

Emergency Medical Services CORP
Form 10-Q
May 13, 2013
[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 March 31, 2013

Or

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

For the transition period from to

Commission file number:

001-32701

EMERGENCY MEDICAL SERVICES CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

20-3738384

(IRS Employer
Identification Number)

6200 S. Syracuse Way, Suite 200

Greenwood Village, CO

(Address of principal executive offices)

80111

(Zip Code)

Registrant's telephone number, including area code: **303-495-1200**

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

Not applicable

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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 May 10, 2013 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 March 31, 2013 and March 31, 2012</u> | 3 |
| | <u>Consolidated Balance Sheets as of March 31, 2013 and December 31, 2012</u> | 4 |
| | <u>Consolidated Statements of Cash Flows for the three months ended March 31, 2013 and March 31, 2012</u> | 5 |
| | <u>Notes to Unaudited Consolidated Financial Statements</u> | 6 |
| <u>Item 2.</u> | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 23 |
| <u>Item 3.</u> | <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 33 |
| <u>Item 4.</u> | <u>Controls and Procedures</u> | 34 |
| <u>Part II. Other Information</u> | | 35 |
| <u>Item 1.</u> | <u>Legal Proceedings</u> | 35 |
| <u>Item 1A.</u> | <u>Risk Factors</u> | 35 |
| <u>Item 6.</u> | <u>Exhibits</u> | 36 |
| <u>Signatures</u> | | 37 |

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)**

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

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

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

(in thousands, except share and per share data)

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

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

Table of Contents**EMERGENCY MEDICAL SERVICES CORPORATION****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(unaudited; in thousands)

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

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

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. In the opinion of management, the consolidated financial statements include all normal recurring adjustments necessary for a fair presentation of the periods presented. Operating results for interim periods are not necessarily indicative of the results that may be expected for the full year ending December 31, 2013. For further information, see the *Company*'s consolidated financial statements, including the accounting policies and notes thereto, included in the *Company*'s Annual Report on Form 10-K for the year ended December 31, 2012.

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

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

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

2. Summary of Significant Accounting Policies

Consolidation

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

Use of Estimates

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

Insurance

Insurance collateral is comprised principally of government and investment grade securities and cash deposits with third parties and supports the Company's insurance program and reserves. Certain of these investments, if sold or otherwise liquidated, would have to be replaced by other suitable financial assurances and are, therefore, considered restricted. Insurance collateral also includes a receivable from insurers of \$1.6 million as of March 31, 2013 and December 31, 2012 for liabilities in excess of our self-insured retention.

Insurance reserves are established for automobile, workers compensation, general liability and professional liability claims utilizing policies with both fully-insured and self-insured components. This includes the use of an off-shore captive insurance program through a wholly-owned subsidiary for certain liability programs for both EmCare and AMR. In those instances where the Company has obtained third-party insurance coverage, the Company normally retains liability for the first \$1 to \$3 million of the loss. Insurance reserves cover known claims and incidents within the level of Company retention

Table of Contents

that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from activities through the balance sheet date.

The Company establishes reserves for claims based upon an assessment of actual claims and claims incurred but not reported. The reserves are established based on quarterly consultation with third-party independent actuaries using actuarial principles and assumptions that consider a number of factors, including historical claim payment patterns (including legal costs) and changes in case reserves and the assumed rate of inflation in healthcare costs and property damage repairs. Claims, other than general liability claims, are discounted at a rate of 1.5%. General liability claims are not discounted.

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

The long-term portion of insurance reserves was \$185.9 million and \$189.4 million as of March 31, 2013 and December 31, 2012, respectively.

Trade and Other Accounts Receivable, net

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

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

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

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

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

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

AMR contractual allowances are determined primarily on payor reimbursement schedules that are included and regularly updated in the billing systems, and by historical collection experience. The billing systems calculate the difference between payor specific gross billings and contractually agreed to, or governmentally driven, reimbursement rates. The allowance for uncompensated care at AMR is related principally to receivables recorded for self-pay patients. AMR's allowances on self-pay accounts receivable are estimated on claim level, historical write-off experience.

Business Combinations

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

Table of Contents**Revenue Recognition**

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

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

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

Healthcare reimbursement is complex and may involve lengthy delays. Third-party payors are continuing their efforts to control expenditures for healthcare, including proposals to revise reimbursement policies. The Company has from time to time experienced delays in reimbursement from third-party payors. In addition, third-party payors may disallow, in whole or in part, claims for payment based on determinations that certain amounts are not reimbursable under plan coverage, determinations of medical necessity, or the need for additional information. Laws and regulations governing the Medicare and Medicaid programs are very complex and subject to interpretation. Revenue is recognized on an estimated basis in the period in which related services are rendered. As a result, there is a reasonable possibility that recorded estimates will change materially in the short-term. Such amounts, including adjustments between provisions for contractual discounts and uncompensated care, are adjusted in future periods, as adjustments become known. These adjustments were less than 1% of net revenue for the quarters ended March 31, 2013 and 2012.

The Company provides services to patients who have no insurance or other third-party payor coverage. In certain circumstances, federal law requires providers to render services to any patient who requires care regardless of their ability to pay. Services to these patients are not considered to be charity care and provisions for uncompensated care for these services are estimated accordingly.

Fair Value Measurement

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

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, which include investments held in connection with the Company's captive insurance program.

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

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 fixed income mortgage backed securities, corporate bonds, and derivatives.

Level 3 Pricing inputs are unobservable as of the reporting date and reflect the Company's own assumptions about the fair value of the asset or liability. Balances in this category include the Company's estimate, using a combination of internal and external fair value analyses, of contingent consideration for acquisitions made in prior periods.

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

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

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

Recent Accounting Pronouncements

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

ASU 2013-2 requires the following:

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

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

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

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

3. Acquisitions

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

Table of Contents**4. Accrued Liabilities**

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

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

5. Long-Term Debt

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

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

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

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

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

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

Table of Contents

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

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

6. Derivative Instruments and Hedging Activities

The Company manages its exposure to changes in fuel prices and interest rates and, from time to time, uses highly effective derivative instruments to manage well-defined risk exposures. The Company monitors its positions and the credit ratings of its counterparties and does not anticipate non-performance by the counterparties. The Company does not use derivative instruments for speculative purposes.

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

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

7. Changes in Accumulated Other Comprehensive Income by Component

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

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

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

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

Table of Contents

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

8. Restructuring Charges

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

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

9. Commitments and Contingencies*Lease Commitments*

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

The Company also leases certain leasehold improvements under capital leases. Assets under capital leases are capitalized using inherent interest rates at the inception of each lease. Capital leases are collateralized by the underlying assets.

Services

The Company is subject to the Medicare and Medicaid fraud and abuse laws which prohibit, among other things, any false claims, or any bribe, kickback or rebate in return for the referral of Medicare and Medicaid patients. Violation of these prohibitions may result in civil and criminal penalties and exclusion from participation in the Medicare and Medicaid programs. Management has implemented policies and procedures that management believes will assure that the Company is in substantial compliance with these laws and regulations but there can be no assurance the Company will not be found to have violated certain of these laws and regulations. From time to time, the Company receives requests for information from government agencies pursuant to their regulatory or investigational authority. Such requests can include subpoenas or

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

Table of Contents

demand letters for documents to assist the government agencies in audits or investigations. The Company is cooperating with the government agencies conducting these investigations and is providing requested information to the government agencies. Other than the proceedings described below, management believes that the outcome of any of these investigations would not have a material adverse effect on the Company.

Like other ambulance companies, AMR has provided discounts to its healthcare facility customers (nursing homes and hospitals) in certain circumstances. The Company has attempted to comply with applicable law where such discounts are provided. During the first quarter of fiscal 2004, the Company was advised by the U.S. Department of Justice (DOJ) that it was investigating certain business practices at AMR. The specific practices at issue were (1) whether ambulance transports involving Medicare eligible patients complied with the medical necessity requirement imposed by Medicare regulations, (2) whether patient signatures, when required, were properly obtained from Medicare eligible patients, and (3) whether discounts in violation of the federal Anti-Kickback Statute were provided by AMR in exchange for referrals involving Medicare eligible patients. In connection with the third issue, the government alleged that certain of AMR's hospital and nursing home contracts in effect in Texas in periods prior to 2002 contained discounts in violation of the federal Anti-Kickback Statute. The Company negotiated a settlement with the government pursuant to which the Company paid \$9 million and obtained a release of all claims related to such conduct alleged to have occurred in Texas in periods prior to 2002. In connection with the settlement, AMR entered into a Corporate Integrity Agreement (CIA) which was effective for a period of five years beginning September 12, 2006, and which was released in February 2012.

In December 2006, AMR received a subpoena from the DOJ. The subpoena requested copies of documents for the period from January 2000 through the present. The subpoena required AMR to produce a broad range of documents relating to the operations of certain AMR affiliates in New York. The Company produced documents responsive to the subpoena. The government identified claims for reimbursement that the government believes lack support for the level billed, and invited the Company to respond to the identified areas of concern. The Company reviewed the information provided by the government and provided its response. On May 20, 2011, AMR entered into a settlement agreement with the DOJ and a CIA with the Office of Inspector General of the Department of Health and Human Services (OIG) in connection with this matter. Under the terms of the settlement, AMR paid \$2.7 million to the federal government. In connection with the settlement, the Company entered into a CIA with a five-year period beginning May 20, 2011. Pursuant to this CIA, the Company is required to maintain a compliance program, which includes, among other elements, the appointment of a compliance officer and committee, training of employees nationwide, safeguards for its billing operations as they relate to services provided in New York, including specific training for operations and billing personnel providing services in New York, review by an independent review organization and reporting of certain reportable events. The Company entered into the settlement in order to avoid the uncertainties of litigation, and has not admitted any wrongdoing.

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

Other Legal Matters

Four different lawsuits purporting to be class actions have been filed against AMR and certain subsidiaries in California alleging violations of California wage and hour laws. On April 16, 2008, Lori Bartoni commenced a suit in the Superior Court for the State of California, County of Alameda; on July 8, 2008, Vaughn Banta filed suit in the Superior Court of the State of California, County of Los Angeles; on January 22, 2009, Laura Karapetian filed suit in the Superior Court of the State of California, County of Los Angeles, and on March 11, 2010, Melanie Aguilar

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

filed suit in Superior Court of the State of California, County of Los Angeles. The Banta, Aguilar and Karapetian cases have been coordinated in the Superior Court for the State of California, County of Los Angeles. At the present time, courts have not certified classes in any of these cases. Plaintiffs allege principally that the AMR entities failed to pay overtime charges pursuant to California law, and failed to provide required meal breaks, rest breaks or pay premium compensation for missed breaks. Plaintiffs are seeking to certify the classes and are seeking lost wages, punitive damages, attorneys' fees and other sanctions permitted under California law for violations of wage hour laws. We are unable at this time to estimate the amount of potential damages, if any.

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

Table of Contents

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

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

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

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

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

10. Equity Based Compensation

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

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

11. Variable Interest Entities

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

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

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

Table of Contents

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

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

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

12. Segment Information

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

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

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

Table of Contents

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

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

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

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

13. Guarantors of Debt

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

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

Table of Contents

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

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

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

Consolidating Statements of Operations

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

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

| | | | | | | | | | | |
|-------------------|----|-------|----|-------|----|-----|----|---------|----|-------|
| Net income (loss) | \$ | 3,116 | \$ | 2,774 | \$ | 342 | \$ | (3,116) | \$ | 3,116 |
|-------------------|----|-------|----|-------|----|-----|----|---------|----|-------|

Table of Contents**Consolidating Statements of Operations**

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

Table of Contents**Consolidating Balance Sheet**

As of March 31, 2013

| | EMSC | Subsidiary Guarantors | Subsidiary Non-Guarantor | Eliminations/ Adjustments | Total |
|--|--------------|--------------------------|-----------------------------|------------------------------|--------------|
| Assets | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ | \$ 22,596 | \$ 72,255 | \$ (15,000) | \$ 79,851 |
| Insurance collateral | | 5,708 | 15,708 | | 21,416 |
| Trade and other accounts receivable, net | | 663,676 | 3,264 | (1,637) | 665,303 |
| Parts and supplies inventory | | 22,095 | 5 | | 22,100 |
| Prepays and other current assets | | 26,215 | 11 | | 26,226 |
| Current deferred tax assets | | | 3,515 | (3,515) | |
| Current assets | | 740,290 | 94,758 | (20,152) | 814,896 |
| Non-current assets: | | | | | |
| Property, plant, and equipment, net | | 186,604 | | | 186,604 |
| Intercompany receivable | 2,289,512 | | 9,607 | (2,299,119) | |
| Intangible assets, net | | 549,505 | | | 549,505 |
| Non-current deferred tax assets | | | 1,369 | (1,369) | |
| Insurance collateral | | 75,211 | 3,403 | (59,942) | 18,672 |
| Goodwill | | 2,419,720 | | (2,981) | 2,416,739 |
| Other long-term assets | 84,538 | | 1,098 | (2,479) | 83,157 |
| Investment and advances in subsidiaries | 932,955 | 3,824 | | (936,779) | |
| Assets | \$ 3,307,005 | \$ 3,975,154 | \$ 110,235 | \$ (3,322,821) | \$ 4,069,573 |
| Liabilities and Equity | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | \$ | \$ 58,486 | \$ 254 | \$ | \$ 58,740 |
| Accrued liabilities | 78,019 | 309,146 | 15,018 | (3,377) | 398,806 |
| Current deferred tax liabilities | | 28,332 | | (3,515) | 24,817 |
| Current portion of long-term debt | 11,871 | 406 | | | 12,277 |
| Current liabilities | 89,890 | 396,370 | 15,272 | (6,892) | 494,640 |
| Long-term debt | 2,245,395 | 1,155 | | (15,000) | 2,231,550 |
| Long-term deferred tax liabilities | | 160,214 | | (3,364) | 156,850 |
| Insurance reserves and other long-term liabilities | | 178,811 | 91,139 | (63,463) | 206,487 |
| Intercompany payable | | 2,299,119 | | (2,299,119) | |
| Liabilities | 2,335,285 | 3,035,669 | 106,411 | (2,387,838) | 3,089,527 |
| Equity: | | | | | |
| Common stock | | | 30 | (30) | |
| Treasury stock | (415) | | | | (415) |
| Additional paid-in capital | 908,488 | 873,102 | | (871,306) | 910,284 |
| Retained earnings | 64,594 | 62,322 | 2,272 | (64,594) | 64,594 |
| Accumulated other comprehensive loss | (947) | (2,469) | 1,522 | 947 | (947) |
| Total EMSC equity | 971,720 | 932,955 | 3,824 | (934,983) | 973,516 |
| Noncontrolling interest | | 6,530 | | | 6,530 |
| Total equity | 971,720 | 939,485 | 3,824 | (934,983) | 980,046 |
| Liabilities and Equity | \$ 3,307,005 | \$ 3,975,154 | \$ 110,235 | \$ (3,322,821) | \$ 4,069,573 |

Table of Contents**Consolidating Balance Sheet**

As of December 31, 2012

| | EMSC | Subsidiary Guarantors | Subsidiary Non-Guarantor | Eliminations/ Adjustments | Total |
|--|--------------|--------------------------|-----------------------------|------------------------------|--------------|
| Assets | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ | \$ 6,924 | \$ 65,627 | \$ (15,000) | \$ 57,551 |
| Insurance collateral | | 6,626 | 35,975 | (18,120) | 24,481 |
| Trade and other accounts receivable, net | | 623,651 | 3,738 | (1,976) | 625,413 |
| Parts and supplies inventory | | 22,041 | 9 | | 22,050 |
| Prepays and other current assets | | 23,679 | 297 | (462) | 23,514 |
| Current deferred tax assets | | | 3,447 | (3,447) | |
| Current assets | | 682,921 | 109,093 | (39,005) | 753,009 |
| Non-current assets: | | | | | |
| Property, plant, and equipment, net | | 191,864 | | | 191,864 |
| Intercompany receivable | 2,237,508 | | 11,596 | (2,249,104) | |
| Intangible assets, net | | 564,218 | | | 564,218 |
| Non-current deferred tax assets | | | 1,097 | (1,097) | |
| Insurance collateral | | 65,762 | 5,491 | (50,493) | 20,760 |
| Goodwill | | 2,416,613 | | (2,981) | 2,413,632 |
| Other long-term assets | 84,538 | | 1,580 | (261) | 85,857 |
| Investment and advances in subsidiaries | 930,119 | 3,001 | | (933,120) | |
| Assets | \$ 3,252,165 | \$ 3,924,379 | \$ 128,857 | \$ (3,276,061) | \$ 4,029,340 |
| Liabilities and Equity | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | \$ | \$ 53,505 | \$ 287 | | \$ 53,792 |
| Accrued liabilities | 47,184 | 328,153 | 15,782 | (3,689) | 387,430 |
| Current deferred tax liabilities | | 27,015 | | (3,447) | 23,568 |
| Current portion of long-term debt | 11,871 | 411 | | | 12,282 |
| Current liabilities | 59,055 | 409,084 | 16,069 | (7,136) | 477,072 |
| Long-term debt | 2,223,738 | 1,185 | | (15,000) | 2,209,923 |
| Long-term deferred tax liabilities | | 159,942 | | (3,092) | 156,850 |
| Insurance reserves and other long-term liabilities | | 168,415 | 109,787 | (68,609) | 209,593 |
| Intercompany payable | | 2,249,104 | | (2,249,104) | |
| Liabilities | 2,282,793 | 2,987,730 | 125,856 | (2,342,941) | 3,053,438 |
| Equity: | | | | | |
| Common stock | | | 30 | (30) | |
| Treasury stock | (381) | | | | (381) |
| Additional paid-in capital | 908,488 | 871,306 | | (871,306) | 908,488 |
| Retained earnings | 61,478 | 59,206 | 2,272 | (61,478) | 61,478 |
| Accumulated other comprehensive loss | (213) | (393) | 699 | (306) | (213) |
| Total EMSC equity | 969,372 | 930,119 | 3,001 | (933,120) | 969,372 |
| Noncontrolling interest | | 6,530 | | | 6,530 |
| Total equity | 969,372 | 936,649 | 3,001 | (933,120) | 975,902 |
| Liabilities and Equity | \$ 3,252,165 | \$ 3,924,379 | \$ 128,857 | \$ (3,276,061) | \$ 4,029,340 |

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

| | For the quarter ended March 31, 2013 | | | |
|---|---|--------------------------|------------------------------|---------------------|
| | EMSC | Subsidiary Guarantors | Subsidiary Non-guarantors | Total |
| Cash Flows from Operating Activities | | | | |
| Net cash provided by (used in) operating activities | \$ | \$ | 16,531 | \$ (9,960) \$ 6,571 |
| Cash Flows from Investing Activities | | | | |
| Purchase of property, plant and equipment | | (10,493) | | (10,493) |
| Proceeds from sale of property, plant and equipment | | 197 | | 197 |
| Acquisition of businesses, net of cash received | | (1,423) | | (1,423) |
| Net change in insurance collateral | | (3,841) | 11,492 | 7,651 |
| Other investing activities | | (702) | | (702) |
| Net cash (used in) provided by investing activities | | (16,262) | 11,492 | (4,770) |
| Cash Flows from Financing Activities | | | | |
| EMSC issuance of calss A common stock | 691 | | | 691 |
| Borrowings under senior secured term loan facility | 150,000 | | | 150,000 |
| Borrowings under ABL credit facility | 45,000 | | | 45,000 |
| Repayments of ABL credit facility and other debt | (173,672) | | | (173,672) |
| Debt issue costs | (4,411) | | | (4,411) |
| Excess tax benefits from stock-based compensation | | 8 | | 8 |
| Net change in bank overdrafts | | 2,883 | | 2,883 |
| Net intercompany borrowings (payments) | (17,608) | 12,510 | 5,098 | |
| Net cash used in financing activities | | 15,401 | 5,098 | 20,499 |
| Change in cash and cash equivalents | | 15,670 | 6,630 | 22,300 |
| Cash and cash equivalents, beginning of period | | 6,925 | 50,626 | 57,551 |
| Cash and cash equivalents, end of period | \$ | \$ | 22,595 | \$ 57,256 \$ 79,851 |

| | For the quarter ended March 31, 2012 | | | |
|--|---|--------------------------|------------------------------|-----------------------|
| | EMSC | Subsidiary Guarantors | Subsidiary Non-guarantors | Total |
| Cash Flows from Operating Activities | | | | |
| Net cash provided by (used in) operating activities | \$ | \$ | 121,292 | \$ (71,242) \$ 50,050 |
| Cash Flows from Investing Activities | | | | |
| Purchase of property, plant and equipment | | (12,710) | | (12,710) |
| Proceeds from sale of property, plant and equipment | | 73 | | 73 |
| Acquisition of businesses, net of cash received | | (1,000) | | (1,000) |
| Net change in insurance collateral | | (7,089) | 61,616 | 54,527 |
| Other investing activities | | (2,805) | | (2,805) |
| Net cash (used in) provided by investing activities | | (23,531) | 61,616 | 38,085 |
| Cash Flows from Financing Activities | | | | |
| Repayments of capital lease obligations and other debt | (3,649) | | | (3,649) |
| Debt issue costs | (95) | | | (95) |

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

| | | | | | | | |
|---|-------|---------|----------|---------|-------|----|---------|
| Receipts from noncontrolling interest | | 2,704 | | 2,704 | | | |
| Net change in bank overdrafts | | 8,243 | | 8,243 | | | |
| Net intercompany borrowings (payments) | 3,744 | 6,559 | (10,303) | | | | |
| Net cash provided by (used in) financing activities | | 17,506 | (10,303) | 7,203 | | | |
| Change in cash and cash equivalents | | 115,267 | (19,929) | 95,338 | | | |
| Cash and cash equivalents, beginning of period | | 104,657 | 29,366 | 134,023 | | | |
| Cash and cash equivalents, end of period | \$ | \$ | 219,924 | \$ | 9,437 | \$ | 229,361 |

Table of Contents

14. Subsequent Events

The Company's management has evaluated events subsequent to March 31, 2013 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 April 1, 2013, EMSC declared and paid a dividend to CDRT Acquisition Corporation which in turn paid a dividend to Holding in the amount of \$20.8 million. These funds were used by Holding to pay interest due on Holding's unsecured PIK Notes due 2017.

On April 15, 2013, the Company paid \$52.1 million to Merion in a settlement of Merion's appraisal action in the Delaware Court of Chancery over its holdings in EMSC prior to the Merger, in which Merion agreed to release its claims against the Company.

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 (the SEC), 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. 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 this Quarterly Report on Form 10-Q.

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 on Form 10-Q 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 March 12, 2013.

Healthcare Reform

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

As currently enacted, the Patient Protection and Affordable Care Act, or PPACA, changes how health care services are delivered and reimbursed, and increases access to health insurance benefits for the uninsured and underinsured population in the United States. On June 28, 2012, the U.S. Supreme Court upheld the constitutionality of the individual mandate provisions of the PPACA, but struck down the provisions that would have allowed the Department of Health and Human Services to penalize states that do not implement Medicaid expansion provisions through the loss of existing federal Medicaid funding. It is unclear how many states will decline to implement the Medicaid expansion. While the current PPACA law would increase the likelihood of more people in the U.S. with access to health insurance benefits, we cannot quantify or predict with any certainty the likely impact of the PPACA on our business model, financial condition or result of operations.

Company Overview

We are a leading provider of outsourced 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 40 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, anesthesiology, hospitalist/inpatient, radiology, teleradiology and surgery staffing, and other management services. AMR, over

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

Table of Contents

its nearly 55 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.

On May 25, 2011, the Company merged with affiliates of Clayton, Dubilier & Rice, LLC (CD&R), and became a wholly-owned subsidiary of CDRT Acquisition Corporation, in turn a wholly-owned subsidiary of Holding. This transaction is referred to in this Quarterly Report on Form 10-Q as the Merger.

EMSC applied business combination 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. Initial adjustments to allocate the acquisition consideration to fixed assets and identifiable intangible assets were recorded in the third and fourth quarters of 2011 based on a valuation report from a third-party valuation firm. The Company finalized its business combination accounting during the first quarter of 2012 with adjustments related to goodwill allocations between segments.

Key Factors and Measures We Use to Evaluate Our Business

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 months ended March 31, 2013 and 2012. In determining the net revenue payor mix, we use cash collections in the period as an approximation of net revenue recorded.

| | Percentage of Cash Collections (Net Revenue) | | Percentage of Total Volume | |
|---------------------------------------|---|-------|----------------------------|-------|
| | Quarter ended | | Quarter ended | |
| | March 31, | | March 31, | |
| | 2013 | 2012 | 2013 | 2012 |
| Medicare | 23.0% | 20.9% | 26.4% | 26.0% |
| Medicaid | 5.1% | 5.0% | 10.3% | 10.6% |
| Commercial insurance and managed care | 52.9% | 51.3% | 46.0% | 44.4% |

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

| | | | | |
|-----------|--------|--------|--------|--------|
| Self-pay | 4.3% | 5.1% | 17.3% | 19.0% |
| Subsidies | 9.5% | 10.0% | | |
| Fees | 5.2% | 7.7% | | |
| Total | 100.0% | 100.0% | 100.0% | 100.0% |

In addition to continually monitoring our payor mix, we also analyze certain measures in each of our business segments. The decrease in self-pay revenue as a percentage of total revenue is due primarily to the addition of our post-acute care services.

EmCare

Of EmCare's net revenue for the three months ended March 31, 2013, approximately 73% was derived from our hospital contracts for emergency department staffing, 11% from contracts related to anesthesiology services, 5% from our hospitalist/inpatient services, 5% from our post-acute care services, 3% from our radiology/teleradiology services, 1% from our surgery services, and 2% from other hospital management services. Approximately 85% of EmCare's net revenue was generated from billings to third-party payors and patients for patient encounters and approximately 15% 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 that we weight in certain analyses, net revenue per patient encounter, and number of contracts.

Table of Contents

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 89% of AMR's net revenue for the three months ended March 31, 2013 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.

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.

Table of Contents

Inflation and Fuel Costs

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 13.3% and 11.3% of AMR's operating expenses for the three months ended March 31, 2013 and 2012, 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

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 2012. Absent further legislative action by Congress, the reduced MPFS would go into effect on January 1, 2014.

On August 2, 2011, the Budget Control Act of 2011 (Public Law 112-25), or the Budget Control Act, was enacted. Under the Budget Control Act, a Joint Select Committee on Deficit Reduction, or the Joint Committee, was established to develop recommendations to reduce the deficit, over 10 years, by 1.2 to 1.5 trillion dollars, and was required to report its recommendations to Congress by November 23, 2011. Under the Act, Congress was then required to consider the Joint Committee's recommendations by December 23, 2011. If the Joint Committee failed to refer agreed upon legislation to Congress or did not meet the required savings threshold set out in the Budget Control Act, a sequestration process would be put into effect, government-wide, to reduce Federal outlays by the proposed amount. Because the Joint Committee failed to report the requisite recommendations for deficit reduction, the sequestration process was set to automatically start, impacting Medicare and certain other government programs beginning in January 2013. Congress passed the American Taxpayer Relief Act, signed into law on January 2, 2013, delaying the start of sequestration until March 1, 2013. In order to provide its contractors and providers sufficient lead time to implement the cuts in Medicare, CMS delayed implementation of Medicare cuts until April 1, 2013. As there has been no further Congressional action with respect to the sequestration, reimbursements were cut by 2% for Medicare providers, including physicians and ambulance providers starting April 1, 2013.

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, 2012 and incorporated by reference herein. As of March 31, 2013, there were no significant changes in our critical accounting policies or estimation procedures.

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 the three month periods ending March 31, 2013 and 2012.

Table of Contents

Results of Operations

Quarter Ended March 31, 2013 Compared to the Quarter Ended March 31, 2012

The following tables present a comparison of financial data from our unaudited consolidated statements of operations for the three months ended March 31, 2013 and 2012 for EMSC and our two operating segments.

Non-GAAP Measures

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

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

(dollars in thousands)

EMSC

| | Quarter ended March 31, % of net | | Quarter ended March 31, % of net | |
|--|-------------------------------------|---------|-------------------------------------|---------|
| | 2013 | revenue | 2012 | revenue |
| Net revenue | \$ 888,324 | 100.0% | \$ 806,294 | 100.0% |
| Compensation and benefits | 641,789 | 72.2 | 565,865 | 70.2 |
| Operating expenses | 100,383 | 11.3 | 107,581 | 13.3 |
| Insurance expense | 25,833 | 2.9 | 24,890 | 3.1 |
| Selling, general and administrative expenses | 21,998 | 2.5 | 18,993 | 2.4 |
| Equity-based compensation expense | (1,062) | (0.1) | (1,062) | (0.1) |
| Related party management fees | (1,250) | (0.1) | (1,250) | (0.2) |
| Interest income from restricted assets | (366) | (0.0) | (287) | (0.0) |
| Adjusted EBITDA | \$ 100,999 | 11.4% | \$ 91,564 | 11.4% |
| Equity-based compensation expense | (1,062) | (0.1) | (1,062) | (0.1) |
| Related party management fees | (1,250) | (0.1) | (1,250) | (0.2) |
| Depreciation and amortization expense | (34,755) | (3.9) | (30,490) | (3.8) |
| Restructuring charges | (637) | (0.1) | (5,979) | (0.7) |
| Interest expense | (40,290) | (4.5) | (43,452) | (5.4) |
| Realized gain on investments | 13 | 0.0 | 298 | 0.0 |
| Interest and other (expense) income | (12,721) | (1.4) | 162 | 0.0 |
| Loss on early debt extinguishment | (122) | (0.0) | | 0.0 |
| Income tax expense | (7,134) | (0.8) | (4,238) | (0.5) |
| Equity in earnings of unconsolidated subsidiary | 75 | 0.0 | 109 | 0.0 |
| Net loss attributable to noncontrolling interest | | 0.0 | 130 | 0.0 |
| Net income attributable to EMSC | \$ 3,116 | 0.4% | \$ 5,792 | 0.7% |

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

(dollars in thousands)

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

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

| | | | | |
|---|----|-------|----|--------|
| Other | | 571 | | 910 |
| Cash flows provided by operating activities | \$ | 6,571 | \$ | 50,050 |

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

(dollars in thousands)

EmCare

| | 2013 | Quarter ended March 31, | | 2012 | % of net revenue |
|---|------------|-------------------------|------------------|----------|------------------|
| | | % of net revenue | % of net revenue | | |
| Net revenue | \$ 554,936 | 100.0% | \$ | 449,004 | 100.0% |
| Compensation and benefits | 439,384 | 79.2 | | 353,866 | 78.8 |
| Operating expenses | 22,983 | 4.1 | | 17,333 | 3.9 |
| Insurance expense | 16,920 | 3.0 | | 13,579 | 3.0 |
| Selling, general and administrative expenses | 10,738 | 1.9 | | 8,657 | 1.9 |
| Interest income from restricted assets | (255) | (0.0) | | (128) | (0.0) |
| Equity-based compensation expense | (457) | (0.1) | | (467) | (0.1) |
| Related party management fees | (537) | (0.1) | | (550) | (0.1) |
| Adjusted EBITDA | \$ 66,160 | 11.9% | \$ | 56,714 | 12.6% |
| Reconciliation of Adjusted EBITDA to income from operations | | | | | |
| Adjusted EBITDA | 66,160 | 11.9 | | 56,714 | 12.6 |
| Depreciation and amortization expenses | (16,771) | (3.0) | | (13,762) | (3.1) |
| Restructuring charges | (248) | (0.0) | | | 0.0 |
| Interest income from restricted assets | (255) | (0.0) | | (128) | (0.0) |
| Equity-based compensation expense | (457) | (0.1) | | (467) | (0.1) |
| Related party management fees | (537) | (0.1) | | (550) | (0.1) |
| Income from operations | \$ 47,892 | 8.6% | \$ | 41,807 | 9.3% |

AMR

| | 2013 | Quarter ended March 31, | | 2012 | % of net revenue |
|---|------------|-------------------------|------------------|----------|------------------|
| | | % of net revenue | % of net revenue | | |
| Net revenue | \$ 333,388 | 100.0% | \$ | 357,290 | 100.0% |
| Compensation and benefits | 202,405 | 60.7 | | 211,999 | 59.3 |
| Operating expenses | 77,400 | 23.2 | | 90,248 | 25.3 |
| Insurance expense | 8,913 | 2.7 | | 11,311 | 3.2 |
| Selling, general and administrative expenses | 11,260 | 3.4 | | 10,336 | 2.9 |
| Interest income from restricted assets | (111) | (0.0) | | (159) | (0.0) |
| Equity-based compensation expense | (605) | (0.2) | | (595) | (0.2) |
| Related party management fees | (713) | (0.2) | | (700) | (0.2) |
| Adjusted EBITDA | \$ 34,839 | 10.4% | \$ | 34,850 | 9.8% |
| Reconciliation of Adjusted EBITDA to income from operations | | | | | |
| Adjusted EBITDA | 34,839 | 10.4 | | 34,850 | 9.8 |
| Depreciation and amortization expenses | (17,984) | (5.4) | | (16,728) | (4.7) |
| Restructuring charges | (389) | (0.1) | | (5,979) | (1.7) |

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

| | | | | |
|--|-----------|-------|-----------|-------|
| Interest income from restricted assets | (111) | (0.0) | (159) | (0.0) |
| Equity-based compensation expense | (605) | (0.2) | (595) | (0.2) |
| Related party management fees | (713) | (0.2) | (700) | (0.2) |
| Income from operations | \$ 15,037 | 4.5% | \$ 10,689 | 3.0% |

Quarter ended March 31, 2013 compared to the quarter ended March 31, 2012

Consolidated

Our results for the three months ended March 31, 2013 reflect an increase in net revenue of \$82.0 million and a decrease in net income of \$2.7 million compared to the three months ended March 31, 2012. The decrease in net income is attributable primarily to increases in interest and other (expense) income, depreciation and amortization expense and income tax expense offset partially by decreases in interest expense and restructuring charges.

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

Table of Contents

Net revenue. For the three months ended March 31, 2013, we generated net revenue of \$888.3 million compared to net revenue of \$806.3 million for the three months ended March 31, 2012, representing an increase of 10.2%. 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 \$101.0 million, or 11.4% of net revenue, for the three months ended March 31, 2013 compared to \$91.6 million, or 11.4% of net revenue, for the three months ended March 31, 2012.

Depreciation and amortization. Depreciation and amortization expense for the three months ended March 31, 2013 was \$34.8 million, or 3.9% of net revenue, compared to \$30.5 million, or 3.8% of net revenue, for the three months ended March 31, 2012. The increase is due primarily to additional amortization of contract values related to our recent acquisitions combined with technology and fleet-related additions.

Restructuring charges. Restructuring charges for the three months ended March 31, 2013 were \$0.6 million compared to \$6.0 million for the three months ended March 31, 2012, related to continuing efforts to re-align AMR's operations and the reorganization of EmCare's geographic regions.

Interest expense. Interest expense for the three months ended March 31, 2013 was \$40.3 million compared to \$43.5 million for the three months ended March 31, 2012. This decrease is due to voluntary prepayments of the Term Loan Facility made during 2012 and the repricing of the Term Loan Facility during the three months ended March 31, 2013.

Interest and other (expense) income. Interest and other (expense) income was \$(12.7) million for the three months ended March 31, 2013 compared to \$0.2 million for the three months ended March 31, 2012. We recorded \$8.4 million of expense during the three months ended March 31, 2013 related to a settlement with a prior shareholder regarding its appraisal action over its holdings in EMSC prior to the Merger. See Note 9 to the unaudited consolidated financial statements. This expense is not deductible for tax purposes. We also recorded \$4.4 million of debt issuance costs associated with amendments to our Term Loan and ABL credit agreements dated as of May 25, 2011.

Income tax expense. Income tax expense increased by \$2.9 million for the three months ended March 31, 2013 compared to the same period in 2012. Our effective tax rate was 70.1% for the three months ended March 31, 2013 and 43.3% for the three months ended March 31, 2012. The increase in our effective tax rate was primarily a result of a settlement with a prior shareholder regarding its appraisal action over its holdings in EMSC prior to the Merger, which is not deductible for tax purposes.

EmCare

Net revenue. Net revenue for the three months ended March 31, 2013 was \$554.9 million, an increase of \$105.9 million, or 23.6%, from \$449.0 million for the three months ended March 31, 2012. Revenue excluding recent acquisitions increased \$70.5 million, or 15.7%, during the three months ended March 31, 2013 compared to the three months ended March 31, 2012. This increase was due to an increase in patient encounters from net new hospital contracts and net revenue increases in existing contracts. Net new contracts since December 31, 2011 accounted for a net

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

revenue increase of \$56.1 million for the three months ended March 31, 2013, of which \$46.6 million came from net new contracts added in 2012, with the remaining increase in net revenue from those added in 2013. Net revenue under our same store contracts (contracts in existence for the entirety of both periods) increased \$14.4 million, or 3.6%, for the three months ended March 31, 2013. The change was due to a 3.9% increase in same store weighted patient encounters offset partially by a 0.3% decrease in revenue per weighted patient encounter.

Compensation and benefits. Compensation and benefits costs for the three months ended March 31, 2013 were \$439.4 million, or 79.2% of net revenue, compared to \$353.9 million, or 78.8% of net revenue, for the same period in 2012. Provider compensation costs increased \$55.2 million from net new contract additions. Same store provider compensation costs were \$16.6 million higher than the prior period due primarily to a 3.9% increase in same store weighted patient encounters and a 2.4% increase in provider compensation per weighted patient encounter. Non-provider compensation and total benefits costs increased by \$13.7 million during the three months ended March 31, 2013 compared to the same period in 2012. The increase is due to our recent acquisitions and organic growth.

Operating expenses. Operating expenses for the three months ended March 31, 2013 were \$23.0 million, or 4.1% of net revenue, compared to \$17.3 million, or 3.9% of net revenue, for the three months ended March 31, 2012. Operating expenses increased \$5.7 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 March 31, 2013 was \$16.9 million, or 3.0% of net revenue, compared to \$13.6 million, or 3.0% of net revenue, for the three months ended March 31, 2012. We recorded an increase of prior year insurance provisions of \$0.5 million during the three months ended March 31, 2013 compared to a decrease of \$0.4 million during the three months ended March 31, 2012.

Selling, general and administrative. Selling, general and administrative expense for the three months ended March 31, 2013 was \$10.7 million, or 1.9% of net revenue, compared to \$8.7 million, or 1.9% of net revenue, for the three months ended March 31, 2012.

Depreciation and amortization. Depreciation and amortization expense for the three months ended March 31, 2013 was \$16.8 million, or 3.0% of net revenue, compared to \$13.8 million, or 3.1% of net revenue, for the three months ended March 31, 2012. The increase is due primarily to additional amortization of contract values related to our recent acquisitions.

AMR

Net revenue. Net revenue for the three months ended March 31, 2013 was \$333.4 million, a decrease of \$23.9 million, or 6.7%, from \$357.3 million for the same period in 2012. The decrease in net revenue was due primarily to a decrease of 4.4%, or \$15.6 million, in weighted transport volume and a decrease in net revenue per weighted transport of 2.3%, or \$8.3 million. The decrease in net revenue per weighted transport of 2.3% was due primarily to the impact of managed transportation contracts exited. Weighted transports decreased 32,200 from the same quarter last year. The change was due to a decrease in weighted transport volume in existing markets of 3.5%, or 25,500 weighted transports primarily from changes in AMR's Kaiser contract effective April 1, 2012, and a decrease of 7,700 weighted transports from exited markets, offset partially by an increase of 1,000 weighted transports from our entry into new markets.

Compensation and benefits. Compensation and benefit costs for the three months ended March 31, 2013 were \$202.4 million, or 60.7% of net revenue, compared to \$212.0 million, or 59.3% of net revenue, for the same period last year. Ambulance crew wages per ambulance unit hour increased by approximately 1.6%, or \$1.8 million, and ambulance unit hours decreased period over period by 4.0%, or \$4.7 million attributable primarily to the decrease in weighted transports. Non-crew compensation decreased period over period by \$4.5 million due to net reductions in costs supporting AMR operating markets. Total benefits related costs decreased \$1.8 million during the three months ended March 31, 2013 compared to the same period in 2012 due primarily to markets exited and lower health insurance costs.

Operating expenses. Operating expenses for the three months ended March 31, 2013 were \$77.4 million, or 23.2% of net revenue, compared to \$90.2 million, or 25.3% of net revenue, for the three months ended March 31, 2012. The change is due primarily to decreased costs of \$6.2 million associated with the net impact from markets entered and exited and \$2.7 million associated with certain contract exits in our managed transportation business combined with a decrease of \$2.8 million of external provider costs from changes in AMR's Kaiser contract.

Insurance expense. Insurance expense for the three months ended March 31, 2013 was \$8.9 million, or 2.7% of net revenue, compared to \$11.3 million, or 3.2% of net revenue, for the same period in 2012. We recorded a decrease of prior year insurance provisions of \$1.7 million during the three months ended March 31, 2013 compared to a decrease of less than \$0.1 million during the three months ended March 31, 2012.

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

Selling, general and administrative. Selling, general and administrative expense for the three months ended March 31, 2013 was \$11.3 million, or 3.4% of net revenue, compared to \$10.3 million, or 2.9% of net revenue, for the three months ended March 31, 2012.

Depreciation and amortization. Depreciation and amortization expense for the three months ended March 31, 2013 was \$18.0 million, or 5.4% of net revenue, compared to \$16.7 million, or 4.7% of net revenue, for the same period in 2012. The increase was due primarily to technology and fleet-related additions.

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.

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. Our asset-

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

Table of Contents

based revolving credit facility, or the ABL Facility, provides for up to \$450 million of senior secured first priority borrowings, subject to a borrowing base of \$423.8 million as of March 31, 2013. The ABL Facility is available to fund working capital and for general corporate purposes. As of March 31, 2013, we had available borrowing capacity of \$293.3 million and \$130.5 million of letters of credit issued under the ABL Facility.

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 consolidated statements of financial position.

On February 7, 2013, we entered into the Term Loan Amendment to the credit agreement governing the Term Loan Facility. Under the Term Loan Amendment, we incurred an additional \$150 million in incremental borrowings under the Term Loan Facility, the proceeds of which were used to pay down our ABL Facility. In addition, the rate at which the loans under the Term Loan Credit Agreement bear interest was amended to equal (i) the higher of (x) LIBOR and (y) 1.00%, plus, in each case, 3.00% (with a step-down to 2.75% in the event that we meet a consolidated first lien net leverage ratio of 2.50:1.00), or (ii) the alternate base rate, which will be the highest of (w) the corporate base rate established by the administrative agent from time to time, (x) 0.50% in excess of the overnight federal funds rate, (y) the one-month LIBOR (adjusted for maximum reserves) plus 1.00% and (z) 2.00%, plus, in each case, 2.00% (with a step-down to 1.75% in the event that we meet a consolidated first lien net leverage ratio of 2.50:1.00).

On February 27, 2013, we entered into the ABL Amendment to the credit agreement governing the ABL Facility, under which we increased our commitments under the ABL Facility to \$450 million. In addition, the rate at which the loans under the ABL Credit Agreement bear interest was amended to equal (i) LIBOR plus, (x) 2.00% in the event that average daily excess availability is less than or equal to 33% of availability, (y) 1.75% in the event that average daily excess availability is greater than 33% but less than or equal to 66% of availability and (z) 1.50% in the event that average daily excess availability is greater than 66% of availability, or (ii) the alternate base rate, which will be the highest of (x) the corporate base rate established by the administrative agent from time to time, (y) 0.50% in excess of the overnight federal funds rate and (z) the one-month LIBOR (adjusted for maximum reserves) plus 1.00% plus, in each case, (A) 1.00% in the event that average daily excess availability is less than or equal to 33% of availability, (B) 0.75% in the event that average daily excess availability is greater than 33% but less than or equal to 66% of availability and (C) 0.50% in the event that average daily excess availability is greater than 66% of availability.

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

In addition, on October 1, 2012, our indirect parent company, CDRT Holding Corporation, issued \$450 million of Holding PIK Notes due 2017. The sole source of liquidity of Holding is cash flows provided by our operating activities.

Cash Flow

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

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

| | Quarter ended March 31, | |
|---------------------------------|-------------------------|-----------|
| | 2013 | 2012 |
| Net cash provided by (used in): | | |
| Operating activities | \$ 6,571 | \$ 50,050 |
| Investing activities | (4,770) | 38,085 |
| Financing activities | 20,499 | 7,203 |

Operating activities. Net cash provided by operating activities was \$6.6 million for the three months ended March 31, 2013 compared to \$50.1 million for the same period in 2012. The decrease in operating cash flows was affected primarily by a decrease in net income and cash flows from operating assets and liabilities. Accounts payable and accrued liabilities increased cash flows from operations \$12.3 million during the three months ended March 31, 2013 compared to \$46.0 million during the three months ended March 31, 2012. The change is due primarily to the timing of payroll related liabilities, incentive

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

Table of Contents

compensation and tax payments during the three months ended March 31, 2013 compared to the same period in 2012. Accounts receivable increased \$41.4 million and \$35.3 million during the three months ended March 31, 2013 and 2012, respectively. Days sales outstanding, or DSO, increased 1 day during the three months ended March 31, 2013. EmCare's DSO increased 3 days primarily as a result of new contract starts.

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 and the impact of the FEMA deployment at AMR in 2012:

| | Q1 2013 | Q4 2012 | Q3 2012 | Q2 2012 | Q1 2012 | Q4 2011 |
|--------|---------|---------|---------|---------|---------|---------|
| EmCare | 68 | 65 | 64 | 61 | 59 | 57 |
| AMR | 66 | 68 | 71 | 69 | 69 | 68 |
| EMSC | 67 | 66 | 67 | 65 | 63 | 62 |

Investing activities. Net cash used by investing activities was \$4.8 million for the three months ended March 31, 2013 compared to net cash provided by investing activities of \$38.1 million for the same period in 2012. The decrease is due primarily to a return of insurance collateral of \$54.5 million during the three months ended March 31, 2012.

Financing activities. Net cash provided by financing activities was \$20.5 million for the three months ended March 31, 2013 compared to \$7.2 million for the same period in 2012. During the three months ended March 31, 2013, we borrowed \$45 million and paid \$20 million under our ABL Facility which increased the balance to \$150 million from \$125 million as of December 31, 2012. We also increased our borrowings under our Term Loan Facility by \$150 million, the proceeds of which were used to pay down our ABL Facility. At March 31, 2013, there were no amounts outstanding under our revolving credit facility. We also paid \$4.4 million in costs incurred to refinance the Term Loan Facility and ABL Facility.

Disclosure under Section 13(r) of the Exchange Act

Under Section 13(r) of the Exchange Act as added by the Iran Threat Reduction and Syrian Human Rights Act of 2012, we are required to include certain disclosures in our periodic reports if we or any of our affiliates (as defined in Rule 12b-2 thereunder) knowingly engage in certain activities specified in Section 13(r) during the period covered by the report. Because the SEC defines the term "affiliate" broadly, it includes any entity that controls us or is under common control with us ("control" is also construed broadly by the SEC). Our affiliate, CD&R, has informed us that an indirect subsidiary of SPIE S.A. ("SPIE"), an affiliate of CD&R based in France, maintained bank accounts at Bank Melli with the approval of the French financial regulator (applying European Union law) during the period covered by this report. Bank Melli is an Iranian bank designated under Executive Order No. 13382. We had no knowledge of or control over the activities of SPIE or its subsidiaries. CD&R has informed us that during the period covered by this report, the SPIE subsidiary used the accounts to make two tax payments to the Government of Iran, withdrew cash to pay various administrative expenses, and received a transfer of funds from a vendor. The total volume of these transactions in the SPIE subsidiary's accounts at Bank Melli, excluding transfers between those accounts, during the period covered by this report was the equivalent of less than \$200,000 at the Iranian Central Bank's official exchange rate. CD&R has informed us that SPIE and its subsidiaries obtained no revenue or profit from these transactions, that CD&R and SPIE have disclosed these matters to the Office of Foreign Assets Control in the U.S. Treasury Department ("OFAC"), that SPIE and its subsidiaries intended to comply with all applicable laws, and that SPIE and its subsidiaries do not intend to conduct any transaction or dealing with Bank Melli or the Government of Iran in the future other than any transactions that may be authorized by the applicable French governmental authority and OFAC.

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 March 31, 2013, 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 \$3.62 to \$4.02 per gallon. We purchase the 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

Table of Contents

price. The transactions fix the price for a total of 5.2 million gallons and are spread over periods from April 2013 through December 2014.

On October 17, 2011, we entered into interest rate swap agreements which mature on August 31, 2015. The swap agreements are with major financial institutions and effectively convert 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 1.0%) and periodically settle with our counterparties for the difference between the rate paid and the fixed rate.

As of March 31, 2013, we had \$2,243.4 million of debt, excluding capital leases, of which \$1,307.6 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 1.0%, above our LIBOR floor of 1.0%, will impact our interest costs by \$13.1 million annually.

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 March 31, 2013.

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 March 31, 2013 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 9, to the accompanying consolidated financial statements included herein, and to our Annual Report on Form 10-K filed with the SEC on March 12, 2013.

On April 15, 2013, the Company paid \$52.1 million to Merion, a former stockholder of EMSC, in a settlement of Merion's appraisal action in the Delaware Court of Chancery over its holdings in EMSC prior to the Merger, in which Merion agreed to release its claims against the Company.

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, 2012.

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.*
- 101 The following materials from EMSC's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 formatted in XBRL (eXtensible Business Reporting Language): (1) the Consolidated Statements of Operations and Comprehensive Income, (2) the Consolidated Balance Sheets, (3) the Consolidated Statements of Cash Flows and (4) Notes to the Unaudited Consolidated Financial Statements.*

* 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)

May 13, 2013
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.*
- 101 The following materials from EMSC's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 formatted in XBRL (eXtensible Business Reporting Language): (1) the Consolidated Statements of Operations and Comprehensive Income, (2) the Consolidated Balance Sheets, (3) the Consolidated Statements of Cash Flows and (4) Notes to the Unaudited Consolidated Financial Statements.*

* Filed with this Report