Emergency Medical Services L.P.
Form 10-Q
November 04, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2010

Or

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

For the transition period from to

Commission file numbers:

001-32701

333-127115

EMERGENCY MEDICAL SERVICES CORPORATION

EMERGENCY MEDICAL SERVICES L.P.

(Exact name of Registrants as Specified in their Charters)

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

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

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

Not applicable

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). o Yes o No

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

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

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

Shares of class A common stock outstanding at October 29, 2010 30,315,886; shares of class B common stock outstanding at October 29, 2010 65,052; LP exchangeable units outstanding at October 29, 2010 13,724,676.

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EMERGENCY MEDICAL SERVICES CORPORATION

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FOR THE THREE AND NINE MONTHS ENDED

SEPTEMBER 30, 2010

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EMERGENCY MEDICAL SERVICES CORPORATION

PART I. FINANCIAL INFORMATION

FOR THE THREE AND NINE MONTHS ENDED

SEPTEMBER 30, 2010

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

Emergency Medical Services Corporation

Consolidated Statements of Operations and Comprehensive Income

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

	Quarter ended September 30, 2010	Quarter ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Net revenue	$ 737,180	$ 665,056	$ 2,125,338	$ 1,915,369
Compensation and benefits	523,263	467,625	1,500,023	1,332,787
Operating expenses	91,023	85,510	268,138	252,355
Insurance expense	25,793	24,845	73,805	75,706
Selling, general and administrative expenses	17,742	15,871	52,898	47,186
Depreciation and amortization expense	16,528	15,733	48,400	48,658
Income from operations	62,831	55,472	182,074	158,677
Interest income from restricted assets	717	1,082	2,431	3,468
Interest expense	(4,856)	(10,280)	(18,182)	(30,749)
Realized gain on investments	730	544	879	2,030
Interest and other income	277	502	748	1,442
Loss on early debt extinguishment			(19,091)	
Income before income taxes and equity in earnings of unconsolidated subsidiary	59,699	47,320	148,859	134,868
Income tax expense	(22,990)	(18,533)	(57,355)	(53,144)
Income before equity in earnings of unconsolidated subsidiary	36,709	28,787	91,504	81,724
Equity in earnings of unconsolidated subsidiary	53	91	252	244
Net income	36,762	28,878	91,756	81,968
Other comprehensive income (loss), net of tax:				
Unrealized holding gains (losses) during the period	364	761	1,907	(1,773)
Unrealized gains on derivative financial instruments	330	1,105	245	2,372
Comprehensive income	$ 37,456	$ 30,744	$ 93,908	$ 82,567
Basic earnings per common share	$ 0.83	$ 0.67	$ 2.09	$ 1.93
Diluted earnings per common share	$ 0.82	$ 0.66	$ 2.06	$ 1.89
	44,100,239	42,809,582	43,896,524	42,366,065

Weighted average common shares outstanding, basic				
Weighted average common shares outstanding, diluted	44,699,169	43,769,788	44,648,135	43,402,818

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

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Emergency Medical Services Corporation

Consolidated Balance Sheets

(in thousands, except share and per share data)

	September 30, 2010 (Unaudited)	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 345,716	$ 332,888
Insurance collateral	28,231	24,986
Trade and other accounts receivable, net	492,723	459,088
Parts and supplies inventory	22,759	22,270
Prepaids and other current assets	17,251	19,662
Current deferred tax assets		6,323
Total current assets	906,680	865,217
Non-current assets:		
Property, plant and equipment, net	126,759	125,855
Intangible assets, net	138,641	102,654
Non-current deferred tax assets	6,723	13,468
Insurance collateral	151,949	143,886
Goodwill	388,506	381,951
Other long-term assets	18,748	21,676
Total assets	$ 1,738,006	$ 1,654,707
Liabilities and Equity		
Current liabilities:		
Accounts payable	$ 68,239	$ 70,759
Accrued liabilities	264,603	273,704
Current deferred tax liability	11,068	
Current portion of long-term debt	13,953	4,676
Total current liabilities	357,863	349,139
Long-term debt	410,307	449,254
Insurance reserves and other long-term liabilities	166,152	170,227
Total liabilities	934,322	968,620
Equity:		
Preferred stock ($0.01 par value; 20,000,000 shares authorized, 0 issued and outstanding)		
Class A common stock ($0.01 par value; 100,000,000 shares authorized, 30,294,976 and 29,541,411 issued and outstanding in 2010 and 2009, respectively)	303	295
Class B common stock ($0.01 par value; 40,000,000 shares authorized and 65,052 issued and outstanding in 2010 and 2009, respectively)	1	1
Class B special voting stock ($0.01 par value; 1 share authorized, issued and outstanding in 2010 and 2009)		
LP exchangeable units (13,724,676 units issued and outstanding in 2010 and 2009, respectively)	90,776	90,776
Treasury stock at cost (23,437 shares in 2010)	(1,289)	
Additional paid-in capital	300,286	275,316
Retained earnings	410,798	319,042
Accumulated other comprehensive income	2,809	657
Total equity	803,684	686,087
Total liabilities and equity	$ 1,738,006	$ 1,654,707

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

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Emergency Medical Services Corporation

Consolidated Statements of Cash Flows

(unaudited; in thousands)

	Quarter ended September 30, 2010	Quarter ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Cash Flows from Operating Activities				
Net income	$ 36,762	$ 28,878	$ 91,756	$ 81,968
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	17,165	16,242	50,173	49,983
Loss on disposal of property, plant and equipment	6	33	95	69
Equity-based compensation expense	2,042	1,121	4,587	2,875
Excess tax benefits from stock-based compensation	(479)		(13,977)	
Loss on early debt extinguishment			19,091	
Equity in earnings of unconsolidated subsidiary	(53)	(91)	(252)	(244)
Dividends received			403	713
Deferred income taxes	(1,102)	18,061	(262)	49,989
Changes in operating assets/liabilities, net of acquisitions:				
Trade and other accounts receivable	(10,882)	7,574	(30,441)	8,448
Parts and supplies inventory	(231)	41	(318)	(66)
Prepaids and other current assets	14,487	(6,270)	2,271	(1,580)
Accounts payable and accrued liabilities	799	(1,007)	13,898	10,613
Insurance accruals	(3,891)	4,280	2,341	7,033
Net cash provided by operating activities	54,623	68,862	139,365	209,801
Cash Flows from Investing Activities				
Purchases of property, plant and equipment	(16,199)	(13,576)	(31,367)	(33,661)
Proceeds from sale of property, plant and equipment	12	41	120	101
Acquisition of businesses, net of cash received	(183)	(1,241)	(51,158)	(1,374)
Net change in insurance collateral	(4,140)	6,002	(9,401)	4,069
Other investing activities	83	(166)	11,021	(809)
Net cash used in investing activities	(20,427)	(8,940)	(80,785)	(31,674)
Cash Flows from Financing Activities				
EMSC issuance of class A common stock	221	2,437	6,414	7,160
Class A common stock repurchased as treasury stock	(1,289)		(1,289)	
Repayments of capital lease obligations and other debt	(3,275)	(1,214)	(455,902)	(3,826)
Borrowings under credit facility			425,000	
Debt issue costs	(219)		(11,968)	
Payment for debt extinguishment premiums			(14,513)	
Excess tax benefits from stock-based compensation	479		13,977	
Net change in bank overdrafts	2,570	2,821	(7,471)	3,471
Net cash (used in) provided by financing activities	(1,513)	4,044	(45,752)	6,805
Change in cash and cash equivalents	32,683	63,966	12,828	184,932
Cash and cash equivalents, beginning of period	313,033	267,139	332,888	146,173

Cash and cash equivalents, end of period	$	345,716	$	331,105	$	345,716	$	331,105

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

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Emergency Medical Services Corporation

Notes to Unaudited Consolidated Financial Statements

(in thousands, except share and per share data)

1. General

Basis of Presentation of Financial Statements

The accompanying interim consolidated financial statements for Emergency Medical Services Corporation (EMSC or the Company) have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim reporting and accordingly, do not include all of the disclosures required for annual financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All such adjustments are of a normal, recurring nature. Operating results for the three and nine month periods ended September 30, 2010 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2010. For further information, see the Company s consolidated financial statements, including the accounting policies and notes thereto, included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

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

The Company is party to a management agreement with a wholly-owned subsidiary of Onex Corporation, the Company s principal equityholder. In exchange for an annual management fee of $1.0 million, the Onex subsidiary provides the Company with corporate finance and strategic planning consulting services. For each of the three and nine months ended September 30, 2010 and 2009, the Company expensed $250 and $750, respectively, in respect of this fee.

2. Summary of Significant Accounting Policies

Consolidation

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

Use of Estimates

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

Insurance

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

Insurance 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 generally retains liability for the first $1 to $2 million of the loss. Insurance reserves cover known claims and incidents within the level of Company retention that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from activities through the balance sheet date.

The Company establishes reserves for claims based upon an assessment of actual claims and claims incurred but not reported. The reserves are established based on quarterly consultation with third-party independent actuaries using actuarial principles and assumptions that consider a number of factors, including historical claim payment patterns (including legal costs), 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 2010. As a result of this actuarial valuation, the Company recorded an increase of $0.1 million in its provision for insurance liabilities related to reserves for losses in prior years during the three months ended September 30, 2010. A total increase of $0.2 million was recorded during the nine

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months ended September 30, 2010. As a result of the actuarial valuation completed in September 2009, the Company recorded a decrease of $0.9 million in its provision for insurance liabilities during the three months ended September 30, 2009. A total increase of $4.3 million was recorded during the nine months ended September 30, 2009.

The long-term portion of insurance reserves was $155.2 million and $143.6 million as of September 30, 2010 and December 31, 2009, respectively.

Trade and Other Accounts Receivable, net

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

		September 30, 2010		December 31, 2009
Gross trade accounts receivable	$	2,068,202	$	1,955,152
Allowance for contractual discounts		1,088,277		1,001,285
Allowance for uncompensated care		576,683		572,015
Net trade accounts receivable		403,242		381,852
Other receivables, net		89,481		77,236
Net accounts receivable	$	492,723	$	459,088

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

AMR contractual allowances are 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.

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.

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 estimated 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:

	Quarter ended September 30,		Nine months ended September 30,	
	2010	**2009**	**2010**	**2009**
Gross revenue	100.0%	100.0%	100.0%	100.0%
Provision for contractual discounts	52.3%	49.2%	52.5%	48.9%
Revenue net of contractual discounts	47.7%	50.8%	47.5%	51.1%
Provision for uncompensated care as a percentage of gross revenue	19.0%	20.3%	18.7%	20.1%
Provision for uncompensated care as a percentage of gross revenue less contractual discounts	39.9%	39.9%	39.3%	39.3%

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Healthcare reimbursement is complex and may involve lengthy delays. Third-party payors are continuing their efforts to control expenditures for healthcare, including proposals to revise reimbursement policies. The Company has from time to time experienced delays in reimbursement from third-party payors. In addition, third-party payors may disallow, in whole or in part, claims for reimbursement based on determinations that certain amounts are not reimbursable under plan coverage, determinations of medical necessity, or the need for additional information. Laws and regulations governing the Medicare and Medicaid programs are very complex and subject to interpretation. Revenue is recognized on an estimated basis in the period 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 three and nine month periods ending September 30, 2010 and 2009.

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

Equity Structure

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

As of September 30, 2010, the Company holds 68.8% of the equity interests in EMS LP. LP exchangeable units, held by persons affiliated with the Company s principal equity holder, represent the balance of the EMS LP equity. The LP exchangeable units are exchangeable at any time, at the option of the holder, for shares of the Company s class B common stock on a one-for-one basis. The holders of the LP exchangeable units have the right to vote, through the trustee holder of the Company s class B special voting stock, at all stockholder meetings at which holders of the Company s class B common stock or class B special voting stock are entitled to vote.

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

Fair Value Measurement

The Company classifies its financial instruments that are reported at fair value based on a hierarchal 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.

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

Level 3 Pricing inputs are unobservable as of the reporting date and reflect the Company s own assumptions about the

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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, 2010:

Description	Total	Level 1	Level 2	Level 3
Assets:				
Securities	$ 62,152	$ 49,608	$ 12,544	$
Derivatives	$ 571	$	$ 571	$

Recent Accounting Pronouncements

In August 2010, the FASB further defined the requirements for measurement and disclosure of charity care provided. The amendments require that cost, both direct and indirect, be used as the measurement basis for charity care disclosure purposes. These amendments will be effective for the Company beginning January 1, 2011. Management does not expect the adoption of this guidance to have a material effect on the Company s consolidated financial statements and related disclosures.

Also in August 2010, the FASB clarified that healthcare entities should not net insurance recoveries against a related claim liability. These amendments will be effective for the Company beginning January 1, 2011. Management does not expect the adoption of this guidance to have a material effect on the Company s consolidated financial statements and related disclosures.

3. Acquisitions

During the three months ended March 31, 2010, the Company made a purchase price allocation adjustment related to the acquisition of the management services entity of Pinnacle Anesthesia Consultants, P.A. and Pinnacle Consultants Mid-Atlantic, L.L.C. (together, the Pinnacle Acquisition) which closed in December 2009. Based on an independent valuation analysis completed during the first quarter of 2010, $31.1 million was reclassified from goodwill to intangible assets, and amortized accordingly.

On May 28, 2010, the Company completed the acquisition of V.I.P. Professional Services, Inc., the parent of Gold Coast Ambulance Service, which provides emergency and non-emergency ambulance services in southwest Ventura County, California. On June 4, 2010, an affiliate of the Company completed the acquisition of professional entities which provide anesthesiology services for Clinical Partners Management Company, an existing subsidiary of the Company. On June 30, 2010, the Company completed its acquisition of Affilion, Inc., which provides emergency department physician staffing and related management services to hospitals in Arizona, New Mexico and Texas. Also on June 30, 2010, an affiliate of the Company completed its acquisition of Fredericksburg Anesthesia Consultants, PLLC, a provider of anesthesia services to facilities in south Texas. The total cost of these and other smaller acquisitions was $51.2 million and the Company has recorded $35.7 million of goodwill, which amount is subject to adjustment based upon completion of purchase price allocations.

4. Accrued Liabilities

Accrued liabilities were as follows at September 30, 2010 and December 31, 2009:

	September 30, 2010	December 31, 2009
Accrued wages and benefits	$ 113,355	$ 92,721
Accrued paid time-off	27,422	24,290
Current portion of self-insurance reserves	53,593	62,832
Accrued restructuring	165	181
Current portion of compliance and legal	7,253	2,814
Accrued billing and collection fees	3,800	4,093
Accrued incentive compensation	20,253	34,000
Accrued interest	1,003	9,773
Accrued income taxes payable		5,454
Other	37,759	37,546
Total accrued liabilities	$ 264,603	$ 273,704

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5. Long-Term Debt

On April 8, 2010, the Company completed the financing of new senior secured credit facilities consisting of a $425 million term loan and a $150 million revolving credit facility. The term loan bears interest at LIBOR, plus a margin of 3.00%, and requires quarterly principal repayments until maturity in 2015. The revolving facility bears interest at LIBOR, plus a margin of 3.00%, and is repayable at maturity in 2015. The senior secured credit facilities can be expanded and the interest rate margins stepped down to 2.75% upon achieving certain leverage ratios. Substantially all of EMS LP s domestic assets are pledged as collateral under the new senior secured credit facilities. The revolving facility is also subject to an annual commitment fee of 0.5% on unutilized commitments.

In conjunction with completing the financing under the new credit facilities, the Company repaid the balance outstanding on the previous senior secured term loan and redeemed the Company s 10% senior subordinated notes. During the three months ended June 30, 2010, the Company recorded a loss on early debt extinguishment of $19.1 million which included certain unamortized debt issuance costs as well as costs associated with the redemption of the senior subordinated notes.

Long-term debt consisted of the following at September 30, 2010 and December 31, 2009:

	September 30, 2010	December 31, 2009
Senior subordinated notes	$	$ 250,000
Senior secured term loan due 2015 (3.28% at September 30, 2010)	422,344	199,765
Notes due at various dates from 2010 to 2022 with interest rates from 6% to 10%	1,115	1,249
Capital lease obligations due at various dates from 2010 to 2018 (see note 7)	801	2,916
	424,260	453,930
Less current portion	(13,953)	(4,676)
Total long-term debt	$ 410,307	$ 449,254

6. Derivative Instruments and Hedging Activities

The Company manages its exposure to changes in market interest rates and fuel prices 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, 2010, 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 $3.00 to $3.29 per gallon. The Company purchases the diesel fuel at the market rate and periodically settles with its counterparty for the difference between the national average price for the period published by the Department of Energy and the agreed upon fixed price. The transactions fix the price for a total of 5.9 million gallons, which represent approximately 32% of the Company s total estimated usage over the hedge period, and are spread over periods from October 2010 through June 2012. As of September 30, 2010, 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 of $0.6 million, compared to $0.2 million as of December 31, 2009. The net additional payments made or received under these hedge agreements did not have a material impact on operating expenses during the nine months ended September 30, 2010.

7. 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.

Purchase Commitment

Beginning in March 2009, AMR entered into a series of forward purchase contracts which fixed the price for a portion of its total monthly diesel fuel usage from April 1, 2009 through June 30, 2010. Based on the terms of the contracts, the Company has concluded they do not qualify as derivatives. There was no material impact to operating expenses related to

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these contracts during the three and nine month periods ended September 30, 2010 and 2009.

Services

The Company is subject to the Medicare and Medicaid fraud and abuse laws which prohibit, among other things, any false claims, or any bribe, kickback or rebate in return for the referral of Medicare and Medicaid patients. Violation of these prohibitions may result in civil and criminal penalties and exclusion from participation in the Medicare and Medicaid programs. Management has implemented policies and procedures that management believes will assure that the Company is in substantial compliance with these laws and regulations but there can be no assurance the Company will not be found to have violated certain of these laws and regulations. From time to time, the Company receives requests for information from government agencies pursuant to their regulatory or investigational authority. Such requests can include subpoenas or demand letters for documents to assist the government in audits or investigations. The Company is cooperating with the government agencies conducting these investigations and is providing requested information to the government agencies. Other than the proceedings described below, management believes that the outcome of any of these investigations would not have a material adverse effect on the Company.

Other Legal Matters

On December 13, 2005, a lawsuit purporting to be a class action was commenced against AMR in Spokane, Washington in Washington State Court, Spokane County. The complaint alleged that AMR billed patients and third party payors for transports it conducted between 1998 and 2005 at higher rates than contractually permitted. The court has certified a class in this case which is comprised of approximately 15,000 Spokane County residents. In September 2010, the Company and class representatives reached an agreement to resolve the claims for approximately $1.1 million, which amount includes all remaining refunds due to class members and attorney s fees for the plaintiffs counsel. The settlement is expected to be approved and finalized by the court by the end of January 2011.

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 has 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, provided its response, and is currently in discussions with the DOJ and the Office of the Inspector General of Health and Human Services regarding resolution of this matter. During the three months ended June 30, 2010, the Company recorded a $3.1 million reserve for its estimate of likely exposure in this matter.

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 the 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, the courts have not certified classes in any of these cases. Plaintiffs allege principally that the AMR entities failed to pay daily 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 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.

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

8. Equity Based Compensation

The Company s stock options are valued using the Black-Scholes valuation model on the date of grant. Equity based compensation has been issued under the plans described below.

Equity Option Plan

Under the Company s Equity Option Plan, key employees were granted options that permit the individuals to purchase class A common shares and vest ratably generally over a period of four years. In addition, certain performance measures must be met for 50% of the options to become exercisable; these performance measures were satisfied during 2009 with respect to

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the options granted under the Equity Option Plan. As the vesting period for these options was completed prior to 2010, the Company did not record a compensation charge during each of the three and nine months ended September 30, 2010 as well as during the three months ended September 30, 2009. A compensation charge of $97 was recorded for the nine months ended September 30, 2009. Options are no longer granted under the Equity Option Plan, but rather under the Company s Second Amended and Restated Long-Term Incentive Plan described below.

Long-Term Incentive Plan

The Company s original 2007 Long-Term Incentive Plan was approved by stockholders in May 2007, amended and restated in May 2008, and a Second Amended and Restated Long-Term Incentive Plan (the Plan) was approved by stockholders in May 2010. The Plan provides for the grant of long-term incentives, including various equity-based incentives, to those persons with responsibility for the success and growth of the Company and its subsidiaries. Options granted under the Plan vest and become exercisable ratably over a period of four years from the date of grant and have a maximum term of ten years. In addition, for options granted under the Plan prior to January 1, 2009, certain performance measures were required to be met for 50% of these options to become exercisable; these performance measures were satisfied during the first quarter of 2010. The Company also grants shares of restricted stock under the Plan, which currently lapse ratably over a period of three years from the date of grant. In addition, with respect to grants of restricted stock in May 2010 to the Company s named executive officers and persons deemed covered employees under section 162(m) of the Internal Revenue Code of 1986, as amended, certain profitability-based performance measures must be met within that three-year period for restricted stock grants to lapse.

The Company recorded a compensation charge of $1,859 and $996 during the three months ended September 30, 2010 and 2009, respectively, and $4,135 and $2,403 during the nine months ended September 30, 2010 and 2009, respectively, in connection with the Plan.

Non-Employee Director Compensation Plan

The Non-Employee Director Compensation Plan, approved in May 2007, is available to non-employee directors of the Company, other than the Chair of the Compliance Committee. Under this plan, eligible directors are granted Restricted Stock Units (RSUs) following each annual stockholder meeting with each RSU representing one share of the Company s class A common stock. As of May 2010, eligible directors now receive a grant of RSUs having a fair market value of $133 on the date of grant based on the closing price of the Company s class A common stock on the business day immediately preceding the grant date. The Non-Employee Director Compensation Plan allows directors to defer income from the grant of RSUs, which vest immediately prior to the election of directors at the next annual stockholder meeting. In connection with this plan, the Company granted 2,324 RSUs per director after the Company s 2010 annual stockholder meeting, plus an additional prorated amount of 1,854 RSUs to a director upon his election to the board of directors in July 2010. The Company granted 3,018 RSUs per director in 2009. The Company expensed $183 and $125 during the three month periods ended September 30, 2010 and 2009, respectively, and $452 and $375 during the nine month periods ended September 30, 2010 and 2009, respectively.

Stock Purchase Plan/Employee Stock Purchase Plan

During the second quarter of 2010, the Company commenced an offering of its class A common stock to eligible employees and independent contractors associated with the Company and its subsidiaries pursuant to the Company s Stock Purchase Plan and Employee Stock Purchase Plan (together, the SPPs). The purchases of stock under the SPPs occurred in October 2010 at a 5% discount to the closing price of the Company s class A common stock on October 15, 2010, and as such no compensation charge was recorded for these plans during the nine months ended September 30, 2010.

9. Segment Information

The Company is organized around two separately managed business units: healthcare transportation services and facility-based physician services, which have been identified as operating segments. The healthcare transportation services reportable segment focuses on providing a full range of medical transportation services from basic patient transit to the most advanced emergency care and pre-hospital assistance. The 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 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 income, realized gain on investments, interest expense and depreciation and amortization (Adjusted

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EBITDA) is the measure of profit and loss that the CODM uses to assess performance, measure liquidity and make decisions. The accounting policies for reported segments are the same as for the Company as a whole.

	Quarter ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Healthcare Transportation Services				
Net Revenue	$ 352,226	$ 338,768	$ 1,033,347	$ 1,010,718
Segment Adjusted EBITDA	31,449	31,838	95,611	98,151
Facility-Based Physician Services				
Net Revenue	384,954	326,288	1,091,991	904,651
Segment Adjusted EBITDA	48,627	40,449	137,294	112,652
Total				
Total Net Revenue	737,180	665,056	2,125,338	1,915,369
Total Adjusted EBITDA	80,076	72,287	232,905	210,803
Reconciliation of Adjusted EBITDA to Net Income				
Adjusted EBITDA	$ 80,076	$ 72,287	$ 232,905	$ 210,803
Depreciation and amortization expense	(16,528)	(15,733)	(48,400)	(48,658)
Interest expense	(4,856)	(10,280)	(18,182)	(30,749)
Realized gain on investments	730	544	879	2,030
Interest and other income	277	502	748	1,442
Loss on early debt extinguishment			(19,091)	
Income tax expense	(22,990)	(18,533)	(57,355)	(53,144)
Equity in earnings of unconsolidated subsidiary	53	91	252	244
Net income	$ 36,762	$ 28,878	$ 91,756	$ 81,968

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

	Quarter ended September 30,	Nine months ended September 30,