

Emergency Medical Services L.P.  
Form 10-Q  
May 04, 2007

**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, 2007

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 numbers:

001-32701

333-127115

**EMERGENCY MEDICAL SERVICES CORPORATION**  
**EMERGENCY MEDICAL SERVICES L.P.**

(Exact name of Registrants as Specified in their Charters)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**20-3738384**  
**20-2076535**  
(IRS Employer  
Identification Numbers)

**6200 S. Syracuse Way, Suite 200**  
**Greenwood Village, CO**  
(Address of principal executive offices)

**80111**  
(Zip Code)

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

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

**Not applicable**

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

Shares of class A common stock outstanding at May 1, 2007 9,288,848; shares of class B common stock outstanding at May 1, 2007 142,545;  
LP exchangeable units outstanding at May 1, 2007 32,107,500.

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**EMERGENCY MEDICAL SERVICES CORPORATION**

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**ON FORM 10-Q**

**FOR THE THREE MONTHS ENDED**

**MARCH 31, 2007**

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## EMERGENCY MEDICAL SERVICES CORPORATION

## PART I. FINANCIAL INFORMATION

## FOR THE THREE MONTHS ENDED

MARCH 31, 2007

## ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

## Emergency Medical Services Corporation

## Statements of Operations and Comprehensive Income

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

|  | Quarter ended March 31, |            |
|--|-------------------------|------------|
|  | 2007                    | 2006       |
| Net revenue  | \$ 523,319              | \$ 469,124 |
| Compensation and benefits  | 354,932                 | 326,047    |
| Operating expenses   | 79,996                  | 66,454     |
| Insurance expense  | 18,586                  | 22,907     |
| Selling, general and administrative expenses                                   | 13,305                  | 14,839     |
| Depreciation and amortization expense  | 16,779                  | 15,844     |
| Restructuring charges  | 2,242                   |            |
| Income from operations   | 37,479                  | 23,033     |
| Interest expense   | (11,234 )               | (11,292 )  |
| Realized gain (loss) on investments  | 37                      | (219 )     |
| Interest and other income  | 657                     | 352        |
| Income before income taxes and equity in earnings of unconsolidated subsidiary | 26,939                  | 11,874     |
| Income tax expense   | (10,462 )               | (4,628 )   |
| Income before equity in earnings of unconsolidated subsidiary                  | 16,477                  | 7,246      |
| Equity in earnings of unconsolidated subsidiary                                | 154                     | 15         |
| Net income   | 16,631                  | 7,261      |
| Other comprehensive income, net of tax:  |                         |            |
| Unrealized holding gains (losses) during the period                            | 298                     | (570 )     |
| Comprehensive income   | \$ 16,929               | \$ 6,691   |
| Basic net income per common share  | \$ 0.40                 | \$ 0.17    |
| Diluted net income per common share  | \$ 0.39                 | \$ 0.17    |
| Weighted average common shares outstanding, basic                              | 41,521,155              | 41,497,230 |
| Weighted average common shares outstanding, diluted                            | 43,029,039              | 42,397,898 |

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

## Emergency Medical Services Corporation

## Consolidated Balance Sheets

(in thousands, except share and per share data)

|   | March 31,<br>2007<br>(Unaudited) | December 31,<br>2006<br>(Audited) |
|---|----------------------------------|-----------------------------------|
| <b>Assets</b>   |                                  |                                   |
| Current assets:   |                                  |                                   |
| Cash and cash equivalents   | \$ 29,832                        | \$ 39,336                         |
| Insurance collateral  | 33,073                           | 29,724                            |
| Trade and other accounts receivable, net  | 444,601                          | 416,450                           |
| Parts and supplies inventory  | 18,102                           | 18,089                            |
| Prepays and other current assets  | 22,376                           | 16,417                            |
| Current deferred tax assets   | 49,591                           | 12,473                            |
| Total current assets  | 597,575                          | 532,489                           |
| Non-current assets:   |                                  |                                   |
| Property, plant and equipment, net  | 149,754                          | 147,162                           |
| Intangible assets, net  | 64,563                           | 66,789                            |
| Non-current deferred tax assets   | 103,209                          | 103,370                           |
| Insurance collateral  | 161,058                          | 163,300                           |
| Goodwill  | 274,669                          | 272,328                           |
| Other long-term assets  | 29,007                           | 32,779                            |
| Total assets  | \$ 1,379,835                     | \$ 1,318,217                      |
| <b>Liabilities and Equity</b>   |                                  |                                   |
| Current liabilities:  |                                  |                                   |
| Accounts payable  | \$ 63,042                        | \$ 65,172                         |
| Accrued liabilities   | 217,658                          | 231,631                           |
| Current portion of long-term debt   | 4,594                            | 4,159                             |
| Total current liabilities   | 285,294                          | 300,962                           |
| Long-term debt  | 480,886                          | 475,616                           |
| Insurance reserves and other long-term liabilities  | 210,113                          | 155,599                           |
| Total liabilities   | 976,293                          | 932,177                           |
| 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, 9,288,848 and 9,262,853 issued and outstanding in 2007 and 2006, respectively) | 93                               | 93                                |
| Class B common stock (\$0.01 par value; 40,000,000 shares authorized, 142,545 issued and outstanding in 2007 and 2006)                                | 1                                | 1                                 |
| Class B special voting stock (\$0.01 par value; 1 share authorized, issued and outstanding in 2007 and 2006)  |                                  |                                   |
| LP exchangeable units (32,107,500 shares issued and outstanding in 2007 and 2006)   | 212,361                          | 212,361                           |
| Additional paid-in capital  | 115,044                          | 114,471                           |
| Retained earnings   | 75,769                           | 59,138                            |
| Accumulated other comprehensive income (loss)   | 274                              | (24)                              |
| Total equity  | 403,542                          | 386,040                           |
| Total liabilities and equity  | \$ 1,379,835                     | \$ 1,318,217                      |

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



## Emergency Medical Services Corporation

## Statements of Cash Flows

(unaudited; in thousands)

|   | Quarter ended March 31, |           |
|---|-------------------------|-----------|
|   | 2007                    | 2006      |
| <b>Cash Flows from Operating Activities</b>   |                         |           |
| Net income  | \$ 16,631               | \$ 7,261  |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: |                         |           |
| Depreciation and amortization   | 17,268                  | 16,387    |
| Gain on disposal of property, plant and equipment   | (11 )                   | (47 )     |
| Equity-based compensation expense   | 400                     | 300       |
| Equity in earnings of unconsolidated subsidiary   | (154 )                  | (15 )     |
| Dividends received  | 416                     |           |
| Deferred income taxes   | 10,637                  | 4,244     |
| Changes in operating assets/liabilities, net of acquisitions:                               |                         |           |
| Trade and other accounts receivable   | (28,151 )               | 19,978    |
| Parts and supplies inventory  | (13 )                   | (77 )     |
| Prepays and other current assets  | (5,959 )                | (10,612 ) |
| Accounts payable and accrued liabilities  | (19,934 )               | (8,102 )  |
| Insurance accruals  | 5,024                   | 7,459     |
| Net cash (used in) provided by operating activities   | (3,846 )                | 36,776    |
| <b>Cash Flows from Investing Activities</b>   |                         |           |
| Purchases of property, plant and equipment  | (8,321 )                | (13,010 ) |
| Proceeds from sale of property, plant and equipment   | 125                     | 110       |
| Insurance collateral  | (910 )                  | (5,632 )  |
| Other investing activities  | 3,021                   | (757 )    |
| Net cash used in investing activities   | (6,085 )                | (19,289 ) |
| <b>Cash Flows from Financing Activities</b>   |                         |           |
| EMSC issuance of class A common stock   | 173                     |           |
| EMSC equity issuance costs  |                         | (822 )    |
| Repayments of capital lease obligations and other debt                                      | (2,333 )                | (1,986 )  |
| Increase in bank overdrafts   | 2,587                   | 6,114     |
| Net cash provided by financing activities   | 427                     | 3,306     |
| Change in cash and cash equivalents   | (9,504 )                | 20,793    |
| Cash and cash equivalents, beginning of period  | 39,336                  | 18,048    |
| Cash and cash equivalents, end of period  | \$ 29,832               | \$ 38,841 |
| <b>Non-cash Activities</b>  |                         |           |
| Re-financing of equipment under existing capital lease                                      | \$ 8,038                | \$        |

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

**Emergency Medical Services Corporation**

**Notes to Unaudited 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 month period ended March 31, 2007 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2007. For further information, see the Company s consolidated financial statements, including the accounting policies and notes thereto, included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

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 months ended March 31, 2007 and 2006, the Company expensed \$250 in respect of this fee.

**2. Summary of Significant Accounting Policies**

***Consolidation***

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

***Use of Estimates***

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

***Insurance***

Insurance collateral is comprised principally of government and investment grade securities and cash deposits with third parties and supports the Company s insurance program and reserves. Certain of these investments, if sold or otherwise liquidated, would have to be replaced by other suitable financial assurances and are, therefore, considered restricted. Investment income/loss earned on these investments is reported as a component of insurance expense in the statements of operations.

Insurance reserves are established for automobile, workers compensation, general liability and professional liability claims utilizing policies with both fully-insured and self-insured components. This includes the use of an off-shore captive insurance program through a wholly-owned subsidiary for certain professional liability (malpractice) programs for EmCare. In those instances where the Company has obtained third-party insurance coverage, the Company 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.



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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.

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The Company's most recent actuarial valuation was completed in March 2007. As a result of this actuarial valuation, in the three months ended March 31, 2007 the Company recorded a reduction in its provision for insurance liabilities of approximately \$5.2 million related to its reserves for losses in prior years. No reductions of prior year insurance provisions were recorded during the same period in 2006.

The long-term portion of insurance reserves were \$154.1 million and \$150.0 million as of March 31, 2007 and December 31, 2006, 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.

### ***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 gross revenue less contractual discount provisions, are as follows for the three months ended March 31:

|  | 2007    | 2006    |
|--|---------|---------|
| Gross revenue                              | 100.0 % | 100.0 % |
| Provision for contractual discounts        | 42.4 %  | 43.1 %  |
| Provision for estimated uncompensated care | 19.5 %  | 18.2 %  |
| After contractual provisions               | 33.8 %  | 32.0 %  |

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 are adjusted in future periods, as adjustments become known. Retroactive adjustments recorded in the first quarter, which increased revenue, were 2.8% of consolidated net revenue for the three months ended March 31, 2007 compared to 1.1% of consolidated net revenue for the three months ended March 31, 2006.

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 22.7% 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



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special voting stock, at all stockholder meetings at which holders of the Company's class B common stock or class B special voting stock are entitled to vote.

In the EMS LP partnership agreement, the Company has agreed to maintain the economic equivalency of the LP exchangeable units and the class B common stock, and the holders of the LP exchangeable units have no general voting rights. The LP exchangeable units, when considered with the class B special voting stock, have the same rights, privileges and characteristics of the Company's class B common stock. The LP exchangeable units are intended to be economically equivalent to the class B common stock of the Company in that the LP exchangeable units carry the right to vote (by virtue of the class B special voting stock) with the holders of class B common stock as 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**

On January 1, 2007, the Company adopted the recognition and disclosure provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* (FIN 48). This interpretation addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. FIN 48 also provides guidance on derecognition, classification, interest and penalties on income taxes, and accounting in interim periods.

As a result of the implementation of FIN 48 at January 1, 2007, the Company recorded a \$49.0 million liability with an offsetting increase to net current deferred tax assets.

In accordance with the Company's accounting policy, EMSC recognized accrued interest and penalties related to unrecognized tax benefits as a component of tax expense, which is consistent with the recognition of these items in prior reporting periods. As of January 1, 2007, the Company recorded a liability of approximately \$4.8 million and \$6.1 million for interest and penalties, respectively. The liability for interest and penalties did not materially change as of March 31, 2007.

With limited exception, the Company is no longer subject to U.S. federal, state, and local income tax audits by taxing authorities for years through 2002.

### **3. Accrued Liabilities**

Accrued liabilities were as follows at March 31, 2007 and December 31, 2006:

|  | March 31, 2007 | December 31, 2006 |
|--|----------------|-------------------|
| Accrued wages and benefits                 | \$ 70,771      | \$ 71,578         |
| Accrued paid time-off                      | 23,459         | 22,816            |
| Current portion of self-insurance reserves | 58,373         | 57,596            |
| Accrued restructuring                      | 6,204          | 5,738             |
| Current portion of compliance and legal    | 3,503          | 4,910             |
| Accrued billing and collection fees        | 5,352          | 5,085             |
| Accrued profit sharing                     | 12,584         | 19,695            |
| Accrued interest                           | 5,369          | 11,810            |
| Other                                      | 32,043         | 32,403            |
| Total accrued liabilities                  | \$ 217,658     | \$ 231,631        |



#### 4. Long-Term Debt

Long-term debt consisted of the following at March 31, 2007 and December 31, 2006:

|   | March 31, 2007 |         | December 31, 2006 |         |
|---|----------------|---------|-------------------|---------|
| Senior subordinated notes due 2015 (10%)  | \$             | 250,000 | \$                | 250,000 |
| Senior secured term loan due 2012 (7.38% at March 31, 2007)                     |                | 225,896 |                   | 226,472 |
| Notes due at various dates from 2007 to 2022 with interest rates from 6% to 10% |                | 1,793   |                   | 1,856   |
| Capital lease obligations due at various dates from 2007 to 2010 (see note 5)   |                | 7,791   |                   | 1,447   |
|   |                | 485,480 |                   | 479,775 |
| Less current portion  |                | (4,594) |                   | (4,159) |
| Total long-term debt  | \$             | 480,886 | \$                | 475,616 |

#### 5. Commitments and Contingencies

##### *Lease Commitments*

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

The Company also leases certain vehicles under a capital lease and during the three months ended March 31, 2007 extended the terms of this capital lease for an additional three years. Assets under capital lease are capitalized using inherent interest rates at the inception of each lease. Capital leases are collateralized by the leased vehicles.

##### *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 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 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.

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 disagrees with the OIG's finding and has filed an administrative appeal. If AMR is successful in the administrative appeal the Company may be entitled to repayment of all or part of the \$1.8 million.

##### *Other Legal Matters*

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 has paid \$1.7 million during the three months ended March 31, 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.

## 6. 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.

## 7. 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.

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 \$300 for each of the three months ended March 31, 2007 and 2006.

In June 2006, the board of directors adopted an equity compensation program for non-employee directors of the Company, other than the Chair of the Compliance Committee ( Directors' Plan ). Non-employee directors were granted 8,000 Restricted Stock Units ( RSUs ) on June 1, 2006, each RSU representing one share of the Company's class A common stock. Immediately following each annual stockholder meeting, each non-employee director will 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 Directors' Plan allows directors to defer income from the grant of RSUs. The RSUs vest immediately prior to the election of directors at the next following annual stockholder meeting, and will be paid in shares of the Company's class A common stock (one share for each RSU). Each non-employee director (other than the Chair of the Compliance Committee) is also entitled to an annual cash retainer of \$50 to be paid in four quarterly installments. The Directors' Plan and RSU grants on June 1, 2006 are both subject to stockholder approval at the 2007 annual stockholder meeting. In connection with this plan, the Company expensed \$100 in the three months ended March 31, 2007.

## 8. 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. Pre-tax income from continuing operations before interest, taxes and depreciation and amortization ( EBITDA ) is the measure of profit and loss that the CODM uses to assess performance and make decisions. The accounting policies for reported segments are the same as for the Company as a whole.



|   | Quarter ended March, 31, |            |
|---|--------------------------|------------|
|   | 2007                     | 2006       |
| <b>Healthcare Transportation Services</b>       |                          |            |
| Revenue   | \$ 308,108               | \$ 295,312 |
| Segment EBITDA                                  | 24,945                   | 23,159     |
| <b>Emergency Management Services</b>            |                          |            |
| Revenue   | 215,211                  | 173,812    |
| Segment EBITDA                                  | 29,313                   | 15,718     |
| <b>Total</b>                                    |                          |            |
| Total revenue                                   | 523,319                  | 469,124    |
| Total EBITDA                                    | 54,258                   | 38,877     |
| <b>Reconciliation of EBITDA to Net Income</b>   |                          |            |
| EBITDA  | \$ 54,258                | \$ 38,877  |
| Depreciation and amortization expense           | (16,779 )                | (15,844 )  |
| Interest expense                                | (11,234 )                | (11,292 )  |
| Realized gain (loss) on investments             | 37                       | (219 )     |
| Interest and other income                       | 657                      | 352        |
| Income tax expense                              | (10,462 )                | (4,628 )   |
| Equity in earnings of unconsolidated subsidiary | 154                      | 15         |
| Net income                                      | \$ 16,631                | \$ 7,261   |

## 9. 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 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 and combining 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 March 31, 2007**

|   | EMSC      | EMS LP    | Issuer<br>AMR<br>HoldCo, Inc. | Issuer<br>EmCare<br>HoldCo, Inc. | Subsidiary<br>Guarantors | Subsidiary<br>Non-Guarantor | Eliminations/<br>Adjustments | Total      |
|---|-----------|-----------|-------------------------------|----------------------------------|--------------------------|-----------------------------|------------------------------|------------|
| Net revenue   | \$        | \$        | \$                            | \$                               | \$ 523,319               | \$ 8,640                    | \$ (8,640)                   | \$ 523,319 |
| Compensation and benefits                                       |           |           |                               |                                  | 354,932                  |                             |                              | 354,932    |
| Operating expenses  |           |           |                               |                                  | 79,996                   |                             |                              | 79,996     |
| Insurance expense   |           |           |                               |                                  | 18,549                   | 8,677                       | (8,640)                      | 18,586     |
| Selling, general and administrative expenses                    |           |           |                               |                                  | 13,305                   |                             |                              | 13,305     |
| Depreciation and amortization expense                           |           |           |                               |                                  | 16,779                   |                             |                              | 16,779     |
| Restructuring charge  |           |           |                               |                                  | 2,242                    |                             |                              | 2,242      |
| Income from operations  |           |           |                               |                                  | 37,516                   | (37)                        |                              | 37,479     |
| Interest expense  |           |           |                               |                                  | (11,234)                 |                             |                              | (11,234)   |
| Realized gain on investments                                    |           |           |                               |                                  |                          | 37                          |                              | 37         |
| Interest and other income                                       |           |           |                               |                                  | 657                      |                             |                              | 657        |
| Income before income taxes                                      |           |           |                               |                                  | 26,939                   |                             |                              | 26,939     |
| Income tax expense  |           |           |                               |                                  | (10,462)                 |                             |                              | (10,462)   |
| Income before equity in earnings of unconsolidated subsidiaries |           |           |                               |                                  | 16,477                   |                             |                              | 16,477     |
| Equity in earnings of unconsolidated subsidiaries               | 16,631    | 16,631    | 2,826                         | 13,805                           | 154                      |                             | (49,893)                     | 154        |
| Net income  | \$ 16,631 | \$ 16,631 | \$ 2,826                      | \$ 13,805                        | \$ 16,631                | \$                          | \$ (49,893)                  | \$ 16,631  |

**Consolidating Statement of Operations****For the three months ended March 31, 2006**

|   | EMSC     | EMS LP   | Issuer<br>AMR<br>HoldCo, Inc. | Issuer<br>EmCare<br>HoldCo, Inc. | Subsidiary<br>Guarantors | Subsidiary<br>Non-Guarantor | Eliminations/<br>Adjustments | Total      |
|---|----------|----------|-------------------------------|----------------------------------|--------------------------|-----------------------------|------------------------------|------------|
| Net revenue   | \$       | \$       | \$                            | \$                               | \$ 469,124               | \$ 9,865                    | \$ (9,865)                   | \$ 469,124 |
| Compensation and benefits                                       |          |          |                               |                                  | 326,047                  |                             |                              | 326,047    |
| Operating expenses  |          |          |                               |                                  | 66,454                   |                             |                              | 66,454     |
| Insurance expense   |          |          |                               |                                  | 23,126                   | 9,646                       | (9,865)                      | 22,907     |
| Selling, general and administrative expenses                    |          |          |                               |                                  | 14,839                   |                             |                              | 14,839     |
| Depreciation and amortization expense                           |          |          |                               |                                  | 15,844                   |                             |                              | 15,844     |
| Income from operations  |          |          |                               |                                  | 22,814                   | 219                         |                              | 23,033     |
| Interest expense  |          |          |                               |                                  | (11,292)                 |                             |                              | (11,292)   |
| Realized loss on investments                                    |          |          |                               |                                  |                          | (219)                       |                              | (219)      |
| Interest and other income                                       |          |          |                               |                                  | 352                      |                             |                              | 352        |
| Income before income taxes                                      |          |          |                               |                                  | 11,874                   |                             |                              | 11,874     |
| Income tax expense  |          |          |                               |                                  | (4,628)                  |                             |                              | (4,628)    |
| Income before equity in earnings of unconsolidated subsidiaries |          |          |                               |                                  | 7,246                    |                             |                              | 7,246      |
| Equity in earnings of unconsolidated subsidiaries               | 7,261    | 7,261    | 2,129                         | 5,132                            | 15                       |                             | (21,783)                     | 15         |
| Net income  | \$ 7,261 | \$ 7,261 | \$ 2,129                      | \$ 5,132                         | \$ 7,261                 | \$                          | \$ (21,783)                  | \$ 7,261   |

## Consolidating Balance Sheet

As of March 31, 2007

|   | EMSC       | EMS LP     | Issuer<br>AMR<br>HoldCo, Inc. | Issuer<br>EmCare<br>HoldCo, Inc. | Subsidiary<br>Guarantors | Subsidiary<br>Non-Guarantor | Eliminations/<br>Adjustments | Total        |
|---|------------|------------|-------------------------------|----------------------------------|--------------------------|-----------------------------|------------------------------|--------------|
| <b>Assets</b>                               |            |            |                               |                                  |                          |                             |                              |              |
| Current assets:                             |            |            |                               |                                  |                          |                             |                              |              |
| Cash and cash equivalents                   | \$         | \$         | \$                            | \$                               | \$ 29,234                | \$ 598                      | \$                           | \$ 29,832    |
| Insurance collateral                        |            |            |                               |                                  | 24,153                   | 35,866                      | (26,946)                     | ) 33,073     |
| Trade and other accounts<br>receivable, net |            |            |                               |                                  | 443,605                  | 996                         |                              | 444,601      |
| Parts and supplies inventory                |            |            |                               |                                  | 18,102                   |                             |                              | 18,102       |
| Other current assets                        |            |            |                               |                                  | 18,282                   | 4,689                       | (595)                        | ) 22,376     |
| Current deferred tax assets                 |            |            |                               |                                  | 46,428                   | 3,163                       |                              | 49,591       |
| Current assets                              |            |            |                               |                                  | 579,804                  | 45,312                      | (27,541)                     | ) 597,575    |
| Non-current assets:                         |            |            |                               |                                  |                          |                             |                              |              |
| Property, plant, and equipment,<br>net      |            |            |                               |                                  | 149,754                  |                             |                              | 149,754      |
| Intercompany receivable                     | 973        | 114,165    | 279,320                       | 190,019                          |                          |                             | (584,477)                    | )            |
| Intangible assets, net                      |            |            |                               |                                  | 64,563                   |                             |                              | 64,563       |
| Non-current deferred tax assets             |            |            |                               |                                  | 104,340                  | (1,131)                     | )                            | 103,209      |
| Insurance collateral                        |            |            |                               |                                  | 59,541                   | 101,517                     |                              | 161,058      |
| Goodwill                                    |            |            |                               |                                  | 274,211                  | 458                         |                              | 274,669      |
| Other long-term assets                      |            |            | 8,223                         | 3,717                            | 17,067                   |                             |                              | 29,007       |
| Investment and advances in<br>subsidiaries  | 402,569    | 288,404    | 209,772                       | 78,618                           | 6,994                    |                             | (986,357)                    | )            |
| Assets                                      | \$ 403,542 | \$ 402,569 | \$ 497,315                    | \$ 272,354                       | \$ 1,256,274             | \$ 146,156                  | \$ (1,598,375)               | \$ 1,379,835 |
| <b>Liabilities and Equity</b>               |            |            |                               |                                  |                          |                             |                              |              |
| Current liabilities:                        |            |            |                               |                                  |                          |                             |                              |              |
| Accounts payable                            | \$         | \$         | \$                            | \$                               | \$ 63,042                | \$                          | \$                           | \$ 63,042    |
| Accrued liabilities                         |            |            | 3,175                         | 2,194                            | 182,192                  | 30,097                      |                              | 217,658      |
| Current portion of long-term<br>debt        |            |            | 1,656                         | 744                              | 2,194                    |                             |                              | 4,594        |
| Current liabilities                         |            |            | 4,831                         | 2,938                            | 247,428                  | 30,097                      |                              | 285,294      |
| Long-term debt                              |            |            | 282,712                       | 190,784                          | 7,390                    |                             |                              | 480,886      |
| Other long-term liabilities                 |            |            |                               |                                  | 128,589                  | 109,065                     | (27,541)                     | ) 210,113    |
| Intercompany                                |            |            |                               |                                  | 584,477                  |                             | (584,477)                    | )            |
| Liabilities                                 |            |            | 287,543                       | 193,722                          | 967,884                  | 139,162                     | (612,018)                    | ) 976,293    |
| Equity:                                     |            |            |                               |                                  |                          |                             |                              |              |
| Class A common stock                        | 93         |            |                               |                                  |                          | 30                          | (30)                         | ) 93         |
| Class B common stock                        | 1          |            |                               |                                  |                          |                             |                              | 1            |
| Partnership equity                          | 212,361    | 326,526    | 189,394                       | 22,967                           | 212,361                  |                             | (751,248)                    | ) 212,361    |
| Additional paid-in capital                  | 115,044    |            |                               |                                  |                          | 6,690                       | (6,690)                      | ) 115,044    |
| Retained earnings                           | 75,769     | 75,769     | 20,378                        | 55,391                           | 75,755                   |                             | (227,293)                    | ) 75,769     |
| Comprehensive income (loss)                 | 274        | 274        |                               | 274                              | 274                      | 274                         | (1,096)                      | ) 274        |
| Equity                                      | 403,542    | 402,569    | 209,772                       | 78,632                           | 288,390                  | 6,994                       | (986,357)                    | ) 403,542    |
| Liabilities and Equity                      | \$ 403,542 | \$ 402,569 | \$ 497,315                    | \$ 272,354                       | \$ 1,256,274             | \$ 146,156                  | \$ (1,598,375)               | \$ 1,379,835 |

**Consolidating Balance Sheet**

As of December 31, 2006

|   | EMSC | EMS LP | Issuer<br>AMR<br>HoldCo, Inc. | Issuer<br>EmCare<br>HoldCo, Inc. | Subsidiary<br>Guarantors | Subsidiary<br>Non-Guarantor | Eliminations/<br>Adjustments | Total     |
|---|------|--------|-------------------------------|----------------------------------|--------------------------|-----------------------------|------------------------------|-----------|
| <b>Assets</b>                               |      |        |                               |                                  |                          |                             |                              |           |
| Current assets:                             |      |        |                               |                                  |                          |                             |                              |           |
| Cash and cash equivalents                   | \$   | \$     | \$                            | \$                               | \$ 39,329                | \$ 7                        | \$                           | \$ 39,336 |
| Insurance collateral                        |      |        |                               |                                  | 24,912                   | 4,812                       |                              | 29,724    |
| Trade and other accounts<br>receivable, net |      |        |                               |                                  | 415,290                  | 1,160                       |                              | 416,450   |
| Parts and supplies inventory                |      |        |                               |                                  | 18,089                   |                             |                              | 18,089    |
| Other current assets                        |      |        |                               |                                  | 16,972                   | 394                         | (949)                        | 16,417    |
| Current deferred tax assets                 |      |        |                               |                                  | 9,310                    | 3,163                       |                              | 12,473    |
| Current assets                              |      |        |                               |                                  | 523,902                  | 9,536                       | (949)                        | 532,489   |
| Non-current assets:                         |      |        |                               |                                  |                          |                             |                              |           |
| Property, plant, and equipment, net         |      |        |                               |                                  | 147,162                  |                             |                              | 147,162   |
| Intercompany receivable                     |      |        |                               |                                  |                          |                             |                              |           |