

Emergency Medical Services CORP
Form 10-Q
November 14, 2011
[Table of Contents](#)

**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 September 30, 2011

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)

Edgar Filing: Emergency Medical Services CORP - Form 10-Q

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 November 10, 2011 1,000. All of our outstanding stock was held at such date by CDRT Acquisition Corporation, our sole stockholder.

Table of Contents

INDEX

<u>Part I. Financial Information</u>		3
<u>Item 1.</u>	<u>Financial Statements (unaudited):</u>	3
	<u>Consolidated Statements of Operations and Comprehensive Income for the three months ended September 30, 2011 and for the period from May 25, 2011 through September 30, 2011 for the Successor and for the period from January 1, 2011 through May 24, 2011 and the three and nine months ended September 30, 2010 for the Predecessor</u>	3
	<u>Consolidated Balance Sheets as of September 30, 2011 for the Successor and December 31, 2010 for the Predecessor</u>	5
	<u>Consolidated Statements of Cash Flows for the three months ended September 30, 2011 and for the period from May 25, 2011 through September 30, 2011 for the Successor and for the period from January 1, 2011 through May 24, 2011 and the three and nine months ended September 30, 2010 for the Predecessor</u>	6
	<u>Notes to Consolidated Financial Statements</u>	8
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	28
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	42
<u>Item 4.</u>	<u>Controls and Procedures</u>	43
<u>Part II. Other Information</u>		44
<u>Item 1.</u>	<u>Legal Proceedings</u>	44
<u>Item 1A.</u>	<u>Risk Factors</u>	44
Item 2.	Issuer's Purchase of Equity Securities	
Item 5.	Other Information	
<u>Item 6.</u>	<u>Exhibits</u>	45
<u>Signatures</u>		46

Table of Contents**EMERGENCY MEDICAL SERVICES CORPORATION****PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)****EMERGENCY MEDICAL SERVICES CORPORATION****CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**

(unaudited; in thousands)

	Successor Quarter ended September 30, 2011	Predecessor Quarter ended September 30, 2010
Net revenue	\$ 788,087	\$ 737,180
Compensation and benefits	542,655	523,263
Operating expenses	108,112	91,023
Insurance expense	30,442	25,793
Selling, general and administrative expenses	18,493	17,742
Depreciation and amortization expense	29,966	16,528
Restructuring charges	3,374	
Income from operations	55,045	62,831
Interest income from restricted assets	957	717
Interest expense	(43,745)	(4,856)
Realized gain on investments	30	730
Interest and other (expense) income	(2,480)	277
Income before income taxes and equity in earnings of unconsolidated subsidiary	9,807	59,699
Income tax expense	(4,079)	(22,990)
Income before equity in earnings of unconsolidated subsidiary	5,728	36,709
Equity in earnings of unconsolidated subsidiary	82	53
Net income	5,810	36,762
Other comprehensive (loss) income, net of tax:		
Unrealized holding gains during the period	549	364
Unrealized (losses) gains on derivative financial instruments	(1,075)	330
Comprehensive income	\$ 5,284	\$ 37,456

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

Edgar Filing: Emergency Medical Services CORP - Form 10-Q

Table of Contents

	Successor		Predecessor		
	Period from May 25 through September 30, 2011		Period from January 1 through May 24, 2011		Nine months ended September 30, 2010
Net revenue	\$	1,107,630	\$	1,221,790	\$ 2,125,338
Compensation and benefits		764,459		874,633	1,500,023
Operating expenses		149,968		156,740	268,138
Insurance expense		40,531		47,229	73,805
Selling, general and administrative expenses		25,354		29,241	52,898
Depreciation and amortization expense		41,027		28,467	48,400
Restructuring charges		3,374			
Income from operations		82,917		85,480	182,074
Interest income from restricted assets		1,119		1,124	2,431
Interest expense		(61,695)		(7,886)	(18,182)
Realized gain (loss) on investments		37		(9)	879
Interest and other (expense) income		(2,620)		(28,873)	748
Loss on early debt extinguishment				(10,069)	(19,091)
Income before income taxes and equity in earnings of unconsolidated subsidiary		19,758		39,767	148,859
Income tax expense		(8,237)		(19,242)	(57,355)
Income before equity in earnings of unconsolidated subsidiary		11,521		20,525	91,504
Equity in earnings of unconsolidated subsidiary		115		143	252
Net income		11,636		20,668	91,756
Other comprehensive income (loss), net of tax:					
Unrealized holding gains during the period		409		1,501	1,907
Unrealized (losses) gains on derivative financial instruments		(1,328)		25	245
Comprehensive income	\$	10,717	\$	22,194	\$ 93,908

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)

	Successor September 30, 2011 (Unaudited)	Predecessor December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 133,728	\$ 287,361
Insurance collateral	31,847	33,476
Trade and other accounts receivable, net	519,118	489,658
Parts and supplies inventory	23,647	23,031
Prepays and other current assets	33,970	18,617
Total current assets	742,310	852,143
Non-current assets:		
Property, plant and equipment, net	163,917	133,731
Intangible assets, net	577,111	180,374
Insurance collateral	127,323	136,063
Goodwill	2,294,279	427,405
Other long-term assets	108,496	18,836
Total assets	\$ 4,013,436	\$ 1,748,552
Liabilities and Equity		
Current liabilities:		
Accounts payable	\$ 37,968	\$ 39,581
Accrued liabilities	347,072	259,638
Current deferred tax liabilities	5,998	5,114
Current portion of long-term debt	14,684	16,333
Total current liabilities	405,722	320,666
Long-term debt	2,360,997	404,943
Long-term deferred tax liabilities	145,974	5,971
Insurance reserves and other long-term liabilities	201,248	169,767
Total liabilities	3,113,941	901,347
Equity:		
Preferred stock (\$0.01 par value; 20,000,000 shares authorized in 2010, 0 issued and outstanding)		
Common stock (\$0.01 par value; 1,000 shares authorized, issued and outstanding in 2011)		
Class A common stock (\$0.01 par value; 100,000,000 shares authorized and 30,404,572 issued and outstanding in 2010)		304
Class B common stock (\$0.01 par value; 40,000,000 shares authorized, 65,052 issued and outstanding in 2010)		1
Class B special voting stock (\$0.01 par value; 1 share authorized, issued and outstanding in 2010)		
LP exchangeable units (13,724,676 shares issued and outstanding in 2010)		90,776
Treasury stock at cost (30,778 shares in 2010)		(1,684)
Additional paid-in capital	888,778	305,258
Retained earnings	11,636	450,766
Accumulated other comprehensive (loss) income	(919)	1,784
Total equity	899,495	847,205
Total liabilities and equity	\$ 4,013,436	\$ 1,748,552

Edgar Filing: Emergency Medical Services CORP - Form 10-Q

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)

	Successor Quarter ended September 30, 2011	Predecessor Quarter ended September 30, 2010
Cash Flows from Operating Activities		
Net income	\$ 5,810	\$ 36,762
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	34,002	17,165
Loss on disposal of property, plant and equipment	34	6
Equity-based compensation expense	910	2,042
Excess tax benefits from stock-based compensation		(479)
Equity in earnings of unconsolidated subsidiary	(82)	(53)
Deferred income taxes	60	(1,102)
Changes in operating assets/liabilities, net of acquisitions:		
Trade and other accounts receivable	(5,228)	(10,882)
Parts and supplies inventory	(88)	(231)
Prepays and other current assets	(8,352)	14,487
Accounts payable and accrued liabilities	24,602	799
Insurance accruals	1,851	(3,891)
Net cash provided by operating activities	53,519	54,623
Cash Flows from Investing Activities		
Purchases of property, plant and equipment	(15,818)	(16,199)
Proceeds from sale of property, plant and equipment	111	12
Acquisition of businesses, net of cash received	(75,582)	(183)
Net change in insurance collateral	1,778	(4,140)
Other investing activities	1,846	83
Net cash used in investing activities	(87,665)	(20,427)
Cash Flows from Financing Activities		
EMSC issuance of class A common stock		221
Repayments of capital lease obligations and other debt	(4,152)	(3,275)
Equity issuance costs	(5,682)	
Debt issue costs	(2,833)	(219)
Excess tax benefits from stock-based compensation		479
Class A common stock repurchased as treasury stock		(1,289)
Net change in bank overdrafts	(6,270)	2,570
Net cash used in financing activities	(18,937)	(1,513)
Change in cash and cash equivalents	(53,083)	32,683
Cash and cash equivalents, beginning of period	186,811	313,033
Cash and cash equivalents, end of period	\$ 133,728	\$ 345,716

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

Edgar Filing: Emergency Medical Services CORP - Form 10-Q

Table of Contents

	Successor Period from May 25 through September 30, 2011	Predecessor Period from January 1 through May 24, 2011	Nine months ended September 30, 2010
Cash Flows from Operating Activities			
Net income	\$ 11,636	\$ 20,668	\$ 91,756
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	46,964	29,800	50,173
Loss on disposal of property, plant and equipment	46	39	95
Equity-based compensation expense	1,340	15,112	4,587
Excess tax benefits from stock-based compensation		(12,427)	(13,977)
Loss on early debt extinguishment		10,069	19,091
Equity in earnings of unconsolidated subsidiary	(115)	(143)	(252)
Dividends received		427	403
Deferred income taxes	108	345	(262)
Changes in operating assets/liabilities, net of acquisitions:			
Trade and other accounts receivable	1,874	(10,149)	(30,441)
Parts and supplies inventory	(70)	(116)	(318)
Prepays and other current assets	(5,841)	(8,569)	2,271
Accounts payable and accrued liabilities	26,310	25,337	13,898
Insurance accruals	8,988	(2,418)	2,341
Net cash provided by operating activities	91,240	67,975	139,365
Cash Flows from Investing Activities			
Merger, net of cash received	(2,844,221)		
Purchases of property, plant and equipment	(18,710)	(18,496)	(31,367)
Proceeds from sale of property, plant and equipment	166	55	120
Acquisition of businesses, net of cash received	(80,250)	(94,870)	(51,158)
Net change in insurance collateral	6,320	23,036	(9,401)
Other investing activities	1,584	816	11,021
Net cash used in investing activities	(2,935,111)	(89,459)	(80,785)
Cash Flows from Financing Activities			
EMSC issuance of class A common stock		559	6,414
Borrowings under senior secured credit facility	1,440,000		425,000
Proceeds from issuance of senior subordinated notes	950,000		
Proceeds from CD&R equity investment	887,051		
Repayments of capital lease obligations and other debt	(423,027)	(4,116)	(455,902)
Equity issuance costs	(31,878)		
Debt issue costs	(116,854)		(11,968)
Payment for debt extinguishment premiums			(14,513)
Excess tax benefits from stock-based compensation		12,427	13,977
Class A common stock repurchased as treasury stock		(2,440)	(1,289)
Net change in bank overdrafts	(14,241)	14,241	(7,471)
Net cash provided by (used in) financing activities	2,691,051	20,671	(45,752)
Change in cash and cash equivalents	(152,820)	(813)	12,828
Cash and cash equivalents, beginning of period	286,548	287,361	332,888
Cash and cash equivalents, end of period	\$ 133,728	\$ 286,548	\$ 345,716

Edgar Filing: Emergency Medical Services CORP - Form 10-Q

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

Table of Contents

EMERGENCY MEDICAL SERVICES CORPORATION

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share data)

1. General

Basis of Presentation of Financial Statements

The accompanying interim consolidated financial statements for Emergency Medical Services Corporation (EMSC or the Company) have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim reporting, and accordingly, do not include all of the disclosures required for annual financial statements. 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, 2010.

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 and the Company s stock ceased to be traded on the New York Stock Exchange. In addition, Emergency Medical Services LP, a wholly-owned subsidiary of the Company, ceased to be a reporting entity with the Securities and Exchange Commission. Details of the Merger are more fully discussed in Note 2. The transaction was accounted for as a reverse acquisition by CDRT Acquisition Corporation. Although EMSC continued as the surviving corporation and same legal entity after the Merger, the accompanying consolidated results of operations and cash flows are presented for two periods: the period prior to the merger (Predecessor) and succeeding the Merger (Successor). The Company applied purchase accounting to the opening balance sheet and results of operations on May 25, 2011. The Merger resulted in a new basis of accounting beginning on May 25, 2011 and the financial reporting periods are presented as follows:

- The three month period ended September 30, 2011 is presented on a Successor basis, reflecting the Merger of the Company and the affiliate of CD&R.
- The nine month period ended September 30, 2011 includes the Predecessor period of the Company from January 1, 2011 through May 24, 2011 and the Successor period, reflecting the Merger of the Company and the affiliate of CD&R, from May 25, 2011 through September 30, 2011.
- The 2010 periods presented are on a Predecessor basis. The consolidated financial statements for all Predecessor periods have been prepared using the historical basis of accounting for the Company. As a result of the Merger and the associated purchase accounting, the consolidated financial statements of the Successor are not comparable to periods preceding the Merger.

Edgar Filing: Emergency Medical Services CORP - Form 10-Q

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 ended December 31, 2011.

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. All significant intercompany transactions and balances have been eliminated in consolidation.

Table of Contents

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 \$10.8 million as of September 30, 2011 for liabilities in excess of our self-insured retention. There was no such reinsurance receivable outstanding as of December 31, 2010.

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 \$2 million of the loss. Insurance reserves cover known claims and incidents within the level of Company retention that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from activities through the balance sheet date.

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

The Company's most recent actuarial valuation was completed in September 2011. As a result of this and previous actuarial valuations, the Company recorded increases in its provisions for insurance liabilities for prior year losses of \$5.1 million, \$5.1 million and \$8.2 million during the Successor three months ended September 30, 2011, the Successor period from May 25, 2011 through September 30, 2011 and the Predecessor period from January 1, 2011 through May 24, 2011, respectively. During the Predecessor three months ended September 30, 2010, the Company recorded an increase of \$0.1 million in its provision for insurance liabilities for prior year losses and a total increase of \$0.2 million during the Predecessor nine months ended September 30, 2010.

The long-term portion of insurance reserves was \$180.1 million and \$158.3 million as of September 30, 2011 and December 31, 2010, respectively.

Trade and Other Accounts Receivable, net

Edgar Filing: Emergency Medical Services CORP - Form 10-Q

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:

	Successor September 30, 2011	Predecessor December 31, 2010
Gross trade accounts receivable	\$ 2,289,667	\$ 2,119,854
Allowance for contractual discounts	1,161,212	1,092,188
Allowance for uncompensated care	716,276	629,419
Net trade accounts receivable	412,179	398,247
Other receivables, net	106,939	91,411
Net accounts receivable	\$ 519,118	\$ 489,658

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

Edgar Filing: Emergency Medical Services CORP - Form 10-Q

Table of Contents

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

Effective January 1, 2009, the Company adopted ASC 805, *Business Combinations*, which revised the accounting guidance required to be applied to acquisitions in comparison to prior fiscal years. In accordance with this guidance, the assets and liabilities of an acquired business are recorded at their fair values at the date of acquisition. The excess of the purchase price 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 purchase price 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.

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 are related principally to differences between gross charges and specific payor, including governmental, reimbursement schedules. Provisions for estimated uncompensated care are related principally to the number of self-pay patients treated in the period. Provisions for contractual discounts and estimated uncompensated care as a percentage of gross revenue and as a percentage of gross revenue less provision for contractual discounts are as follows. Predecessor and Successor periods are not disclosed because they are not materially different than the three and nine month periods presented.

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Gross revenue	100.0%	100.0%	100.0%	100.0%
Provision for contractual discounts	53.0%	52.3%	53.4%	52.5%
Revenue net of contractual discounts	47.0%	47.7%	46.6%	47.5%
Provision for uncompensated care as a percentage of gross revenue	19.5%	19.0%	19.0%	18.7%
Provision for uncompensated care as a percentage of gross revenue less contractual discounts	41.4%	39.9%	40.8%	39.3%

Edgar Filing: Emergency Medical Services CORP - Form 10-Q

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 Successor and Predecessor periods.

Edgar Filing: Emergency Medical Services CORP - Form 10-Q

Table of Contents

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 care regardless of their ability to pay. Services to these patients are not considered to be charity care.

Merger

On February 13, 2011, the Company entered into an Agreement and Plan of Merger (*Merger Agreement*) with CDRT Acquisition Corporation, a Delaware corporation (*Parent*), and CDRT Merger Sub, Inc., a Delaware corporation and a wholly-owned subsidiary of Parent (*Sub*). On May 25, 2011, pursuant to the Merger Agreement, Sub merged with and into the Company, with the Company as the surviving entity and a wholly-owned subsidiary of Parent (the *Merger*).

At the time the Merger was effective, each issued and outstanding share of class A common stock and class B common stock (including shares of Class B common stock issued immediately prior to the effective time of the Merger in exchange for the LP exchangeable units of EMS LP, but excluding treasury shares, shares held by Parent or Sub and shares held by stockholders who perfected their appraisal rights), were converted into the right to receive \$64.00 per share in cash, without interest and subject to any applicable withholding taxes. In addition, vesting of stock options, restricted stock, and restricted share units was accelerated upon closing of the Merger. As a result, holders of stock options received cash equal to the intrinsic value of the awards based on a market price of \$64.00 per share while holders of restricted stock and restricted share units received \$64.00 per share in cash, without interest.

The Merger was financed by a combination of borrowings under the Company's new senior secured term loan facility, the issuance of new senior unsecured notes, and the equity investment by the CD&R Affiliates and members of EMSC management. The purchase price was approximately \$3.2 billion including approximately \$149 million in capitalized issuance costs, of which \$108 million are debt issuance costs. The Merger was funded primarily through a \$915 million equity contributions from the CD&R Affiliates and members of EMSC management and \$2.4 billion in debt financing discussed more fully in Note 5.

Preliminary Purchase Price Allocation

The total purchase price was allocated to the Company's net tangible and identifiable intangible assets, including customer relationships, software and trade names, based on their estimated fair values as set forth below. The excess of the purchase price over the net tangible and identifiable intangible assets was recorded as goodwill. Initial adjustments to allocate the purchase price to fixed assets and identifiable intangible assets were recorded in the third quarter of 2011 based on a draft valuation report from a third party valuation firm. The Company expects to finalize its purchase accounting by the end of the first quarter of 2012 with purchase accounting adjustments related primarily to certain tangible assets and deferred tax liabilities.

Property, plant and equipment	\$	159,400
Identifiable intangible assets		589,000
Goodwill		2,233,700
Deferred taxes		(151,600)
Other net assets acquired		341,200

Edgar Filing: Emergency Medical Services CORP - Form 10-Q

Total purchase price \$ 3,171,700

The estimated weighted average useful life associated with definite lived identifiable intangible assets is 8.7 years. Deferred tax liabilities of \$140.2 million were recorded related to the allocation of purchase price to increase the existing value of intangible assets. Goodwill of \$2,233.7 million resulted from the Merger, the majority of which is not deductible for tax purposes. The preliminary allocation of goodwill by segment is as follows (in millions):

EmCare	\$	1,810
AMR		424
	\$	2,234

Goodwill will be reviewed at least annually for impairment.

Table of ContentsMerger and Other Related Costs

During the period from January 1, 2011 through May 24, 2011, the Company recorded \$29.8 million of pretax Merger related costs consisting primarily of investment banking, accounting and legal fees. The Company recorded \$2.5 million of additional merger related costs in the Successor three months ended September 30, 2011. The Company also recognized a pretax charge of \$12.4 million in the Predecessor period related to accelerated vesting of all outstanding unvested stock options, restricted stock awards and restricted stock units including associated payroll taxes and \$10.1 million related to loss on early debt extinguishment.

Unaudited Pro Forma Combined Consolidated Statements of Operations

The following Unaudited Pro Forma Combined Consolidated Statements of Operation reflect the consolidated results of operations of the Company as if the Merger had occurred on January 1, 2011 and 2010. The historical financial information has been adjusted to give effect to events that are (1) directly attributed to the Merger, (2) factually supportable, and (3) with respect to the income statement, expected to have a continuing impact on the combined results. Such items include interest expense related to debt issued in conjunction with the Merger as well as additional amortization expense associated with the preliminary valuation of intangible assets. This unaudited pro forma information should not be relied upon as necessarily being indicative of the historical results that would have been obtained if the Merger had actually occurred on that date, nor of the results that may be obtained in the future.

Unaudited Pro Forma Combined Consolidated Statements of Operation

	Quarter ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Net revenue	\$ 788,087	\$ 737,180	\$ 2,329,420	\$ 2,125,338
Compensation and benefits	542,655	523,263	1,626,661	1,500,023
Operating expenses	108,112	91,023	306,708	268,138
Insurance expense	30,442	25,793	87,760	73,805
Selling, general and administrative expenses	18,431	18,557	55,619	55,342
Depreciation and amortization expense	28,482	28,940	85,306	85,903
Restructuring charges	3,374		3,374	
Income from operations	56,591	49,604	163,992	142,127
Interest income from restricted assets	957	717	2,243	2,431
Interest expense	(43,745)	(43,727)	(128,467)	(128,371)
Realized gains on investments	30	730	28	879
Interest and other income	38	277	857	748
Income before income taxes and equity in earnings of unconsolidated subsidiary	13,871	7,601	38,653	17,814
Income tax expense	(5,769)	(2,927)	(15,268)	(7,037)
Income before equity in earnings of unconsolidated subsidiary	8,102	4,674	23,385	10,777
Equity in earnings of unconsolidated subsidiary	82	53	258	252
Net income	\$ 8,184	\$ 4,727	\$ 23,643	\$ 11,029

Fair Value Measurement

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.

Table of Contents

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 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.

The following table summarizes the valuation of EMSC's financial instruments by the above fair value hierarchy levels as of September 30, 2011:

Description	Total	Level 1	Level 2	Level 3
Assets:				
Securities	\$ 112,773	\$ 100,680	\$ 12,093	\$
Derivatives	\$ 184	\$	\$ 184	\$
Liabilities:				
Contingent consideration	\$ 8,070	\$	\$	\$ 8,070

The contingent consideration balance classified as a level 3 liability decreased by \$12.3 million since December 31, 2010 due to payments made by the Company during the nine months ended September 30, 2011.

Recent Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board (FASB) provided guidance to simplify how entities test goodwill for impairment using a qualitative approach to determine whether or not the traditional two-step impairment test is needed. This update will be effective for the Company's annual impairment test expected to be completed during the third quarter of 2012. Management does not expect adoption of this guidance to have a material effect on the Company's consolidated financial statements and related disclosures.

3. Acquisitions

On August 1, 2011, the Company acquired all the capital stock of Medics Ambulance Service and substantially all of its subsidiaries and corporate affiliates (collectively, Medics Ambulance) through its indirect, wholly-owned subsidiaries. Medics Ambulance provides ground medical transportation services in south Florida. On September 8, 2011, the Company acquired Acute Management, LLC which provides medical practice support and staffing to contracted hospitals in Texas. The total cost of these acquisitions was \$75.0 million, consisting of \$71.0 million paid in cash and the remaining consideration paid in equity. The Company has recorded \$60.8 million of goodwill and \$9.6 million of other gross intangible assets as of September 30, 2011, which amounts are subject to adjustment based upon completion of purchase price allocations.

4. Accrued Liabilities

Accrued liabilities were as follows at September 30, 2011 and December 31, 2010:

	Successor September 30, 2011	Predecessor December 31, 2010
Accrued wages and benefits	\$ 110,721	\$ 103,238
Accrued paid time-off	27,618	24,420
Current portion of self-insurance reserves	56,858	50,064
Accrued restructuring	2,658	160
Current portion of compliance and legal	3,310	5,929
Accrued billing and collection fees	4,430	3,500
Accrued incentive compensation	18,340	21,446
Accrued interest	27,802	979
Accrued income taxes	2,348	
Transaction related liabilities	41,641	
Other	51,346	49,902
Total accrued liabilities	\$ 347,072	\$ 259,638

Table of Contents

5. Long-Term Debt

On May 25, 2011, the Company issued \$950 million of senior unsecured notes and entered into \$1.8 billion of senior secured credit facilities (the Credit Facilities).

The senior unsecured notes have a fixed interest rate of 8.125%, payable semi-annually with the principle due at maturity in 2019. The senior unsecured notes are general unsecured obligations of EMSC and are guaranteed by each of EMSC's domestic subsidiaries, except for any of EMSC's subsidiaries subject to regulation as an insurance company, including EMSC's captive insurance subsidiary.

EMSC may redeem the senior unsecured notes, in whole or in part, at any time prior to June 1, 2014, at a price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date, plus the applicable make-whole premium. EMSC may redeem the senior unsecured notes, in whole or in part, at any time (i) on and after June 1, 2014 and prior to June 1, 2015, at a price equal to 106.094% of the principal amount of the senior unsecured notes, (ii) on or after June 1, 2015 and prior to June 1, 2016, at a price equal to 104.063% of the principal amount of the senior unsecured notes, (iii) on or after June 1, 2016 and prior to June 1, 2017, at a price equal to 102.031% of the principal amount of the senior unsecured notes, and (iv) on or after June 1, 2017, at a price equal to 100.000% of the principal amount of the senior unsecured notes, in each case, plus accrued and unpaid interest, if any, to the redemption date. In addition, at any time prior to June 1, 2014, EMSC may redeem up to 35% of the aggregate principal amount of the senior unsecured notes with the proceeds of certain equity offerings at a redemption price of 108.125%, plus accrued and unpaid interest, if any, to the applicable redemption date.

The indenture governing the senior unsecured notes contains covenants that, among other things, limit EMSC's ability and the ability of its restricted subsidiaries to: incur more indebtedness or issue certain preferred shares; pay dividends, redeem stock or make other distributions; make investments; create restrictions on the ability of EMSC's restricted subsidiaries to pay dividends to EMSC or make other intercompany transfers; create liens; transfer or sell assets; merge or consolidate; enter into certain transactions with affiliates; and designate subsidiaries as unrestricted subsidiaries. Upon the occurrence of certain events constituting a change of control, EMSC is required to make an offer to repurchase all of the senior unsecured notes (unless otherwise redeemed) at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any to the repurchase date. If EMSC sells assets under certain circumstances, it must use the proceeds to make an offer to purchase the senior unsecured notes at a price equal to 100% of their principal amount, plus accrued and unpaid interest, if any, to the date of purchase.

The Credit Facilities consist of a \$1.44 billion senior secured term loan facility (the Term Loan Facility) and a \$350 million asset-based revolving credit facility (the ABL Facility). Loans under the Term Loan Facility bear interest at EMSC's election at a rate equal to (i) the highest of (x) the rate for deposits in U.S. dollars in the London interbank market (adjusted for maximum reserves) for the applicable interest period (Term Loan LIBOR rate) and (y) 1.50%, plus, in each case, 3.75%, or (ii) the 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 Term Loan LIBOR rate (adjusted for maximum reserves) plus 1.00% per annum and (z) 2.50%, plus, in each case, 2.75%.

Loans under the ABL Facility bear interest at EMSC's election at a rate equal to (i) the rate for deposits in U.S. dollars in the London interbank market (adjusted for maximum reserves) for the applicable interest period (ABL LIBOR rate), plus an applicable margin that ranges from 2.25% to 2.75% based on the average available loan commitments, or (ii) the base rate, which is the highest of (x) the corporate base rate established by the administrative agent from time to time, (y) the overnight federal funds rate plus 0.5% and (z) the one-month ABL LIBOR rate plus 1.0% per annum, plus, in each case, an applicable margin that ranges from 1.25% to 1.75% based on the average available loan commitments. The ABL Facility bears a commitment fee that ranges from 0.500% to 0.375%, payable quarterly in arrears, based on the utilization of the ABL Facility.

Edgar Filing: Emergency Medical Services CORP - Form 10-Q

The ABL Facility also bears customary letter of credit fees.

As of September 30, 2011, letters of credit outstanding which impact the available credit under the ABL Facility were \$20.6 million and the maximum available under the ABL Facility was \$329.4 million. There were no borrowings under the ABL Facility as of September 30, 2011.

The Term Loan Facility contains customary representations and warranties and customary affirmative and negative covenants. The negative covenants are limited to the following: limitations on the incurrence of debt, liens, fundamental changes, restrictions on subsidiary distributions, transactions with affiliates, further negative pledge, asset sales, restricted

Table of Contents

payments, investments and acquisitions, repayment of certain junior debt (including the senior notes) or amendments of junior debt documents related thereto and line of business. The negative covenants are subject to the customary exceptions.

The ABL Facility contains customary representations and warranties and customary affirmative and negative covenants. The negative covenants are limited to the following: limitations on indebtedness, dividends and distributions, investments, acquisitions, prepayments or redemptions of junior indebtedness, amendments of junior indebtedness, transactions with affiliates, asset sales, mergers, consolidations and sales of all or substantially all assets, liens, negative pledge clauses, changes in fiscal periods, changes in line of business and hedging transactions. The negative covenants are subject to the customary exceptions and also permit the payment of dividends and distributions, investments, permitted acquisitions and payments or redemptions of junior indebtedness upon satisfaction of a payment condition. The payment condition is deemed satisfied upon 30-day average excess availability exceeding agreed upon thresholds and, in certain cases, the absence of specified events of default and pro forma compliance with a fixed charge coverage ratio of 1.0 to 1.0.

In conjunction with completing the financing under the new credit facilities, the Company repaid the balance outstanding on the previous senior secured term loan. During the Predecessor period ended May 24, 2011, the Company recorded a loss on early debt extinguishment of \$10.1 million related to unamortized debt issuance costs.

Long-term debt and capital leases consisted of the following at September 30, 2011 and December 31, 2010:

	Successor September 30, 2011	Predecessor December 31, 2010
Senior subordinated unsecured notes due 2019	\$ 950,000	\$
Senior secured term loan due 2018 (5.25% at September 30, 2011)	1,424,348	
Senior secured term loan due 2015		419,688
Notes due at various dates from 2011 to 2022 with interest rates from 6% to 10%	700	832
Capital lease obligations due at various dates from 2011 to 2018	633	756
	2,375,681	421,276
Less current portion	(14,684)	(16,333)
Total long-term debt	\$ 2,360,997	\$ 404,943

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 September 30, 2011, 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 \$3.17 to \$4.06 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 3.9 million

Edgar Filing: Emergency Medical Services CORP - Form 10-Q

gallons, which represents approximately 16% of the Company's total estimated annual usage, and are spread over periods from October 2011 through December 2013. As of September 30, 2011, 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 \$0.2 million, compared to \$1.7 million as of December 31, 2010. Settlement of hedge agreements resulted in net payments to the counterparty of \$0.6 million for the three months ended September 30, 2011, \$0.9 million for the Successor period from May 25, 2011 through September 30, 2011, \$1.0 million for the Predecessor period from January 1, 2011 through May 24, 2011 and net receipts from the counterparty of \$0.1 million during each of the three and nine months ended September 30, 2010.

7. Restructuring Charges

As part of a plan to re-align the operations and billing functions of AMR and EmCare, and to reduce overhead costs at EMSC, the Company recorded a restructuring charge of \$3.4 million during the three months ended September 30, 2011. Payments under this plan are expected to be complete by 2014. The activity in the accrued restructuring balance related to the 2011 plan is as follows:

Table of Contents

	Lease	AMR Severance	2011 Plan EmCare Severance	EMSC Severance	Total
Incurred	\$ 1,520	\$ 1,082	\$ 108	\$ 664	\$ 3,374
Paid	(53)	(537)	(74)	(196)	(860)
September 30, 2011	\$ 1,467	\$ 545	\$ 34	\$ 468	\$ 2,514

8. 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 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.

Other Legal Matters

In December 2006, AMR received a subpoena from the Department of Justice (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 corporate integrity agreement (CIA) with the 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,

Edgar Filing: Emergency Medical Services CORP - Form 10-Q

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 have not admitted any wrongdoing.

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 filed suit in Superior Court of the State of California, County of Los Angeles. The Banta and Karapetian cases have been coordinated with the Bartoni case in the Superior Court for the State of California, County of Alameda. 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 or pay premium compensation for missed meal breaks. Plaintiffs are seeking to certify

Table of Contents

the classes and are seeking lost wages, punitive damages, attorneys' fees and other sanctions permitted under California law for violations of wage hour laws. The Company is unable at this time to estimate the amount of potential damages, if any.

Eleven purported shareholder class actions relating to the transactions contemplated by the Merger Agreement described in Note 2 herein have been filed in state court in Delaware and federal and state courts in Colorado against various combinations of the Company, the members of the Company's board of directors, and other parties. Seven actions were filed in the Delaware Court of Chancery beginning on February 22, 2011, which were consolidated into one action entitled *In re Emergency Medical Services Corporation Shareholder Litigation*, Consolidated C.A. No. 6248-VCS. On April 4, 2011, the Delaware plaintiffs filed their consolidated class action complaint. Two actions, entitled *Scott A. Halliday v. Emergency Medical Services Corporation, et al.*, Case No. 2011CV316 (filed on February 15, 2011), and *Alma C. Howell v. William Sanger, et al.*, Case No. 2011CV488 (filed on March 1, 2011), were filed in the District Court, Arapahoe County, Colorado. Two other actions, entitled *Michael Wooten v. Emergency Medical Services Corporation, et al.*, Case No. 11-CV-00412 (filed on February 17, 2011), and *Neal Greenberg v. Emergency Medical Services Corporation, et al.*, Case No. 11-CV-00496 (filed on February 28, 2011), were filed in the U.S. District Court for the District of Colorado and have been consolidated. These actions generally allege that the directors of the Company, Onex Corporation and/or Onex Corporation's subsidiaries breached their fiduciary duties by, among other things: approving the transactions contemplated by the Merger Agreement, which allegedly were financially unfair to the Company and its public stockholders; agreeing to provisions in the Merger Agreement that would allegedly prevent the board from considering other offers; permitting the unitholders agreement (which secured the majority votes in favor of the Merger) and failing to require a provision in the Merger Agreement requiring that a majority of the public stockholders approve the transactions contemplated by the Merger Agreement; and/or making allegedly materially inadequate disclosures. These actions further allege that certain other defendants aided and abetted these breaches. In addition, the two actions filed in the U.S. District Court for the District of Colorado contain individual claims brought under Section 14(a) and Section 20(a) of the Securities Exchange Act of 1934, as amended, pertaining to the purported dissemination of allegedly misleading proxy materials. These actions seek unspecified damages and equitable relief. The Company has reached an agreement in principle to resolve these suits, and believes that resolution will be approved by the Courts in early 2012.

In addition to the foregoing shareholder class actions, Merion Capital, L.P., a former stockholder of the Company, has filed an action in the Delaware Court of Chancery seeking to exercise its right to appraisal of its holdings in the Company prior to the Merger. Merion Capital was the holder of 599,000 shares of class A common stock in the Company prior to the Merger. The Company has not paid any merger consideration for these shares and has recorded a reserve in the amount of \$38.3 million for such unpaid merger consideration pending conclusion of the appraisal action.

In July 2011, AMR received a request from the Civil Division of the U.S. Attorney's Office for the Central District of California (USAO) asking AMR to preserve certain documents concerning AMR's provision of ambulance services within the City of Riverside, California. The USAO indicated that it, together with the Department of Health and Human Services, Office of the Inspector General, are 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 is conducting a parallel state investigation for possible violations of the California False Claims Act. The Company has complied with the USAO's request to preserve documents. In October 2011, the USAO served AMR with a subpoena compelling production of certain documents, and AMR is in the process of complying with the USAO's subpoena.

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 effect on its financial condition, results of operations or liquidity.

9. Equity Based Compensation

Successor Equity Plans

Management of EMSC was allowed to rollover stock options of the Predecessor into fully vested options of the Successor. In addition, EMSC established a stock compensation plan after the Merger whereby certain members of management were awarded stock options in the Successor Company. The stock options are valued using the Black-Scholes valuation model on the date of grant. These options have a \$64.00 strike price and vest ratably through December 2015. A compensation charge of \$0.9 million and \$1.3 million was recorded for the three months ended September 30, 2011 and the Successor period from May 25, 2011 through September 30, 2011, respectively.

Table of Contents

In August 2011, the non-employee directors of the Company, other than the Chairman of the Board, were given the option to defer a portion of their director fees and receive it in the form of Restricted Stock Units (RSUs). As of September 30, 2011, the Company granted 562 RSUs based on a market price of \$64.00 per share.

Predecessor Equity Plans

For a detailed description of the Company's pre-merger stock compensation plans, refer to Note 11 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

Total stock-based compensation expense recognized in the Consolidated Statements of Operations resulting from stock options, non-vested restricted stock awards and non-vested restricted stock units was \$15.1 million for the Predecessor period from January 1, 2011 through May 24, 2011 and \$2.0 million and \$4.6 million for the three and nine months ended September 30, 2010, respectively. Included in the Predecessor period from January 1, 2011 through May 24, 2011 is \$11.7 million of stock-based compensation expense and \$0.7 million of payroll tax expense due to the accelerated vesting of stock options, restricted stock awards and restricted stock units as the result of change in control provisions upon closing of the Merger.

As discussed in Note 2, vesting of stock options, restricted stock awards and restricted stock units was accelerated upon closing of the Merger. As a result, holders of stock options received cash equal to the intrinsic value of the awards based on a market price of \$64.00 per share while holders of restricted stock awards and restricted stock units received \$64.00 per share in cash, without interest and the associated options and restricted stock were cancelled.

10. Related Party Transactions

Upon completion of the Merger, the Company and CDRT Holding Corporation (Holding), the Company's indirect parent company, entered into a consulting agreement with CD&R, dated May 25, 2011 (the Consulting Agreement), pursuant to which CD&R will provide Holding and its subsidiaries, including the Company, with financial, investment banking, management, advisory and other services. Pursuant to the consulting agreement, Holding, or one or more of its subsidiaries, will pay CD&R an annual fee of \$5 million, plus expenses. CD&R may also charge a transaction fee for certain types of transactions completed by Holding or one or more of its subsidiaries, plus expenses. The Company expensed \$1.3 million and \$1.8 million in respect of this fee during the three months ended September 30, 2011 and the Successor period from May 25, 2011 through September 30, 2011, respectively.

Pursuant to the Consulting Agreement, CD&R received a transaction fee of \$40.0 million and \$2.6 million for out-of-pocket and consulting expenses to third-parties CD&R paid prior to the closing of the Merger. This amount was capitalized as part of the Merger and has been allocated between deferred financing costs, which is included in other long-term assets, and equity on the accompanying balance sheet as of September 30, 2011.

Edgar Filing: Emergency Medical Services CORP - Form 10-Q

The Company was party to a management agreement with a wholly-owned subsidiary of Onex Corporation, the Company's prior principal equityholder, until May 25, 2011. In exchange for an annual management fee of \$1.0 million, the Onex subsidiary provided the Company with corporate finance and strategic planning consulting services. For the Predecessor period from January 1, 2011 through May 24, 2011, the Company expensed \$0.4 million in respect of this fee.

11. Segment Information

The Company is organized around two separately managed business units: 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 and anesthesiology 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 before equity in earnings of unconsolidated subsidiary, income tax expense, loss on early debt extinguishment, interest and other (expense) income, realized (loss) gain on investments, interest expense, stock-based compensation, related party management fees, restructuring charges, and depreciation and amortization expense (Adjusted EBITDA) is the measure of profit and loss that the CODM uses to assess performance, measure liquidity and make

Edgar Filing: Emergency Medical Services CORP - Form 10-Q

Table of Contents

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.

The following tables present the Company's operating segment results for the Successor three months ended September 30, 2011, the Successor period from May 25, 2011 through September 30, 2011, the Predecessor period from January 1, 2011 through May 24, 2011, and the Predecessor periods for the three and nine months ended September 30, 2010:

	Successor Quarter ended September 30, 2011	Predecessor Quarter ended September 30, 2010
Facility-Based Physician Services		
Net revenue	\$ 424,420	\$ 384,954
Segment Adjusted EBITDA	59,248	49,635
Medical Transportation Services		
Net revenue	363,667	352,226
Segment Adjusted EBITDA	32,254	32,733
Total		
Total net revenue	788,087	737,180
Total Adjusted EBITDA	91,502	82,368
Reconciliation of Adjusted EBITDA to Net Income		
Adjusted EBITDA	\$ 91,502	\$ 82,368
Depreciation and amortization expense	(29,966)	(16,528)
Restructuring charges	(3,374)	
Equity-based compensation expense	(910)	(2,042)
Related party management fees	(1,250)	(250)
Interest expense	(43,745)	(4,856)
Realized gain on investments	30	730
Interest and other (expense) income	(2,480)	277
Income tax expense	(4,079)	(22,990)
Equity in earnings of unconsolidated subsidiary	82	53
Net income	\$ 5,810	\$ 36,762

Table of Contents

	Successor		Predecessor		
	Period from May 25 through September 30, 2011		Period from January 1 through May 24, 2011		Nine months ended September 30, 2010
Facility-Based Physician Services					
Net revenue	\$	596,134	\$	642,059	\$ 1,091,991
Segment Adjusted EBITDA		83,517		77,686	139,642
Medical Transportation Services					
Net revenue		511,496		579,731	1,033,347
Segment Adjusted EBITDA		48,024		52,896	98,600
Total					
Total net revenue		1,107,630		1,221,790	2,125,338
Total Adjusted EBITDA		131,541		130,582	238,242
Reconciliation of Adjusted EBITDA to Net Income					
Adjusted EBITDA	\$	131,541	\$	130,582	\$ 238,242
Depreciation and amortization expense		(41,027)		(28,467)	(48,400)
Restructuring charges		(3,374)			
Equity-based compensation expense		(1,340)		(15,112)	(4,587)
Related party management fees		(1,764)		(399)	(750)
Interest expense		(61,695)		(7,886)	(18,182)
Realized gain (loss) on investments		37		(9)	879
Interest and other (expense) income		(2,620)		(28,873)	748
Loss on early debt extinguishment				(10,069)	(19,091)
Income tax expense		(8,237)		(19,242)	(57,355)
Equity in earnings of unconsolidated subsidiary		115		143	252
Net income	\$	11,636	\$	20,668	\$ 91,756

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

	Successor		Predecessor	
	Quarter ended September 30, 2011		Quarter ended September 30, 2010	
Adjusted EBITDA	\$	91,502	\$	82,368
Related party management fees		(1,250)		(250)
Interest expense (less deferred loan fee amortization)		(43,724)		(4,195)
Change in accounts receivable		(5,228)		(10,882)
Change in other operating assets/liabilities		18,013		11,164
Excess tax benefits from stock-based compensation				(479)
Interest and other income (expense)		(2,480)		277
Income tax expense, net of change in deferred taxes		(4,019)		(24,092)
Other		705		712
Cash flows provided by operating activities	\$	53,519	\$	54,623

Table of Contents

	Successor		Predecessor	
	Period from May 25 through September 30, 2011	Period from January 1 through May 24, 2011	Period from January 1 through May 24, 2011	Nine months ended September 30, 2010
Adjusted EBITDA	\$ 131,541	\$ 130,582	\$ 130,582	\$ 238,242
Related party management fees	(1,764)	(399)	(399)	(750)
Interest expense (less deferred loan fee amortization)	(59,770)	(6,556)	(6,556)	(16,385)
Change in accounts receivable	1,874	(10,149)	(10,149)	(30,441)
Change in other operating assets/liabilities	29,387	14,234	14,234	18,192
Excess tax benefits from stock-based compensation		(12,427)	(12,427)	(13,977)
Interest and other income (expense)	(2,620)	(28,873)	(28,873)	748
Income tax expense, net of change in deferred taxes	(8,129)	(18,897)	(18,897)	(57,617)
Other	721	460	460	1,353
Cash flows provided by operating activities	\$ 91,240	\$ 67,975	\$ 67,975	\$ 139,365

12. Guarantors of Debt

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 provide additional material information that would be useful in assessing the financial composition of EMSC or the subsidiary guarantors. The condensed consolidating financial statements for EMSC, the guarantors and the non-guarantors are as follows:

Consolidating Statements of Operations

	EMSC	Successor			Total
		For the quarter ended September 30, 2011			
		Subsidiary Guarantors	Subsidiary Non-Guarantors	Eliminations/ Adjustments	
Net revenue	\$	\$ 787,580	\$ 37,160	\$ (36,653)	\$ 788,087
Compensation and benefits		542,474	181		542,655
Operating expenses		108,100	12		108,112
Insurance expense		29,868	37,227	(36,653)	30,442
Selling, general and administrative expenses		18,184	309		18,493
Depreciation and amortization expense		29,966			29,966
Restructuring charges		3,374			3,374

Edgar Filing: Emergency Medical Services CORP - Form 10-Q

Income (loss) from operations		55,614		(569)		55,045				
Interest income from restricted assets		431		526		957				
Interest expense		(43,745)				(43,745)				
Realized gain on investments				30		30				
Interest and other income (expense)		(2,349)		(131)		(2,480)				
Income (loss) before income taxes		9,951		(144)		9,807				
Income tax expense		(4,075)		(4)		(4,079)				
Income (loss) before equity in earnings of unconsolidated subsidiaries		5,876		(148)		5,728				
Equity in earnings of unconsolidated subsidiaries		5,810		82	(5,810)	82				
Net income (loss)	\$	5,810	\$	5,876	\$	(66)	\$	(5,810)	\$	5,810

Edgar Filing: Emergency Medical Services CORP - Form 10-Q

Table of Contents

	Predecessor				
	For the quarter ended September 30, 2010				
	EMSC	Subsidiary Guarantors	Subsidiary Non-Guarantor	Eliminations/ Adjustments	Total
Net revenue	\$	\$ 736,726	\$ 19,618	\$ (19,164)	\$ 737,180
Compensation and benefits		522,958	305		523,263
Operating expenses		90,370	653		91,023
Insurance expense		24,575	20,382	(19,164)	25,793
Selling, general and administrative expenses		17,710	32		17,742
Depreciation and amortization expense		16,528			16,528
Income (loss) from operations		64,585	(1,754)		62,831
Interest income from restricted assets		240	477		717
Interest expense		(4,856)			(4,856)
Realized gain on investments			730		730
Interest and other income (expense)		293	(16)		277
Income (loss) before income taxes		60,262	(563)		59,699
Income tax expense		(22,985)	(5)		(22,990)
Income (loss) before equity in earnings of unconsolidated subsidiaries		37,277	(568)		36,709
Equity in earnings of unconsolidated subsidiaries	36,762		53	(36,762)	53
Net income (loss)	\$ 36,762	\$ 37,277	\$ (515)	\$ (36,762)	\$ 36,762

	Successor				
	For the period from May 25 through September 30, 2011				
	EMSC	Subsidiary Guarantors	Subsidiary Non-Guarantors	Eliminations/ Adjustments	Total
Net revenue	\$	\$ 1,106,899	\$ 38,722	\$ (37,991)	\$ 1,107,630
Compensation and benefits		764,173	286		764,459
Operating expenses		149,956	12		149,968
Insurance expense		39,879	38,643	(37,991)	40,531
Selling, general and administrative expenses		25,004	350		25,354
Depreciation and amortization expense		41,027			41,027
Restructuring charges		3,374			3,374
Income (loss) from operations		83,486	(569)		82,917
Interest income from restricted assets		529	590		1,119
Interest expense		(61,695)			(61,695)
Realized gain on investments			37		37
		(2,459)	(161)		(2,620)

Edgar Filing: Emergency Medical Services CORP - Form 10-Q

Interest and other income (expense)										
Income (loss) before income taxes		19,861		(103)				19,758		
Income tax expense		(8,231)		(6)				(8,237)		
Income (loss) before equity in earnings of unconsolidated subsidiaries		11,630		(109)				11,521		
Equity in earnings of unconsolidated subsidiaries		11,636		115		(11,636)		115		
Net income	\$	11,636	\$	11,630	\$	6	\$	(11,636)	\$	11,636

Edgar Filing: Emergency Medical Services CORP - Form 10-Q

Table of Contents

	EMSC	Predecessor			Total
		For the period from January 1 through May 24, 2011 Subsidiary Guarantors	Subsidiary Non-Guarantors	Eliminations/ Adjustments	
Net revenue	\$	\$ 1,221,024	\$ 20,709	\$ (19,943)	\$ 1,221,790
Compensation and benefits		874,135	498		874,633
Operating expenses		156,734	6		156,740
Insurance expense		48,471	18,701	(19,943)	47,229
Selling, general and administrative expenses		28,801	440		29,241
Depreciation and amortization expense		28,467			28,467
Income from operations		84,416	1,064		85,480
Interest income from restricted assets		364	760		1,124
Interest expense		(7,886)			(7,886)
Realized loss on investments			(9)		(9)
Interest and other income (expense)		(28,782)	(91)		(28,873)
Loss on early debt extinguishment		(10,069)			(10,069)
Income before income taxes		38,043	1,724		39,767
Income tax expense		(19,233)	(9)		(19,242)
Income before equity in earnings of unconsolidated subsidiaries		18,810	1,715		20,525
Equity in earnings of unconsolidated subsidiaries	20,668		143	(20,668)	143
Net income	\$ 20,668	\$ 18,810	\$ 1,858	\$ (20,668)	\$ 20,668

	EMSC	Predecessor			Total
		For the nine months ended September 30, 2010 Subsidiary Guarantors	Subsidiary Non-Guarantor	Eliminations/ Adjustments	
Net revenue	\$	\$ 2,123,822	\$ 46,781	\$ (45,265)	\$ 2,125,338
Compensation and benefits		1,499,202	821		1,500,023
Operating expenses		267,249	889		268,138
Insurance expense		71,391	47,679	(45,265)	73,805
Selling, general and administrative expenses		52,671	227		52,898
Depreciation and amortization expense		48,399	1		48,400
Income (loss) from operations		184,910	(2,836)		182,074
Interest income from restricted assets		928	1,503		2,431
Interest expense		(18,182)			(18,182)
Realized gain on investments			879		879
		772	(24)		748

Edgar Filing: Emergency Medical Services CORP - Form 10-Q

Interest and other income (expense)								
Loss on early extinguishment of debt			(19,091)					(19,091)
Income (loss) before income taxes			149,337		(478)			148,859
Income tax expense			(57,335)		(20)			(57,355)
Income (loss) before equity in earnings of unconsolidated subsidiaries			92,002		(498)			91,504
Equity in earnings of unconsolidated subsidiaries		91,756			252	(91,756)		252
Net income (loss)	\$	91,756	\$	92,002	\$	(246)	\$	(91,756)
							\$	91,756

Table of Contents**Consolidating Balance Sheet**

As of September 30, 2011

	EMSC	Subsidiary Guarantors	Successor Subsidiary Non-Guarantor	Eliminations/ Adjustments	Total
Assets					
Current assets:					
Cash and cash equivalents	\$	\$ 108,030	\$ 25,698	\$	\$ 133,728
Insurance collateral		22,460	85,438	(76,051)	31,847
Trade and other accounts receivable, net		517,531	1,587		519,118
Parts and supplies inventory		23,647			23,647
Prepays and other current assets		36,426	405	(2,861)	33,970
Current deferred tax assets		(3,613)	3,613		
Current assets		704,481	116,741	(78,912)	742,310
Non-current assets:					
Property, plant, and equipment, net		163,917			163,917
Intercompany receivable	2,944,009			(2,944,009)	
Intangible assets, net		577,111			577,111
Non-current deferred tax assets		4,111	(6,106)	1,995	
Insurance collateral		17,171	110,152		127,323
Goodwill		2,293,463	816		2,294,279
Other long-term assets	102,652	4,183	1,661		108,496
Investment and advances in subsidiaries	304,777	7,155		(311,932)	
Assets	\$ 3,351,438	\$ 3,771,592	\$ 223,264	\$ (3,332,858)	\$ 4,013,436
Liabilities and Equity					
Current liabilities:					
Accounts payable	\$	\$ 37,666	\$ 302	\$	\$ 37,968
Accrued liabilities	69,143	258,439	19,490		347,072
Current deferred tax liability		5,998			5,998
Current portion of long-term debt	14,400	284			14,684
Current liabilities	83,543	302,387	19,792		405,722
Long-term debt	2,368,400	(7,403)			2,360,997
Long-term deferred tax liability		145,974			145,974
Insurance reserves and other long-term liabilities		134,274	143,891	(76,917)	201,248
Intercompany payable		2,891,583	52,426	(2,944,009)	
Liabilities	2,451,943	3,466,815	216,109	(3,020,926)	3,113,941
Equity:					
Class A common stock			30	(30)	
Additional paid-in capital	888,778	296,332	4,316	(300,648)	888,778
Retained earnings	11,636	9,364	2,272	(11,636)	11,636
Comprehensive income	(919)	(919)	537	382	(919)
Equity	899,495	304,777	7,155	(311,932)	899,495
Liabilities and Equity	\$ 3,351,438	\$ 3,771,592	\$ 223,264	\$ (3,332,858)	\$ 4,013,436

Table of Contents**Consolidating Balance Sheet**

As of December 31, 2010

	EMSC	Subsidiary Guarantors	Predecessor Subsidiary Non-Guarantor	Eliminations/ Adjustments	Total
Assets					
Current assets:					
Cash and cash equivalents	\$	\$ 260,834	\$ 26,527	\$	\$ 287,361
Insurance collateral		6,409	30,046	(2,979)	33,476
Trade and other accounts receivable, net		488,354	1,304		489,658
Parts and supplies inventory		23,005	26		23,031
Prepays and other current assets		22,623	193	(4,199)	18,617
Current deferred tax assets		(3,834)	3,834		
Current assets		797,391	61,930	(7,178)	852,143
Non-current assets:					
Property, plant, and equipment, net		133,731			133,731
Intercompany receivable	409,362			(409,362)	
Intangible assets, net		180,374			180,374
Non-current deferred tax assets		4,126	(6,120)	1,994	
Insurance collateral		31,664	109,669	(5,270)	136,063
Goodwill		426,947	458		427,405
Other long-term assets	11,333	5,657	1,846		18,836
Investment and advances in subsidiaries	847,191	37,427		(884,619)	
Assets	\$ 1,267,886	\$ 1,617,317	\$ 167,783	\$ (1,304,435)	\$ 1,748,552
Liabilities and Equity					
Current liabilities:					
Accounts payable	\$	\$ 39,279	\$ 302	\$	\$ 39,581
Accrued liabilities	979	231,148	27,511		259,638
Current deferred tax liabilities		5,114			5,114
Current portion of long-term debt	15,938	395			16,333
Current liabilities	16,917	275,936	27,813		320,666
Long-term debt	403,750	1,193			404,943
Long-term deferred tax liabilities		5,971			5,971
Insurance reserves and other long-term liabilities		89,582	90,625	(10,440)	169,767
Intercompany payable		397,444	11,918	(409,362)	
Liabilities	420,667	770,126	130,356	(419,802)	901,347
Equity:					
Class A common stock	304		30	(30)	304
Class B common stock	1				1
Partnership equity	90,776	393,139		(393,140)	90,776
Treasury stock at cost	(1,684)				(1,684)
Additional paid-in capital	305,258		4,316	(4,316)	305,258
Retained earnings	450,780	452,268	30,968	(483,250)	450,766
Comprehensive income	1,784	1,784	2,113	(3,897)	1,784
Equity	847,219	847,191	37,427	(884,633)	847,205
Liabilities and Equity	\$ 1,267,886	\$ 1,617,317	\$ 167,783	\$ (1,304,435)	\$ 1,748,552

Table of Contents**Condensed Consolidating Statements of Cash Flows**

	Successor			
	For the period from May 25 through September 30, 2011			
	EMSC	Subsidiary Guarantors	Subsidiary Non-guarantors	Total
Cash Flows from Operating Activities				
Net cash provided by (used in) operating activities	\$	\$ 102,304	\$ (11,064)	\$ 91,240
Cash Flows from Investing Activities				
Merger, net of cash received	(2,844,221)			(2,844,221)
Purchase of property, plant and equipment		(18,710)		(18,710)
Proceeds from sale of property, plant and equipment		166		166
Acquisition of businesses, net of cash received		(80,250)		(80,250)
Net change in insurance collateral		2,861	3,459	6,320
Net change in deposits and other assets		1,584		1,584
Net cash (used in) provided by investing activities	(2,844,221)	(94,349)	3,459	(2,935,111)
Cash Flows from Financing Activities				
Borrowings under senior secured credit facility	1,440,000			1,440,000
Proceeds from issuance of senior subordinated notes	950,000			950,000
Proceeds from CD&R equity investment	887,051			887,051
Repayments of capital lease obligations and other debt	(423,027)			(423,027)
Equity issuance costs	(31,878)			(31,878)
Debt issue costs	(116,854)			(116,854)
Net change in bank overdrafts		(14,241)		(14,241)
Net intercompany borrowings (payments)	138,929	(142,604)	3,675	
Net cash provided by (used in) financing activities	2,844,221	(156,845)	3,675	2,691,051
Change in cash and cash equivalents		(148,890)	(3,930)	(152,820)
Cash and cash equivalents, beginning of period		256,920	29,628	286,548
Cash and cash equivalents, end of period	\$	\$ 108,030	\$ 25,698	\$ 133,728

	Predecessor			
	For the period from January 1 through May 24, 2011			
	EMSC	Subsidiary Guarantors	Subsidiary Non-guarantors	Total
Cash Flows from Operating Activities				

Edgar Filing: Emergency Medical Services CORP - Form 10-Q

Net cash provided by (used in) operating activities	\$	\$	73,707	\$	(5,732)	\$	67,975
Cash Flows from Investing Activities							
Purchase of property, plant and equipment			(18,496)				(18,496)
Proceeds from sale of property, plant and equipment			55				55
Acquisition of businesses, net of cash received			(94,870)				(94,870)
Net change in insurance collateral			14,510		8,526		23,036
Net change in deposits and other assets			816				816
Net cash (used in) provided by investing activities			(97,985)		8,526		(89,459)
Cash Flows from Financing Activities							
EMSC issuance of class A common stock		559					559
Class A common stock repurchased as treasury stock		(2,440)					(2,440)
Repayments of capital lease obligations and other debt			(4,116)				(4,116)
Excess tax benefits from stock-based compensation			12,427				12,427
Net change in bank overdrafts			14,241				14,241
Net intercompany borrowings (payments)		1,881	(1,828)		(53)		
Net cash provided by (used in) financing activities			20,724		(53)		20,671
Change in cash and cash equivalents			(3,554)		2,741		(813)
Cash and cash equivalents, beginning of period			260,834		26,527		287,361
Cash and cash equivalents, end of period	\$	\$	257,280	\$	29,268	\$	286,548

Table of Contents

	EMSC	Predecessor		Total
		Subsidiary Guarantors	Subsidiary Non-guarantors	
Cash Flows from Operating Activities				
Net cash provided by operating activities	\$	\$ 135,258	\$ 4,107	\$ 139,365
Cash Flows from Investing Activities				
Purchase of property, plant and equipment		(31,367)		(31,367)
Proceeds from sale of property, plant and equipment		120		120
Acquisition of businesses, net of cash received		(51,158)		(51,158)
Net change in insurance collateral		29,207	(38,608)	(9,401)
Net change in deposits and other assets		11,021		11,021
Net cash used in investing activities		(42,177)	(38,608)	(80,785)
Cash Flows from Financing Activities				
EMSC issuance of class A common stock	6,414			6,414
Class A common stock repurchased as treasury stock	(1,289)			(1,289)
Repayments of capital lease obligations and other debt		(455,902)		(455,902)
Borrowings under credit facility		425,000		425,000
Debt issue costs		(11,968)		(11,968)
Payment of premiums for debt extinguishment		(14,513)		(14,513)
Excess tax benefits from stock-based compensation		13,977		13,977
Net change in bank overdrafts		(7,471)		(7,471)
Net intercompany borrowings (payments)	(5,125)	(31,465)	36,590	
Net cash (used in) provided by financing activities		(82,342)	36,590	(45,752)
Change in cash and cash equivalents		10,739	2,089	12,828
Cash and cash equivalents, beginning of period		314,033	18,855	332,888
Cash and cash equivalents, end of period	\$	\$ 324,772	\$ 20,944	\$ 345,716

13. Subsequent Events

The Company's management has evaluated events subsequent to September 30, 2011 through the issuance date of this report to identify any necessary changes to the consolidated financial statements or related disclosures. Below is a description of events for which disclosure was deemed necessary.

On October 17, 2011, the Company entered into an interest rate swap agreement which matures on August 31, 2015. The swap agreement is with major financial institutions and effectively converts a notional amount 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 1.5%) and will periodically settle with its counterparties for the difference between the rate paid and the fixed rate.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements and Factors That May Affect Results

Certain statements and information herein may be deemed to be forward-looking statements within the meaning of the Federal Private Securities Litigation Reform Act of 1995. Forward-looking statements may include, but are not limited to, statements relating to our objectives, plans and strategies, and all statements (other than statements of historical facts) that address activities, events or developments that we intend, expect, project, believe or anticipate will or may occur in the future. Any forward-looking statements herein are made as of the date this Quarterly Report on Form 10-Q is filed with the Securities and Exchange Commission, and EMSC undertakes no duty to update or revise any such statements. Forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties. Important factors that could cause actual results, developments and business decisions to differ materially from forward-looking statements are described in EMSC's filings with the SEC from time to time, including in the section entitled Risk Factors in EMSC's most recent Annual Report on Form 10-K and in Item 1A, Risk Factors of this Quarterly Report. Among the factors that could cause future results to differ materially from those provided in this Quarterly Report on Form 10-Q are: the impact on our revenue of changes in transport volume, mix of insured and uninsured patients, and third party reimbursement rates and methods; the adequacy of our insurance coverage and insurance reserves; potential penalties or changes to our operations if we fail to comply with extensive and complex government regulation of our industry; the impact of changes in the healthcare industry; our ability to recruit and retain qualified physicians and other healthcare professionals, and enforce our non-compete agreements with our physicians; our ability to generate cash flow to service our debt obligations; the cost of capital expenditures to maintain and upgrade our vehicle fleet and medical equipment; the loss of one or more members of our senior management team; the outcome of government investigations of certain of our business practices; our ability to successfully restructure our operations to comply with future changes in government regulation; the loss of existing contracts and the accuracy of our assessment of costs under new contracts; the high level of competition in our industry; our ability to maintain or implement complex information systems; our ability to implement our business strategy; our ability to successfully integrate strategic acquisitions; our ability to comply with the terms of our settlement agreements with the government; the risk that the benefits from the Merger, as defined below, and related transactions may not be fully realized or may take longer to realize than expected; and risks related to other factors discussed in the Quarterly Report.

Words such as anticipates, believes, continues, estimates, expects, goal, objectives, intends, may, opportunity, plans, potential, long-term, projections, assumptions, projects, guidance, forecasts, outlook, target, trends, should, could, would, will intended to identify such forward-looking statements. We qualify any forward-looking statements entirely by these cautionary factors.

All references to we, our, us, or EMSC, refer to Emergency Medical Services Corporation and its subsidiaries. Our business is conducted primarily through two operating subsidiaries, EmCare Holdings Inc., or EmCare, and American Medical Response, Inc., or AMR.

This Quarterly Report should be read in conjunction with EMSC's consolidated financial statements and notes thereto included in our Annual Report on Form 10-K filed with the SEC on February 18, 2011.

Company Overview

Edgar Filing: Emergency Medical Services CORP - Form 10-Q

We are a leading provider of facility-based physician services and medical transportation services in the United States. We operate our business and market our services under the EmCare and AMR brands. EmCare, over its more than 35 years of operating history, is a leading provider of physician services in the United States based on number of contracts with hospitals and affiliated physician groups. Through EmCare, we provide facility-based physician services for emergency departments and hospitalist/inpatient, anesthesiology, radiology, and teleradiology programs. AMR, over its more than 50 years of operating history, is a leading provider of ground and fixed-wing ambulance services in the United States based on net revenue and number of transports.

Merger

On February 13, 2011, EMSC entered into an Agreement and Plan of Merger, or Merger Agreement, with CDRT Acquisition Corporation, a Delaware corporation, or Parent, and CDRT Merger Sub, Inc., a Delaware corporation and a wholly-owned subsidiary of Parent, or Sub. Parent and Sub are and were, respectively, affiliates of investment funds sponsored by, or affiliated with, Clayton, Dubilier & Rice, LLC, or the CD&R Affiliates. On May 25, 2011, pursuant to the Merger Agreement and

Table of Contents

subject to the conditions set forth therein, Sub merged with and into EMSC with EMSC as the surviving entity and a wholly-owned subsidiary of Parent, or the Merger.

At the time the Merger was effective, each issued and outstanding share of class A common stock and class B common stock, including shares of Class B common stock issued immediately prior to the effective time of the Merger in exchange for the LP exchangeable units of EMS LP, but excluding treasury shares, shares held by Parent or Sub and shares held by stockholders who perfected their appraisal rights, were converted into the right to receive \$64.00 per share in cash, without interest and subject to any applicable withholding taxes. In addition, vesting of stock options, restricted stock, and restricted share units was accelerated upon closing of the Merger. As a result, holders of stock options received cash equal to the intrinsic value of the awards based on a market price of \$64.00 per share while holders of restricted stock and restricted share units received \$64.00 per share in cash, without interest.

The Merger was financed by a combination of borrowings under EMSC's new senior secured term loan facility, the issuance of new senior unsecured notes, and the equity investment by the CD&R Affiliates and members of EMSC management. The purchase price was approximately \$3.2 billion including approximately \$149 million in capitalized issuance costs, of which \$108 million are debt issuance costs. The Merger was funded primarily through a \$915 million equity contribution from the CD&R Affiliates and members of EMSC management and \$2.4 billion in debt financing discussed more fully in Note 5 to the accompanying consolidated financial statements.

EMSC applied purchase accounting to the opening balance sheet and results of operations on May 25, 2011 as the Merger occurred at the close of business on May 24, 2011. The purchase accounting adjustments had a material impact on the Successor periods presented, for the three months ended September 30, 2011 and for the period from May 25, 2011 through September 30, 2011, due most significantly to the amortization of intangible assets and interest expense and will have a material impact on future earnings. Initial adjustments to allocate the purchase price to fixed assets and identifiable intangible assets were recorded in the third quarter of 2011 based on a draft valuation report from a third party valuation firm. The Company expects to finalize its purchase accounting by the end of the first quarter of 2012 with purchase accounting adjustments related primarily to certain tangible assets and deferred tax liabilities.

Presentation

The accompanying Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q are presented for two periods for 2011: Predecessor and Successor results, which primarily relate to the periods preceding the Merger and the period succeeding the Merger, respectively. The discussion in this MD&A is presented on a combined basis of the Predecessor and Successor periods for the nine months ended September 30, 2011. The Predecessor and Successor results for the nine months ended September 30, 2011 are presented but are not discussed separately. Management believes that the discussion on a combined basis is more meaningful as it allows the results of operations to be analyzed to a comparable period in 2010. Exceptions to this include depreciation and amortization expense, interest expense, and interest and other (expense) income, which had significant impacts as a result of the Merger, but are addressed separately in the discussion below. See Note 1 to the accompanying consolidated financial statements.

Key Factors and Measures We Use to Evaluate Our Business

Edgar Filing: Emergency Medical Services CORP - Form 10-Q

The key factors and measures we use to evaluate our business focus on the number of patients we treat and transport and the costs we incur to provide the necessary care and transportation for each of our patients.

We evaluate our revenue net of provisions for contractual payor discounts and provisions for uncompensated care. Medicaid, Medicare and certain other payors receive discounts from our standard charges, which we refer to as contractual discounts. In addition, individuals we treat and transport may be personally responsible for a deductible or co-pay under their third party payor coverage, and most of our contracts require us to treat and transport patients who have no insurance or other third party payor coverage. Due to the uncertainty regarding collectability of charges associated with services we provide to these patients, which we refer to as uncompensated care, our net revenue recognition is based on expected cash collections. Our net revenue represents gross billings after provisions for contractual discounts and estimated uncompensated care. Provisions for contractual discounts and uncompensated care have increased historically primarily as a result of increases in gross billing rates without corresponding increases in payor reimbursement.

The table below summarizes our approximate payor mix as a percentage of both net revenue and total patient encounters and transports for the three and nine months ended September 30, 2011 and 2010. In determining the net revenue payor mix, we use cash collections in the period as an approximation of net revenue recorded.

Edgar Filing: Emergency Medical Services CORP - Form 10-Q

Table of Contents

	Percentage of Cash Collections (Net Revenue)				Percentage of Total Volume			
	Quarter ended		Nine months ended		Quarter ended		Nine months ended	
	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,
	2011	2010	2011	2010	2011	2010	2011	2010
Medicare	20.0%	22.2%	21.1%	22.0%	25.2%	25.5%	26.1%	25.1%
Medicaid	5.4%	5.8%	5.5%	5.4%	12.3%	13.3%	12.7%	12.7%
Commercial insurance and managed care	50.6%	47.5%	50.2%	49.0%	43.5%	41.0%	42.9%	42.4%
Self-pay	4.8%	4.4%	4.6%	4.2%	19.0%	20.2%	18.3%	19.8%
Subsidies & fees	19.2%	20.1%	18.6%	19.4%				
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Our 2011 volume mix has been positively impacted compared to our 2010 volume mix primarily by the expansion of our anesthesia business, which has a lower percentage of self-pay volume than our emergency department, radiology and inpatient services businesses. Our self-pay cash collections have also increased during 2011 compared to 2010 due to higher collections associated with recent acquisitions and from our existing contracts.

In addition to continually monitoring our payor mix, we also analyze certain measures in each of our business segments.

EmCare

Of EmCare's net revenue for the nine months ended September 30, 2011, approximately 75% was derived from our hospital contracts for emergency department staffing, 15% from contracts related to anesthesiology services, 4% from our hospitalist/inpatient services, 3% from our radiology/teleradiology services, and 3% from other hospital management services. Approximately 79% of EmCare's net revenue was generated from billings to third party payors and patients for patient encounters and approximately 21% was generated from billings to hospitals and affiliated physician groups for professional services. EmCare's key net revenue measures are patient encounters, segregated into emergency department visits, radiology reads, and anesthesiology and hospitalist encounters and that we weight in certain analyses, net revenue per patient encounter, and number of contracts.

The change from period to period in the number of patient encounters under our same store contracts is influenced by general community conditions as well as hospital-specific elements, many of which are beyond our direct control.

The costs incurred in our EmCare business segment consist primarily of compensation and benefits for physicians and other professional providers, professional liability costs, and contract and other support costs. EmCare's key cost measures include provider compensation per patient encounter and professional liability costs.

We have developed extensive professional liability risk mitigation processes, including risk assessments on medical professionals and hospitals, extensive incident reporting and tracking processes, clinical fail-safe programs, training and education and other risk mitigation programs which we believe have resulted in a reduction in the frequency, severity and development of claims.

Our EmCare business segment is less capital intensive than AMR, and EmCare's depreciation expense relates primarily to charges for usage of computer hardware and software, and other technologies. Amortization expense relates primarily to intangibles recorded for customer relationships.

AMR

Approximately 86% of AMR's net revenue for the nine months ended September 30, 2011 was transport revenue derived from the treatment and transportation of patients, including fixed wing medical transportation services, based on billings to third party payors, healthcare facilities and patients. The balance of AMR's net revenue is derived from direct billings to communities and government agencies for the provision of training, dispatch center and other services. AMR's measures for net revenue include transports, segregated into ambulance and wheelchair transports and that we weight in certain analyses, and net revenue per transport.

The change from period to period in the number of transports and net revenue per transport is influenced by the mix of emergency versus non-emergency transports, changes in transports in existing markets from both new and existing facilities we serve for non-emergency transports, the effects of general community conditions for emergency transports and the impact of newly acquired businesses and markets AMR has exited.

Table of Contents

The costs we incur in our AMR business segment consist primarily of compensation and benefits for ambulance crews and support personnel, direct and indirect operating costs to provide transportation services, and costs related to accident and insurance claims. AMR's key cost measures include unit hours and cost per unit hour (to measure compensation-related costs and the efficiency of our ambulance deployment), operating costs per transport, and accident and insurance claims.

We have focused our risk mitigation efforts on employee training for proper patient handling techniques, development of clinical and medical equipment protocols, driving safety, implementation of technology to reduce auto incidents and other risk mitigation processes which we believe have resulted in a reduction in the frequency, severity and development of claims.

Our AMR business segment requires various investments in long-term assets and depreciation expense relates primarily to charges for usage of these assets, including vehicles, computer hardware and software, equipment, and other technologies. Amortization expense relates primarily to intangibles recorded for customer relationships.

Factors Affecting Operating Results

Changes in Net New Contracts

Our operating results are affected directly by the number of net new contracts and related volumes we have in a period, reflecting the effects of both new contracts and contract expirations. We regularly bid for new contracts, frequently in a formal competitive bidding process that often requires written responses to a Request for Proposal, or RFP, and, in any fiscal period, certain of our contracts will expire. We may elect not to seek extension or renewal of a contract, or may reduce certain services, if we determine that we cannot continue to provide such services on favorable terms. With respect to expiring contracts we would like to renew, we may be required to seek renewal through an RFP, and we may not be successful in retaining any such contracts, or retaining them on terms that are as favorable as present terms.

Inflation

Certain of our expenses, such as wages and benefits, insurance, fuel and equipment repair and maintenance costs, are subject to normal inflationary pressures. Fuel expense represented 11.4% and 10.6% of AMR's operating expenses for the three months ended September 30, 2011 and 2010, respectively, and 11.3% and 10.1% for the nine months ended September 30, 2011 and 2010, respectively. Although we have generally been able to offset inflationary cost increases through increased operating efficiencies and successful negotiation of fees and subsidies, we can provide no assurance that we will be able to offset any future inflationary cost increases through similar efficiencies and fee changes.

Medicare Fee Schedule Changes

Edgar Filing: Emergency Medical Services CORP - Form 10-Q

Medicare law requires the Centers for Medicare and Medicaid Services (CMS) to adjust the Medicare Physician Fee Schedule (MPFS) payment rates annually based on a formula which includes an application of the Sustainable Growth Rate (SGR) that was adopted in the Balanced Budget Act of 1997. This formula has yielded negative updates every year beginning in 2002, although CMS was able to take administrative steps to avoid a reduction in 2003 and Congress took a series of legislative actions to prevent reductions each year from 2004 through 2011. In November 2011, CMS released the final rule to update the 2012 MPFS which includes another potential reduction associated with SGR changes in 2012 currently estimated to be 27.4%, which is a slightly lower reduction than the previous estimates published by CMS earlier this year. Absent a legislative action by Congress to prevent such a reduction, the reduced MPFS would go into effect on January 1, 2012.

Critical Accounting Policies

For a discussion of accounting policies that we consider critical to our business operations and the understanding of our results of operations that affect the more significant judgments and estimates used in the preparation of our unaudited condensed consolidated financial statements, please refer to Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies contained in our annual report on Form 10-K for the year ended December 31, 2010 and incorporated by reference herein. As of September 30, 2011, there were no significant changes in our critical accounting policies or estimation procedures.

Business Combinations

Effective January 1, 2009, we adopted ASC 805, *Business Combinations*, which revised the accounting guidance that we were required to apply for our acquisitions in comparison to prior fiscal years. In accordance with this guidance, the assets and liabilities of an acquired business are recorded at their fair values at the date of acquisition. The excess of the purchase price over the estimated fair values is recorded as goodwill. All acquisition costs are expensed as incurred. While we use our best estimates and assumptions as a part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the acquisition date, our estimates are inherently uncertain and subject to refinement. As a result, during the measurement period we 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.

Table of Contents

Revenue Recognition

Revenue is recognized at the time of service and is recorded net of provisions for contractual discounts and estimated uncompensated care. We estimate our provision for contractual discounts and uncompensated care based on payor reimbursement schedules, historical collections and write-off experience and other economic data. As a result of the estimates used in recording the provisions and the nature of healthcare collections, which may involve lengthy delays, there is a reasonable possibility that recorded estimates will change materially in the short-term.

The changes in the provisions for contractual discounts and uncompensated care are primarily a result of changes in our gross fee-for-service rate schedules and gross accounts receivable balances. These gross fee schedules, including any changes to existing fee schedules, generally are negotiated with various contracting entities, including municipalities and facilities. Fee schedule increases are billed for all revenue sources and to all payors under that specific contract; however, reimbursement in the case of certain state and federal payors, including Medicare and Medicaid, will not change as a result of the change in gross fee schedules. In certain cases, this results in a higher level of contractual and uncompensated care provisions and allowances, requiring a higher percentage of contractual discount and uncompensated care provisions compared to gross charges.

In addition, management analyzes the ultimate collectability of revenue and accounts receivable after certain stages of the collection cycle using a look-back analysis to determine the amount of receivables subsequently collected. Adjustments related to this analysis are recorded as a reduction or increase to net revenue each month, and were less than 1% of net revenue during each of three and nine month periods ending September 30, 2011 and 2010.

Results of Operations

Quarter and Nine Months Ended September 30, 2011 Compared to the Quarter and Nine Months Ended September 30, 2010

The following tables present a comparison of financial data from our unaudited consolidated statements of operations for the three and nine months ended September 30, 2011 and 2010 for EMSC and our two operating segments. As noted previously in Item 2, the results of operations will be discussed on a combined basis for the nine months ended September 30, 2011. Management believes that the discussion on a combined basis is more meaningful as it allows the results of operations to be analyzed to a comparable period in 2010. Exceptions to this include depreciation and amortization expense, interest expense, and interest and other (expense) income, which had significant impacts as a result of the Merger, but are addressed separately in the discussion below. The Predecessor and Successor breakout is presented for information purposes only.

Non-GAAP Measures

Adjusted EBITDA. Adjusted EBITDA is defined as net income before equity in earnings of unconsolidated subsidiary, income tax expense, loss on early debt extinguishment, interest and other (expense) income, realized gain (loss) on investments, interest expense, equity-based compensation, related party management fees, restructuring charges, and depreciation and amortization expense. Adjusted EBITDA is

Edgar Filing: Emergency Medical Services CORP - Form 10-Q

commonly used by management and investors as a performance measure and liquidity indicator. Adjusted EBITDA is not considered a measure of financial performance under U.S. generally accepted accounting principles, or GAAP, and the items excluded from Adjusted EBITDA are significant components in understanding and assessing our financial performance. Adjusted EBITDA should not be considered in isolation or as an alternative to such GAAP measures as net income, cash flows provided by or used in operating, investing or financing activities or other financial statement data presented in our financial statements as an indicator of financial performance or liquidity. Since Adjusted EBITDA is not a measure determined in accordance with GAAP and is susceptible to varying calculations, Adjusted EBITDA, as presented, may not be comparable to other similarly titled measures of other companies. The tables set forth a reconciliation of Adjusted EBITDA to net income and cash flows provided by operating activities.

Edgar Filing: Emergency Medical Services CORP - Form 10-Q

Table of Contents

Unaudited Consolidated Results of Operations and as a Percentage of Net Revenue

(dollars in thousands)

EMSC

	Successor Quarter ended September 30, % of net		Predecessor % of net		Combined Nine months ended September 30, % of net		Predecessor % of net	
	2011	revenue	2010	revenue	2011	revenue	2010	revenue
Net revenue	\$ 788,087	100.0%	\$ 737,180	100.0%	\$ 2,329,420	100.0%	\$ 2,125,338	100.0%
Compensation and benefits	542,655	68.9	523,263	71.0	1,639,092	70.4	1,500,023	70.6
Operating expenses	108,112	13.7	91,023	12.3	306,708	13.2	268,138	12.6
Insurance expense	30,442	3.9	25,793	3.5	87,760	3.8	73,805	3.5
Selling, general and administrative expenses	18,493	2.3	17,742	2.4	54,595	2.3	52,898	2.5
Equity-based compensation expense	(910)	(0.1)	(2,042)	(0.3)	(16,452)	(0.7)	(4,587)	(0.2)
Related party management fees	(1,250)	(0.2)	(250)	(0.0)	(2,163)	(0.1)	(750)	(0.0)
Interest income from restricted assets	(957)	(0.1)	(717)	(0.1)	(2,243)	(0.1)	(2,431)	(0.1)
Adjusted EBITDA	\$ 91,502	11.6%	\$ 82,368	11.2%	\$ 262,123	11.3%	\$ 238,242	11.2%
Equity-based compensation expense	(910)	(0.1)	(2,042)	(0.3)	(16,452)	(0.7)	(4,587)	(0.2)
Related party management fees	(1,250)	(0.2)	(250)	(0.0)	(2,163)	(0.1)	(750)	(0.0)
Depreciation and amortization expense	(29,966)	(3.8)	(16,528)	(2.2)	(69,494)	(3.0)	(48,400)	(2.3)
Restructuring charges	(3,374)	(0.4)			(3,374)	(0.1)		
Interest expense	(43,745)	(5.6)	(4,856)	(0.7)	(69,581)	(3.0)	(18,182)	(0.9)
Realized gain on investments	30	0.0	730	0.1	28	0.0	879	0.0
Interest and other (expense) income	(2,480)	(0.3)	277	0.0	(31,493)	(1.4)	748	0.0
Loss on early debt extinguishment					(10,069)	(0.4)	(19,091)	(0.9)
Income tax expense	(4,079)	(0.5)	(22,990)	(3.1)	(27,479)	(1.2)	(57,355)	(2.7)
Equity in earnings of unconsolidated subsidiary	82	0.0	53	0.0	258	0.0	252	0.0
Net income	\$ 5,810	0.7%	\$ 36,762	5.0%	\$ 32,304	1.4%	\$ 91,756	4.3%

	Successor Period from May 25 through September 30, % of net		Predecessor Period from January 1 through May 24, % of net	
	2011	revenue	2011	revenue
Net revenue	\$ 1,107,630	100.0%	\$ 1,221,790	100.0%
Compensation and benefits	764,459	69.0	874,633	71.6
Operating expenses	149,968	13.5	156,740	12.8
Insurance expense	40,531	3.7	47,229	3.9
Selling, general and administrative expenses	25,354	2.3	29,241	2.4
Equity-based compensation expense	(1,340)	(0.1)	(15,112)	(1.2)
Related party management fees	(1,764)	(0.2)	(399)	(0.0)
Interest income from restricted assets	(1,119)	(0.1)	(1,124)	(0.1)
Adjusted EBITDA	\$ 131,541	11.9%	\$ 130,582	10.7%
Equity-based compensation expense	(1,340)	(0.1)	(15,112)	(1.2)
Related party management fees	(1,764)	(0.2)	(399)	(0.0)

Edgar Filing: Emergency Medical Services CORP - Form 10-Q

Depreciation and amortization expense	(41,027)	(3.7)	(28,467)	(2.3)
Restructuring charges	(3,374)	(0.3)		
Interest expense	(61,695)	(5.6)	(7,886)	(0.6)
Realized gain (loss) on investments	37	0.0	(9)	(0.0)
Interest and other (expense) income	(2,620)	(0.2)	(28,873)	(2.4)
Loss on early debt extinguishment			(10,069)	(0.8)
Income tax expense	(8,237)	(0.7)	(19,242)	(1.6)
Equity in earnings of unconsolidated subsidiary	115	0.0	143	0.0
Net income	\$ 11,636	1.1%	\$ 20,668	1.7%

Table of Contents**Unaudited Reconciliation of Adjusted EBITDA to Cash Flows Provided by Operating Activities**

(dollars in thousands)

	Successor For the quarter ended September 30, 2011	Predecessor September 30, 2010	Combined For the nine months ended September 30, 2011	Predecessor September 30, 2010
Adjusted EBITDA	\$ 91,502	\$ 82,368	\$ 262,123	\$ 238,242
Related party management fees	(1,250)	(250)	(2,163)	(750)
Interest expense (less deferred loan fee amortization)	(43,724)	(4,195)	(66,326)	(16,385)
Change in accounts receivable	(5,228)	(10,882)	(8,275)	(30,441)
Change in other operating assets/liabilities	18,013	11,164	43,621	18,192
Excess tax benefits from stock-based compensation		(479)	(12,427)	(13,977)
Interest and other (expense) income	(2,480)	277	(31,493)	748
Income tax expense, net of change in deferred taxes	(4,019)	(24,092)	(27,026)	(57,617)
Other	705	712	1,181	1,353
Cash flows provided by operating activities	\$ 53,519	\$ 54,623	\$ 159,215	\$ 139,365

	Successor Period from May 25 through September 30, 2011	Predecessor Period from January 1 through May 24, 2011
Adjusted EBITDA	\$ 131,541	\$ 130,582
Related party management fees	(1,764)	(399)
Interest expense (less deferred loan fee amortization)	(59,770)	(6,556)
Change in accounts receivable	1,874	(10,149)
Change in other operating assets/liabilities	29,387	14,234
Excess tax benefits from stock-based compensation		(12,427)
Interest and other (expense) income	(2,620)	(28,873)
Income tax expense, net of change in deferred taxes	(8,129)	(18,897)
Other	721	460
Cash flows provided by operating activities	\$ 91,240	\$ 67,975

Table of Contents**Unaudited Segment Results of Operations and as a Percentage of Net Revenue**

(dollars in thousands)

EmCare

	Successor Quarter ended September 30, % of net		Predecessor Quarter ended September 30, % of net		Combined Nine months ended September 30, % of net		Predecessor Nine months ended September 30, % of net	
	2011	revenue	2010	revenue	2011	revenue	2010	revenue
Net revenue	\$ 424,420	100.0%	\$ 384,954	100.0%	\$ 1,238,193	100.0%	\$ 1,091,991	100.0%
Compensation and benefits	329,569	77.7	301,837	78.4	976,400	78.9	858,944	78.7
Operating expenses	14,038	3.3	11,274	2.9	41,116	3.3	34,311	3.1
Insurance expense	15,144	3.6	16,414	4.3	45,136	3.6	40,466	3.7
Selling, general and administrative expenses	7,907	1.9	7,279	1.9	23,714	1.9	22,479	2.1
Interest income from restricted assets	(526)	(0.1)	(477)	(0.1)	(1,176)	(0.1)	(1,503)	(0.1)
Equity-based compensation expense	(406)	(0.1)	(898)	(0.2)	(7,244)	(0.6)	(2,018)	(0.2)
Related party management fees	(554)	(0.1)	(110)	(0.0)	(956)	(0.1)	(330)	(0.0)
Adjusted EBITDA	\$ 59,248	14.0%	\$ 49,635	12.9%	\$ 161,203	13.0%	\$ 139,642	12.8%
Reconciliation of Adjusted EBITDA to income from operations								
Adjusted EBITDA	59,248	14.0	49,635	12.9	161,203	13.0	139,642	12.8
Depreciation and amortization expenses	(14,647)	(3.5)	(5,203)	(1.4)	(28,745)	(2.3)	(14,771)	(1.4)
Restructuring charges	(400)	(0.1)			(400)	(0.0)		
Interest income from restricted assets	(526)	(0.1)	(477)	(0.1)	(1,176)	(0.1)	(1,503)	(0.1)
Equity-based compensation expense	(406)	(0.1)	(898)	(0.2)	(7,244)	(0.6)	(2,018)	(0.2)
Related party management fees	(554)	(0.1)	(110)	(0.0)	(956)	(0.1)	(330)	(0.0)
Income from operations	\$ 42,715	10.1%	\$ 42,947	11.2%	\$ 122,682	9.9%	\$ 121,020	11.1%

	Successor Period from May 25 through September 30, % of net		Predecessor Period from January 1 through May 24, % of net	
	2011	revenue	2011	revenue
Net revenue	\$ 596,134	100.0%	\$ 642,059	100.0%
Compensation and benefits	462,761	77.6	513,639	80.0
Operating expenses	20,078	3.4	21,038	3.3
Insurance expense	20,775	3.5	24,361	3.8
Selling, general and administrative expenses	10,814	1.8	12,900	2.0
Interest income from restricted assets	(592)	(0.1)	(584)	(0.1)

Edgar Filing: Emergency Medical Services CORP - Form 10-Q

Equity-based compensation expense	(443)	(0.1)	(6,801)	(1.1)
Related party management fees	(776)	(0.1)	(180)	(0.0)
Adjusted EBITDA	\$ 83,517	14.0%	\$ 77,686	12.1%
Reconciliation of Adjusted EBITDA to income from operations				
Adjusted EBITDA	83,517	14.0	77,686	12.1
Depreciation and amortization expense	(19,334)	(3.2)	(9,411)	(1.5)
Restructuring charges	(400)	(0.1)		
Interest income from restricted assets	(592)	(0.1)	(584)	(0.1)
Equity-based compensation expense	(443)	(0.1)	(6,801)	(1.1)
Related party management fees	(776)	(0.1)	(180)	(0.0)
Income from operations	\$ 61,972	10.4%	\$ 60,710	9.5%

Edgar Filing: Emergency Medical Services CORP - Form 10-Q

Table of Contents

AMR

	Successor Quarter ended September 30, % of net		Predecessor Quarter ended September 30, % of net		Combined Nine months ended September 30, % of net		Predecessor Nine months ended September 30, % of net	
	2011	revenue	2010	revenue	2011	revenue	2010	revenue
Net revenue	\$ 363,667	100.0%	\$ 352,226	100.0%	\$ 1,091,227	100.0%	\$ 1,033,347	100.0%
Compensation and benefits	213,086	58.6	221,426	62.9	662,692	60.7	641,079	62.0
Operating expenses	94,074	25.9	79,749	22.6	265,592	24.3	233,827	22.6
Insurance expense	15,298	4.2	9,379	2.7	42,624	3.9	33,339	3.2
Selling, general and administrative expenses	10,586	2.9	10,463	3.0	30,881	2.8	30,419	2.9
Interest income from restricted assets	(431)	(0.1)	(240)	(0.1)	(1,067)	(0.1)	(928)	(0.1)
Equity-based compensation expense	(504)	(0.1)	(1,144)	(0.3)	(9,208)	(0.8)	(2,569)	(0.2)
Related party management fees	(696)	(0.2)	(140)	(0.0)	(1,207)	(0.1)	(420)	(0.0)
Adjusted EBITDA	\$ 32,254	8.9%	\$ 32,733	9.3%	\$ 100,920	9.2%	\$ 98,600	9.5%
Reconciliation of Adjusted EBITDA to income from operations								
Adjusted EBITDA	32,254	8.9	32,733	9.3	100,920	9.2	98,600	9.5
Depreciation and amortization expenses	(15,319)	(4.2)	(11,325)	(3.2)	(40,749)	(3.7)	(33,629)	(3.3)
Restructuring charges	(2,974)	(0.8)			(2,974)	(0.3)		
Interest income from restricted assets	(431)	(0.1)	(240)	(0.1)	(1,067)	(0.1)	(928)	(0.1)
Equity-based compensation expense	(504)	(0.1)	(1,144)	(0.3)	(9,208)	(0.8)	(2,569)	(0.2)
Related party management fees	(696)	(0.2)	(140)	(0.0)	(1,207)	(0.1)	(420)	(0.0)
Income from operations	\$ 12,330	3.4%	\$ 19,884	5.6%	\$ 45,715	4.2%	\$ 61,054	5.9%

	Successor Period from May 25 through September 30, % of net		Predecessor Period from January 1 through May 24, % of net	
	2011	revenue	2011	revenue
Net revenue	\$ 511,496	100.0%	\$ 579,731	100.0%
Compensation and benefits	301,698	59.0	360,994	62.3
Operating expenses	129,890	25.4	135,702	23.4
Insurance expense	19,756	3.9	22,868	3.9
Selling, general and administrative expenses	14,540	2.8	16,341	2.8
Interest income from restricted assets	(527)	(0.1)	(540)	(0.1)
Equity-based compensation expense	(897)	(0.2)	(8,311)	(1.4)
Related party management fees	(988)	(0.2)	(219)	(0.0)
Adjusted EBITDA	\$ 48,024	9.4%	\$ 52,896	9.1%
Reconciliation of Adjusted EBITDA to income from operations				
Adjusted EBITDA	48,024	9.4	52,896	9.1
Depreciation and amortization expense	(21,693)	(4.2)	(19,056)	(3.3)

Edgar Filing: Emergency Medical Services CORP - Form 10-Q

Restructuring charges	(2,974)	(0.6)		
Interest income from restricted assets	(527)	(0.1)	(540)	(0.1)
Equity-based compensation expense	(897)	(0.2)	(8,311)	(1.4)
Related party management fees	(988)	(0.2)	(219)	(0.0)
Income from operations	\$ 20,945	4.1%	\$ 24,770	4.3%

Table of Contents

Quarter ended September 30, 2011 compared to the quarter ended September 30, 2010

Consolidated

Our results for the three months ended September 30, 2011 reflect an increase in net revenue of \$50.9 million and a decrease in net income of \$31.0 million compared to the three months ended September 30, 2010. The decrease in net income is attributable primarily to increases in interest expense and depreciation and amortization expense, partially offset by a decrease in income tax expense.

Net revenue. For the three months ended September 30, 2011, we generated net revenue of \$788.1 million compared to net revenue of \$737.2 million for the three months ended September 30, 2010, representing an increase of 6.9%. The increase is attributable primarily to increases in rates and volumes on existing contracts combined with increased volume from net new contracts and acquisitions.

Adjusted EBITDA. Adjusted EBITDA was \$91.5 million, or 11.6% of net revenue, for the three months ended September 30, 2011 compared to \$82.4 million, or 11.2% of net revenue, for the three months ended September 30, 2010.

Restructuring charges. Restructuring charges of \$3.4 million were recorded during the three months ended September 30, 2011, related to the re-alignment of operation and billing functions of AMR and EmCare, and to reduce overhead costs at EMSC.

Interest expense. Interest expense for the three months ended September 30, 2011 was \$43.7 million compared to \$4.9 million for the three months ended September 30, 2010. The change was due to the increase in our outstanding debt and effective interest rate associated with the issuance of our new senior subordinated unsecured notes and borrowings under our new credit facilities in May 2011. In conjunction with entering into our new credit facilities, we increased our total outstanding debt by \$2.0 billion.

Interest and other (expense) income. During the three months ended September 30, 2011, \$2.5 million was expensed compared to \$0.3 million of income recognized during the three months ended September 30, 2010. The increase in expense was due to \$2.5 million expensed during the three months ended September 30, 2011 for investment banking, legal, accounting and other advisory services related to the Merger.

Income tax expense. Income tax expense decreased by \$18.9 million for the three months ended September 30, 2011 compared to the same period in 2010. Our effective tax rate was 41.6% for the three months ended September 30, 2011 and 38.5% for the quarter ended September 30, 2010. The increase in our effective tax rate was primarily a result of certain state taxes which do not have decreases correlating with pre-tax book income.

EmCare

Net revenue. Net revenue for the three months ended September 30, 2011 was \$424.4 million, an increase of \$39.4 million, or 10.3%, from \$385.0 million for the three months ended September 30, 2010. The increase was due primarily to an increase in patient encounters from net new hospital contracts and net revenue increases in existing contracts. Net new contracts since June 30, 2010 accounted for a net revenue increase of \$24.4 million for the three months ended September 30, 2011, of which \$14.1 million came from net new contracts added in 2010 with the remaining increase in net revenue from those added in 2011. Net revenue under our same store contracts (contracts in existence for the entirety of both periods) increased \$15.1 million, or 4.5%, for the three months ended September 30, 2011. The change was due to a 2.3% increase in same store weighted patient encounters and a 2.2 % increase in revenue per weighted patient encounter.

Compensation and benefits. Compensation and benefits costs for the three months ended September 30, 2011 were \$329.6 million, or 77.7% of net revenue, compared to \$301.8 million, or 78.4% of net revenue, for the same period in 2010. Provider compensation costs increased \$15.7 million from net new contract additions. Same store provider compensation costs were \$9.4 million higher than the prior period due primarily to a 2.3% increase in same store weighted patient encounters and a 1.9% increase in provider compensation per weighted patient encounter. Non-provider compensation and total benefits costs increased by \$2.7 million during the three months ended September 30, 2011 compared to the same period in 2010. The increase is due to our recent acquisitions and organic growth.

Operating expenses. Operating expenses for the three months ended September 30, 2011 were \$14.0 million, or 3.3% of net revenue, compared to \$11.3 million, or 2.9% of net revenue, for the same period in 2010. Operating expenses increased \$2.7 million due primarily to increased billing and collection fees from our recent acquisitions and organic growth.

Edgar Filing: Emergency Medical Services CORP - Form 10-Q

Table of Contents

Insurance expense. Professional liability insurance expense for the three months ended September 30, 2011 was \$15.1 million, or 3.6% of net revenue, compared to \$16.4 million, or 4.3% of net revenue, for the three months ended September 30, 2010. We recorded an increase of prior year insurance provisions of \$1.7 million during the three months ended September 30, 2011 compared to an increase of \$3.2 million during the three months ended September 30, 2010.

Selling, general and administrative. Selling, general and administrative expense for the three months ended September 30, 2011 was \$7.9 million, or 1.9% of net revenue, compared to \$7.3 million, or 1.9% of net revenue, for the three months ended September 30, 2010.

Depreciation and amortization. Depreciation and amortization expense for the three months ended September 30, 2011 was \$14.6 million, or 3.5% of net revenue, compared to \$5.2 million, or 1.4% of net revenue, for the three months ended September 30, 2010. The \$9.4 million increase is due primarily to additional amortization expense associated with intangible assets recorded as a result of the Merger transaction.

AMR

Net revenue. Net revenue for the three months ended September 30, 2011 was \$363.7 million, an increase of \$11.5 million, or 3.2%, from \$352.2 million for the same period in 2010. The increase in net revenue was due primarily to an increase of 0.8%, or \$2.7 million, in weighted transport volume and an increase in net revenue per weighted transport of 2.4%, or \$8.8 million. The increase in net revenue per weighted transport of 2.4% was due to a 3.2% increase from growth in our managed transportation business, a 1.1% increase related to our FEMA deployment during the third quarter of 2011, partially offset by a 1.9% decrease in net revenue per weighted transport primarily due to the impact related to markets entered and exited combined with recent acquisitions. AMR's managed transportation business represented 7.8% of AMR's net revenue for the three months ended September 30, 2011 compared to 4.9% for the three months ended September 30, 2010 due to the addition of contracts in Nebraska, Idaho, and South Carolina. Weighted transports increased 5,600 from the same quarter last year. The change was due to an increase of 21,500 weighted transports from acquisitions and an increase of 6,700 weighted transports from our entry into new markets, offset by a decrease in weighted transport volume in existing markets of 0.5%, or 3,400 weighted transports, and a decrease of 19,200 weighted transports from exited markets.

Compensation and benefits. Compensation and benefit costs for the three months ended September 30, 2011 were \$213.1 million, or 58.6% of net revenue, compared to \$221.4 million, or 62.9% of net revenue, for the same period last year. Ambulance crew wages per ambulance unit hour decreased by approximately 1.5%, or \$1.9 million, attributable primarily to the impact from markets exited during the period. Non-crew compensation decreased period over period by \$3.3 million due to reductions related to reorganization changes and incentive compensation during the three months ended September 30, 2011 compared to the same period in 2010. Total benefits related costs decreased \$3.1 million due primarily to several large claims incurred in our self-insured health plans during the three months ended September 30, 2010.

Operating expenses. Operating expenses for the three months ended September 30, 2011 were \$94.1 million, or 25.9% of net revenue, compared to \$79.7 million, or 22.6% of net revenue, for the three months ended September 30, 2010. The change is due primarily to increased costs associated with our managed transportation business of \$11.7 million, increased fuel costs of \$2.2 million, and an increase of \$2.8 million related to our FEMA deployment during the third quarter of 2011.

Edgar Filing: Emergency Medical Services CORP - Form 10-Q

Insurance expense. Insurance expense for the three months ended September 30, 2011 was \$15.3 million, or 4.2% of net revenue, compared to \$9.4 million, or 2.7% of net revenue, for the same period in 2010. We recorded an increase of prior year insurance provisions of \$3.4 million during the three months ended September 30, 2011 compared to a decrease of \$3.0 million during the three months ended September 30, 2010.

Selling, general and administrative. Selling, general and administrative expense for the three months ended September 30, 2011 was \$10.6 million, or 2.9% of net revenue, compared to \$10.5 million, or 3.0% of net revenue, for the three months ended September 30, 2010.

Depreciation and amortization. Depreciation and amortization expense for the three months ended September 30, 2011 was \$15.3 million, or 4.2% of net revenue, compared to \$11.3 million, or 3.2% of net revenue, for the same period in 2010. The increase was due primarily to additional depreciation and amortization expense associated with adjustments to tangible and intangible assets recorded as a result of the Merger transaction.

Table of Contents

Nine months ended September 30, 2011 compared to the nine months ended September 30, 2010

Consolidated

Our results for the nine months ended September 30, 2011 reflect an increase in net revenue of \$204.1 million and a decrease in net income of \$59.5 million compared to the nine months ended September 30, 2010. The decrease in net income is attributable primarily to an increase in interest expense, depreciation and amortization expense, and other fees associated with the Merger, partially offset by a decrease in income tax expense. During the nine months ended September 30, 2011, we recorded \$32.4 million for fees associated with the Merger, which are included in interest and other (expense) income. An additional \$12.4 million in stock compensation expense was recorded for stock options and restricted stock which automatically vested with the Merger and the associated payroll taxes; see Note 1 to the accompanying unaudited consolidated financial statements.

Net revenue. For the nine months ended September 30, 2011, we generated net revenue of \$2,329.4 million compared to net revenue of \$2,125.3 million for the nine months ended September 30, 2010, representing an increase of 9.6%. The increase is attributable primarily to increases in rates and volumes on existing contracts combined with increased volume from net new contracts and acquisitions.

Adjusted EBITDA. Adjusted EBITDA was \$262.1 million, or 11.3% of net revenue, for the nine months ended September 30, 2011 compared to \$238.2 million, or 11.2% of net revenue, for the nine months ended September 30, 2010.

Restructuring charges. Restructuring charges of \$3.4 million were recorded during the nine months ended September 30, 2011, related to the re-alignment of operation and billing functions of AMR and EmCare, and to reduce overhead costs at EMSC.

Interest expense. Interest expense for the nine months ended September 30, 2011 was \$69.6 million compared to \$18.2 million for the nine months ended September 30, 2010. The change was due to the increase in our outstanding debt and effective interest rate associated with the issuance of our new senior subordinated unsecured notes and borrowings under our new credit facilities in May 2011. In conjunction with entering into our new credit facility, we increased our total outstanding debt by \$2.0 billion.

Interest and other (expense) income. During the nine months ended September 30, 2011, \$31.5 million was expensed compared to \$0.7 million of income recognized during the nine months ended September 30, 2010. The increase in expense was due to \$32.4 million expensed during the nine months ended September 30, 2011 for investment banking, legal, accounting and other advisory services related to the Merger.

Loss on early debt extinguishment. During the nine months ended September 30, 2011, we recorded a loss on early debt extinguishment of \$10.1 million which included unamortized debt issuance costs associated with our credit facility in place prior to the Merger. During the nine months ended September 30, 2010, we recorded a loss on early debt extinguishment of \$19.1 million as we entered into a new credit facility and redeemed our senior subordinated notes.

Income tax expense. Income tax expense decreased by \$29.9 million for the nine months ended September 30, 2011 compared to the same period in 2010. Our effective tax rate was 41.7% for the Successor period from May 25, 2011 through September 30, 2011 and 48.4% for the Predecessor period from January 1, 2011 through May 24, 2011. Our effective tax rate for the nine months ended September 30, 2010 was 38.5%. The increase in our effective tax rate was a result of certain Merger related costs that are not deductible for tax purposes.

EmCare

Net revenue. Net revenue for the nine months ended September 30, 2011 was \$1,238.2 million, an increase of \$146.2 million, or 13.4%, from \$1,092.0 million for the nine months ended September 30, 2010. The increase was due primarily to an increase in patient encounters from net new hospital contracts and net revenue increases in existing contracts. Net new contracts since December 31, 2009 accounted for a net revenue increase of \$112.2 million for the nine months ended September 30, 2011, of which \$84.4 million came from net new contracts added in 2010 with the remaining increase in net revenue from those added in 2011. Net revenue under our same store contracts (contracts in existence for the entirety of both periods) increased \$34.0 million, or 4.0%, for the nine months ended September 30, 2011. The change was due primarily to a 4.3% increase in same store weighted patient encounters, partially offset by a 0.3% decrease in revenue per weighted patient encounter. The increase in same store net revenue was due primarily to additional volume, partially offset by a lower average charge per patient, related to a stronger flu season in the first quarter of 2011 compared to the same period in 2010.

Table of Contents

Compensation and benefits. Compensation and benefits costs for the nine months ended September 30, 2011 were \$976.4 million, or 78.9% of net revenue, compared to \$858.9 million, or 78.7% of net revenue, for the same period in 2010. Stock-based compensation expense was \$7.2 million during the nine months ended September 30, 2011 compared to \$2.0 million during the same period last year. The increase was due primarily to accelerated stock-based compensation expense associated with the Merger. Provider compensation costs increased \$79.8 million from net new contract additions. Same store provider compensation costs were \$23.0 million higher than the prior period due primarily to a 4.3% increase in same store weighted patient encounters, partially offset by a 0.2% decrease in provider compensation per weighted patient encounter. Non-provider compensation and total benefits costs, excluding stock-based compensation expense, increased by \$9.4 million during the nine months ended September 30, 2011 compared to the same period in 2010. The increase is due to our recent acquisitions and organic growth.

Operating expenses. Operating expenses for the nine months ended September 30, 2011 were \$41.1 million, or 3.3% of net revenue, compared to \$34.3 million, or 3.1% of net revenue, for the same period in 2010. Operating expenses increased \$6.8 million due primarily to increased billing and collection fees from our recent acquisitions and organic growth.

Insurance expense. Professional liability insurance expense for the nine months ended September 30, 2011 was \$45.1 million, or 3.6% of net revenue, compared to \$40.5 million, or 3.7% of net revenue, for the nine months ended September 30, 2010. We recorded an increase of prior year insurance provisions of \$5.0 million during the nine months ended September 30, 2011 compared to an increase of \$3.2 million during the nine months ended September 30, 2010.

Selling, general and administrative. Selling, general and administrative expense for the nine months ended September 30, 2011 was \$23.7 million, or 1.9% of net revenue, compared to \$22.5 million, or 2.1% of net revenue, for the nine months ended September 30, 2010.

Depreciation and amortization. Depreciation and amortization expense for the nine months ended September 30, 2011 was \$28.7 million, or 2.3% of net revenue, compared to \$14.8 million, or 1.4% of net revenue, for the nine months ended September 30, 2010. The \$13.9 million increase is due primarily to additional amortization expense associated with intangible assets recorded as a result of the Merger transaction.

AMR

Net revenue. Net revenue for the nine months ended September 30, 2011 was \$1,091.2 million, an increase of \$57.9 million, or 5.6%, from \$1,033.3 million for the same period in 2010. The increase in net revenue was due primarily to an increase of 2.6%, or \$26.4 million, in weighted transport volume and an increase in net revenue per weighted transport of 3.0%, or \$31.5 million. The increase in net revenue per weighted transport of 3.0% was due to a 0.5% increase in net revenue per transport resulting primarily from a higher mix of emergency versus non-emergency transports and rate increases in several markets, a 2.1% increase from growth in our managed transportation business, and a 0.4% increase from our FEMA deployment during the third quarter of 2011. AMR's managed transportation business represented 6.7% of AMR's net revenue for the nine months ended September 30, 2011 compared to 4.7% for the nine months ended September 30, 2010 due to the addition of contracts in Nebraska, Idaho, and South Carolina. Weighted transports increased 55,700 from the same period last year. The change was due to an increase in weighted transport volume in existing markets of 1.4%, or 29,700 weighted transports, an increase of 34,500 weighted transports from acquisitions, and an increase of 15,000 weighted transports from our entry into new markets, offset by a decrease of 23,500 weighted transports from exited markets.

Edgar Filing: Emergency Medical Services CORP - Form 10-Q

Compensation and benefits. Compensation and benefit costs for the nine months ended September 30, 2011 were \$662.7 million, or 60.7% of net revenue, compared to \$641.1 million, or 62.0% of net revenue, for the same period last year. Stock-based compensation expense was \$9.2 million during the nine months ended September 30, 2011 compared to \$2.6 million during the same period last year. The increase was due primarily to accelerated stock-based compensation expense associated with the Merger. Ambulance crew wages per ambulance unit hour increased by approximately 1.2%, or \$4.4 million, attributable primarily to annual wage rate increases. Ambulance unit hours increased period over period by 1.9%, or \$6.8 million, due primarily to our recent acquisitions and our entry into new markets. Non-crew compensation, excluding stock-based compensation expense, decreased period over period by \$1.1 million due primarily to reductions in incentive compensation. Total benefits related costs increased \$5.0 million due primarily to increases in payroll taxes, of which \$0.3 million were related to the Merger, and higher costs for our health insurance plans.

Operating expenses. Operating expenses for the nine months ended September 30, 2011 were \$265.6 million, or 24.3% of net revenue, compared to \$233.8 million, or 22.6% of net revenue, for the nine months ended September 30, 2010. The change is

Edgar Filing: Emergency Medical Services CORP - Form 10-Q

Table of Contents

due primarily to increased costs associated with our managed transportation business of \$24.6 million, increased fuel costs of \$6.3 million, and an increase of \$2.8 million related to our FEMA deployment during the third quarter of 2011.

Insurance expense. Insurance expense for the nine months ended September 30, 2011 was \$42.6 million, or 3.9% of net revenue, compared to \$33.3 million, or 3.2% of net revenue, for the same period in 2010. We recorded an increase of prior year insurance provisions of \$8.2 million during the nine months ended September 30, 2011 compared to a decrease of \$2.9 million during the nine months ended September 30, 2010.

Selling, general and administrative. Selling, general and administrative expense for the nine months ended September 30, 2011 was \$30.9 million, or 2.8% of net revenue, compared to \$30.4 million, or 2.9% of net revenue, for the nine months ended September 30, 2010.

Depreciation and amortization. Depreciation and amortization expense for the nine months ended September 30, 2011 was \$40.7 million, or 3.7% of net revenue, compared to \$33.6 million, or 3.3% of net revenue, for the same period in 2010. The \$7.1 million increase is due primarily to additional amortization expense associated with intangible assets recorded as a result of the Merger transaction.

Liquidity and Capital Resources

Our primary source of liquidity is cash flows provided by our operating activities. We can also use our asset-based revolving credit facility, to supplement cash flows provided by our operating activities if we decide to do so for strategic or operating reasons. Our liquidity needs are primarily to service long-term debt and to fund working capital requirements, capital expenditures related to the acquisition of vehicles and medical equipment, technology-related assets and insurance-related deposits.

Concurrent with the completion of the Merger on May 25, 2011, we issued \$950 million of senior unsecured notes and entered into the \$1.8 billion senior secured credit facilities, which are further described in Note 5 to the accompanying consolidated financial statements, and consist of a \$1.44 billion senior secured term loan facility, or the Term Loan Facility, and a \$350 million asset-based revolving credit facility, or the ABL Facility.

Our ABL Facility provides for up to \$350 million of senior secured first priority borrowings, subject to a borrowing base of \$362 million as of September 30, 2011. The ABL Facility is available to fund working capital and for general corporate purposes. As of September 30, 2011, we had available borrowing capacity under the ABL Facility of approximately \$329.4 million. As of September 30, 2011, we had approximately \$20.6 million of letters of credit issued under the ABL Facility.

We believe that our cash and cash equivalents, cash provided by our operating activities and amounts available under our credit facility will be adequate to meet the liquidity requirements of our business through at least the next 12 months.

Edgar Filing: Emergency Medical Services CORP - Form 10-Q

While the ABL Facility generally does not contain financial maintenance covenants, a springing fixed charge coverage ratio of not less than 1.0 to 1.0 will be tested if our excess availability (as defined in the ABL Facility credit agreement) falls below specified thresholds at any time. If we require additional financing to meet cyclical increases in working capital needs, to fund acquisitions or unanticipated capital expenditures, we may need to access the financial markets.

The indenture related to the senior notes, the ABL Facility credit agreement and the Term Loan Facility agreement contain significant covenants, including prohibitions on our ability to incur certain additional indebtedness and to make certain investments and to pay dividends.

We may from time to time repurchase or otherwise retire or extend our debt and/or take other steps to reduce our debt or otherwise improve our financial position. These actions may include open market debt repurchases, negotiated repurchases, other retirements of outstanding debt and/or opportunistic refinancing of debt. The amount of debt that may be repurchased or otherwise retired or refinanced, if any, will depend on market conditions, trading levels of our debt, our cash position, compliance with debt covenants and other considerations. Our affiliates may also purchase our debt from time to time, through open market purchases or other transactions. In such cases, our debt may not be retired, in which case we would continue to pay interest in accordance with the terms of the debt, and we would continue to reflect the debt as outstanding in our condensed consolidated statements of financial position.

Cash Flow

The table below summarizes cash flow information derived from our statements of cash flows for the periods indicated, amounts in thousands.

	Combined	Predecessor
	Nine months ended September 30,	September 30,
	2011	2010
Net cash provided by (used in):		
Operating activities	\$ 159,215	\$ 139,365
Investing activities	(3,024,570)	(80,785)
Financing activities	2,711,722	(45,752)

Table of Contents

Operating activities. Net cash provided by operating activities was \$159.2 million for the nine months ended September 30, 2011 compared to \$139.4 million for the same period in 2010. The increase in operating cash flows was affected primarily by increases in cash flows from operating assets and liabilities, offset by a decrease in net income. Accounts payable and accrued liabilities increased cash flows from operations \$51.6 million during the nine months ended September 30, 2011 compared to \$13.9 million during the nine months ended September 30, 2010. The change is due primarily to the timing of payroll related liabilities, incentive compensation and interest payments during the nine months ended September 30, 2011 compared to the same period in 2010. Accounts receivable increased \$8.3 million and \$30.4 million during each of the nine months ended September 30, 2011 and 2012, respectively. Days sales outstanding, or DSO, decreased 1 day during the nine months ended September 30, 2011.

We regularly analyze DSO which is calculated by dividing our net revenue for the quarter by the number of days in the quarter. The result is divided into net accounts receivable at the end of the period. DSO provides us with a gauge to measure receivables, revenue and collection activities. The following table outlines our DSO by segment and in total excluding the impact of acquisitions completed within the specific quarter:

	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010
EmCare	54	52	54	54	54	55
AMR	68	68	66	69	70	68
EMSC	60	59	60	61	61	62

Investing activities. Net cash used in investing activities was \$3,024.6 million for the nine months ended September 30, 2011 compared to \$80.8 million for the same period in 2010. The increase is primarily due to the purchase of EMSC by CD&R for \$2.8 billion combined with increases in acquisition activity. Acquisitions of businesses totaled \$175.1 million during the nine months ended September 30, 2011 compared to \$51.2 million during the same period in 2010.

Financing activities. Net cash provided by financing activities was \$2,711.7 million for the nine months ended September 30, 2011 compared to net cash used in financing activities of \$45.8 million for the same period in 2010. We entered into new credit facilities in connection with CD&R's acquisition of EMSC which resulted in new borrowings of \$2,390.0 million during the nine months ended September 30, 2011 compared to the same period in 2010. During the nine months ended September 30, 2011, we also received \$887.1 million in proceeds from CD&R's equity investment in EMSC. These sources of cash from financing activities were partially offset by \$116.9 million in debt issuance costs and \$31.9 million in equity issuance costs, and repayment of the Predecessor term loan of \$415.0 million related to the Merger. At September 30, 2011, there were no amounts outstanding under our revolving credit facility.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary exposure to market risk consists of changes in interest rates on certain of our borrowings and changes in fuel prices. While we have from time to time entered into transactions to mitigate our exposure to both changes in interest rates and fuel prices, we do not use these instruments for speculative or trading purposes.

We manage our exposure to changes in fuel prices and, as appropriate, use highly effective derivative instruments to manage well-defined risk exposures. As of September 30, 2011, we were 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 \$3.17 to \$4.06 per gallon. We purchase the

Edgar Filing: Emergency Medical Services CORP - Form 10-Q

diesel fuel at the market rate and periodically settle with our 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 3.9 million gallons and are spread over periods from October 2011 through December 2013.

As of September 30, 2011, we had \$2,375.0 million of debt, excluding capital leases, of which \$1,424.3 million was variable rate debt under our senior secured credit facility and the balance was fixed rate debt. An increase or decrease in interest rates of 0.5%, above our LIBOR floor of 1.5%, will impact our interest costs by \$7.1 million annually.

On October 17, 2011, we entered into an interest rate swap agreement which matures on August 31, 2015. The swap agreement is with major financial institutions and effectively converts a notional amount of \$400 million in variable rate debt to fixed rate debt with an effective rate of 5.74%. We will continue to make interest payments based on the variable rate associated with the debt (based on LIBOR, but not less than 1.5%) and will periodically settle with our counterparties for the difference between the rate paid and the fixed rate.

Table of Contents

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain a system of disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)) that are designed to ensure that information required to be disclosed in the reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or furnishes under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on their evaluation of our disclosure controls and procedures conducted as of the end of the period covered by this Report on Form 10-Q, our principal executive officer and our principal financial officer have concluded that, as of the date of their evaluation, our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act) were effective as of September 30, 2011.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during our fiscal quarter ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

EMERGENCY MEDICAL SERVICES CORPORATION

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For additional information regarding legal proceedings, please refer to Note 8, to the accompanying consolidated financial statements included herein, and to our Annual Report on Form 10-K filed with the SEC on February 18, 2011.

Eleven purported shareholder class actions relating to the transactions contemplated by the Agreement and Plan of Merger, dated as of February 13, 2011, among EMSC, CDRT Acquisition Corporation and CDRT Merger Sub, Inc. (the Merger Agreement), have been filed in state court in Delaware and federal and state courts in Colorado against various combinations of EMSC, the members of our board of directors, and other parties. Seven actions were filed in the Delaware Court of Chancery beginning on February 22, 2011, which were consolidated into one action entitled In re Emergency Medical Services Corporation Shareholder Litigation, Consolidated C.A. No. 6248-VCS. On April 4, 2011, the Delaware plaintiffs filed their consolidated class action complaint. Two actions, entitled Scott A. Halliday v. Emergency Medical Services Corporation, et al., Case No. 2011CV316 (filed on February 15, 2011), and Alma C. Howell v. William Sanger, et. al., Case No. 2011CV488 (filed on March 1, 2011), were filed in the District Court, Arapahoe County, Colorado. Two other actions, entitled Michael Wooten v. Emergency Medical Services Corporation, et al., Case No. 11-CV-00412 (filed on February 17, 2011), and Neal Greenberg v. Emergency Medical Services Corporation, et. al., Case No. 11-CV-00496 (filed on February 28, 2011), were filed in the U.S. District Court for the District of Colorado and have been consolidated. These actions generally allege that the directors of EMSC, Onex Corporation and/or Onex Corporation's subsidiaries breached their fiduciary duties by, among other things: approving the transactions contemplated by the Merger Agreement, which allegedly were financially unfair to EMSC and its public stockholders; agreeing to provisions in the Merger Agreement that would allegedly prevent the board from considering other offers; permitting the unitholders agreement (which secured the majority votes in favor of the merger contemplated by the Merger Agreement (the Merger)) and failing to require a provision in the Merger Agreement requiring that a majority of the public stockholders approve the transactions contemplated by the Merger Agreement; and/or making allegedly materially inadequate disclosures. These actions further allege that certain other defendants aided and abetted these breaches. In addition, the two actions filed in the U.S. District Court for the District of Colorado contain individual claims brought under Section 14(a) and Section 20(a) of the Securities Exchange Act of 1934, as amended, pertaining to the purported dissemination of allegedly misleading proxy materials. These actions seek unspecified damages and equitable relief. We have reached an agreement in principle to resolve these suits, and believe that resolution will be approved by the Courts in early 2012.

In addition to the foregoing shareholder class actions, Merion Capital, L.P., a former stockholder of EMSC, has 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. Merion Capital was the holder of 599,000 shares of class A common stock in EMSC prior to the Merger. We have not paid any merger consideration for these shares and have recorded a reserve in the amount of \$38.3 million for such unpaid merger consideration pending conclusion of the appraisal action.

In July 2011, AMR received a request from the Civil Division of the U.S. Attorney's Office for the Central District of California (USAO) asking AMR to preserve certain documents concerning AMR's provision of ambulance services within the City of Riverside, California. The USAO indicated that it, together with the Department of Health and Human Services, Office of the Inspector General, are 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 is conducting a parallel state investigation for possible violations of the California False Claims Act. We have complied with the USAO's request to preserve documents. In October 2011, the USAO served AMR with a subpoena compelling production of certain documents, and AMR is in the process of complying with the USAO's subpoena.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in the Risk Factors sections of EMSC's Annual Report on Form 10-K for the year ended December 31, 2010 and Form 10-Q for the three and six months ended June 30, 2011.

Table of Contents

ITEM 6. EXHIBITS

- 31.1 Certification of the Chief Executive Officer of Emergency Medical Services Corporation pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
- 31.2 Certification of the Chief Financial Officer of Emergency Medical Services Corporation pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
- 32.1 Certification of the Chief Executive Officer and the Chief Financial Officer of Emergency Medical Services Corporation pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

* Filed with this Report

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EMERGENCY MEDICAL SERVICES CORPORATION

(registrant)

November 11, 2011
Date

By: /s/ William A. Sanger
William A. Sanger
Chief Executive Officer

By: /s/ Randel G. Owen
Randel G. Owen
Chief Financial Officer and Executive Vice
President

Table of Contents

EXHIBIT INDEX

- 31.1 Certification of the Chief Executive Officer of Emergency Medical Services Corporation pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
- 31.2 Certification of the Chief Financial Officer of Emergency Medical Services Corporation pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
- 32.1 Certification of the Chief Executive Officer and the Chief Financial Officer of Emergency Medical Services Corporation pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

* Filed with this Report