

Emergency Medical Services CORP  
Form 10-Q  
November 09, 2012  
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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**FORM 10-Q**

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(Mark one)

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

For the quarterly period ended September 30, 2012

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   
(Do not check if a smaller reporting company)

Smaller reporting company

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

The registrant is a privately held corporation, and its common stock is not publicly traded. Shares of common stock outstanding at November 8, 2012 1,000. All of our outstanding stock was held at such date by CDRT Acquisition Corporation, our sole stockholder.

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## 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 September 30,	
	2012	2011
Revenue, net of contractual discounts	\$ 1,529,140	\$ 1,343,777
Provision for uncompensated care	(708,329)	(555,690)
Net revenue	820,811	788,087
Compensation and benefits	577,502	542,655
Operating expenses	100,617	108,112
Insurance expense	22,907	30,442
Selling, general and administrative expenses	18,541	18,493
Depreciation and amortization expense	30,592	29,966
Restructuring charges	2,028	3,374
Income from operations	68,624	55,045
Interest income from restricted assets	(116)	957
Interest expense	(41,322)	(43,745)
Realized gain on investments	5	30
Interest and other income (expense)	937	(2,480)
Loss on early debt extinguishment	(1,561)	
Income before income taxes and equity in earnings of unconsolidated subsidiary	26,567	9,807
Income tax expense	(11,448)	(4,079)
Income before equity in earnings of unconsolidated subsidiary	15,119	5,728
Equity in earnings of unconsolidated subsidiary	90	82
Net income	15,209	5,810
Other comprehensive income (loss), net of tax:		
Unrealized holding gains during the period	471	549
Unrealized gains (losses) on derivative financial instruments	1,031	(1,075)
Comprehensive income	\$ 16,711	\$ 5,284

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

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	Successor		Predecessor
	Nine months ended September 30, 2012	Period from May 25 through September 30, 2011	Period from January 1 through May 24, 2011
Revenue, net of contractual discounts	\$ 4,381,061	\$ 1,881,467	\$ 2,053,311
Provision for uncompensated care	(1,952,858)	(773,837)	(831,521)
Net revenue	2,428,203	1,107,630	1,221,790
Compensation and benefits	1,706,205	764,459	874,633
Operating expenses	305,005	149,968	156,740
Insurance expense	75,352	40,531	47,229
Selling, general and administrative expenses	57,670	25,354	29,241
Depreciation and amortization expense	91,844	41,027	28,467
Restructuring charges	10,751	3,374	
Income from operations	181,376	82,917	85,480
Interest income from restricted assets	429	1,119	1,124
Interest expense	(126,288)	(61,695)	(7,886)
Realized gain (loss) on investments	366	37	(9)
Interest and other income (expense)	1,340	(2,620)	(28,873)
Loss on early debt extinguishment	(6,733)		(10,069)
Income before income taxes and equity in earnings of unconsolidated subsidiary	50,490	19,758	39,767
Income tax expense	(21,952)	(8,237)	(19,242)
Income before equity in earnings of unconsolidated subsidiary	28,538	11,521	20,525
Equity in earnings of unconsolidated subsidiary	304	115	143
Net income	28,842	11,636	20,668
Other comprehensive income (loss), net of tax:			
Unrealized holding gains during the period	674	409	1,501
Unrealized (losses) gains on derivative financial instruments	(234)	(1,328)	25
Comprehensive income	\$ 29,282	\$ 10,717	\$ 22,194

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)

	September 30, 2012 (Unaudited)	December 31, 2011
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 128,428	\$ 134,023
Insurance collateral	26,631	40,835
Trade and other accounts receivable, net	595,824	525,722
Parts and supplies inventory	22,342	22,693
Prepays and other current assets	32,908	26,175
Current deferred tax assets		24,228
Total current assets	806,133	773,676
Non-current assets:		
Property, plant and equipment, net	188,860	191,946
Intangible assets, net	525,685	564,227
Insurance collateral	20,810	105,763
Goodwill	2,287,391	2,269,140
Other long-term assets	90,245	108,356
Total assets	\$ 3,919,124	\$ 4,013,108
<b>Liabilities and Equity</b>		
Current liabilities:		
Accounts payable	\$ 53,321	\$ 50,512
Accrued liabilities	384,279	323,251
Current deferred tax liabilities	16,531	
Current portion of long-term debt	14,832	14,590
Total current liabilities	468,963	388,353
Long-term debt	2,134,853	2,357,699
Long-term deferred tax liabilities	154,853	151,308
Insurance reserves and other long-term liabilities	208,505	202,258
Total liabilities	2,967,174	3,099,618
Equity:		
Common stock (\$0.01 par value; 1,000 shares authorized, issued and outstanding in 2012 and 2011)		
Additional paid-in capital	905,821	903,173
Retained earnings	41,861	13,019
Accumulated other comprehensive loss	(2,262)	(2,702)
Total Emergency Medical Services Corporation equity	945,420	913,490
Noncontrolling interest	6,530	
Total equity	951,950	913,490
Total liabilities and equity	\$ 3,919,124	\$ 4,013,108

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 September 30,	
	2012	2011
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 15,209	\$ 5,810
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	34,584	34,002
(Gain) loss on disposal of property, plant and equipment	(208)	34
Equity-based compensation expense	1,062	910
Loss on early debt extinguishment	1,561	
Equity in earnings of unconsolidated subsidiary	(90)	(82)
Deferred income taxes	42,939	60
Changes in operating assets/liabilities, net of acquisitions:		
Trade and other accounts receivable	(25,547)	(5,228)
Parts and supplies inventory	(37)	(88)
Prepays and other current assets	(164)	(8,352)
Accounts payable and accrued liabilities	33,933	24,602
Insurance accruals	2,874	1,851
Net cash provided by operating activities	106,116	53,519
<b>Cash Flows from Investing Activities</b>		
Purchases of property, plant and equipment	(19,126)	(15,818)
Proceeds from sale of property, plant and equipment	5,641	111
Acquisition of businesses, net of cash received	(19,259)	(75,582)
Net change in insurance collateral	(17,773)	1,778
Other investing activities	2,885	1,846
Net cash used in investing activities	(47,632)	(87,665)
<b>Cash Flows from Financing Activities</b>		
Repayments of debt and capital lease obligations	(53,142)	(4,152)
Equity issuance costs		(5,682)
Debt issue costs		(2,833)
Repayment of equity	(398)	
Net change in bank overdrafts	(714)	(6,270)
Net cash used in financing activities	(54,254)	(18,937)
Change in cash and cash equivalents	4,230	(53,083)
Cash and cash equivalents, beginning of period	124,198	186,811
Cash and cash equivalents, end of period	\$ 128,428	\$ 133,728

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

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	Successor		Predecessor	
	Nine months ended September 30, 2012	Period from May 25 through September 30, 2011	Period from January 1 through May 24, 2011	
<b>Cash Flows from Operating Activities</b>				
Net income	\$ 28,842	\$ 11,636		\$ 20,668
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	104,207	46,964		29,800
(Gain) loss on disposal of property, plant and equipment	(272)	46		39
Equity-based compensation expense	3,186	1,340		15,112
Excess tax benefits from equity-based compensation				(12,427)
Loss on early debt extinguishment	6,733			10,069
Equity in earnings of unconsolidated subsidiary	(304)	(115)		(143)
Dividends received	611			427
Deferred income taxes	43,146	108		345
Changes in operating assets/liabilities, net of acquisitions:				
Trade and other accounts receivable	(68,376)	1,874		(10,149)
Parts and supplies inventory	351	(70)		(116)
Prepays and other current assets	(6,701)	(5,841)		(8,569)
Accounts payable and accrued liabilities	60,139	26,310		25,337
Insurance accruals	(2,315)	8,988		(2,418)
Net cash provided by operating activities	169,247	91,240		67,975
<b>Cash Flows from Investing Activities</b>				
Merger, net of cash received		(2,844,221)		
Purchases of property, plant and equipment	(44,311)	(18,710)		(18,496)
Proceeds from sale of property, plant and equipment	7,092	166		55
Acquisition of businesses, net of cash received	(20,559)	(80,250)		(94,870)
Net change in insurance collateral	90,601	6,320		23,036
Other investing activities	589	1,584		816
Net cash provided by (used in) investing activities	33,412	(2,935,111)		(89,459)
<b>Cash Flows from Financing Activities</b>				
EMSC issuance of class A common stock				559
Borrowings under senior secured credit facility		1,440,000		
Proceeds from issuance of senior subordinated notes		950,000		
Proceeds from CD&R equity investment		887,051		
Repayments of debt and capital lease obligations	(225,616)	(423,027)		(4,116)
Equity issuance costs		(31,878)		
Debt issue costs	(95)	(116,854)		
Repayment of equity	(528)			
Excess tax benefits from equity-based compensation				12,427
Class A common stock repurchased as treasury stock				(2,440)
Proceeds from noncontrolling interest	6,530			
Net change in bank overdrafts	11,455	(14,241)		14,241
Net cash (used in) provided by financing activities	(208,254)	2,691,051		20,671
Change in cash and cash equivalents	(5,595)	(152,820)		(813)
Cash and cash equivalents, beginning of period	134,023	286,548		287,361
Cash and cash equivalents, end of period	\$ 128,428	\$ 133,728		\$ 286,548

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



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**EMERGENCY MEDICAL SERVICES CORPORATION**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**(in thousands, except share and per share data)**

**1. General**

*Basis of Presentation of Financial Statements*

The accompanying interim consolidated financial statements for Emergency Medical Services Corporation ( *EMSC* or the *Company* ) have been prepared in accordance with U.S. generally accepted accounting principles ( *GAAP* ) for interim reporting, and accordingly, do not include all of the disclosures required for annual financial statements. 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, 2011.

On May 25, 2011, EMSC was acquired through a merger transaction ( *Merger* ) by investment funds (the *CD&R Affiliates* ) sponsored by, or affiliated with, Clayton, Dubilier & Rice, LLC ( *CD&R* ). As a result of the Merger, EMSC became a wholly-owned subsidiary of CDRT Acquisition Corporation and the *Company*'s stock ceased to be traded on the New York Stock Exchange. Details of the Merger are more fully discussed in Note 2. The accompanying consolidated statements of operations and cash flows are presented for two periods: Successor (the three and nine month periods ended September 30, 2012, the three month period ended September 30, 2011 and the period from May 25, 2011 through September 30, 2011) and Predecessor (the period from January 1, 2011 through May 24, 2011), which relate to the periods succeeding the Merger and the period preceding the Merger, respectively. The *Company* applied purchase accounting to the opening balance sheet and results of operations on May 25, 2011. The Merger resulted in a new basis of accounting beginning on May 25, 2011 and the financial reporting periods are presented as follows:

- The three and nine month periods ended September 30, 2012 and the three month period ended September 30, 2011 are presented on a Successor basis, reflecting the Merger of the *Company* and the affiliate of CD&R.
- The nine month period ended September 30, 2011 includes the Predecessor period of the *Company* from January 1, 2011 through May 24, 2011 and the Successor period, reflecting the Merger of the *Company* and the affiliate of CD&R, from May 25, 2011 through September 30, 2011. The consolidated financial statements for all Predecessor periods have been prepared using the historical basis of accounting for the *Company*. As a result of the Merger and the associated purchase accounting, the consolidated financial statements of the Successor are not comparable to periods preceding the Merger.

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, 2012.

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

## **2. Summary of Significant Accounting Policies**

### *Consolidation*

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

### *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.

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***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. During the nine months ended September 30, 2012, the Company replaced approximately \$100 million of insurance collateral investments with letters of credit. Insurance collateral also includes a receivable from insurers of \$10.8 million as of December 31, 2011 for liabilities in excess of our self-insured retention. This receivable was reversed in the first quarter of 2012 upon settlement of the related liability. A similar receivable of \$1.4 million is included in insurance collateral as of September 30, 2012.

Insurance reserves are established for automobile, workers compensation, general liability and professional liability claims utilizing policies with both fully-insured and self-insured components. This includes the use of an off-shore captive insurance program through a wholly-owned subsidiary for certain liability programs for both EmCare and AMR. In those instances where the Company has obtained third-party insurance coverage, the Company normally retains liability for the first \$1 to \$2 million of the loss. Insurance reserves cover known claims and incidents within the level of Company retention that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from activities through the balance sheet date.

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

The Company's most recent actuarial valuation was completed in September 2012. As a result of this and previous actuarial valuations, the Company recorded a decrease in its provisions for insurance liabilities of \$0.9 million and an increase of \$0.3 million during the three and nine month periods ended September 30, 2012, respectively, compared to increases of \$5.1 million and \$13.3 million for three and nine month periods ended September 30, 2011, respectively, related to reserves for losses in prior years.

The long-term portion of insurance reserves was \$185.8 million and \$186.0 million as of September 30, 2012 and December 31, 2011, 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:

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	September 30, 2012	December 31, 2011
Gross trade accounts receivable	\$ 2,999,174	\$ 2,435,233
Allowance for contractual discounts	1,481,883	1,254,452
Allowance for uncompensated care	922,804	655,419
Net trade accounts receivable	594,487	525,362
Other receivables, net	1,337	360
Net accounts receivable	\$ 595,824	\$ 525,722

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 performed, typically after 15 months, to compare actual cash collected on a date of service basis to the revenue recorded for that period. Any adjustment necessary for an overage or deficit in these allowances based on actual collections is recorded through a revenue adjustment in the current period.

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AMR contractual allowances are determined primarily by 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 based 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.

**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 debts, 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 three and nine month periods ended September 30, 2012 and 2011 consisted of the following:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Fee-for-service revenue, net of contractals:				
Medicare	\$ 195,111	\$ 180,731	\$ 577,311	\$ 572,305
Medicaid	47,723	49,307	141,050	160,629
Commercial insurance and managed care	541,542	482,004	1,559,170	1,387,843
Self-pay	611,508	481,295	1,703,304	1,391,224
Sub-total	1,395,884	1,193,337	3,980,835	3,512,001
Subsidies and fees	133,256	150,440	400,226	422,777
Revenue, net of contractals	1,529,140	1,343,777	4,381,061	3,934,778
Provision for uncompensated care	(708,329)	(555,690)	(1,952,858)	(1,605,358)
Net revenue	\$ 820,811	\$ 788,087	\$ 2,428,203	\$ 2,329,420



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

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.

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

Unaudited Pro Forma Combined Consolidated Statements of Operations

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

**Unaudited Pro Forma Combined Consolidated Statements of Operation**

	<b>Nine months ended September 30, 2011</b>
Revenue, net of contractual discounts	\$ 3,934,778
Provision for uncompensated care	(1,605,358)
Net revenue	2,329,420
Compensation and benefits	1,626,661
Operating expenses	306,708
Insurance expense	87,760
Selling, general and administrative expenses	55,619
Depreciation and amortization expense	85,306
Restructuring charges	3,374
Income from operations	163,992
Interest income from restricted assets	2,243
Interest expense	(128,467)
Realized gains on investments	28
Interest and other income	857
Income before income taxes and equity in earnings of unconsolidated subsidiary	38,653
Income tax expense	(15,268)
Income before equity in earnings of unconsolidated subsidiary	23,385

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Equity in earnings of unconsolidated subsidiary		258
Net income	\$	23,643

### ***Fair Value Measurement***

The Company classifies its financial instruments that are reported at fair value based on a hierarchal framework which ranks the level of market price observability used in measuring financial instruments at fair value. Market price observability is impacted by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

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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.

**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 September 30, 2012 and December 31, 2011:

	September 30, 2012				December 31, 2011			
<b>Assets:</b>								
Securities	\$ 22,941	\$ 2,351	\$ 25,292	\$ 96,875	\$ 12,579	\$ 109,454		
Fuel hedge	\$ 922	\$ 922	\$ 245	\$ 245				
<b>Liabilities:</b>								
Contingent consideration	\$ 5,301	\$ 5,301	\$ 5,030	\$ 5,030	\$ 5,030	\$ 5,030		
Interest rate swap	\$ 4,919	\$ 4,919	\$ 2,373	\$ 2,373				

The contingent consideration balance classified as a level 3 liability has increased by \$3.8 million since December 31, 2011 due to new acquisitions offset by \$1.0 million in payments and \$2.5 million in adjustments to the estimated fair value of contingent consideration.

### ***Recent Accounting Pronouncements***

In July 2011, the FASB issued Accounting Standards Update No 2011-7, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* (ASU 2011-7) to give further transparency about a health care entity's net patient service revenue and the related allowance for doubtful accounts.

ASU 2011-7 requires the following:

- presentation of bad debt expense, which the Company classifies as uncompensated care, as contra-revenue on the statement of operations;
- the Company's policy for considering collectability in the timing of revenue and bad debt recognized;
- disclosure of the amount of revenue, net of contractual discounts by major payor source; and
- quantitative and qualitative information about changes in the bad debt allowance, including judgments and changes in estimates.

The Company adopted this new guidance effective January 1, 2012 by separating out its uncompensated care provision on the consolidated statement of operations and by providing additional disclosure to footnote 2 under *Revenue Recognition* for each of the three and nine months ended September 30, 2012 and 2011.

### **3. Acquisitions**

During the nine months ended September 30, 2012, the Company made purchase price allocation adjustments related to Medics Ambulance and Acute Management, LLC; both acquisitions closed during the third quarter of 2011. Based on independent valuations performed, \$5.2 million and \$2.7 million were reclassified from goodwill to intangible assets for Medics Ambulance and Acute Management, LLC, respectively.

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On August 31, 2012, the Company acquired the assets of Sage Physician Partners, Inc. d/b/a American Physician Housecalls ( APH ). APH provides primary physician healthcare services to patients at their place of residence. On September 28, 2012, the Company acquired the management services company of NightRays, P.A., which provides teleradiology and radiology services to hospitals, healthcare facilities and physician practices. The total consideration of these acquisitions was \$19.8 million paid in cash. The Company has recorded \$21.2 million of goodwill and no other gross intangible assets as of September 30, 2012, which amounts are subject to adjustment based upon completion of purchase price allocations.

**4. Accrued Liabilities**

Accrued liabilities were as follows at September 30, 2012 and December 31, 2011:

	September 30, 2012	December 31, 2011
Accrued wages and benefits	\$ 126,521	\$ 110,761
Accrued paid time-off	27,663	26,210
Current portion of self-insurance reserves	49,788	61,865
Accrued restructuring	10,431	4,598
Current portion of compliance and legal	4,505	3,268
Accrued billing and collection fees	4,797	4,940
Accrued incentive compensation	24,028	18,591
Accrued interest	27,688	10,550
Accrued income taxes	19,271	2,036
Transaction related liabilities	39,416	38,782
Other	50,171	41,650
Total accrued liabilities	\$ 384,279	\$ 323,251

**5. Long-Term Debt**

Long-term debt and capital leases consisted of the following at September 30, 2012 and December 31, 2011:

	September 30, 2012	December 31, 2011
Senior unsecured notes due 2019	\$ 950,000	\$ 950,000
Senior unsecured notes purchased by EMSC subsidiary	(15,000)	
Senior secured term loan due 2018 (5.25% at September 30, 2012)	1,213,056	1,421,101
Notes due at various dates from 2012 to 2022 with interest rates from 6% to 10%	1,146	590
Capital lease obligations due at various dates from 2012 to 2018	483	598
	2,149,685	2,372,289
Less current portion	(14,832)	(14,590)
Total long-term debt	\$ 2,134,853	\$ 2,357,699

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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. The Company also made unscheduled payments totaling \$50.0 million and \$200.0 million on the senior secured term and wrote off \$1.6 million and \$6.7 million of unamortized debt issuance costs during the three and nine months ended September 30, 2012 respectively.

### **6. Derivative Instruments and Hedging Activities**

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

At September 30, 2012, 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 \$4.06 per gallon. The Company purchases the diesel fuel at the market rate and periodically settles with its counterparty for the difference between the national average price for the period published by the Department of Energy and the agreed upon fixed price. The transactions fix the price for a total of 6.9 million gallons, which represents approximately 31% of the Company's total estimated usage during the periods hedged, and are spread over periods from October 2012 through December 2014. As of September 30,

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2012, 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 \$0.9 million, compared to an asset of \$0.2 million as of December 31, 2011. Settlement of hedge agreements are included in operating expenses and resulted in net receipts from the counterparty of zero and \$0.8 million for each of the three and nine month periods ended September 30, 2012, \$0.6 million for the three months ended September 30, 2011, \$0.9 million for the period from May 25, 2011 through September 30, 2011, and \$1.0 million for the period from January 1, 2011 through May 24, 2011. 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 1.5%) 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 \$4.9 million as of September 30, 2012, compared to \$2.4 million as of December 31, 2011. As of September 30, 2012, there have not been any payments made or received under these hedge agreements. 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.

**7. Restructuring Charges**

The Company recorded a restructuring charge of \$2.0 million and \$10.8 million during the three and nine months ended September 30, 2012, respectively, related to continuing efforts to re-align AMR's operations. Payments currently under this plan are expected to be complete by September 2013. The accrued restructuring liability as of September 30, 2012 of \$10.4 million includes accruals on restructuring plans from prior years in addition to the 2012 plan outlined below.

	<b>2012 Plan</b>		
	<b>Lease &amp; Other Contract Termination Costs</b>	<b>Severance</b>	<b>Total</b>
Incurred	\$ 5,000	\$ 979	\$ 5,979
Paid		(101)	(101)
March 31, 2012	5,000	878	5,878
Incurred	830	1,914	2,744
Paid		(1,028)	(1,028)
June 30, 2012	5,830	1,764	7,594
Incurred	346	1,682	2,028
Paid	(108)	(1,421)	(1,529)
September 30, 2012	\$ 6,068	\$ 2,025	\$ 8,093

**8. Commitments and Contingencies***Lease Commitments*



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

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

### *Services*

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

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

### *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 filed suit in Superior Court of the State of California, County of Los Angeles. The Banta and Karapetian cases have been coordinated with the

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

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All of the eleven purported class actions relating to the transactions contemplated by the Agreement and Plan of Merger, dated as of February 13, 2011, among EMSC, CDRT Acquisition Corporation and CDRT Merger Sub, Inc., or the Merger Agreement, which were filed in state court in Delaware and federal and state courts in Colorado against various combinations of EMSC, the members of EMSC's board of directors, and other parties have now been voluntarily dismissed or settled. Seven of the eleven actions were filed in the Delaware Court of Chancery beginning on February 22, 2011, and were consolidated into one action entitled *In re Emergency Medical Services Corporation Shareholder Litigation*, Consolidated C.A. No. 6248-VCS. That consolidated class action was voluntarily dismissed without prejudice by the plaintiffs on September 26, 2011. Two actions, entitled *Scott A. Halliday v. Emergency Medical Services Corporation, et al.*, Case No. 2011CV316 (filed on February 15, 2011), and *Alma C. Howell v. William Sanger, et. al.*, Case No. 2011CV488 (filed on March 1, 2011), were filed in the District Court, Arapahoe County, Colorado. Those two actions were voluntarily dismissed without prejudice by the plaintiffs on September 16, 2011 and October 24, 2011, respectively. Two other actions, entitled *Michael Wooten v. Emergency Medical Services Corporation, et al.*, Case No. 11-CV-00412 (filed on February 17, 2011), and *Neal Greenberg v. Emergency Medical Services Corporation, et. al.*, Case No. 11-CV-00496 (filed on February 28, 2011), were filed in the U.S. District Court for the District of Colorado and were also consolidated. On March 23, 2012, the U.S. District Court issued a final order of judgment approving the impending settlement that EMSC had previously disclosed in its Annual Report on Form 10-K for the year ended December 31, 2011, and EMSC incurred no material charges in connection with the settlement. That order approved the settlement as set forth in a Stipulation of Settlement among the parties dated as of November 28, 2011 and released all of the plaintiffs' and the class's claims against the defendants.

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

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. 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.

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

## **9. Equity Based Compensation**

### Successor Equity Plans

Management of EMSC was allowed to rollover stock options of the Predecessor into fully vested options of the CDRT Holding Corporation ( Holding ), the Company's indirect parent company. In addition, EMSC established a stock compensation plan after the Merger whereby certain members of management were awarded stock options in Holding. The stock options are valued using the Black-Scholes valuation model on the date of grant. These options have a \$64.00 strike price and vest ratably through December 2015. A compensation charge of \$1.1 million and \$3.2

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million was recorded for the three and nine months ended September 30, 2012, respectively, compared to compensation charges of \$0.9 million and \$1.3 million for the three months ended September 30, 2011 and the Successor period from May 25, 2011 through September 30, 2011, respectively.

In August 2011, the non-employee directors of the Company, other than the Chairman of the Board, were given the option to defer a portion of their director fees and receive it in the form of Restricted Stock Units ( RSUs ). During the three months ended September 30, 2011, Holding granted 3,945 RSUs based on a fair value of \$64.00 per share. During the three months ended September 30, 2012, Holding granted 3,156 RSUs based on a fair value of \$80.00 per share. The RSUs are fully vested when granted.

In June 2012, Holding granted 20,310 options to certain key management employees at an exercise price of \$64.00. On the grant date 40% of the shares were vested and the remaining shares vest ratably over the next two years provided certain performance criteria are realized.

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Predecessor Equity Plans

For a detailed description of the Company's pre-merger stock compensation plans, refer to Note 12 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

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

**10. Related Party Transactions**

Upon completion of the Merger, the Company and Holding entered into a consulting agreement with CD&R, dated May 25, 2011 (the Consulting Agreement), pursuant to which CD&R will provide Holding and its subsidiaries, including the Company, with financial, investment banking, management, advisory and other services. Holding, or one or more of its subsidiaries, will pay CD&R an annual fee of \$5.0 million, plus expenses. CD&R may also charge a transaction fee for certain types of transactions completed by Holding or one or more of its subsidiaries, plus expenses. The Company expensed \$1.3 million and \$3.8 million during the three and nine month periods ended September 30, 2012. The Company expensed \$1.3 million and \$1.8 million in respect of this fee during the three months ended September 30, 2011 and the Successor period from May 25, 2011 through September 30, 2011 respectively.

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

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

**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.

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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
- 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 September 30, 2012, which are included in the Company 's consolidated financial statements. There were no balances in the HCA-EmCare JV as of December 31, 2011.

	September 30, 2012	
Current assets	\$	31,912,951
Current liabilities		16,552,156

Table of Contents**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 and anesthesiology services. The medical transportation services reportable segment focuses on providing a full range of medical transportation services from basic patient transit to the most advanced emergency care and pre-hospital assistance. The Chief Executive Officer has been identified as the chief operating decision maker ( CODM ) as he assesses the performance of the business units and decides how to allocate resources to the business units.

Net income before equity in earnings of unconsolidated subsidiary, income tax expense, interest and other income (expense), 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 income 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.

The following tables present the Company's operating segment results for the three and nine months ended September 30, 2012, the three months ended September 30, 2011, the period from May 25, 2011 through September 30, 2011, and the period from January 1, 2011 through May 24, 2011:

	Quarter Ended September 30,	
	2012	2011
<b>Facility-Based Physician Services</b>		
Net revenue	\$ 485,936	\$ 424,420
Segment Adjusted EBITDA	68,750	59,248
<b>Medical Transportation Services</b>		
Net revenue	334,875	363,667
Segment Adjusted EBITDA	34,690	32,254
<b>Total</b>		
Total net revenue	820,811	788,087
Total Adjusted EBITDA	103,440	91,502
<b>Reconciliation of Adjusted EBITDA to Net Income</b>		
Adjusted EBITDA	\$ 103,440	\$ 91,502
Depreciation and amortization expense	(30,592)	(29,966)
Restructuring charges	(2,028)	(3,374)
Equity-based compensation expense	(1,062)	(910)
Related party management fees	(1,250)	(1,250)
Interest expense	(41,322)	(43,745)
Realized gain on investments	5	30
Interest and other income (expense)	937	(2,480)
Loss on early debt extinguishment	(1,561)	
Income tax expense	(11,448)	(4,079)
Equity in earnings of unconsolidated subsidiary	90	82
Net income	\$ 15,209	\$ 5,810





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	Successor		Predecessor
	Nine months ended September 30, 2012	Period from May 25 through September 30, 2011	Period from January 1 through May 24, 2011
<b>Facility-Based Physician Services</b>			
Net revenue	\$ 1,403,792	\$ 596,134	\$ 642,059
Segment Adjusted EBITDA	189,231	83,517	77,686
<b>Medical Transportation Services</b>			
Net revenue	1,024,411	511,496	579,731
Segment Adjusted EBITDA	102,105	48,024	52,896
<b>Total</b>			
Total net revenue	2,428,203	1,107,630	1,221,790
Total Adjusted EBITDA	291,336	131,541	130,582
<b>Reconciliation of Adjusted EBITDA to Net Income</b>			
Adjusted EBITDA	\$ 291,336	\$ 131,541	\$ 130,582
Depreciation and amortization expense	(91,844)	(41,027)	(28,467)
Restructuring charges	(10,751)	(3,374)	
Equity-based compensation expense	(3,186)	(1,340)	(15,112)
Related party management fees	(3,750)	(1,764)	(399)
Interest expense	(126,288)	(61,695)	(7,886)
Realized gain (loss) on investments	366	37	(9)
Interest and other income (expense)	1,340	(2,620)	(28,873)
Loss on early debt extinguishment	(6,733)		(10,069)
Income tax expense	(21,952)	(8,237)	(19,242)
Equity in earnings of unconsolidated subsidiary	304	115	143
Net income	\$ 28,842	\$ 11,636	\$ 20,668

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

	Quarter Ended September 30,	
	2012	2011
Adjusted EBITDA	\$ 103,440	\$ 91,502
Related party management fees	(1,250)	(1,250)
Restructuring charges	(2,028)	
Interest expense (less deferred loan fee amortization)	(37,328)	(43,724)
Change in accounts receivable	(25,547)	(5,228)
Change in other operating assets/liabilities	36,606	18,013
Interest and other income (expense)	937	(2,480)
Income tax expense, net of change in deferred taxes	31,491	(4,019)
Other	(205)	705
Cash flows provided by operating activities	\$ 106,116	\$ 53,519

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	Successor		Predecessor
	Nine months ended September 30, 2012	Period from May 25 through September 30, 2011	Period from January 1 through May 24, 2011
Adjusted EBITDA	\$ 291,336	\$ 131,541	\$ 130,582
Related party management fees	(3,750)	(1,764)	(399)
Restructuring charges	(10,751)		
Interest expense (less deferred loan fee amortization)	(113,923)	(59,770)	(6,556)
Change in accounts receivable	(68,376)	1,874	(10,149)
Change in other operating assets/liabilities	51,474	29,387	14,234
Excess tax benefits from equity-based compensation			(12,427)
Interest and other income (expense)	1,340	(2,620)	(28,873)
Income tax expense, net of change in deferred taxes	21,194	(8,129)	(18,897)
Other	703	721	460
Cash flows provided by operating activities	\$ 169,247	\$ 91,240	\$ 67,975

**13. Guarantors of Debt**

EMSC is the issuer of the senior unsecured notes and the borrower under the Credit Facilities. The senior unsecured notes and the Credit Facilities are guaranteed by each of EMSC's domestic subsidiaries, except for any subsidiaries subject to regulation as an insurance company, including EMSC's captive insurance subsidiary. All of the operating income and cash flow of EMSC is generated by AMR, EmCare and their subsidiaries. As a result, funds necessary to meet the debt service obligations under the senior unsecured notes and the Credit Facilities are provided by the distributions or advances from the subsidiary companies, AMR and EmCare. Investments in subsidiary operating companies are accounted for on the equity method. Accordingly, entries necessary to consolidate EMSC and all of its subsidiaries are reflected in the Eliminations/Adjustments column. Separate complete financial statements of EMSC and subsidiary guarantors would not provide additional material information that would be useful in assessing the financial composition of EMSC or the subsidiary guarantors.

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:

Table of Contents**Consolidating Statements of Operations**

	<b>Successor</b>				
	<b>For the three months ended September 30, 2012</b>				
	<b>EMSC</b>	<b>Subsidiary Guarantors</b>	<b>Subsidiary Non-Guarantor</b>	<b>Eliminations/ Adjustments</b>	<b>Total</b>
Net revenue	\$	\$ 820,352	\$ 18,708	\$ (18,249)	\$ 820,811
Compensation and benefits		577,347	155		577,502
Operating expenses		100,609	8		100,617
Insurance expense		21,187	19,969	(18,249)	22,907
Selling, general and administrative expenses		18,534	7		18,541
Depreciation and amortization expense		30,592			30,592
Restructuring charges		2,028			2,028
Income from operations		70,055	(1,431)		68,624
Interest income from restricted assets		(1,817)	1,701		(116)
Interest expense		(41,322)			(41,322)
Realized gain on investments		(1)	6		5
Interest and other income		973	(36)		937
Loss on early debt extinguishment		(1,561)			(1,561)
Income before taxes, equity in earnings of unconsolidated subsidiary and noncontrolling interest		26,327	240		26,567
Income tax expense		(11,443)	(5)		(11,448)
Income before equity in earnings of unconsolidated subsidiary and noncontrolling interest		14,884	235		15,119
Equity in earnings of unconsolidated subsidiary	15,209		90	(15,209)	90
Net income attributable to noncontrolling interest					
Net income (loss)	\$	\$ 15,209	\$ 325	\$ (15,209)	\$ (15,209)

	<b>Successor</b>				
	<b>For the quarter ended September 30, 2011</b>				
	<b>EMSC</b>	<b>Subsidiary Guarantors</b>	<b>Subsidiary Non-Guarantors</b>	<b>Eliminations/ Adjustments</b>	<b>Total</b>
Net revenue	\$	\$ 787,580	\$ 37,160	\$ (36,653)	\$ 788,087
Compensation and benefits		542,474	181		542,655
Operating expenses		108,100	12		108,112
Insurance expense		29,868	37,227	(36,653)	30,442
Selling, general and administrative expenses		18,184	309		18,493
Depreciation and amortization expense		29,966			29,966
Restructuring charges		3,374			3,374
Income (loss) from operations		55,614	(569)		55,045
Interest income from restricted assets		431	526		957
Interest expense		(43,745)			(43,745)
Realized gain on investments			30		30
Interest and other income (expense)		(2,349)	(131)		(2,480)
Income (loss) before income taxes		9,951	(144)		9,807
Income tax expense		(4,075)	(4)		(4,079)
Income (loss) before equity in earnings of unconsolidated subsidiaries		5,876	(148)		5,728

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Equity in earnings of unconsolidated subsidiaries		5,810				82		(5,810)		82
Net income (loss)	\$	5,810	\$	5,876	\$	(66)	\$	(5,810)	\$	5,810

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	EMSC	Successor			Total
		For the nine months ended September 30, 2012			
		Subsidiary Guarantors	Subsidiary Non-Guarantor	Eliminations/ Adjustments	
Net revenue	\$	\$ 2,426,835	\$ 56,650	\$ (55,282)	\$ 2,428,203
Compensation and benefits		1,705,758	447		1,706,205
Operating expenses		304,991	14		305,005
Insurance expense		70,435	60,199	(55,282)	75,352
Selling, general and administrative expenses		57,655	15		57,670
Depreciation and amortization expense		91,844			91,844
Restructuring charges		10,751			10,751
Income from operations		185,401	(4,025)		181,376
Interest income from restricted assets		(2,908)	3,337		429
Interest expense		(126,288)			(126,288)
Realized gain on investments		(1,176)	1,542		366
Interest and other income (expense)		1,463	(123)		1,340
Loss on early debt extinguishment		(6,733)			(6,733)
Income before taxes, equity in earnings of unconsolidated subsidiary and noncontrolling interest		49,759	731		50,490
Income tax expense		(21,937)	(15)		(21,952)
Income before equity in earnings of unconsolidated subsidiary and noncontrolling interest		27,822	716		28,538
Equity in earnings of unconsolidated subsidiary	28,842		304	(28,842)	304
Net income attributable to noncontrolling interest					
Net income (loss)	\$	\$ 28,842	\$ 1,020	\$ (28,842)	\$ 28,842

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	<b>Successor</b>					<b>Total</b>
	<b>For the period May 25 through September 30, 2011</b>					
	<b>EMSC</b>	<b>Subsidiary Guarantors</b>	<b>Subsidiary Non-Guarantors</b>	<b>Eliminations/ Adjustments</b>		
Net revenue	\$	\$ 1,106,899	\$ 38,722	\$ (37,991)	\$	\$ 1,107,630
Compensation and benefits		764,173	286			764,459
Operating expenses		149,956	12			149,968
Insurance expense		39,879	38,643	(37,991)		40,531
Selling, general and administrative expenses		25,004	350			25,354
Depreciation and amortization expense		41,027				41,027
Restructuring charges		3,374				3,374
Income (loss) from operations		83,486	(569)			82,917
Interest income from restricted assets		529	590			1,119
Interest expense		(61,695)				(61,695)
Realized gain on investments			37			37
Loss on early extinguishment of debt						
Income (loss) before income taxes		19,861	(103)			19,758
Income tax expense		(8,231)	(6)			(8,237)
Income (loss) before equity in earnings of unconsolidated subsidiaries		11,630	(109)			11,521
Equity in earnings of unconsolidated subsidiaries		11,636		(11,636)		115
Net income (loss)	\$	\$ 11,636	\$ 6	\$ (11,636)	\$	\$ 11,636

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



Table of Contents**Consolidating Balance Sheet**

As of September 30, 2012

	EMSC	Subsidiary Guarantors	Successor Subsidiary Non-Guarantor	Eliminations/ Adjustments	Total
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$	\$ 56,575	\$ 56,853	\$ 15,000	\$ 128,428
Insurance collateral		4,680	58,191	(36,240)	26,631
Trade and other accounts receivable, net		594,231	4,483	(2,890)	595,824
Parts and supplies inventory		22,329	13		22,342
Prepays and other current assets		33,095	736	(923)	32,908
Current deferred tax assets		(3,447)	3,447		
Current assets		707,463	123,723	(25,053)	806,133
Non-current assets:					
Property, plant, and equipment, net		188,860			188,860
Intercompany receivable	2,183,959			(2,183,959)	
Intangible assets, net		525,685			525,685
Non-current deferred tax assets		707	(2,702)	1,995	
Insurance collateral		51,034	5,541	(35,765)	20,810
Goodwill		2,290,446	(3,055)		2,287,391
Other long-term assets	82,337	6,403	1,505		90,245
Investment and advances in subsidiaries	907,351	2,168		(909,519)	
Assets	\$ 3,173,647	\$ 3,772,766	\$ 125,012	\$ (3,152,301)	\$ 3,919,124
<b>Liabilities and Equity</b>					
Current liabilities:					
Accounts payable	\$	\$ 53,071	\$ 250	\$	\$ 53,321
Accrued liabilities	65,171	305,904	13,610	(406)	384,279
Current deferred tax liabilities		16,531			16,531
Current portion of long-term debt	14,400	432			14,832
Current liabilities	79,571	375,938	13,860	(406)	468,963
Long-term debt	2,148,656	1,197		(15,000)	2,134,853
Long-term deferred tax liabilities		154,853			154,853
Insurance reserves and other long-term liabilities		130,315	121,607	(43,417)	208,505
Intercompany payable		2,196,582	(12,623)	(2,183,959)	
Liabilities	2,228,227	2,858,885	122,844	(2,242,782)	2,967,174
Equity:					
Common stock			30	(30)	
Additional paid-in capital	905,821	869,371		(869,371)	905,821
Retained earnings	41,861	39,589	2,272	(41,861)	41,861
Accumulated other comprehensive loss	(2,262)	(1,609)	(134)	1,743	(2,262)
Total EMSC equity	945,420	907,351	2,168	(909,519)	945,420
Noncontrolling interest		6,530			6,530
Total equity	945,420	913,881	2,168	(909,519)	951,950
Liabilities and Equity	\$ 3,173,647	\$ 3,772,766	\$ 125,012	\$ (3,152,301)	\$ 3,919,124



Table of Contents**Consolidating Balance Sheet**

As of December 31, 2011

	EMSC	Subsidiary Guarantors	Successor Subsidiary Non-Guarantor	Eliminations/ Adjustments	Total
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$	\$ 104,657	\$ 29,366	\$	\$ 134,023
Insurance collateral		23,236	83,505	(65,906)	40,835
Trade and other accounts receivable, net		524,235	1,487		525,722
Parts and supplies inventory		22,693			22,693
Prepays and other current assets		26,566	225	(616)	26,175
Current deferred tax assets		20,615	3,613		24,228
Current assets		722,002	118,196	(66,522)	773,676
Non-current assets:					
Property, plant, and equipment, net		191,946			191,946
Intercompany receivable	2,926,448			(2,926,448)	
Intangible assets, net		564,227			564,227
Non-current deferred tax assets		4,111	(6,106)	1,995	
Insurance collateral		7,317	98,446		105,763
Goodwill		2,265,811	3,329		2,269,140
Other long-term assets	102,652	3,880	1,824		108,356
Investment and advances in subsidiaries	304,377	1,549		(305,926)	
Assets	\$ 3,333,477	\$ 3,760,843	\$ 215,689	\$ (3,296,901)	\$ 4,013,108
<b>Liabilities and Equity</b>					
Current liabilities:					
Accounts payable	\$	\$ 50,196	\$ 316	\$	\$ 50,512
Accrued liabilities	48,886	256,614	17,751		323,251
Current portion of long-term debt	14,400	190			14,590
Current liabilities	63,286	307,000	18,067		388,353
Long-term debt	2,356,701	998			2,357,699
Long-term deferred tax liability		151,308			151,308
Insurance reserves and other long-term liabilities		130,899	135,886	(64,527)	202,258
Intercompany payable		2,866,261	60,187	(2,926,448)	
Liabilities	2,419,987	3,456,466	214,140	(2,990,975)	3,099,618
Equity:					
Common stock			30	(30)	
Additional paid-in capital	903,173	296,332		(296,332)	903,173
Retained earnings	13,019	10,747	2,272	(13,019)	13,019
Accumulated other comprehensive loss	(2,702)	(2,702)	(753)	3,455	(2,702)
Equity	913,490	304,377	1,549	(305,926)	913,490
Liabilities and Equity	\$ 3,333,477	\$ 3,760,843	\$ 215,689	\$ (3,296,901)	\$ 4,013,108

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

	Successor For the nine months ended September 30, 2012			
	EMSC	Subsidiary Guarantors	Subsidiary Non-guarantors	Total
<b>Cash Flows from Operating Activities</b>				
Net cash provided by (used in) operating activities	\$	\$	223,882	\$ (54,635) \$ 169,247
<b>Cash Flows from Investing Activities</b>				
Purchase of property, plant and equipment		(44,311)		(44,311)
Proceeds from sale of property, plant and equipment		7,092		7,092
Acquisition of businesses, net of cash received		(20,559)		(20,559)
Net change in insurance collateral		(33,717)	124,318	90,601
Other investing activities		589		589
Net cash (used in) provided by investing activities		(90,906)	124,318	33,412
<b>Cash Flows from Financing Activities</b>				
Repayments of debt and capital lease obligations	(225,616)			(225,616)
Debt issue costs	(95)			(95)
Repayment of equity	(528)			(528)
Proceeds from noncontrolling interest		6,530		6,530
Net change in bank overdrafts		11,455		11,455
Net intercompany borrowings (payments)	226,239	(199,043)	(27,196)	
Net cash used in financing activities		(181,058)	(27,196)	(208,254)
Change in cash and cash equivalents		(48,082)	42,487	(5,595)
Cash and cash equivalents, beginning of period		104,657	29,366	134,023
Cash and cash equivalents, end of period	\$	\$	56,575	\$ 71,853 \$ 128,428

	Successor For the period from May 25 through September 30, 2011			
	EMSC	Subsidiary Guarantors	Subsidiary Non-guarantors	Total
<b>Cash Flows from Operating Activities</b>				
Net cash provided by (used in) operating activities	\$	\$	102,304	\$ (11,064) \$ 91,240
<b>Cash Flows from Investing Activities</b>				
Merger, net of cash received	(2,844,221)			(2,844,221)
Purchase of property, plant and equipment		(18,710)		(18,710)
Proceeds from sale of property, plant and equipment		166		166
Acquisition of businesses, net of cash received		(80,250)		(80,250)
Net change in insurance collateral		2,861	3,459	6,320
Net change in deposits and other assets		1,584		1,584
Net cash (used in) provided by investing activities	(2,844,221)	(94,349)	3,459	(2,935,111)
<b>Cash Flows from Financing Activities</b>				
Borrowings under senior secured credit facility	1,440,000			1,440,000
Proceeds from issuance of senior subordinated notes	950,000			950,000
Proceeds from CD&R equity investment	887,051			887,051

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Repayments of capital lease obligations and other debt	(423,027)			(423,027)
Equity issuance costs	(31,878)			(31,878)
Debt issue costs	(116,854)			(116,854)
Net change in bank overdrafts		(14,241)		(14,241)
Net intercompany borrowings (payments)	138,929	(142,604)	3,675	
Net cash provided by (used in) financing activities	2,844,221	(156,845)	3,675	2,691,051
Change in cash and cash equivalents		(148,890)	(3,930)	(152,820)
Cash and cash equivalents, beginning of period		256,920	29,628	286,548
Cash and cash equivalents, end of period	\$	\$	108,030	\$ 25,698 \$ 133,728

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

**14. Subsequent Events**

The Company's management has evaluated events subsequent to September 30, 2012 through the issuance date of this report to identify any necessary changes to the consolidated financial statements or related disclosures. Below is a description of events for which disclosure was deemed necessary.

On October 1, 2012, Holding issued \$450 million of Senior PIK Toggle Notes due 2017 and used the proceeds from the offering to pay an extraordinary dividend to its stockholders, pay debt issuance costs and make certain payments to members of management with rollover options in Holding. In connection with the extraordinary dividend, the exercise prices per share of non-rollover options in Holding were adjusted accordingly. Cash interest accrues on these notes at a rate of 9.25% payable semi-annually on April 1 and October 1 commencing on April 1, 2013. PIK interest accrues on these notes at a rate of 10.0%. The dividend amounted to \$29.69 per share and was paid in October 2012.

On October 31, 2012, the Company voluntarily prepaid \$50 million of principal borrowings under its \$1,440 million senior secured term loan facility.



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

**Forward-Looking Statements and Factors That May Affect Results**

Certain statements and information herein may be deemed to be forward-looking statements within the meaning of the Federal Private Securities Litigation Reform Act of 1995. Forward-looking statements may include, but are not limited to, statements relating to our objectives, plans and strategies, and all statements (other than statements of historical facts) that address activities, events or developments that we intend, expect, project, believe or anticipate will or may occur in the future. Any forward-looking statements herein are made as of the date this Quarterly Report on Form 10-Q is filed with the Securities and Exchange Commission, and EMSC undertakes no duty to update or revise any such statements. Forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties. Important factors that could cause actual results, developments and business decisions to differ materially from forward-looking statements are described in EMSC's filings with the SEC from time to time, including in the section entitled "Risk Factors" in EMSC's most recent Annual Report on Form 10-K. 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, and related transactions may not be fully realized or may take longer to realize than expected; and risks related to other factors discussed in the Quarterly Report.

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

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

This Quarterly Report should be read in conjunction with EMSC's consolidated financial statements and notes thereto included in our Annual Report on Form 10-K filed with the SEC on March 16, 2012.

***Healthcare Reform***



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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. Modification or repeal of the PPACA has become a campaign theme for many of the Presidential and Congressional candidates seeking election in 2012. 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 its nearly 55 years of

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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, or CD&R. This transaction is referred to in this Quarterly Report as the Merger. See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 for details related to 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. The business combination adjustments had a material impact on the Successor periods presented, for the three and nine months ended September 30, 2012, the three months ended September 30, 2011 and the period from May 25, 2011 through September 30, 2011, due most significantly to the amortization of intangible assets and interest expense and will have a material impact on future earnings. Initial adjustments to allocate the 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.

***Presentation***

The accompanying Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q are presented for two periods for 2011: Predecessor and Successor, which primarily relate to the periods preceding the Merger and the period succeeding the Merger, respectively. The discussion in this MD&A is presented on a combined basis of the Predecessor and Successor periods for 2011. The 2011 Predecessor and Successor results are presented but are not discussed separately. Management believes that the discussion on a combined basis is more meaningful as it allows the results of operations to be analyzed to a comparable period in 2012. Items that are not comparable between the two periods presented include depreciation and amortization expense, interest expense, interest and other income (expense) and income tax expense, which had significant impacts as a result of the Merger, but are addressed separately in the discussion below. See Note 1 to the accompanying unaudited condensed consolidated financial statements.

***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.

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The table below summarizes our approximate payor mix as a percentage of both net revenue and total patient encounters and transports for the three and nine months ended September 30, 2012 and 2011. 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		Nine months ended		Quarter ended		Nine months ended	
	September 30,		September 30,		September 30,		September 30,	
	2012	2011	2012	2011	2012	2011	2012	2011
Medicare	20.4%	20.0%	20.5%	21.1%	25.2%	25.2%	25.8%	26.1%
Medicaid	4.9%	5.4%	5.0%	5.5%	10.7%	12.3%	10.9%	12.7%
Commercial insurance and managed care	53.3%	50.6%	52.5%	50.2%	45.0%	43.5%	45.1%	42.9%
Self-pay	4.3%	4.8%	5.0%	4.6%	19.1%	19.0%	18.2%	18.3%
Subsidies & fees	17.1%	19.2%	17.0%	18.6%				
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

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

#### **EmCare**

Of EmCare's net revenue for the nine months ended September 30, 2012, approximately 78% was derived from our hospital contracts for emergency department staffing, 11% from contracts related to anesthesiology services, 4% from our hospitalist/inpatient services, 3% from our radiology/teleradiology services, 1% from our surgery services, and 3% from other hospital management services. Approximately 81% of EmCare's net revenue was generated from billings to third party payors and patients for patient encounters and approximately 19% was generated from billings to hospitals and affiliated physician groups for professional services. EmCare's key net revenue measures are patient encounters, segregated into emergency department visits, radiology reads, and anesthesiology and hospitalist encounters and that we weight in certain analyses, net revenue per patient encounter, and number of contracts.

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

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

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

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

#### **AMR**

Approximately 87% of AMR's net revenue for the nine months ended September 30, 2012 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.

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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.

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*Factors Affecting Operating Results*

**Changes in Net New Contracts**

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

**Inflation**

Certain of our expenses, such as wages and benefits, insurance, fuel and equipment repair and maintenance costs, are subject to normal inflationary pressures. Fuel expense represented 14.1% and 11.4% of AMR's operating expenses for the three months ended September 30, 2012 and 2011, respectively, and 12.8% and 11.3% for the nine months ended September 30, 2012 and 2011, 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, or CMS, to adjust the Medicare Physician Fee Schedule, or MPFS, payment rates annually based on a formula which includes an application of the Sustainable Growth Rate, or 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, 2013, and CMS estimates that the reduction in rates for 2013 would then be 26.5%.

*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, 2011. As of September 30, 2012, there were no significant changes in our critical accounting policies or estimation procedures.

**Results of Operations**

**Quarter and Nine Months Ended September 30, 2012 Compared to the Quarter and Nine Months Ended September 30, 2011**

The following tables present a comparison of financial data from our unaudited condensed consolidated statements of operations for the three and nine months ended September 30, 2012 and 2011 for EMSC and our two operating segments.

**Non-GAAP Measures**

*Adjusted EBITDA.* Adjusted EBITDA is defined as net income before equity in earnings of unconsolidated subsidiary, income tax expense, interest and other income (expense), 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 income 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**

	Successor Quarter ended September 30, % of net		Successor Quarter ended September 30, % of net		Successor Nine months ended September 30, % of net		Combined Nine months ended September 30, % of net	
	2012	revenue	2011	revenue	2012	revenue	2011	revenue
Net revenue	\$ 820,811	100.0%	\$ 788,087	100.0%	\$ 2,428,203	100.0%	\$ 2,329,420	100.0%
Compensation and benefits	577,502	70.4	542,655	68.9	1,706,205	70.3	1,639,092	70.4
Operating expenses	100,617	12.3	108,112	13.7	305,005	12.6	306,708	13.2
Insurance expense	22,907	2.8	30,442	3.9	75,352	3.1	87,760	3.8
Selling, general and administrative expenses	18,541	2.3	18,493	2.3	57,670	2.4	54,595	2.3
Equity-based compensation expense	(1,062)	(0.1)	(910)	(0.1)	(3,186)	(0.1)	(16,452)	(0.7)
Related party management fees	(1,250)	(0.2)	(1,250)	(0.2)	(3,750)	(0.2)	(2,163)	(0.1)
Interest income from restricted assets	116	0.0	(957)	(0.1)	(429)	(0.0)	(2,243)	(0.1)
Adjusted EBITDA	\$ 103,440	12.6%	\$ 91,502	11.6%	\$ 291,336	12.0%	\$ 262,123	11.3%
Equity-based compensation expense	(1,062)	(0.1)	(910)	(0.1)	(3,186)	(0.1)	(16,452)	(0.7)
Related party management fees	(1,250)	(0.2)	(1,250)	(0.2)	(3,750)	(0.2)	(2,163)	(0.1)
Depreciation and amortization expense	(30,592)	(3.7)	(29,966)	(3.8)	(91,844)	(3.8)	(69,494)	(3.0)
Restructuring charges	(2,028)	(0.2)	(3,374)	(0.4)	(10,751)	(0.4)	(3,374)	(0.1)
Interest expense	(41,322)	(5.0)	(43,745)	(5.6)	(126,288)	(5.2)	(69,581)	(3.0)
Realized gain on investments	5	0.0	30	0.0	366	0.0	28	0.0
Interest and other income (expense)	937	0.1	(2,480)	(0.3)	1,340	0.1	(31,493)	(1.4)
Loss on early debt extinguishment	(1,561)	(0.2)			(6,733)	(0.3)	(10,069)	(0.4)
Income tax expense	(11,448)	(1.4)	(4,079)	(0.5)	(21,952)	(0.9)	(27,479)	(1.2)
Equity in earnings of unconsolidated subsidiary	90	0.0	82	0.0	304	0.0	258	0.0
Net income	\$ 15,209	1.9%	\$ 5,810	0.7%	\$ 28,842	1.2%	\$ 32,304	1.4%



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	Successor Period from May 25 through September 30, % of net revenue		Predecessor Period from January 1 through May 24, % of net revenue	
	2011		2011	
Net revenue	\$ 1,107,630	100.0%	\$ 1,221,790	100.0%
Compensation and benefits	764,459	69.0	874,633	71.6
Operating expenses	149,968	13.5	156,740	12.8
Insurance expense	40,531	3.7	47,229	3.9
Selling, general and administrative expenses	25,354	2.3	29,241	2.4
Equity-based compensation expense	(1,340)	(0.1)	(15,112)	(1.2)
Related party management fees	(1,764)	(0.2)	(399)	(0.0)
Interest income from restricted assets	(1,119)	(0.1)	(1,124)	(0.1)
Adjusted EBITDA	\$ 131,541	11.9%	\$ 130,582	10.7%
Equity-based compensation expense	(1,340)	(0.1)	(15,112)	(1.2)
Related party management fees	(1,764)	(0.2)	(399)	(0.0)
Depreciation and amortization expense	(41,027)	(3.7)	(28,467)	(2.3)
Restructuring charges	(3,374)	(0.3)		
Interest expense	(61,695)	(5.6)	(7,886)	(0.6)
Realized gain (loss) on investments	37	0.0	(9)	(0.0)
Interest and other expense	(2,620)	(0.2)	(28,873)	(2.4)
Loss on early debt extinguishment			(10,069)	(0.8)
Income tax expense	(8,237)	(0.7)	(19,242)	(1.6)
Equity in earnings of unconsolidated subsidiary	115	0.0	143	0.0
Net income	\$ 11,636	1.1%	\$ 20,668	1.7%

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

(dollars in thousands)

	Successor For the quarter ended September 30, 2012	Successor For the quarter ended September 30, 2011	Successor For the nine months ended September 30, 2012	Combined For the nine months ended September 30, 2011
Adjusted EBITDA	\$ 103,440	\$ 91,502	\$ 291,336	\$ 262,123
Related party management fees	(1,250)	(1,250)	(3,750)	(2,163)
Restructuring charges	(2,028)		(10,751)	
Interest expense (less deferred loan fee amortization)	(37,328)	(43,724)	(113,923)	(66,326)
Change in accounts receivable	(25,547)	(5,228)	(68,376)	(8,275)
Change in other operating assets/liabilities	36,606	18,013	51,474	43,621
Excess tax benefits from stock-based compensation				(12,427)
Interest and other income (expense)	937	(2,480)	1,340	(31,493)
Income tax expense, net of change in deferred taxes	31,491	(4,019)	21,194	(27,026)
Other	(205)	705	703	1,181
Cash flows provided by operating activities	\$ 106,116	\$ 53,519	\$ 169,247	\$ 159,215



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

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

(dollars in thousands)

**EmCare**

	Successor Quarter ended September 30, % of net		Successor % of net		Successor Nine months ended September 30, % of net		Combined % of net	
	2012 revenue	100.0%	2011 revenue	100.0%	2012 revenue	100.0%	2011 revenue	100.0%
Net revenue	\$ 485,936		\$ 424,420		\$ 1,403,792		\$ 1,238,193	
Compensation and benefits	377,339	77.7	329,569	77.7	1,094,214	77.9	976,400	78.9
Operating expenses	19,022	3.9	14,038	3.3	54,838	3.9	41,116	3.3
Insurance expense	13,073	2.7	15,144	3.6	41,715	3.0	45,136	3.6
Selling, general and administrative expenses	8,518	1.8	7,907	1.9	26,837	1.9	23,714	1.9
Interest income from restricted assets	275	0.1	(526)	(0.1)	48	0.0	(1,176)	(0.1)
Equity-based compensation expense	(478)	(0.1)	(406)	(0.1)	(1,420)	(0.1)	(7,244)	(0.6)
Related party management fees	(563)	(0.1)	(554)	(0.1)	(1,671)	(0.1)	(956)	(0.1)
Adjusted EBITDA	\$ 68,750	14.1%	\$ 59,248	14.0%	\$ 189,231	13.5%	\$ 161,203	13.0%
Reconciliation of Adjusted EBITDA to income from operations	68,750	14.1	59,248	14.0	189,231	13.5	161,203	13.0

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Adjusted EBITDA								
Depreciation and amortization expenses	(13,487)	(2.8)	(14,647)	(3.5)	(41,407)	(2.9)	(28,745)	(2.3)
Restructuring charges	(274)	(0.1)	(400)	(0.1)	(282)	(0.0)	(400)	(0.0)
Interest income from restricted assets	275	0.1	(526)	(0.1)	48	0.0	(1,176)	(0.1)
Equity-based compensation expense	(478)	(0.1)	(406)	(0.1)	(1,420)	(0.1)	(7,244)	(0.6)
Related party management fees	(563)	(0.1)	(554)	(0.1)	(1,671)	(0.1)	(956)	(0.1)
Income from operations	\$ 54,223	11.2%	\$ 42,715	10.1%	\$ 144,499	10.3%	\$ 122,682	9.9%

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	Successor Period from May 25 through September 30, 2011		Predecessor Period from January 1 through May 24, 2011	
		% of net revenue		% of net revenue
Net revenue	\$ 596,134	100.0%	\$ 642,059	100.0%
Compensation and benefits	462,761	77.6	513,639	80.0
Operating expenses	20,078	3.4	21,038	3.3
Insurance expense	20,775	3.5	24,361	3.8
Selling, general and administrative expenses	10,814	1.8	12,900	2.0
Interest income from restricted assets	(592)	(0.1)	(584)	(0.1)
Equity-based compensation expense	(443)	(0.1)	(6,801)	(1.1)
Related party management fees	(776)	(0.1)	(180)	(0.0)
Adjusted EBITDA	\$ 83,517	14.0%	\$ 77,686	12.1%
Reconciliation of Adjusted EBITDA to income from operations				
Adjusted EBITDA	83,517	14.0	77,686	12.1
Depreciation and amortization expense	(19,334)	(3.2)	(9,411)	(1.5)
Restructuring charges	(400)	(0.1)		
Interest income from restricted assets	(592)	(0.1)	(584)	(0.1)
Equity-based compensation expense	(443)	(0.1)	(6,801)	(1.1)
Related party management fees	(776)	(0.1)	(180)	(0.0)
Income from operations	\$ 61,972	10.4%	\$ 60,710	9.5%

AMR

	Successor Quarter ended September 30, 2012		Successor Quarter ended September 30, 2011		Successor Nine months ended September 30, 2012		Combined Nine months ended September 30, 2011	
		% of net revenue		% of net revenue		% of net revenue		% of net revenue
Net revenue	\$ 334,875	100.0%	\$ 363,667	100.0%	\$ 1,024,411	100%	\$ 1,091,227	100.0%
Compensation and benefits	200,163	59.8	213,086	58.6	611,991	59.7	662,692	60.7
Operating expenses	81,595	24.4	94,074	25.9	250,167	24.4	265,592	24.3
Insurance expense	9,834	2.9	15,298	4.2	33,637	3.3	42,624	3.9
Selling, general and administrative expenses	10,023	3.0	10,586	2.9	30,833	3.0	30,881	2.8
Interest income from restricted assets	(159)	(0.0)	(431)	(0.1)	(477)	(0.0)	(1,067)	(0.1)
Equity-based compensation expense	(584)	(0.2)	(504)	(0.1)	(1,766)	(0.2)	(9,208)	(0.8)
Related party management fees	(687)	(0.2)	(696)	(0.2)	(2,079)	(0.2)	(1,207)	(0.1)

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Adjusted EBITDA	\$	34,690	10.4%	\$	32,254	8.9%	\$	102,105	10.0%	\$	100,920	9.2%
Reconciliation of Adjusted EBITDA to income from operations												
Adjusted EBITDA		34,690	10.4		32,254	8.9		102,105	10.0		100,920	9.2
Depreciation and amortization expense		(17,105)	(5.1)		(15,319)	(4.2)		(50,437)	(4.9)		(40,749)	(3.7)
Restructuring charges		(1,754)	(0.5)		(2,974)	(0.8)		(10,469)	(1.0)		(2,974)	(0.3)
Interest income from restricted assets		(159)	(0.0)		(431)	(0.1)		(477)	(0.0)		(1,067)	(0.1)
Equity-based compensation expense		(584)	(0.2)		(504)	(0.1)		(1,766)	(0.2)		(9,208)	(0.8)
Related party management fees		(687)	(0.2)		(696)	(0.2)		(2,079)	(0.2)		(1,207)	(0.1)
Income from operations	\$	14,401	4.3%	\$	12,330	3.4%	\$	36,877	3.6%	\$	45,715	4.2%

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	Successor Period from May 25 through September 30, % of net 2011 revenue		Predecessor Period from January 1 through May 24, % of net 2011 revenue	
Net revenue	\$ 511,496	100.0%	\$ 579,731	100.0%
Compensation and benefits	301,698	59.0	360,994	62.3
Operating expenses	129,890	25.4	135,702	23.4
Insurance expense	19,756	3.9	22,868	3.9
Selling, general and administrative expenses	14,540	2.8	16,341	2.8
Interest income from restricted assets	(527)	(0.1)	(540)	(0.1)
Equity-based compensation expense	(897)	(0.2)	(8,311)	(1.4)
Related party management fees	(988)	(0.2)	(219)	(0.0)
Adjusted EBITDA	\$ 48,024	9.4%	\$ 52,896	9.1%
Reconciliation of Adjusted EBITDA to income from operations				
Adjusted EBITDA	48,024	9.4	52,896	9.1
Depreciation and amortization expense	(21,693)	(4.2)	(19,056)	(3.3)
Restructuring charges	(2,974)	(0.6)		
Interest income from restricted assets	(527)	(0.1)	(540)	(0.1)
Equity-based compensation expense	(897)	(0.2)	(8,311)	(1.4)
Related party management fees	(988)	(0.2)	(219)	(0.0)
Income from operations	\$ 20,945	4.1%	\$ 24,770	4.3%

*Quarter ended September 30, 2012 compared to the quarter ended September 30, 2011*

*Consolidated*

Our results for the three months ended September 30, 2012 reflect an increase in net revenue of \$32.7 million and an increase in net income of \$9.4 million compared to the three months ended September 30, 2011. The increase in net income is attributable primarily to an increase in operating income and a decrease in expenses associated with the Merger transaction.

*Net revenue.* For the three months ended September 30, 2012, we generated net revenue of \$820.8 million compared to net revenue of \$788.1 million for the three months ended September 30, 2011, representing an increase of 4.2%. The increase is attributable primarily to increases in rates and volumes on existing contracts combined with increased volume from net new contracts, partially offset by the impact of markets exited.

*Adjusted EBITDA.* Adjusted EBITDA was \$103.4 million, or 12.6% of net revenue, for the three months ended September 30, 2012 compared to \$91.5 million, or 11.6% of net revenue, for the three months ended September 30, 2011.

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*Restructuring charges.* Restructuring charges of \$2.0 million were recorded during the three months ended September 30, 2012, related to continuing efforts to re-align AMR's operations, compared to charges of \$3.4 million for the three months ended September 30, 2011.

*Interest expense.* Interest expense for the three months ended September 30, 2012 was \$41.3 million compared to \$43.7 million for the three months ended September 30, 2011. The change was due to the decrease in our outstanding debt.

*Income tax expense.* Income tax expense increased by \$7.4 million for the three months ended September 30, 2012 compared to the same period in 2011. Our effective tax rate was 43.1% and 41.6% for the three months ended September 30, 2012 and 2011, respectively. The increase in our effective tax rate for the three months ended September 30, 2012 compared to the three months ended September 30, 2011 was primarily a result of certain state taxes which have tax rates not based on pre-tax book income.

### ***EmCare***

*Net revenue.* Net revenue for the three months ended September 30, 2012 was \$485.9 million, an increase of \$61.5 million, or 14.5%, from \$424.4 million for the three months ended September 30, 2011. The 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 September, 2011 accounted for a net revenue increase of \$50.1 million for the three months ended September 30, 2012, of which \$9.6 million came from net new



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contracts added in 2011, with the remaining increase in net revenue from those added in 2012. Net revenue under our same store contracts (contracts in existence for the entirety of both periods) increased \$11.5 million, or 3.1%, for the three months ended September 30, 2012. The change was due to a 1.9% increase in same store weighted patient encounters and a 1.2% increase in revenue per weighted patient encounter.

*Compensation and benefits.* Compensation and benefits costs for the three months ended September 30, 2012 were \$377.3 million, or 77.7% of net revenue, compared to \$329.6 million, or 77.7% of net revenue, for the same period in 2011. Provider compensation costs increased \$34.8 million from net new contract additions. Same store provider compensation costs were \$11.1 million higher than the prior period due to a 1.9% increase in same store weighted patient encounters and a 2.7% increase in provider compensation per weighted patient encounter.

*Operating expenses.* Operating expenses for the three months ended September 30, 2012 were \$19.0 million, or 3.9% of net revenue, compared to \$14.0 million, or 3.3% of net revenue, for the three months ended September 30, 2011. Operating expenses increased \$5.0 million due primarily to increased billing and collection fees from our recent acquisitions and organic growth.

*Insurance expense.* Professional liability insurance expense for the three months ended September 30, 2012 was \$13.1 million, or 2.7% of net revenue, compared to \$15.1 million, or 3.6% of net revenue, for the three months ended September 30, 2011. We recorded a decrease of prior year insurance provisions of \$1.0 million during the three months ended September 30, 2012 compared to an increase of \$1.7 million during the three months ended September 30, 2011.

*Selling, general and administrative.* Selling, general and administrative expense for the three months ended September 30, 2012 was \$8.5 million, or 1.8% of net revenue, compared to \$7.9 million, or 1.9% of net revenue, for the three months ended September 30, 2011.

*Depreciation and amortization.* Depreciation and amortization expense for the three months ended September 30, 2012 was \$13.5 million, or 2.8% of net revenue, compared to \$14.6 million, or 3.5% of net revenue, for the three months ended September 30, 2011.

**AMR**

*Net revenue.* Net revenue for the three months ended September 30, 2012 was \$334.9 million, a decrease of \$28.8 million, or 7.9%, from \$363.7 million for the same period in 2011. The decrease in net revenue was due primarily to a decrease of 4.9%, or \$18.0 million, in weighted transport volume and a decrease in net revenue per weighted transport of 3.0%, or \$10.8 million. The decrease in net revenue per weighted transport of 3.0% was due to a 2.8% decrease in our managed transportation business from the exit of certain contracts and a 0.7% decrease in rates due primarily to the net impact of markets entered and exited, partially offset by a 0.5% increase due to our FEMA deployment during the third quarter of 2012. Weighted transports decreased 36,800 from the same quarter last year. The change was due to an increase of 5,700 weighted transports from acquisitions and an increase of 9,900 weighted transports from our entry into new markets, offset by a decrease of 26,300 weighted transports from exited markets, and a decrease in weighted transport volume in existing markets of 3.7%, or 26,100 weighted transports. Emergent transport volume in existing markets increased 2.3% offset by a 14.5% decrease in non-emergent volume from changes in certain regional and national contracts.

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*Compensation and benefits.* Compensation and benefit costs for the three months ended September 30, 2012 were \$200.2 million, or 59.8% of net revenue, compared to \$213.1 million, or 58.6% of net revenue, for the same period last year. Ambulance crew wages per ambulance unit hour decreased by approximately 2.1%, or \$2.5 million, and ambulance unit hours decreased period over period by 4.5%, or \$5.6 million, attributable primarily to markets exited combined with the reduction in volume in existing markets. Non-crew compensation decreased period over period by \$2.5 million due to net reductions in costs supporting AMR operating markets. Total benefits related costs decreased \$1.8 million during the three months ended September 30, 2012 compared to the same period in 2011 due primarily to the impact from markets exited combined with decreased costs associated with our health insurance plans.

*Operating expenses.* Operating expenses for the three months ended September 30, 2012 were \$81.6 million, or 24.4% of net revenue, compared to \$94.1 million, or 25.9% of net revenue, for the three months ended September 30, 2011. The change is due primarily to decreased costs of \$6.0 million associated with the net impact from markets entered and exited, and a decrease of \$6.4 million in operating costs associated with certain contract exits in our managed transportation business.

*Insurance expense.* Insurance expense for the three months ended September 30, 2012 was \$9.8 million, or 2.9% of net revenue, compared to \$15.3 million, or 4.2% of net revenue, for the same period in 2011. We recorded an increase of prior year insurance provisions of \$0.1 million during the three months ended September 30, 2012 compared to an increase of \$3.4 million during the three months ended September 30, 2011. The remaining decrease was the result of decreases in volume.

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*Selling, general and administrative.* Selling, general and administrative expense for the three months ended September 30, 2012 was \$10.0 million, or 3.0% of net revenue, compared to \$10.6 million, or 2.9% of net revenue, for the three months ended September 30, 2011.

*Depreciation and amortization.* Depreciation and amortization expense for the three months ended September 30, 2012 was \$17.1 million, or 5.1% of net revenue, compared to \$15.3 million, or 4.2% of net revenue, for the same period in 2011. The increase was due primarily to additional depreciation expense associated with adjustments to tangible and intangible assets recorded as a result of the Merger.

### *Nine months ended September 30, 2012 compared to the nine months ended September 30, 2011*

#### *Consolidated*

Our results for the nine months ended September 30, 2012 reflect an increase in net revenue of \$98.8 million and a decrease in net income of \$3.5 million compared to the nine months ended September 30, 2011. The decrease in net income is attributable primarily to increases in interest expense and depreciation and amortization expense associated with the Merger transaction, partially offset by a decrease in income tax expense.

*Net revenue.* For the nine months ended September 30, 2012, we generated net revenue of \$2,428.2 million compared to net revenue of \$2,329.4 million for the nine months ended September 30, 2011, representing an increase of 4.2%. The increase is attributable primarily to increases in rates and volumes on existing contracts combined with increased volume from net new contracts and acquisitions, partially offset by the impact of markets exited.

*Adjusted EBITDA.* Adjusted EBITDA was \$291.3 million, or 12.0% of net revenue, for the nine months ended September 30, 2012 compared to \$262.1 million, or 11.3% of net revenue, for the nine months ended September 30, 2011.

*Restructuring charges.* Restructuring charges of \$10.8 million were recorded during the nine months ended September 30, 2012, related to continuing efforts to re-align AMR's operations.

*Interest expense.* Interest expense for the nine months ended September 30, 2012 was \$126.3 million compared to \$69.6 million for the nine months ended September 30, 2011. The change was due to the increase in our outstanding debt and effective interest rate associated with the issuance of our new senior subordinated unsecured notes and borrowings under our new credit facilities in May 2011.

*Income tax expense.* Income tax expense decreased by \$5.5 million for the nine months ended September 30, 2012 compared to the same period in 2011. Our effective tax rate was 43.5% for the nine months ended September 30, 2012, 41.7% for the Successor period from May 25, 2011 through September 30, 2011 and 48.4% for the Predecessor period from January 1, 2011 through May 24, 2011. The increased effective tax rate during the 2011 Predecessor period was a result of certain Merger related costs that were not deductible for tax purposes. The increase in our

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effective tax rate for the nine months ended September 30, 2012 compared to the 2011 Successor period was primarily a result of certain state taxes which have tax rates not based on pre-tax book income.

### *EmCare*

*Net revenue.* Net revenue for the nine months ended September 30, 2012 was \$1,403.8 million, an increase of \$165.6 million, or 13.4%, from \$1,238.2 million for the nine months ended September 30, 2011. The 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, 2010 accounted for a net revenue increase of \$107.3 million for the nine months ended September 30, 2012, of which \$37.8 million came from net new contracts added in 2011, with the remaining increase in net revenue from those added in 2012. Net revenue under our same store contracts (contracts in existence for the entirety of both periods) increased \$58.3 million, or 5.9%, for the nine months ended September 30, 2012. The change was due to a 2.7% increase in same store weighted patient encounters and a 3.2% increase in revenue per weighted patient encounter.

*Compensation and benefits.* Compensation and benefits costs for the nine months ended September 30, 2012 were \$1,094.2 million, or 77.9% of net revenue, compared to \$976.4 million, or 78.9% of net revenue, for the same period in 2011. The decrease in compensation and benefits as a percentage of net revenue is driven primarily by increases in patient volumes and lower start-up costs on new contracts. Provider compensation costs increased \$76.0 million from net new contract additions. Same store provider compensation costs were \$32.9 million higher than the prior period due to a 2.7% increase in same store weighted patient encounters and a 2.3% increase in provider compensation per weighted patient encounter. Non-provider compensation and total benefits costs

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increased by \$8.9 million during the nine months ended September 30, 2012 compared to the same period in 2011. The increase is due primarily to our recent acquisitions and organic growth.

*Operating expenses.* Operating expenses for the nine months ended September 30, 2012 were \$54.8 million, or 3.9% of net revenue, compared to \$41.1 million, or 3.3% of net revenue, for the nine months ended September 30, 2011. Operating expenses increased \$13.7 million due primarily to increased billing and collection fees from our recent acquisitions and organic growth.

*Insurance expense.* Professional liability insurance expense for the nine months ended September 30, 2012 was \$41.7 million, or 3.0% of net revenue, compared to \$45.1 million, or 3.6% of net revenue, for the nine months ended September 30, 2011. We recorded a decrease of prior year insurance provisions of \$1.6 million during the nine months ended September 30, 2012 compared to an increase of \$5.0 million during the nine months ended September 30, 2011.

*Selling, general and administrative.* Selling, general and administrative expense for the nine months ended September 30, 2012 was \$26.8 million, or 1.9% of net revenue, compared to \$23.7 million, or 1.9% of net revenue, for the nine months ended September 30, 2011.

*Depreciation and amortization.* Depreciation and amortization expense for the nine months ended September 30, 2012 was \$41.4 million, or 2.9% of net revenue, compared to \$28.7 million, or 2.3% of net revenue, for the nine months ended September 30, 2011. The \$12.7 million increase is due primarily to additional amortization expense associated with intangible assets recorded as a result of the Merger.

### **AMR**

*Net revenue.* Net revenue for the nine months ended September 30, 2012 was \$1,024.4 million, a decrease of \$66.8 million, or 6.1%, from \$1,091.2 million for the same period in 2011. The decrease in net revenue was due primarily to a decrease of 3.8%, or \$41.7 million, in weighted transport volume and a decrease in net revenue per weighted transport of 2.3%, or \$25.1 million. The decrease in net revenue per weighted transport of 2.3% was due primarily to the impact of markets entered and exited combined with acquisitions. Weighted transports decreased 85,500 from the same period last year. The change was due to an increase of 50,500 weighted transports from acquisitions and an increase of 23,500 weighted transports from our entry into new markets, offset by a decrease of 108,700 weighted transports from exited markets, and a decrease in weighted transport volume in existing markets of 2.4%, or 50,800 weighted transports. Emergent transport volume in existing markets increased 2.7% offset by an 11.0% decrease in non-emergent volume from changes in certain regional and national contracts.

*Compensation and benefits.* Compensation and benefit costs for the nine months ended September 30, 2012 were \$612.0 million, or 59.7% of net revenue, compared to \$662.7 million, or 60.7% of net revenue, for the same period last year. Ambulance crew wages per ambulance unit hour decreased by approximately 2.7%, or \$9.6 million, and ambulance unit hours decreased period over period by 3.9%, or \$14.6 million, attributable primarily to markets exited combined with the reduction in volume in existing markets. Non-crew compensation decreased period over period by \$16.5 million due to net reductions in costs supporting AMR operating markets. Total benefits related costs decreased \$8.7 million during the nine months ended September 30, 2012 compared to the same period in 2011 due primarily to the impact from markets exited combined with decreased costs associated with our health insurance plans.

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*Operating expenses.* Operating expenses for the nine months ended September 30, 2012 were \$250.2 million, or 24.4% of net revenue, compared to \$265.6 million, or 24.3% of net revenue, for the nine months ended September 30, 2011. The change is due primarily to decreased costs of \$8.4 million associated with the net impact from markets entered and exited combined with recent acquisitions, a decrease of \$12.5 million in operating costs associated with certain contract exits in our managed transportation business, offset by increased fuel costs of \$2.6 million, increased legal fees and settlements of \$1.8 million, and an increase in other operating expenses of \$1.1 million.

*Insurance expense.* Insurance expense for the nine months ended September 30, 2012 was \$33.6 million, or 3.3% of net revenue, compared to \$42.6 million, or 3.9% of net revenue, for the same period in 2011. We recorded an increase of prior year insurance provisions of \$1.9 million during the nine months ended September 30, 2012 compared to an increase of \$8.2 million during the nine months ended September 30, 2011.

*Selling, general and administrative.* Selling, general and administrative expense for the nine months ended September 30, 2012 was \$30.8 million, or 3.0% of net revenue, compared to \$30.9 million, or 2.8% of net revenue, for the nine months ended September 30, 2011.

*Depreciation and amortization.* Depreciation and amortization expense for the nine months ended September 30, 2012 was \$50.4 million, or 4.9% of net revenue, compared to \$40.7 million, or 3.7% of net revenue, for the same period in 2011. The increase was due

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primarily to additional depreciation expense associated with adjustments to tangible and intangible assets recorded as a result of the Merger.

**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-based revolving credit facility, or the ABL Facility, provides for up to \$350 million of senior secured first priority borrowings, subject to a borrowing base of \$417.6 million as of September 30, 2012. The ABL Facility is available to fund working capital and for general corporate purposes. As of September 30, 2012, we had available borrowing capacity of \$220.5 million and \$129.5 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.

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, or CDRT Holding, issued \$450 million of Senior PIK Toggle Notes due 2017. The sole source of liquidity of Holding is cash flows provided by our operating activities. See note 14 to the Unaudited Consolidated Financial Statements included in this Form 10-Q

**Cash Flow**

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

Successor

Combined

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	Nine Months ended September 30,	
	2012	2011
Net cash provided by (used in):		
Operating activities	\$ 169,247	\$ 159,215
Investing activities	33,412	(3,024,570)
Financing activities	(208,254)	2,711,722

*Operating activities.* Net cash provided by operating activities was \$169.2 million for the nine months ended September 30, 2012 compared to \$159.2 million for the same period in 2011. The increase in operating cash flows was affected primarily by a \$43 million tax refund. This was offset by an increase in trade and other receivables. Accounts receivable increased \$68.4 million and \$8.3 million during the nine months ended September 30, 2012 and 2011, respectively. Days sales outstanding, or DSO, increased 5 days during the nine months ended September 30, 2012. EmCare's DSO increased 7 days primarily as a result of accounts receivable held pending provider enrollments at a significant number of new contract starts. AMR's DSO has increased 3 days related to outstanding receivables from our FEMA deployment and delays in Medicare reimbursement in Florida from pre-payment reviews initiated in early 2012.

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:



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	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011
EmCare	64	61	59	57	54	52
AMR	71	69	69	68	68	68
EMSC	67	65	63	62	60	59

*Investing activities.* Net cash provided by investing activities was \$33.4 million for the nine months ended September 30, 2012 compared to net cash used in investing activities of \$3,024.6 million for the same period in 2011. The change is due primarily to the purchase of EMSC by CD&R for \$2.8 billion in May 2011. Also contributing to the change is reduced acquisition activity during the nine months ended September 30, 2012 compared to the same period in 2011 as well as a return of insurance collateral. Acquisitions of businesses totaled \$20.6 million during the nine months ended September 30, 2012, compared to \$175.1 million during the same period in 2011.

*Financing activities.* Net cash used in financing activities was \$208.3 million for the nine months ended September 30, 2012 compared to cash provided by financing activities of \$2,711.7 million for the same period in 2011. We entered into new credit facilities in connection with CD&R's acquisition of EMSC which resulted in new borrowings of \$2,390.0 million during the nine months ended September 30, 2011. During the nine months ended September 30, 2011, we also received \$887.1 million in proceeds from the Merger. These sources of cash from financing activities were partially offset by \$116.9 million in debt issuance costs, \$31.9 million in equity issuance costs, and repayment of the Predecessor term loan of \$415.0 million related to the Merger. The cash used in financing activities during the nine months ended September 30, 2012 is due primarily to \$225.6 million in debt repayments, of which \$200.0 million relate to voluntary prepayment of debt. At September 30, 2012, there were no amounts outstanding under the ABL facility, however we have issued \$129.5 million of letters of credit under the ABL facility.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

We manage our exposure to changes in fuel prices and, as appropriate, use highly effective derivative instruments to manage well-defined risk exposures. As of September 30, 2012, 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 \$4.06 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 price. The transactions fix the price for a total of 6.9 million gallons and are spread over periods from October 2012 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 1.5%) and will periodically settle with our counterparties for the difference between the rate paid and the fixed rate.

As of September 30, 2012, we had \$2,149.2 million of debt, excluding capital leases, of which \$1,213.1 million was variable rate debt under our senior secured credit facility and the balance was fixed rate debt. An increase or decrease in interest rates of 0.5%, above our LIBOR floor of

1.5%, will impact our interest costs by \$6.1 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

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objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on their evaluation of our disclosure controls and procedures conducted as of the end of the period covered by this Report on Form 10-Q, our principal executive officer and our principal financial officer have concluded that, as of the date of their evaluation, our disclosure controls and procedures (as defined in Rules 13a -15(e) and 15d -15(e) promulgated under the Exchange Act) were effective as of September 30, 2012.

***Changes in Internal Control Over Financial Reporting***

There were no changes in our internal control over financial reporting that occurred during our fiscal quarter ended September 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**EMERGENCY MEDICAL SERVICES CORPORATION**

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

For additional information regarding legal proceedings, please refer to Note 8 to the accompanying unaudited condensed consolidated financial statements included herein, and Note 14 to our Annual Report on Form 10-K filed with the SEC on March 16, 2012.

On August 7, 2012, EmCare received a subpoena from the Office of the Inspector General of the Department of Health and Human Services. 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. We intend to cooperate with the government during its investigation and, as such, are in the process of gathering responsive documents, formulating a written response to the subpoena and are seeking to engage in a meaningful dialogue with the relevant government representatives. At this time, we are unable to determine the potential impact, if any, that will result from this investigation.

**ITEM 1A. RISK FACTORS**

Other than with respect to the risk factor below, there have been no material changes from the risk factors disclosed in the Risk Factors sections of our Annual Report on Form 10-K for the year ended December 31, 2011 and Form 10-Q for the three and six months ended June 30, 2012.

*Changes in the rates or methods of third party reimbursements may adversely affect our revenue and operations.*

We derive a majority of our revenue from direct billings to patients and third party payors such as Medicare, Medicaid and private health insurance companies. As a result, any changes in the rates or methods of reimbursement for the services we provide could have a significant adverse impact on our revenue and financial results. The PPACA could ultimately result in substantial changes in Medicare and Medicaid coverage and reimbursement, as well as changes in coverage or amounts paid by private payors, which could have an adverse impact on our revenues from those sources.

In addition to changes from PPACA, government funding for healthcare programs is subject to statutory and regulatory changes, administrative rulings, interpretations of policy and determinations by intermediaries and governmental funding restrictions, all of which could materially impact program coverage and reimbursements for both ambulance and physician services. In recent years, Congress has consistently attempted to curb spending on Medicare, Medicaid and other programs funded in whole or part by the federal government. For example, Congress has mandated that the Medicare Payment Advisory Commission, commonly known as MedPAC, provide it with a report making recommendations regarding certain aspects of the Medicare ambulance fee schedule. On November 2, 2012, MedPAC voted to recommend that Congress reduce ambulance reimbursement and impose more stringent medical necessity standards on ambulance transports. These recommendations are expected to be published in MedPAC's report in March 2013. In addition, state and local governments have also attempted to curb spending on

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those programs for which they are wholly or partly responsible. This has resulted in cost containment measures such as the imposition of new fee schedules that have lowered reimbursement for some of our services and restricted the rate of increase for others, and new utilization controls that limit coverage of our services. For example, we estimate that the impact of a national fee schedule promulgated in 2002, as modified by subsequent legislation, resulted in an increase in AMR's net revenue of approximately \$24 million in 2009, a decrease in AMR's net revenue of approximately \$18 million in 2010, and an increase of less than \$1 million in 2011. Based upon the current Medicare transport mix and barring further legislative action, we expect a potential increase in AMR's net revenue of approximately \$6 million during 2012.

In addition, state and local government regulations or administrative policies regulate ambulance rate structures in some jurisdictions in which we conduct transport services. We may be unable to receive ambulance service rate increases on a timely basis where rates are regulated, or to establish or maintain satisfactory rate structures where rates are not regulated.

Legislative provisions at the national level impact payments received by EmCare physicians under the Medicare program. Physician payments under the Medicare Physician Fee Schedule are updated on an annual basis according to a statutory formula. Because application of the statutory formula for the update factor would result in a decrease in total physician payments for the past several years, Congress has intervened with interim legislation to prevent the reductions. The Medicare and Medicaid Extenders Act of 2010, which was signed into law on December 15, 2010, froze the 2010 updates through 2011. For 2012, CMS projected a rate reduction of 27.4% from 2011 levels (earlier estimates had projected a 29.5% reduction). The Temporary Payroll Tax Cut Continuation Act of 2011, signed into law on December 23, 2011, froze the 2011 updates through February 29, 2012 and legislation passed in February 2012 extended this through December 31, 2012. If Congress fails to intervene to prevent the negative update factor in 2013 through either another temporary measure or a permanent revision to the statutory formula, CMS projects a reduction in physician rates of 26.5% for that year. The resulting decrease in payment may adversely impact physician revenues, as well as EmCare revenues.

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The freezing of the update factor does not translate to 2012 payment rates at the 2011 level for all physician procedures. Rather, from year-to-year some physician specialties, including EmCare's physicians (who are emergency medicine physicians, anesthesiologists, hospitalists and radiologists), may see higher or lowered payments. Each physician service is given a weight that measures its costliness relative to other physician services. CMS is required to make periodic assessments regarding the weighting of procedures, impacting the payment amounts. For 2012, CMS published estimates of changes by specialty based on a number of factors, such as changes to practice expense relative value units, rescaling of relative values to match the revised and rebased Medicare Economic Index, equipment utilization rate changes, multiple procedure payment reductions for contiguous body parts and recalculations of misvalued codes. The full impact of these changes on any given practice has gone, or is scheduled to go into effect, during 2012. CMS estimated that the impact for 2012 is a 0% change for emergency medicine, 2% increase in anesthesiology, a 2% increase for internal medicine, and a 5% reduction in radiology. CMS published a similar comparison for 2013 in the Final Physician Fee Schedule Rule which it released on November 1, 2012. For 2013, CMS estimates that the impact will be a 0% change for emergency medicine, 1% increase in anesthesiology, a 4% increase for internal medicine, and a 3% reduction in radiology. The changes are calculated prior to the application of what is known as the conversion factor, which translates the relative value units to dollar amounts. At this time, we cannot predict the impact, if any, these regulatory changes will have on EmCare's future revenues.

We believe that regulatory trends in cost containment will continue. We cannot assure you that we will be able to offset reduced operating margins through cost reductions, increased volume, the introduction of additional procedures or otherwise. In addition, we cannot assure you that federal, state and local governments will not impose reductions in the fee schedules or rate regulations applicable to our services in the future. Any such reductions could have a material adverse effect on our business, financial condition or results of operations.

On August 2, 2011, the Budget Control Act of 2011 (Public Law 112-25) (the Budget Control Act) was enacted. Under the Budget Control Act, a Joint Select Committee on Deficit Reduction (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 Budget Control 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 will automatically start, impacting Medicare and certain other government programs beginning in January 2013, unless Congress acts to address the budget deficit before then. Certain programs, such as Social Security and Medicaid, would be exempt from the cuts. According to a report released by the White House Office of Management and Budget on September 14, 2012, reimbursements will be cut by 2% for Medicare providers, including physicians and ambulance providers. We are unable to predict whether Congress will act to avoid these cuts but, if it fails to do so, any such reductions could have a material adverse effect on our business, financial condition or results of operations.

**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 September 30, 2012 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.\*

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\* Filed with this Report

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**SIGNATURES**

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

**EMERGENCY MEDICAL SERVICES CORPORATION**

(registrant)

November 9, 2012  
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



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