

Emergency Medical Services CORP
Form 10-Q
May 13, 2013
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended March 31, 2013

Or

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

For the transition period from to

Commission file number:

001-32701

EMERGENCY MEDICAL SERVICES CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

20-3738384

(IRS Employer
Identification Number)

6200 S. Syracuse Way, Suite 200

Greenwood Village, CO

(Address of principal executive offices)

80111

(Zip Code)

Registrant's 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 No

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). Yes 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

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange act). Yes No

The registrant is a privately held corporation, and its common stock is not publicly traded. Shares of common stock outstanding at May 10, 2013 1,000. All of our outstanding stock was held at such date by CDRT Acquisition Corporation, our sole stockholder.

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(unaudited; in thousands)

	Quarter ended March 31,	
	2013	2012
Revenue, net of contractual discounts	\$ 1,605,248	\$ 1,407,790
Provision for uncompensated care	(716,924)	(601,496)
Net revenue	888,324	806,294
Compensation and benefits	641,789	565,865
Operating expenses	100,383	107,581
Insurance expense	25,833	24,890
Selling, general and administrative expenses	21,998	18,993
Depreciation and amortization expense	34,755	30,490
Restructuring charges	637	5,979
Income from operations	62,929	52,496
Interest income from restricted assets	366	287
Interest expense	(40,290)	(43,452)
Realized gain on investments	13	298
Interest and other (expense) income	(12,721)	162
Loss on early debt extinguishment	(122)	
Income from operations before income taxes, equity in earnings of unconsolidated subsidiary and noncontrolling interest	10,175	9,791
Income tax expense	(7,134)	(4,238)
Income from operations before equity in earnings of unconsolidated subsidiary and noncontrolling interest	3,041	5,553
Equity in earnings of unconsolidated subsidiary	75	109
Net loss attributable to noncontrolling interest		130
Net income attributable to Emergency Medical Services Corporation	3,116	5,792
Other comprehensive income, net of tax:		
Unrealized holding (losses) gains during the period	(436)	42
Unrealized losses on derivative financial instruments	(298)	(11)
Comprehensive income	\$ 2,382	\$ 5,823

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

Table of Contents**EMERGENCY MEDICAL SERVICES CORPORATION****CONSOLIDATED BALANCE SHEETS**

(in thousands, except share and per share data)

	March 31, 2013 (Unaudited)	December 31 2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 79,851	\$ 57,551
Insurance collateral	21,416	24,481
Trade and other accounts receivable, net	665,303	625,413
Parts and supplies inventory	22,100	22,050
Prepays and other current assets	26,226	23,514
Total current assets	814,896	753,009
Non-current assets:		
Property, plant and equipment, net	186,604	191,864
Intangible assets, net	549,505	564,218
Insurance collateral	18,672	20,760
Goodwill	2,416,739	2,413,632
Other long-term assets	83,157	85,857
Total assets	\$ 4,069,573	\$ 4,029,340
Liabilities and Equity		
Current liabilities:		
Accounts payable	\$ 58,740	\$ 53,792
Accrued liabilities	398,806	387,430
Current deferred tax liabilities	24,817	23,568
Current portion of long-term debt	12,277	12,282
Total current liabilities	494,640	477,072
Long-term debt	2,231,550	2,209,923
Long-term deferred tax liabilities	156,850	156,850
Insurance reserves and other long-term liabilities	206,487	209,593
Total liabilities	3,089,527	3,053,438
Equity:		
Common stock (\$0.01 par value; 1,000 shares authorized, issued and outstanding as of March 31, 2013 and December 31, 2012)		
Treasury stock at cost	(415)	(381)
Additional paid-in capital	910,284	908,488
Retained earnings	64,594	61,478
Accumulated other comprehensive loss	(947)	(213)
Total Emergency Medical Services Corporation equity	973,516	969,372
Noncontrolling interest	6,530	6,530
Total equity	980,046	975,902
Total liabilities and equity	\$ 4,069,573	\$ 4,029,340

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)**

	Quarter ended March 31,	
	2013	2012
Cash Flows from Operating Activities		
Net income	\$ 3,116	\$ 5,792
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	38,372	34,724
Loss on disposal of property, plant and equipment	39	4
Equity-based compensation expense	1,062	1,062
Excess tax benefits from equity-based compensation	(8)	
Loss on early debt extinguishment	122	
Equity in earnings of unconsolidated subsidiary	(75)	(109)
Noncontrolling interest in earnings		(130)
Dividends received	556	611
Deferred income taxes	(740)	100
Changes in operating assets/liabilities, net of acquisitions:		
Trade and other accounts receivable	(41,351)	(35,347)
Parts and supplies inventory	(50)	(49)
Prepays and other current assets	(2,548)	272
Accounts payable and accrued liabilities	12,294	46,049
Insurance accruals	(4,218)	(2,929)
Net cash provided by operating activities	6,571	50,050
Cash Flows from Investing Activities		
Purchases of property, plant and equipment	(10,493)	(12,710)
Proceeds from sale of property, plant and equipment	197	73
Acquisition of businesses, net of cash received	(1,423)	(1,000)
Net change in insurance collateral	7,651	54,527
Other investing activities	(702)	(2,805)
Net cash (used in) provided by investing activities	(4,770)	38,085
Cash Flows from Financing Activities		
EMSC issuance of class A common stock	691	
Borrowings under senior secured term loan facility	150,000	
Borrowings under ABL credit facility	45,000	
Repayments of ABL credit facility and other debt	(173,672)	(3,649)
Debt issue costs	(4,411)	(95)
Proceeds from noncontrolling interest		2,704
Excess tax benefits from equity-based compensation	8	
Net change in bank overdrafts	2,883	8,243
Net cash provided by financing activities	20,499	7,203
Change in cash and cash equivalents	22,300	95,338
Cash and cash equivalents, beginning of period	57,551	134,023
Cash and cash equivalents, end of period	\$ 79,851	\$ 229,361

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, the consolidated financial statements include all normal recurring adjustments necessary for a fair presentation of the periods presented. Operating results for interim periods are not necessarily indicative of the results that may be expected for the full year ending December 31, 2013. 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 year ended December 31, 2012.

On May 25, 2011, EMSC was acquired through a merger transaction (*Merger*) by investment funds (the *CD&R Affiliates*) sponsored by, or affiliated with, Clayton, Dubilier & Rice, LLC (*CD&R*). As a result of the Merger, EMSC became a wholly-owned subsidiary of CDRT Acquisition Corporation, which is a wholly-owned subsidiary of CDRT Holding Corporation (*Holding*), and the *Company*'s stock ceased to be traded on the New York Stock Exchange. The *Company* applied purchase accounting to the opening balance sheet and results of operations on May 25, 2011.

The *Company* and *Holding* are party to a consulting agreement with CD&R (the *Consulting Agreement*), pursuant to which CD&R provides *Holding* and its subsidiaries, including the *Company*, with financial, investment banking, management, advisory and other services in exchange for an annual fee of \$5.0 million. The *Company* expensed \$1.25 million during the quarters ended March 31, 2013 and 2012 in respect of this fee.

The *Company*'s business is conducted primarily through two operating subsidiaries, EmCare Holdings Inc. (*EmCare*), its facility-based physician services segment, and American Medical Response, Inc. (*AMR*), its medical transportation services segment.

2. Summary of Significant Accounting Policies

Consolidation

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

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 collateral also includes a receivable from insurers of \$1.6 million as of March 31, 2013 and December 31, 2012 for liabilities in excess of our self-insured retention.

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 liability programs for both EmCare and AMR. In those instances where the Company has obtained third-party insurance coverage, the Company normally retains liability for the first \$1 to \$3 million of the loss. Insurance reserves cover known claims and incidents within the level of Company retention

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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. Claims, other than general liability claims, are discounted at a rate of 1.5%. General liability claims are not discounted.

The Company's most recent actuarial valuation was completed in March 2013. As a result of this and previous actuarial valuations, the Company recorded a decrease in its provisions for insurance liabilities of \$1.2 million during the quarter ended March 31, 2013 compared to a decrease of \$0.4 million during the quarter ended March 31, 2012 related to reserves for losses in prior years.

The long-term portion of insurance reserves was \$185.9 million and \$189.4 million as of March 31, 2013 and December 31, 2012, 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, which relates principally to receivables recorded for self-pay patients, when it is probable the receivable will not be recovered. Write-offs to the contractual allowance occur when payment is received. The Company's accounts receivable and allowances are as follows:

	March 31, 2013	December 31, 2012
Gross trade accounts receivable	\$ 3,268,241	\$ 3,085,758
Allowance for contractual discounts	1,680,170	1,619,488
Allowance for uncompensated care	923,699	841,754
Net trade accounts receivable	664,372	624,516
Other receivables, net	931	897
Net accounts receivable	\$ 665,303	\$ 625,413

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

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

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adjustment necessary for an overage or deficit in these allowances based on actual collections is recorded through a revenue adjustment in the current period.

AMR contractual allowances are determined primarily 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.

Business Combinations

Assets and liabilities of an acquired business are recorded at their fair values at the date of acquisition. The excess of the acquisition consideration over the estimated fair values is recorded as goodwill. All acquisition costs are expensed as incurred. While the Company uses its best estimates and assumptions as a part of the acquisition consideration allocation process to accurately value assets acquired and liabilities assumed at the acquisition date, the estimates are inherently uncertain and subject to refinement. As a result, during the measurement period the Company may record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. Upon the conclusion of the measurement period any subsequent adjustments are recorded as expense.

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Fee-for-service revenue is recognized at the time of service and is recorded net of provisions for contractual discounts and estimated uncompensated care. Fee-for-service revenue represents billings for services provided to patients, for which the Company receives payment from the patient or their third-party payor. Provisions for contractual discounts are related to differences between gross charges and specific payor, including governmental, reimbursement schedules. Subsidy and fee revenue primarily represent hospital subsidies and fees at EmCare and fees for stand-by, special event and community subsidies at AMR. Provisions for estimated uncompensated care, or bad debt expense, are related principally to the number of self-pay patients treated in the period and are based primarily on historical collection experience to reduce revenues net of contractual discounts to the estimated amounts the Company expects to collect.

Net revenue for the quarters ended March 31, 2013 and 2012 consisted of the following:

	Quarter ended March 31,	
	2013	2012
Fee-for-service revenue, net of contractuals:		
Medicare	\$ 233,874	\$ 192,710
Medicaid	51,214	46,110
Commercial insurance and managed care	560,191	502,099
Self-pay	629,256	528,545
Sub-total	1,474,535	1,269,464
Subsidies and fees	130,713	138,326
Revenue, net of contractuals	1,605,248	1,407,790
Provision for uncompensated care	(716,924)	(601,496)
Net revenue	\$ 888,324	\$ 806,294

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 payment 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. Revenue is recognized on an estimated basis in the period in which related services are rendered. As a result, there is a reasonable possibility that recorded estimates will change materially in the short-term. Such amounts, including adjustments between provisions for contractual discounts and uncompensated care, are adjusted in future periods, as adjustments become known. These adjustments were less than 1% of net revenue for the quarters ended March 31, 2013 and 2012.

The Company 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 care regardless of their ability to pay. Services to these patients are not considered to be charity care and provisions for uncompensated care for these services are estimated accordingly.

Fair Value Measurement

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The Company classifies its financial instruments that are reported at fair value based on a hierarchical 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. The Company does not adjust the quoted price for these assets or liabilities, which include investments held in connection with the Company's captive insurance program.

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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. Balances in this category include fixed income mortgage backed securities, corporate bonds, and derivatives.

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. Balances in this category include the Company's estimate, using a combination of internal and external fair value analyses, of contingent consideration for acquisitions made in prior periods.

The following table summarizes the valuation of EMSC's financial instruments by the above fair value hierarchy levels as of March 31, 2013 and December 31, 2012:

Description	March 31, 2013				December 31, 2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Securities	\$ 22,773	\$ 775	\$	\$ 23,548	\$ 22,870	\$ 788	\$	\$ 23,658
Fuel hedge	\$	\$ 808	\$	\$ 808	\$	\$ 631	\$	\$ 631
Liabilities:								
Contingent consideration								
contingent consideration	\$	\$	\$ 9,401	\$ 9,401	\$	\$	\$ 4,401	\$ 4,401
Interest rate swap	\$	\$ 4,178	\$	\$ 4,178	\$	\$ 4,586	\$	\$ 4,586

The contingent consideration balance classified as a level 3 liability has increased by \$5.0 million since December 31, 2012 due to recent acquisitions.

Recent Accounting Pronouncements

In February 2013, the FASB issued Accounting Standards Update No. 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* (ASU 2013-02) to improve the reporting of reclassifications out of accumulated other comprehensive income (AOCI).

ASU 2013-2 requires the following:

- present separately for each component of other comprehensive income, current period reclassifications out of accumulated other comprehensive income and other amounts of current-period other comprehensive income; and

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- separately provide information about the effects on net income of significant amounts reclassified out of each component of accumulated other comprehensive income if those amounts all are required to be reclassified to net income in their entirety in the same reporting period.

The Company adopted this new guidance effective January 1, 2013 by adding disclosure in Note 7, *Changes in Accumulated Other Comprehensive Income by Component*.

3. Acquisitions

During the three months ended March 31, 2013, the Company made purchase price allocation adjustments related to the acquisitions of Guardian Healthcare Group, Inc., the management services companies of NightRays, P.A (NightRays), and Saint Vincent Anesthesia Medical Group, Inc./Golden State Anesthesia Consultants, Inc. These adjustments included reclassifications from goodwill to intangible assets for NightRays of \$4.5 million and other adjustments to opening balances for assets and liabilities.

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Accrued liabilities were as follows at March 31, 2013 and December 31, 2012:

	March 31, 2013	December 31, 2012
Accrued wages and benefits	\$ 144,065	\$ 136,334
Accrued paid time-off	26,685	25,626
Current portion of self-insurance reserves	48,509	49,224
Accrued restructuring	5,336	12,318
Current portion of compliance and legal	5,178	3,711
Accrued billing and collection fees	4,879	4,945
Accrued incentive compensation	18,525	22,274
Accrued interest	29,662	7,889
Accrued income taxes	13,552	19,487
Transaction related liabilities	51,934	41,826
Other	50,481	63,796
Total accrued liabilities	\$ 398,806	\$ 387,430

5. Long-Term Debt

Long-term debt and capital leases consisted of the following at March 31, 2013 and December 31, 2012:

	March 31, 2013	December 31, 2012
Senior unsecured notes due 2019	\$ 950,000	\$ 950,000
Senior unsecured notes purchased by EMSC subsidiary	(15,000)	(15,000)
Senior secured term loan due 2018 (4.00% at March 31, 2013)	1,307,559	1,160,609
ABL Facility		125,000
Notes due at various dates from 2013 to 2022 with interest rates from 6% to 10%	846	1,149
Capital lease obligations due at various dates from 2013 to 2018	422	447
	2,243,827	2,222,205
Less current portion	(12,277)	(12,282)
Total long-term debt	\$ 2,231,550	\$ 2,209,923

On February 7, 2013, EMSC entered into a First Amendment (the "Term Loan Amendment") to the credit agreement dated as of May 25, 2011. Under the Term Loan Amendment, the Company incurred an additional \$150.0 million in incremental borrowings under the Term Loan Facility, the proceeds of which were used to pay down the Company's ABL Facility. In addition, the rate at which the loans under the Term Loan Credit Agreement bear interest was amended to equal (i) the higher of (x) the rate for deposits in U.S. dollars in the London interbank market (adjusted for maximum reserves) for the applicable interest period (LIBOR) and (y) 1.00%, plus, in each case, 3.00% (with a step-down to 2.75% in the event that the Company meets a consolidated first lien net leverage ratio of 2.50:1.00), or (ii) the alternate base rate, which will be the highest of (w) the corporate base rate established by the administrative agent from time to time, (x) 0.50% in excess of the overnight federal funds rate, (y) the one-month LIBOR (adjusted for maximum reserves) plus 1.00% and (z) 2.00%, plus, in each case, 2.00% (with a step-down to 1.75% in

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the event that the Company meets a consolidated first lien net leverage ratio of 2.50:1.00). The Company wrote off \$0.1 million of unamortized debt issuance costs as a result of this modification.

On February 27, 2013, EMSC entered into a First Amendment (the ABL Amendment) to the credit agreement governing the ABL Facility, under which EMSC increased its commitments under the ABL Facility to \$450.0 million. In addition, the rate at which the loans under the ABL Credit Agreement bear interest was amended to equal (i) LIBOR plus, (x) 2.00% in the event that average daily excess availability is less than or equal to 33% of availability, (y) 1.75% in the event that average daily excess availability is greater than 33% but less than or equal to 66% of availability and (z) 1.50% in the event that average daily excess availability is greater than 66% of availability, or (ii) the alternate base rate, which will be the highest of (x) the corporate base rate established by the administrative agent from time to time, (y) 0.50% in excess of the overnight federal funds rate and (z) the one-month LIBOR (adjusted for maximum reserves) plus 1.00% plus, in each case, (A) 1.00% in the event that average daily excess availability is less than or equal to 33% of availability, (B) 0.75% in the event that average daily excess availability is greater than 33% but less than or equal to 66% of availability and (C) 0.50% in the event that average daily excess availability is greater than 66% of availability.

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The Company recorded \$4.4 million of debt issuance expense related to these amendments.

During the second quarter of 2012, EMSC's captive insurance subsidiary purchased and currently holds \$15.0 million of the Company's senior unsecured notes through an open market transaction.

6. Derivative Instruments and Hedging Activities

The Company manages its exposure to changes in fuel prices and interest rates and, from time to time, uses highly effective derivative instruments to manage well-defined 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 use derivative instruments for speculative purposes.

At March 31, 2013, the Company was party to a series of fuel hedge transactions with a major financial institution under one master agreement. Each of the transactions effectively fixes the cost of diesel fuel at prices ranging from \$3.62 to \$4.02 per gallon. The Company purchases the diesel fuel at the market rate and periodically settles with its counterparty for the difference between the national average price for the period published by the Department of Energy and the agreed upon fixed price. The transactions fix the price for a total of 5.2 million gallons, which represents approximately 29.5% of the Company's total estimated usage during the periods hedged, and are spread over periods from April 2013 through December 2014. As of March 31, 2013, the Company recorded, as a component of other comprehensive income before applicable tax impacts, an asset associated with the fair value of the fuel hedge in the amount of \$0.8 million, compared to \$0.6 million as of December 31, 2012. Settlement of hedge agreements are included in operating expenses and resulted in net receipts from the counterparty of \$0.2 million for the quarter ended March 31, 2013 and \$0.4 million for the quarter ended March 31, 2012. Over the next 12 months, the Company expects to reclassify \$0.5 million of deferred gain from accumulated comprehensive income as the related fuel hedge transactions mature.

In October 2011, the Company entered into interest rate swap agreements which mature on August 31, 2015. The swap agreements are with major financial institutions and effectively convert a total of \$400 million in variable rate debt to fixed rate debt with an effective rate of 5.74%. The Company will continue to make interest payments based on the variable rate associated with the debt (based on LIBOR, but not less than 1.0%) and will periodically settle with its counterparties for the difference between the rate paid and the fixed rate. The Company recorded, as a component of other comprehensive income before applicable tax impacts, a liability associated with the fair value of the interest rate swap in the amount of \$4.2 million as of March 31, 2013, compared to \$4.6 million as of December 31, 2012. Over the next 12 months, the Company expects to reclassify \$2.0 million of deferred loss from accumulated other comprehensive income to interest expense as the related interest rate swap transactions mature. Settlement of interest rate swap agreements are included in interest expense and resulted in net payments to the counterparties of \$0.5 million for the quarter ended March 31, 2013. There were no payments made or received under these hedge agreements during the quarter ended March 31, 2012.

7. Changes in Accumulated Other Comprehensive Income by Component

The following table summarizes the changes in the Company's AOCI by component for the quarter ended March 31, 2013. All amounts are after tax.

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	Fuel hedge	Interest rate swap	Unrealized holding gains on available-for-sale securities	Total
Balance as of December 31, 2012	\$ 1,057	\$ (2,861)	\$ 1,591	\$ (213)
Other comprehensive income before reclassifications	(431)	(52)	(428)	(911)
Amounts reclassified from accumulated other comprehensive income	(122)	307	(8)	177
Net current-period other comprehensive income	(553)	255	(436)	(734)
Balance as of March 31, 2013	\$ 504	\$ (2,606)	\$ 1,155	\$ (947)

The following table shows the line item on the Statement of Operations affected by reclassifications out of AOCI.

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Details about AOCI components	Amount reclassified from AOCI	Affected line item on the Statement of Operations
Gains and losses on cash flow hedges		
Fuel hedge	\$ 195	Operating expenses
Interest rate swap	(491)	Interest expense
	(296)	Total before tax
	111	Tax benefit
	\$ (185)	Net of tax
Unrealized holding gains on available-for-sale securities		
	\$ 13	Realized gain on investments
	13	Total before tax
	(5)	Tax expense
	\$ 8	Net of tax

8. Restructuring Charges

The Company recorded restructuring charges of \$0.6 million and \$6.0 million during the three months ended March 31, 2013 and 2012, respectively, related to continuing efforts to re-align AMR's operations and the reorganization of EmCare's geographic regions. Payments currently under this plan are expected to be complete by September 2013. The accrued restructuring liability as of March 31, 2013 of \$5.3 million includes accruals on restructuring plans from prior years in addition to the 2012 plan outlined below.

	Lease & Other Contract Termination Costs	2012 Plan	
		Severance	Total
Incurring	\$ 5,000	\$ 979	\$ 5,979
Paid		(101)	(101)
Balance as of March 31, 2012	5,000	878	5,878
Incurring	901	7,206	8,107
Paid	(136)	(4,026)	(4,162)
Adjustment	530		530
Balance as of December 31, 2012	6,295	4,058	10,353
Incurring	(73)	710	637
Paid	(5,594)	(1,463)	(7,057)
Balance as of March 31, 2013	\$ 628	\$ 3,305	\$ 3,933

9. Commitments and Contingencies*Lease Commitments*

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

The Company also leases certain 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.

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

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demand letters for documents to assist the government agencies 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 below, management believes that the outcome of any of these investigations would not have a material adverse effect on the Company.

Like other ambulance companies, AMR has provided discounts to its healthcare facility customers (nursing homes and hospitals) in certain circumstances. The Company has attempted to comply with applicable law where such discounts are provided. During the first quarter of fiscal 2004, the Company 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 medical necessity 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 Statute were provided by AMR in exchange for referrals involving Medicare eligible patients. In connection with the third issue, the government alleged that certain of AMR's hospital and nursing home contracts in effect in Texas in periods prior to 2002 contained discounts in violation of the federal Anti-Kickback Statute. The Company negotiated a settlement with the government pursuant to which the Company paid \$9 million and obtained a release of all claims related to such conduct alleged to have occurred in Texas in periods prior to 2002. In connection with the settlement, AMR entered into a Corporate Integrity Agreement (CIA) which was effective for a period of five years beginning September 12, 2006, and which was released in February 2012.

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 produced documents responsive to the subpoena. The government identified claims for reimbursement that the government believes lack support for the level billed, and invited the Company to respond to the identified areas of concern. The Company reviewed the information provided by the government and provided its response. On May 20, 2011, AMR entered into a settlement agreement with the DOJ and a CIA with the Office of Inspector General of the Department of Health and Human Services (OIG) in connection with this matter. Under the terms of the settlement, AMR paid \$2.7 million to the federal government. In connection with the settlement, the Company entered into a CIA with a five-year period beginning May 20, 2011. Pursuant to this CIA, the Company is required to maintain a compliance program, which includes, among other elements, the appointment of a compliance officer and committee, training of employees nationwide, safeguards for its billing operations as they relate to services provided in New York, including specific training for operations and billing personnel providing services in New York, review by an independent review organization and reporting of certain reportable events. The Company entered into the settlement in order to avoid the uncertainties of litigation, and has not admitted any wrongdoing.

In July 2011, AMR received a subpoena from the Civil Division of the U.S. Attorney's Office for the Central District of California (USAO) seeking certain documents concerning AMR's provision of ambulance services within the City of Riverside, California. The USAO indicated that it, together with the OIG, was investigating whether AMR violated the federal False Claims Act and/or the federal Anti-Kickback Statute in connection with AMR's provision of ambulance transport services within the City of Riverside. The California Attorney General's Office conducted a parallel state investigation for possible violations of the California False Claims Act. In December 2012, AMR was notified that both investigations were concluded and that the agencies had closed the matter. There were no findings made against AMR, and the closure of the matter did not require any payments from AMR.

Other Legal Matters

Four 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; 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, and on March 11, 2010, Melanie Aguilar

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filed suit in Superior Court of the State of California, County of Los Angeles. The Banta, Aguilar and Karapetian cases have been coordinated in the Superior Court for 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 overtime charges pursuant to California law, and failed to provide required meal breaks, rest breaks or pay premium compensation for missed breaks. Plaintiffs are seeking to certify the classes and are seeking lost wages, punitive damages, attorneys' fees and other sanctions permitted under California law for violations of wage hour laws. We are unable at this time to estimate the amount of potential damages, if any.

Merion Capital, L.P. (Merion), a former stockholder of EMSC, filed an action in the Delaware Court of Chancery seeking to exercise its right to appraisal of its holdings in EMSC prior to the Merger. As of March 31, 2013, the Company

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has recorded a reserve in the amount of \$51.9 million. During the quarter ended March 31, 2013, the Company expensed \$8.4 million of legal settlement costs and \$1.7 million of interest. On April 15, 2013, the Company paid \$52.1 million, including interest through the settlement date, in a settlement of Merion's appraisal action, in which Merion agreed to release its claims against the Company.

On August 7, 2012, EmCare received a subpoena from the OIG. The subpoena requests copies of documents for the period from January 1, 2007 through the present and appears to primarily be focused on EmCare's contracts for services at hospitals that are affiliated with Health Management Associates, Inc. (HMA). The Company intends to cooperate with the government during its investigation and, as such, is in the process of gathering responsive documents, formulating a written response to the subpoena and is seeking to engage in a meaningful dialogue with the relevant government representatives. At this time, the Company is unable to determine the potential impact, if any, that will result from this investigation.

On February 5, 2013, AMR's Air Ambulance Specialists, Inc. subsidiary received a subpoena from the Federal Aviation Administration relating to its operations as an indirect air carrier and its relationships with Part 135 direct air carriers. The Company intends to cooperate with the government during its investigation and, as such, is in the process of gathering responsive documents, formulating a written response to the subpoena and is seeking to engage in a meaningful dialogue with the relevant government representatives. At this time, the Company is unable to determine the potential impact, if any, that will result from this investigation.

On February 14, 2013, EmCare received a subpoena from the OIG requesting documents in connection with EmCare's arrangements with Community Health Services, Inc. (CHS) requesting information related to EmCare's relationship with CHS. The Company intends to cooperate with the government during its investigation. At this time, the Company is unable to determine the potential impact, if any, that will result from this investigation.

The Company is involved in other litigation arising in the ordinary course of business. Management believes the outcome of these legal proceedings will not have a material adverse impact on its financial condition, results of operations or liquidity.

10. Equity Based Compensation

Holding established a stock compensation plan after the Merger whereby certain members of management, officers and directors were awarded stock options in Holding. These options have a \$34.31 strike price, which was reduced from the original strike price of \$64.00 in connection with a dividend paid by Holding in October 2012. They vest ratably through December 2015 and have a maximum term of 10 years. A compensation charge of \$1.1 million and \$1.1 million was recorded for shares vested during the quarters ended March 31, 2013 and 2012, respectively.

Our external directors have elected to receive part of their director fees in the form of restricted stock units (RSUs). As of March 31, 2013, the Company had granted 3,945 RSUs based on a market price of \$64.00 per share, 789 RSUs based on a market price of \$80.00 per share and 2,694 RSUs based on a market price of \$50.31 per share as annual director fees. The RSUs are fully vested when granted.

11. Variable Interest Entities

GAAP requires the assets, liabilities, noncontrolling interests and activities of Variable Interest Entities (VIEs) to be consolidated if an entity s interest in the VIE has specific characteristics including: voting rights not proportional to ownership and the right to receive a majority of expected income or absorb a majority of expected losses. In addition, the entity exposed to the majority of the risks and rewards associated with the VIE is deemed its primary beneficiary and must consolidate the entity.

EmCare entered into an agreement in 2011 with an indirect wholly-owned subsidiary of HCA Holdings Inc. to form an entity which would provide physician services to various healthcare facilities (HCA-EmCare JV). HCA-EmCare JV began providing services to healthcare facilities during the first quarter of 2012 and meets the definition of a VIE. The Company determined that, although EmCare only holds 50% voting control, EmCare is the primary beneficiary and must consolidate this VIE because:

- EmCare provides management services to HCA-EmCare JV including recruiting, credentialing, scheduling, billing, payroll, accounting and other various administrative services and therefore substantially all of HCA-EmCare JV s activities involve EmCare; and

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- as payment for management services, EmCare is entitled to receive a base management fee from HCA-EmCare JV as well as a bonus management fee.

The following is a summary of the HCA-EmCare JV assets and liabilities as of March 31, 2013 and December 31, 2012, which are included in the consolidated financial statements.

	March 31, 2013	December 31, 2012
Current assets	\$ 46,663,339	\$ 33,141,502
Current liabilities	30,718,349	20,081,084

12. Segment Information

The Company is organized around two separately managed business units: outsourced facility-based physician services and medical transportation services, which have been identified as operating segments. The facility-based physician services reportable segment provides physician services to hospitals primarily for emergency departments and urgent care centers, as well as for hospitalist/inpatient, radiology, teleradiology, anesthesiology and surgery services. The medical 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 Chief Executive Officer has been identified as the chief operating decision maker (CODM) as he assesses the performance of the business units and decides how to allocate resources to the business units.

Net income attributable to EMSC before equity in earnings of unconsolidated subsidiary, income tax expense, interest and other (expense) income, loss on early debt extinguishment, realized gain (loss) on investments, interest expense, equity-based compensation, related party management fees, restructuring charges, depreciation and amortization expense, and net loss attributable to noncontrolling interest (Adjusted EBITDA) is the measure of profit and loss that the CODM uses to assess performance, measure liquidity and make decisions. The Company modified the definition of Adjusted EBITDA following the Merger. The accounting policies for reported segments are the same as for the Company as a whole.

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The following tables present the Company's operating segment results for the quarters ended March 31, 2013 and 2012:

	Quarter ended March 31,	
	2013	2012
Facility-Based Physician Services		
Net revenue	\$ 554,936	\$ 449,004
Segment Adjusted EBITDA	66,160	56,714
Medical Transportation Services		
Net revenue	333,388	357,290
Segment Adjusted EBITDA	34,839	34,850
Total		
Total net revenue	888,324	806,294
Total Adjusted EBITDA	100,999	91,564
Reconciliation of Adjusted EBITDA to Net Income		
Adjusted EBITDA	\$ 100,999	\$ 91,564
Depreciation and amortization expense	(34,755)	(30,490)
Restructuring charges	(637)	(5,979)
Equity-based compensation expense	(1,062)	(1,062)
Related party management fees	(1,250)	(1,250)
Interest expense	(40,290)	(43,452)
Realized gain on investments	13	298
Interest and other (expense) income	(12,721)	162
Loss on early debt extinguishment	(122)	
Income tax expense	(7,134)	(4,238)
Equity in earnings of unconsolidated subsidiary	75	109
Net loss attributable to noncontrolling interest		130
Net income attributable to EMSC	\$ 3,116	\$ 5,792

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

	Quarter ended March 31,	
	2013	2012
Adjusted EBITDA	\$ 100,999	\$ 91,564
Related party management fees	(1,250)	(1,250)
Restructuring charges	(637)	(5,979)
Interest expense (less deferred loan fee amortization)	(36,636)	(39,215)
Change in accounts receivable	(41,351)	(35,347)
Change in other operating assets/liabilities	5,478	43,343
Excess tax benefits from equity-based compensation	(8)	
Interest and other (expense) income	(12,721)	162
Income tax expense, net of change in deferred taxes	(7,874)	(4,138)
Other	571	910
Cash flows provided by operating activities	\$ 6,571	\$ 50,050

13. Guarantors of Debt

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EMSC is the issuer of the senior unsecured notes and the borrower under the Credit Facilities. The senior unsecured notes and the Credit Facilities are guaranteed by each of EMSC's domestic subsidiaries, except for any subsidiaries subject to regulation as an insurance company, including EMSC's captive insurance subsidiary. All of the operating income and cash flow of EMSC is generated by AMR, EmCare and their subsidiaries. As a result, funds necessary to meet the debt service obligations under the senior unsecured notes and the Credit Facilities 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 and all of its subsidiaries are reflected in the Eliminations/Adjustments column. Separate complete financial statements of EMSC and subsidiary guarantors would not

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provide additional material information that would be useful in assessing the financial composition of EMSC or the subsidiary guarantors.

EMSC's payment obligations under the senior unsecured notes are jointly and severally guaranteed on a senior unsecured basis by the guarantors. Each of the guarantors is wholly owned, directly or indirectly, by EMSC, and all guarantees are full and unconditional. A guarantor will be released from its obligations under its guarantee under certain customary circumstances, including, (i) the sale or disposition of the guarantor, (ii) the release of the guarantor from all of its obligations under all guarantees related to any indebtedness of EMSC, (iii) the merger or consolidation of the guarantor as specified in the indenture governing the senior unsecured notes, (iv) the guarantor becomes an unrestricted subsidiary, (v) the defeasance of EMSC's obligations under the indenture governing the senior unsecured notes or (vi) the payment in full of the principal amount of the senior unsecured notes.

The condensed consolidating financial statements for EMSC, the guarantors and the non-guarantors are as follows:

Consolidating Statements of Operations

	For the quarter ended March 31, 2013				
	EMSC	Subsidiary Guarantors	Subsidiary Non-Guarantor	Eliminations/ Adjustments	Total
Net revenue	\$	\$ 887,846	\$ 18,399	\$ (17,921)	\$ 888,324
Compensation and benefits		641,625	164		641,789
Operating expenses		100,377	6		100,383
Insurance expense		23,909	19,845	(17,921)	25,833
Selling, general and administrative expenses		21,994	4		21,998
Depreciation and amortization expense		34,750	5		34,755
Restructuring charges		637			637
Income from operations		64,554	(1,625)		62,929
Interest (loss) income from restricted assets		(1,492)	1,858		366
Interest expense		(40,290)			(40,290)
Realized (loss) gain on investments		(45)	58		13
Interest and other expense		(12,701)	(20)		(12,721)
Loss on early debt extinguishment		(122)			(122)
Income before taxes, equity in earnings of unconsolidated subsidiary and noncontrolling interest		9,904	271		10,175
Income tax expense		(7,130)	(4)		(7,134)
Income before equity in earnings of unconsolidated subsidiary		2,774	267		3,041
Equity in earnings of unconsolidated subsidiary	3,116		75	(3,116)	75

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Net income (loss)	\$	3,116	\$	2,774	\$	342	\$	(3,116)	\$	3,116
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	For the quarter ended March 31, 2012					
	EMSC	Subsidiary Guarantors	Subsidiary Non-Guarantor	Eliminations/ Adjustments	Total	
Net revenue	\$	\$ 805,844	\$ 19,292	\$ (18,842)	\$	806,294
Compensation and benefits		565,726	139			565,865
Operating expenses		107,579	2			107,581
Insurance expense		24,532	19,200	(18,842)		24,890
Selling, general and administrative expenses		18,971	22			18,993
Depreciation and amortization expense		30,490				30,490
Restructuring charges		5,979				5,979
Income from operations		52,567	(71)			52,496
Interest income from restricted assets		244	43			287
Interest expense		(43,452)				(43,452)
Realized (loss) gain on investments		(4)	302			298
Interest and other income (expense)		316	(154)			162
Income before income taxes		9,671	120			9,791
Income tax expense		(4,235)	(3)			(4,238)
Income before equity in earnings of unconsolidated subsidiaries and noncontrolling interest		5,436	117			5,553
Equity in earnings of unconsolidated subsidiaries	5,792		109	(5,792)		109
Net loss attributable to noncontrolling interest		130				130
Net income attributable to EMSC	\$	5,792	\$ 226	\$ (5,792)	\$	5,792

Table of Contents**Consolidating Balance Sheet**

As of March 31, 2013

	EMSC	Subsidiary Guarantors	Subsidiary Non-Guarantor	Eliminations/ Adjustments	Total
Assets					
Current assets:					
Cash and cash equivalents	\$	\$ 22,596	\$ 72,255	\$ (15,000)	\$ 79,851
Insurance collateral		5,708	15,708		21,416
Trade and other accounts receivable, net		663,676	3,264	(1,637)	665,303
Parts and supplies inventory		22,095	5		22,100
Prepays and other current assets		26,215	11		26,226
Current deferred tax assets			3,515	(3,515)	
Current assets		740,290	94,758	(20,152)	814,896
Non-current assets:					
Property, plant, and equipment, net		186,604			186,604
Intercompany receivable	2,289,512		9,607	(2,299,119)	
Intangible assets, net		549,505			549,505
Non-current deferred tax assets			1,369	(1,369)	
Insurance collateral		75,211	3,403	(59,942)	18,672
Goodwill		2,419,720		(2,981)	2,416,739
Other long-term assets	84,538		1,098	(2,479)	83,157
Investment and advances in subsidiaries	932,955	3,824		(936,779)	
Assets	\$ 3,307,005	\$ 3,975,154	\$ 110,235	\$ (3,322,821)	\$ 4,069,573
Liabilities and Equity					
Current liabilities:					
Accounts payable	\$	\$ 58,486	\$ 254	\$	\$ 58,740
Accrued liabilities	78,019	309,146	15,018	(3,377)	398,806
Current deferred tax liabilities		28,332		(3,515)	24,817
Current portion of long-term debt	11,871	406			12,277
Current liabilities	89,890	396,370	15,272	(6,892)	494,640
Long-term debt	2,245,395	1,155		(15,000)	2,231,550
Long-term deferred tax liabilities		160,214		(3,364)	156,850
Insurance reserves and other long-term liabilities		178,811	91,139	(63,463)	206,487
Intercompany payable		2,299,119		(2,299,119)	
Liabilities	2,335,285	3,035,669	106,411	(2,387,838)	3,089,527
Equity:					