and supplies inventory		(14)		(314)
Prepaids and other current assets		(4,638)		(3,570)
Accounts payable and accrued liabilities		(10,289)		162
Insurance accruals		(7,140)		4
Net cash provided by operating activities		55,379		19,280
Cash Flows from Investing Activities				
Purchases of property, plant and equipment		(10,180)		(22,743)
Proceeds from sale of property, plant and equipment		220		291
Acquisition of businesses, net of cash received		(19,957)		(477)
Net change in insurance collateral		14,856		(3,033)
Other investing activities		2,628		2,715
Net cash used in investing activities		(12,433)		(23,247)
Cash Flows from Financing Activities				
EMSC issuance of class A common stock		45		249
Repayments of capital lease obligations and other debt		(16,721)		(3,391)
Increase (decrease) in bank overdrafts		3,835		(2,743)
Borrowings under revolving credit facility		14,000		
Net cash provided by (used in) financing activities		1,159		(5,885)
Change in cash and cash equivalents		44,105		(9,852)
Cash and cash equivalents, beginning of period		28,914		39,336
Cash and cash equivalents, end of period	$	73,019	$	29,484
Non-cash Activities				
Capital lease obligations incurred	$	682	$	8,038

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

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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 fair presentation have been included. All such adjustments are of a normal, recurring nature. Operating results for the three and six month periods ended June 30, 2008 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2008. 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, 2007.

The consolidated financial statements of EMSC include those of its direct subsidiary, Emergency Medical Services L.P. (EMS LP), a Delaware limited partnership. EMS LP acquired American Medical Response, Inc. and its subsidiaries (AMR) and EmCare Holdings Inc. and its subsidiaries (EmCare) from Laidlaw International, Inc. (Laidlaw) on February 10, 2005, with an effective transaction date after the close of business January 31, 2005. On December 21, 2005, the Company effected a reorganization and issued class A common stock in an initial public offering.

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 each of the three and six months ended June 30, 2008 and 2007, the Company expensed $250 and $500, respectively, 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

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coverage, the Company generally 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 June 2008. As a result of this actuarial valuation, in the three and six months ended June 30, 2008 the Company recorded reductions in its provision for insurance liabilities of approximately $3.4 million and $6.2 million, respectively, related to its reserves for losses in prior years. In the three and six months ended June 30, 2007 the Company recorded reductions in its provision for insurance liabilities of approximately $8.7 million and $13.8 million, respectively, as a result of an actuarial valuation completed in June 2007.

The long-term portion of insurance reserves was $139.0 million and $144.7 million as of June 30, 2008 and December 31, 2007, respectively.

Trade and Other Accounts Receivable, net

The Company determines its allowances based on payor reimbursement schedules, historical 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 allowances are as follows:

		June 30, 2008		**December 31, 2007**
Gross trade accounts receivable	$	1,875,919	$	1,693,862
Allowance for contractual discounts		953,442		832,738
Allowance for uncompensated care		481,434		431,920
Net trade accounts receivable		441,043		429,204
Other receivables, net		70,984		66,144
Net accounts receivable	$	512,027	$	495,348

Other receivables represent EmCare hospital subsidies and fees 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, an analysis is done 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.

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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:

	Three months ended June 30,		Six months ended June 30,	
	2008	**2007**	**2008**	**2007**
Gross revenue	100.0%	100.0%	100.0%	100.0%
Provision for contractual discounts	46.1%	42.2%	45.9%	42.3%
Revenue net of contractual discounts	53.9%	57.8%	54.1%	57.7%
Provision for uncompensated care as a percentage of gross revenue	19.3%	20.1%	19.0%	19.8%
Provision for uncompensated care as a percentage of gross revenue less contractual discounts	35.8%	34.8%	35.1%	34.3%

Healthcare reimbursement 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, 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 care, are adjusted in future periods, as adjustments become known. Retroactive adjustments in the three months ended June 30, 2008, which increased revenue, were 0.1% of consolidated net revenue compared to 1.7% of consolidated net revenue for the three months ended June 30, 2007. Retroactive adjustments recorded in the six month period ended June 30, 2008, which increased revenue, were 0.4% of consolidated net revenue compared to 2.0% of consolidated net revenue for the six months ended June 30, 2007.

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.

The Company holds 22.8% 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.

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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 if 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.

Recent Accounting Pronouncements

The Company adopted SFAS No. 157 *Fair value measurement* (SFAS 157) effective January 1, 2008, which among other things, requires additional disclosures about investments that are reported at fair value. SFAS 157 establishes a hierarchal disclosure framework which ranks the level of market price observability used in measuring investments at fair value. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment. Investments 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.

Investments 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 investments as of the reporting date. As required by SFAS 157, the Company does not adjust the quoted price for these investments.

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.

The following table summarizes the valuation of EMSC s investments by the above SFAS 157 fair value hierarchy levels as of June 30, 2008:

		Fair value measurements at June 30, 2008 using:	
Description	**Total**	**Level 1**	**Level 2**
Assets:			
Securities	$ 89,403	$ 83,622	$ 5,781
Liabilities:			
Derivatives	$ 2,009	$	$ 2,009

3. Acquisitions

In March 2008, the Company completed its acquisition of River Medical, Inc. based in Lake Havasu, Arizona, which provides exclusive emergency ambulance transportation services to Lake Havasu City, and La Paz and Mohave Counties in western Arizona. The Company believes that this acquisition positions the Company for future expansion in the Arizona market. In April 2008, the Company completed its acquisition of Aldan Emergency Physicians, P.A. which provides emergency department staffing and management services at facilities located in Brooksville, Florida and Hudson, Florida. The total cost of these acquisitions was $20.0 million and the Company has recorded $14.5 million of goodwill, which amount is subject to adjustment based upon completion of purchase price allocations.

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4. Accrued Liabilities

Accrued liabilities were as follows at June 30, 2008 and December 31, 2007:

	June 30, 2008	December 31, 2007
Accrued wages and benefits	$ 85,512	$ 79,781
Accrued paid time-off	27,418	24,687
Current portion of self-insurance reserves	58,391	59,821
Accrued restructuring	570	600
Current portion of compliance and legal	2,659	2,245
Accrued billing and collection fees	4,184	5,046
Accrued profit sharing	15,351	23,661
Accrued interest	10,039	10,407
Other	29,421	31,071
Total accrued liabilities	$ 233,545	$ 237,319

5. Long-Term Debt

Long-term debt consisted of the following at June 30, 2008 and December 31, 2007:

	June 30, 2008	December 31, 2007
Senior subordinated notes due 2015	$ 250,000	$ 250,000
Senior secured term loan due 2012 (6.69% at June 30, 2008)	223,015	224,167
Notes due at various dates from 2008 to 2022 with interest rates from 6% to 10%	1,788	2,292
Capital lease obligations due at various dates from 2008 to 2018 (see note 6)	6,211	6,424
	481,014	482,883
Less current portion	(4,828)	(4,717)
Total long-term debt	$ 476,186	$ 478,166

6. Commitments and Contingencies

Lease Commitments

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

The Company also leases certain vehicles and certain leasehold improvements under capital leases. During the first quarter of 2007 the Company extended the term on the vehicles lease for an additional three years. Assets under capital leases are capitalized using inherent interest rates at the inception of each lease. Capital leases are collateralized by the underlying assets.

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, 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 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

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investigations and is providing requested information to the government agencies. Other than the proceedings described below, management believes that the outcome of any of these investigations would not have a material adverse effect on the Company.

On April 17, 2006, the Office of Inspector General for the United States Department of Health and Human Services, or OIG, finalized its draft report requesting that the Company s Massachusetts subsidiary reimburse the Medicare program for approximately $1.8 million in alleged overpayments from Medicare for services performed between July 1, 2002 and December 31, 2002. The OIG claims that these payments were made for services that did not meet Medicare medical necessity and reimbursement requirements. On December 10, 2006, AMR paid the $1.8 million in alleged overpayments. However, the Company disagreed with the OIG s finding, filed an administrative appeal and on May 15, 2008, received $1.2 million back from Medicare as a result of the successful appeal. The outcome of this appeal did not have an impact on the results of operations of 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.

EmCare entered into a settlement agreement with respect to June Belt, et. al. v. EmCare, Inc. et. al. brought by a number of nurse practitioners and physician assistants under the Fair Labor Standards Act. The suit was filed on February 25, 2003 in the Eastern District of Texas. Pursuant to the settlement agreement, EmCare paid $1.7 million during the first quarter of 2007 in satisfaction of all claims in the lawsuit.

AMR and the City of Stockton, California, are parties to litigation regarding the terms and enforceability of a memorandum of understanding and a related joint venture agreement between the parties to present a joint bid in response to a request for proposals to provide emergency ambulance services in the County of San Joaquin, California. The suit was filed on June 28, 2005, in the United States District Court for the Eastern District of California. The parties were unable to agree on the final terms of a joint bid. AMR has been awarded the San Joaquin contract. While we are unable at this time to estimate the amount of potential damages, we believe that Stockton may claim as damages a portion of our profit on the contract or the profit Stockton might have realized had the joint venture proceeded.

7. Restructuring Charges

The Company restructured certain billing functions of AMR and operations in the Los Angeles, California market during the first quarter of 2007 and recorded a restructuring charge of $2.2 million. This restructuring charge included $0.2 million in lease termination and exit costs and $2.0 million related to termination benefits.

8. Equity Based Compensation

The Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004) *Share-Based Payment* (SFAS 123R) on January 1, 2006 using the prospective transition method. The 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. Options with similar provisions were granted to non-employee directors. The Company recorded a compensation charge of $431 and $300 for the three months ended June 30, 2008 and 2007, respectively, and $862 and $600 for the six months ended June 30, 2008 and 2007, respectively.

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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 following annual stockholder meeting. In connection with this plan, the Company granted 4,145 and 2,705 RSUs per director in 2008 and 2007, respectively, and expensed $100 for each of the three month periods ended June 30, 2008 and 2007 and $200 for each of the six month periods ended June 30, 2008 and 2007.

Long-Term Incentive Plan

The Company s original Long-Term Incentive Plan was approved by stockholders in May 2007 and an Amended and Restated 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 under the Plan to key employees during the six months ended June 30, 2008 under the Plan. The options permit employees to purchase a total of 132,250 shares of class A common stock at a weighted average exercise price of $28.78 per share, vest and become exercisable ratably over a period of 4 years from the date of grant and have a maximum term of ten years.

The Company recorded a compensation charge of $31 during the three months ended June 30, 2008 and $62 for the six months ended June 30, 2008 in connection with the Plan.

Stock Purchase Plan/Employee Stock Purchase Plan

During the first quarter of 2008, the Company commenced an offering of its class A common stock to eligible employees and independent contractors associated with the Company and its subsidiaries pursuant to a Stock Purchase Plan and the Company s Employee Stock Purchase Plan (together, the SPPs). The purchases of stock under the SPPs will occur in September 2008 at a 5% discount to the closing price of the Company s class A common stock on September 15, 2008, and as such no compensation charge has been recorded for the SPPs during the six months ended June 30, 2008.

9. Segment Information

The Company is organized around two separately managed business units: healthcare transportation services and emergency management 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 emergency management services reportable segment provides outsourced business services to hospitals primarily for emergency departments, urgent care centers and for certain inpatient departments. 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* (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 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.

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	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Healthcare Transportation Services				
Revenue	$ 323,672	$ 295,304	$ 649,988	$ 603,412
Segment Adjusted EBITDA	25,976	23,364	54,374	48,309
Emergency Management Services				
Revenue	247,407	221,408	486,877	436,619
Segment Adjusted EBITDA	29,545	29,060	55,559	58,373
Total				
Total revenue	571,079	516,712	1,136,865	1,040,031
Total Adjusted EBITDA	55,521	52,424	109,933	106,682
Reconciliation of Adjusted EBITDA to Net Income				
Adjusted EBITDA	$ 55,521	$ 52,424	$ 109,933	$ 106,682
Depreciation and amortization expense	(17,446)	(17,577)	(35,163)	(34,356)
Interest expense	(10,354)	(11,395)	(20,270)	(22,629)
Realized gain on investments	1,571	22	2,243	59
Interest and other income	287	532	589	1,189
Income tax expense	(11,348)	(9,012)	(22,032)	(19,474)
Equity in earnings of unconsolidated subsidiary	104	101	54	255
Net income	$ 18,335	$ 15,095	$ 35,354	$ 31,726

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

	For the six months ended June 30, 2008	For the six months ended June 30, 2007
Adjusted EBITDA	$ 109,933	$ 106,682
Interest paid	(19,164)	(21,609)
Change in accounts receivable	(13,752)	(63,934)
Change in other operating assets/liabilities	(22,081)	(3,718)
Equity based compensation	1,124	800
Other	(681)	1,059
Cash flows provided by operating activities	$ 55,379	$ 19,280

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. (f/k/a EMSC Management, 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

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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:

Consolidating Statement of Operations

For the three months ended June 30, 2008

	EMSC	EMS LP	Issuer AMR HoldCo, Inc.	Issuer EmCare HoldCo, Inc.	Subsidiary Guarantors	Subsidiary Non-Guarantor	Eliminations/ Adjustments	Total
Net revenue	$	$	$	$	$ 571,079	$ 7,952	$ (7,952)	$ 571,079
Compensation and benefits								