Emergency Medical Services L.P.
Form 10-Q
May 09, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended March 31, 2008

Or

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

For the transition period from to

Commission file numbers:

001-32701

333-127115

EMERGENCY MEDICAL SERVICES CORPORATION

EMERGENCY MEDICAL SERVICES L.P.

(Exact name of Registrants as Specified in their Charters)

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

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

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

Not applicable

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

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

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

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

Shares of class A common stock outstanding at May 5, 2008 9,322,096; shares of class B common stock outstanding at May 5, 2008 142,545; LP exchangeable units outstanding at May 5, 2008 32,107,500.

EMERGENCY MEDICAL SERVICES CORPORATION

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ON FORM 10-Q

FOR THE THREE MONTHS ENDED

MARCH 31, 2008

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EMERGENCY MEDICAL SERVICES CORPORATION

PART I. FINANCIAL INFORMATION

FOR THE THREE MONTHS ENDED

MARCH 31, 2008

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

Emergency Medical Services Corporation

Consolidated Statements of Operations and Comprehensive Income

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

	Quarter ended March 31,			
		2008		2007
Net revenue	$	565,786	$	523,319
Compensation and benefits		394,351		354,932
Operating expenses		83,223		79,996
Insurance expense		20,963		20,301
Selling, general and administrative expenses		14,592		13,305
Depreciation and amortization expense		17,717		16,779
Restructuring charges				2,242
Income from operations		34,940		35,764
Interest income from restricted assets		1,755		1,715
Interest expense		(9,916)		(11,234)
Realized gain on investments		672		37
Interest and other income		302		657
Income before income taxes and equity in earnings (loss) of unconsolidated subsidiary		27,753		26,939
Income tax expense		(10,684)		(10,462)
Income before equity in earnings (loss) of unconsolidated subsidiary		17,069		16,477
Equity in earnings (loss) of unconsolidated subsidiary		(50)		154
Net income		17,019		16,631
Other comprehensive income, net of tax:				
Unrealized holding gains during the period		1,347		298
Unrealized holding losses on derivative financial instruments		(2,925)		
Comprehensive income	$	15,441	$	16,929
Basic earnings per common share	$	0.41	$	0.40
Diluted earnings per common share	$	0.40	$	0.39
Weighted average common shares outstanding, basic		41,570,412		41,521,155
Weighted average common shares outstanding, diluted		43,083,642		43,029,039

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

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Emergency Medical Services Corporation

Consolidated Balance Sheets

(in thousands, except share and per share data)

	March 31, 2008 (Unaudited)	December 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	$ 16,155	$ 28,914
Insurance collateral	36,678	37,776
Trade and other accounts receivable, net	522,602	495,348
Parts and supplies inventory	20,130	20,010
Prepaids and other current assets	17,647	11,715
Current deferred tax assets	75,686	76,997
Total current assets	688,898	670,760
Non-current assets:		
Property, plant and equipment, net	132,682	143,342
Intangible assets, net	80,353	81,717
Non-current deferred tax assets	86,433	94,961
Insurance collateral	147,520	146,638
Goodwill	323,101	313,124
Other long-term assets	27,741	29,021
Total assets	$ 1,486,728	$ 1,479,563
Liabilities and Equity		
Current liabilities:		
Accounts payable	$ 69,334	$ 64,855
Accrued liabilities	223,345	237,319
Current portion of long-term debt	4,766	4,717
Total current liabilities	297,445	306,891
Long-term debt	477,136	478,166
Insurance reserves and other long-term liabilities	246,636	245,010
Total liabilities	1,021,217	1,030,067
Equity:		
Preferred stock ($0.01 par value; 20,000,000 shares authorized, 0 issued and outstanding)		
Class A common stock ($0.01 par value; 100,000,000 shares authorized, 9,322,096 and 9,320,347 issued and outstanding in 2008 and 2007, respectively)	93	93
Class B common stock ($0.01 par value; 40,000,000 shares authorized, 142,545 issued and outstanding in 2008 and 2007)	1	1
Class B special voting stock ($0.01 par value; 1 share authorized, issued and outstanding in 2008 and 2007)		
LP exchangeable units (32,107,500 shares issued and outstanding in 2008 and 2007)	212,361	212,361
Additional paid-in capital	117,653	117,079
Retained earnings	135,975	118,956
Accumulated other comprehensive income (loss)	(572)	1,006
Total equity	465,511	449,496
Total liabilities and equity	$ 1,486,728	$ 1,479,563

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

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Emergency Medical Services Corporation

Consolidated Statements of Cash Flows

(unaudited; in thousands)

	Three months ended March 31, 2008	2007
Cash Flows from Operating Activities		
Net income	$ 17,019	$ 16,631
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	18,296	17,268
Gain on disposal of property, plant and equipment	(13)	(11)
Equity-based compensation expense	562	400
Equity in loss (earnings) of unconsolidated subsidiary	50	(154)
Dividends received		416
Deferred income taxes	10,356	10,637
Changes in operating assets/liabilities, net of acquisitions:		
Trade and other accounts receivable	(26,308)	(28,151)
Parts and supplies inventory	(20)	(13)
Prepaids and other current assets	(5,932)	(5,959)
Accounts payable and accrued liabilities	(13,389)	(19,934)
Insurance accruals	(3,399)	5,024
Net cash used in operating activities	(2,778)	(3,846)
Cash Flows from Investing Activities		
Purchases of property, plant and equipment	(2,527)	(8,321)
Proceeds from sale of property, plant and equipment	63	125
Acquisition of businesses, net of cash received	(13,278)	
Insurance collateral	2,125	(910)
Other investing activities	653	3,021
Net cash used in investing activities	(12,964)	(6,085)
Cash Flows from Financing Activities		
EMSC issuance of class A common stock	12	173
Borrowings under revolving credit facility	14,000	
Repayments of capital lease obligations and other debt	(15,151)	(2,333)
Increase in bank overdrafts	4,122	2,587
Net cash provided by financing activities	2,983	427
Change in cash and cash equivalents	(12,759)	(9,504)
Cash and cash equivalents, beginning of period	28,914	39,336
Cash and cash equivalents, end of period	$ 16,155	$ 29,832
Non-cash Activities		
Re-financing of equipment under existing capital lease	$	$ 8,038

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

Emergency Medical Services Corporation

Notes to Unaudited Consolidated Financial Statements

(in thousands, except share and per share data)

1. General

Basis of Presentatio n of Financial Statements

The accompanying interim consolidated financial statements for Emergency Medical Services Corporation (EMSC or the Company) have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim reporting and accordingly, do not include all of the disclosures required for annual financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All such adjustments are of a normal, recurring nature. Operating results for the three months ended March 31, 2008 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2008. For further information, see the Company s consolidated financial statements, including the accounting policies and notes thereto, included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

The consolidated financial statements of EMSC include those of its direct subsidiary, Emergency Medical Services L.P. (EMS LP), a Delaware limited partnership. EMS LP acquired American Medical Response, Inc. and its subsidiaries (AMR) and EmCare Holdings Inc. and its subsidiaries (EmCare) from Laidlaw International, Inc. (Laidlaw) on February 10, 2005, with an effective transaction date after the close of business on January 31, 2005. On December 21, 2005, the Company effected a reorganization and issued class A common stock in an initial public offering.

The Company is party to a management agreement with a wholly-owned subsidiary of Onex Corporation, the Company s principal equityholder. In exchange for an annual management fee of $1.0 million, the Onex subsidiary provides the Company with corporate finance and strategic planning consulting services. For the three months ended March 31, 2008 and 2007, the Company expensed $250 in respect of this fee.

Starting in the periods ended June 30, 2007, the Company reclassified income earned on insurance related assets as Interest Income from Restricted Assets in the accompanying consolidated statements of operations and comprehensive income; such income was previously reported as a component of insurance expense.

2. Summary of Significant Accounting Policies

Consolidation

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

Use of Estimates

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

Insurance

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

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

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 March 2008. As a result of this actuarial valuation, in the three months ended March 31, 2008 the Company recorded reductions in its provision for insurance liabilities of approximately $2.8 million related to its reserves for losses in prior years. In the three months ended March 31, 2007, the Company recorded a reduction in its provision for insurance liabilities of approximately $5.2 million as a result of an actuarial valuation completed in March 2007.

The long-term portion of insurance reserves was $141.9 million and $144.7 million as of March 31, 2008 and December 31, 2007, respectively.

Trade and Other Accounts Receivable, net

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

		March 31, 2008		December 31, 2007
Gross trade accounts receivable	$	1,775,388	$	1,698,862
Allowance for contractual discounts		873,928		832,738
Allowance for uncompensated care		448,722		431,920
Net trade accounts receivable		452,738		429,204
Other receivables, net		69,864		66,144
Net accounts receivable	$	522,602	$	495,348

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

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

Accounts receivable allowances at EmCare are estimated based on cash collection and write-off experience at a facility level contract and facility specific payor mix. These allowances are reviewed and adjusted monthly through revenue provisions. In addition, an analysis is done 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 retroactive revenue adjustment in the current period.

Revenue Recognition

Revenue is recognized at the time of service and is recorded net of provisions for contractual discounts and estimated uncompensated care. Provisions for contractual discounts and estimated uncompensated care as a percentage of gross revenue and as a percentage of gross revenue less provision for contractual discounts are as follows:

	Quarter ended March 31,	
	2008	**2007**
Gross revenue	100.0%	100.0%
Provision for contractual discounts	45.7%	42.4%
Revenue net of contractual discounts	54.3%	57.6%
Provision for uncompensated care as a percentage of gross revenue	18.7%	19.5%
Provision for uncompensated care as a percentage of gross revenue less contractual discounts	34.4%	33.8%

Healthcare reimbursement is complex and may involve lengthy delays. Third-party payors are continuing their efforts to control expenditures for healthcare, including proposals to revise reimbursement policies. The Company has from time to time experienced delays in reimbursement from third-party payors. In addition, third-party payors may disallow, in whole or in part, claims for reimbursement based on determinations that certain amounts are not reimbursable under plan coverage, on determinations of medical necessity, or the need for additional information. Laws and regulations governing the Medicare and Medicaid programs are very complex and subject to interpretation. As a result, there is a reasonable possibility that recorded estimates will change materially in the short-term. Retroactive adjustments may change the amounts realized from third-party payors and are considered in the recognition of revenue on an estimated basis in the period the related services are rendered. Such amounts, including adjustments between provisions for contractual discounts and uncompensated care, are adjusted in future periods, as adjustments become known. Retroactive adjustments recorded in the first quarter, which increased revenue, were 0.7% and 2.8% of consolidated net revenue for the three months ended March 31, 2008 and 2007, respectively.

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

Equity Structure

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

Company in exchange for shares of the Company s class B common stock.

The Company holds 22.8% of the equity interests in EMS LP. LP exchangeable units, held by persons affiliated with the Company s principal equity holder, represent the balance of the EMS LP equity. The LP exchangeable units are exchangeable at any time, at the option of the holder, for shares of the Company s class B common stock on a one-for-one basis. The holders of the LP exchangeable units have the right to vote, through the trustee holder of the Company s class B special voting stock, at all stockholder meetings at which holders of the Company s class B common stock or class B special voting stock are entitled to vote.

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

Recent Accounting Pronouncements

The Company adopted SFAS No. 157 *Fair value measurement* (SFAS 157) effective January 1, 2008, which among other things, requires additional disclosures about investments that are reported at fair value. SFAS 157 establishes a hierarchal disclosure framework which ranks the level of market price observability used in measuring investments at fair value. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment. Investments 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.

Investments 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 investments as of the reporting date. As required by SFAS 157, the Company does not adjust the quoted price for these investments.

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.

The following table summarizes the valuation of EMSC s investments by the above SFAS 157 fair value hierarchy levels as of March 31, 2008:

Description	Fair value measurements at March 31, 2008 using: Total	Level 1	Level 2
Assets:			
Securities	$ 97,631	$ 97,631	$
Liabilities:			
Derivatives	$ 5,856	$	$ 5,856

3. Acquisitions

In March 2008, the Company completed its acquisition of River Medical, Inc. based in Lake Havasu, Arizona, which provides exclusive emergency ambulance transportation services to Lake Havasu City, and La Paz and Mohave Counties in western Arizona. This acquisition positions the Company for future expansion in the Arizona market. The total cost of this acquisition was $13.3 million and the Company has recorded $8.6 million of goodwill, which amount is subject to adjustment based upon completion of the purchase price allocation.

4. Accrued Liabilities

Accrued liabilities were as follows at March 31, 2008 and December 31, 2007:

	March 31, 2008	December 31, 2007
Accrued wages and benefits	$ 78,957	$ 79,781
Accrued paid time-off	26,205	24,687
Current portion of self-insurance reserves	59,236	59,821
Accrued restructuring	591	600
Current portion of compliance and legal	2,566	2,245
Accrued billing and collection fees	5,389	5,046
Accrued profit sharing	15,389	23,661
Accrued interest	3,888	10,407
Other	31,124	31,071
Total accrued liabilities	$ 223,345	$ 237,319

5. Long-Term Debt

Long-term debt consisted of the following at March 31, 2008 and December 31, 2007:

	March 31, 2008	December 31, 2007
Senior subordinated notes due 2015	$ 250,000	$ 250,000
Senior secured term loan due 2012 (4.99% at March 31, 2008)	223,591	224,167
Notes due at various dates from 2008 to 2022 with interest rates from 6% to 10%	2,272	2,292
Capital lease obligations due at various dates from 2008 to 2010 (see note 6)	6,039	6,424
	481,902	482,883
Less current portion	(4,766)	(4,717)
Total long-term debt	$ 477,136	$ 478,166

6. Commitments and Contingencies

Lease Commitments

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

The Company also leases certain vehicles under a capital lease and during the first quarter of 2007 extended the terms of this capital lease for an additional three years. Assets under capital lease are capitalized using inherent interest rates at the inception of each lease. Capital leases are

collateralized by the leased vehicles.

Services

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

On April 17, 2006, the Office of Inspector General for the United States Department of Health and Human Services, or OIG, finalized its draft report requesting that the Company s Massachusetts subsidiary reimburse the Medicare program for approximately $1.8 million in alleged overpayments from Medicare for services performed between July 1, 2002 and December 31, 2002. The OIG claims that these payments were made for services that did not meet Medicare medical necessity and reimbursement requirements. On December 10, 2006, AMR paid the $1.8 million in alleged overpayments.

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

Other Legal Matters

On December 13, 2005, a lawsuit purporting to be a class action was commenced against AMR in Spokane, Washington in Washington State Court, Spokane County. The complaint alleges that AMR billed patients and third party payors for transports it conducted between 1998 and 2005 at higher rates than contractually permitted. The court has certified a class in this case, but the size and membership of the class has not been determined. At this time, AMR does not believe that any incorrect billings are material in amount.

EmCare entered into a settlement agreement with respect to June Belt, et. al. v. EmCare, Inc. et. al. brought by a number of nurse practitioners and physician assistants under the Fair Labor Standards Act. The suit was filed on February 25, 2003 in the Eastern District of Texas. Pursuant to the settlement agreement, EmCare paid $1.7 million during the first quarter of 2007 in satisfaction of all claims in the lawsuit.

AMR and the City of Stockton, California, are parties to litigation regarding the terms and enforceability of a memorandum of understanding and a related joint venture agreement between the parties to present a joint bid in response to a request for proposals to provide emergency ambulance services in the County of San Joaquin, California. The suit was filed on June 28, 2005, in the United States District Court for the Eastern District of California. The parties were unable to agree on the final terms of a joint bid. AMR has been awarded the San Joaquin contract. While we are unable at this time to estimate the amount of potential damages, we believe that Stockton may claim as damages a portion of our profit on the contract or the profit Stockton might have realized had the joint venture proceeded.

7. Restructuring Charges

The Company restructured certain billing functions of AMR and operations in the Los Angeles, California market during the first quarter of 2007 and recorded a restructuring charge of $2.2 million. This restructuring charge included $0.2 million in lease termination and exit costs and $2.0 million related to termination benefits.

8. Equity Based Compensation

The Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004) *Share-Based Payment* (SFAS 123R) on January 1, 2006 using the prospective transition method. Stock options are valued using the Black-Scholes valuation method on the date of grant.

Equity Option Plan

Under the Company s Equity Option Plan, key employees were granted options that permit the individuals to purchase class A common shares and vest ratably generally over a period of four years. In addition, certain performance measures must be met for 50% of the options to become exercisable. Options with similar provisions were granted to non-employee directors. The Company recorded a compensation charge of $431 and $300 for the three months ended March 31, 2008 and 2007, respectively.

Non-Employee Director Compensation Plan

The Non-Employee Director Compensation Plan, approved in May 2007, is available to non-employee directors of the Company, other than the Chair of the Compliance Committee. Under this plan, eligible directors are granted Restricted Stock Units (RSUs) immediately following each annual stockholder meeting with each RSU representing one share of the Company s class A common stock. Eligible directors receive a grant of RSUs having a fair market value of $100 on the date of grant based on the closing price of the Company s class A common stock on the business day immediately preceding the grant date. The Non-Employee Director Compensation Plan allows directors to defer income from the grant of RSUs, which vest immediately prior to the election of directors at the next following annual stockholder meeting. In connection with this plan, the Company granted 2,705 and 8,000 RSUs per director in 2007 and 2006, respectively, and expensed $100 for the three months ended March 31, 2008 and 2007.

Long-Term Incentive Plan

EMSC s Long-Term Incentive Plan (the Plan) was approved by stockholders in May 2007 and provides for the grant of long-term incentives, including various equity-based incentives, to those persons with responsibility for the success and growth of the Company and its subsidiaries.

The Company granted options to key employees during the three months ended March 31, 2008 under the Plan. The options permit employees to purchase 114,250 shares of class A common stock at a weighted average exercise price of $29.70 per share, vest ratably over a period of 4 years and have a maximum term of ten years.

The Company recorded a compensation charge of $31 during the three months ended March 31, 2008 in connection with the Plan.

Stock Purchase Plan/Employee Stock Purchase Plan

The Company commenced an offering of its class A common stock to eligible employees and independent contractors associated with the Company during the three months ended March 31, 2008 pursuant to the Company s Stock Purchase Plan and Employee Stock Purchase Plan (together, the SPPs). The purchases of stock under the SPPs will occur in September 2008 at a 5% discount to the closing price of the Company s class A common stock on September 15, 2008, and as such no compensation charge has been recorded for the SPPs during the three months ended March 31, 2008.

9. Segment Information

The Company is organized around two separately managed business units: healthcare transportation services and emergency management services, which have been identified as operating segments. The healthcare transportation services reportable segment focuses on providing a full range of medical transportation services from basic patient transit to the most advanced emergency care and pre-hospital assistance. The emergency management services reportable segment provides outsourced business services to hospitals primarily for emergency departments, urgent care centers and for certain inpatient departments. The Chief Executive Officer has been identified as the chief operating decision maker (CODM) for purposes of SFAS No. 131 *Disclosures about Segments of an Enterprise and Related Information* (SFAS 131), as he assesses the performance of the business units and decides how to allocate resources to the business units.

Net income before equity in earnings (loss) of unconsolidated subsidiary, income tax expense, interest and other income, realized gain on investments, interest expense, and depreciation and amortization (Adjusted EBITDA) is the measure of profit and loss that the CODM uses to assess performance, measure liquidity and make decisions. The accounting policies for reported segments are the same as for the Company as a whole.

	Quarter ended March 31,	
	2008	**2007**
Healthcare Transportation Services		
Revenue	$ 326,316	$ 308,108
Segment Adjusted EBITDA	28,398	24,945
Emergency Management Services		
Revenue	239,470	215,211
Segment Adjusted EBITDA	26,014	29,313
Total		
Total revenue	565,786	523,319
Total Adjusted EBITDA	54,412	54,258

Reconciliation of Adjusted EBITDA to Net Income				
Adjusted EBITDA	$	54,412	$	54,258
Depreciation and amortization expense		(17,717)		(16,779)
Interest expense		(9,916)		(11,234)
Realized gain on investments		672		37
Interest and other income		302		657
Income tax expense		(10,684)		(10,462)
Equity in earnings (loss) of unconsolidated subsidiary		(50)		154
Net income	$	17,019	$	16,631

A reconciliation of Adjusted EBITDA to cash flows used in operating activities is as follows:

	Quarter ended March 31, 2008		2007	
Adjusted EBITDA	$	54,412	$	54,258
Interest paid		(9,337)		(10,745)
Change in accounts receivable		(26,308)		(28,151)
Change in other operating assets/liabilities		(22,740)		(20,882)
Equity based compensation		562		400
Other		633		1,274
Cash flows used in operating activities	$	(2,778)	$	(3,846)

10. Guarantors of Debt

EMS LP financed the acquisition of AMR and EmCare in part by issuing $250.0 million principal amount of senior subordinated notes and borrowing $370.2 million under its senior secured credit facility. Its wholly-owned subsidiaries, AMR HoldCo, Inc. and EmCare HoldCo, Inc., are the issuers of the senior subordinated notes and the borrowers under the senior secured credit facility. As part of the transaction, AMR and its subsidiaries became wholly-owned subsidiaries of AMR HoldCo, Inc. and EmCare and its subsidiaries became wholly-owned subsidiaries of EmCare HoldCo, Inc. The senior subordinated notes and the senior secured credit facility include a full, unconditional and joint and several guarantee by EMSC, EMS LP and EMSC s domestic subsidiaries. The senior subordinated notes and senior secured credit facility do not include a guarantee by the Company s captive insurance subsidiary. All of the operating income and cash flow of EMSC, EMS LP, AMR HoldCo, Inc. and EmCare HoldCo, Inc. is generated by AMR, EmCare and their subsidiaries. As a result, funds necessary to meet the debt service obligations under the senior secured notes and senior secured credit facility described above are provided by the distributions or advances from the subsidiary companies, AMR and EmCare. Investments in subsidiary operating companies are accounted for on the equity method. Accordingly, entries necessary to consolidate EMSC, EMS LP, AMR HoldCo, Inc., EmCare HoldCo, Inc. and all of their subsidiaries are reflected in the Eliminations/Adjustments column. Separate complete financial statements of the issuers, EMS LP and subsidiary guarantors would not provide additional material information that would be useful in assessing the financial composition of the issuers, EMS LP or the subsidiary guarantors. The condensed consolidating financial statements for EMSC, EMS LP, the issuers, the guarantors and the non-guarantor are as follows:

Consolidating Statement of Operations

For the quarter ended March 31, 2008

	EMSC	EMS LP	Issuer AMR HoldCo, Inc.	Issuer EmCare HoldCo, Inc.	Subsidiary Guarantors	Subsidiary Non Guarantor	Eliminations/ Adjustments	Total
Net revenue	$	$	$	$	$ 565,786	$ 10,757	$ (10,757)	$ 565,786
Compensation and benefits					394,351			394,351
Operating expenses					83,223			83,223
Insurance expense					19,218	12,502	(10,757)	20,963
Selling, general and administrative expenses					14,592			14,592
Depreciation and amortization expense					17,717			17,717
Restructuring charge								
Income from operations					36,685	(1,745)		34,940
Interest income from restricted assets					682	1,073		1,755
Interest expense					(9,916)			(9,916)
Realized gain on investments						672		672
Interest and other income					302			302

Income before income taxes					27,753			27,753
Income tax expense					(10,684)			(10,684)
Income before equity in earnings (loss) of unconsolidated subsidiaries					17,069			17,069
Equity in earnings (loss) of unconsolidated subsidiaries	17,019	17,019	5,061	11,958	(50)		(51,057)	(50)
Net income	$ 17,019	$ 17,019	$ 5,061	$ 11,958	$ 17,019	$	$ (51,057)	$ 17,019

Consolidating Statement of Operations

For the quarter ended March 31, 2007

	EMSC	EMS LP	Issuer AMR HoldCo, Inc.	Issuer EmCare HoldCo, Inc.	Subsidiary Guarantors	Subsidiary Non-Guarantor	Eliminations/ Adjustments	Total
Net revenue	$	$	$	$	$ 523,319	$ 8,640	$ (8,640)	$ 523,319
Compensation and benefits					354,932			354,932
Operating expenses					79,996			79,996
Insurance expense					19,269	9,672	(8,640)	20,301
Selling, general and administrative expenses					13,305			13,305
Depreciation and amortization expense					16,779			16,779
Restructuring charge					2,242			2,242
Income from operations					36,796	(1,032)		35,764
Interest income from restricted assets					720	995		1,715
Interest expense					(11,234)			(11,234)
Realized gain on investments						37		37
Interest and other income					657			657
Income before income taxes					26,939			26,939
Income tax expense					(10,462)			(10,462)
Income before equity in earnings of unconsolidated subsidiaries					16,477			16,477
Equity in earnings of unconsolidated subsidiaries	16,631	16,631	2,826	13,805	154		(49,893)	154
Net income	$ 16,631	$ 16,631	$ 2,826	$ 13,805	$ 16,631	$	$ (49,893)	$ 16,631

Consolidating Balance Sheet

As of March 31, 2008

	EMSC	EMS LP	Issuer AMR HoldCo, Inc.	Issuer EmCare HoldCo, Inc.	Subsidiary Guarantors	Subsidiary Non Guarantor	Eliminations/ Adjustments	Total
Assets								
Current assets:								
Cash and cash equivalents	$	$	$	$	$ 15,328	$ 827	$	$ 16,155
Insurance collateral					23,388	46,123	(32,833)	36,678
Trade and other accounts receivable, net					521,491	1,111		522,602
Parts and supplies inventory					20,130			20,130
Other current assets					14,955	2,692		17,647
Current deferred tax assets					72,523	3,163		75,686
Current assets					667,815	53,916	(32,833)	688,898
Non-current assets:								
Property, plant, and equipment, net					132,682			132,682
Intercompany receivable	4,347	113,400	278,172	189,546			(585,465)	
Intangible assets, net					80,353			80,353
Non-current deferred tax assets					85,564	869		86,433
Insurance collateral					46,806	103,558	(2,844)	147,520
Goodwill					322,643	458		323,101
Other long-term assets			6,759	3,016	17,966			27,741
Investment and advances in subsidiaries	461,164	347,764	216,161	131,590	20,179		(1,176,857)	
Assets	$ 465,511	$ 461,164	$ 501,092	$ 324,152	$ 1,374,008	$ 158,801	$ (1,797,999)	$ 1,486,728
Liabilities and Equity								
Current liabilities:								
Accounts payable	$	$	$	$	$ 69,236	$ 98	$	$ 69,334
Accrued liabilities			2,153	1,735	189,111	32,847	(2,501)	223,345
Current portion of long-term debt			1,656	744	2,366			4,766
Current liabilities			3,809	2,479	260,713	32,945	(2,501)	297,445
Long-term debt			281,122	190,069	5,945			477,136
Other long-term liabilities					174,135	105,677	(33,176)	246,636
Intercompany					585,465		(585,465)	
Liabilities			284,931	192,548	1,026,258	138,622	(621,142)	1,021,217
Equity:								
Class A common stock	93					30	(30)	93
Class B common stock	1							1
Partnership equity	212,361	325,761	189,394	22,967	212,361		(750,483)	212,361
Additional paid-in capital	117,653					6,690	(6,690)	117,653
Retained earnings	135,975	135,975	28,845	107,130	135,961	8,563	(416,474)	135,975
Comprehensive income (loss)	(572)	(572)	(2,079)	1,507	(572)	4,896	(3,180)	(572)
Equity	465,511	461,164	216,161	131,604	347,750	20,179	(1,176,857)	465,511
Liabilities and Equity	$ 465,511	$ 461,164	$ 501,092	$ 324,152	$ 1,374,008	$ 158,801	$ (1,797,999)	$ 1,486,728

Consolidating Balance Sheet

As of December 31, 2007

	EMSC	EMS LP	Issuer AMR HoldCo, Inc.	Issuer EmCare HoldCo, Inc.	Subsidiary Guarantors	Subsidiary Non Guarantors	Eliminations/ Adjustments	Total
Assets								
Current assets:								
Cash and cash equivalents	$	$	$	$	$ 24,987	$ 3,927	$	$ 28,914
Insurance collateral					24,498	13,278		37,776
Trade and other accounts receivable, net					494,376	972		495,348
Parts and supplies inventory					20,010			20,010
Other current assets					11,709	6		11,715
Current deferred tax assets					73,834	3,163		76,997
Current assets					649,414	21,346		670,760
Non-current assets:								
Property, p new roman">	16,884,368	17,291,886						

	$ 59,206,185	$ 57,948,645		
December 31, 2007				
Due within one year	$ 1,000,000	$ 996,094	$ -	$ -
Due over one to five years	9,638,992	9,635,177	-	-
Due over five to ten years	4,089,402	4,068,131	-	-
Due over ten years	27,555,162	27,227,809	683,832	726,193
Mortgage-backed, due in monthly installments	35,605,038	35,254,970	-	-
	$ 77,888,594	$ 77,182,181	$ 683,832	$ 726,193
December 31, 2006				
Due within one year	$ 300,989	$ 298,897	$ -	$ -
Due over one to five years	10,355,087	10,221,909	-	-
Due over five to ten years	9,938,119	9,826,970	-	-
Due over ten years	30,097,647	30,672,853	683,363	729,960
Mortgage-backed, due in monthly installments	45,635,133	44,790,667	-	-
	$ 96,326,975	$ 95,811,296	$ 683,363	$ 729,960

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Investment Securities (continued)

Proceeds from sales of available for sale securities prior to maturity totaled $25,977,280, $17,889,342, and $22,431,078 for the years ended December 31, 2008, 2007, and 2006, respectively. The Bank realized gains of $195,780 and losses of $4,850 on those sales for 2008. The Bank realized gains of $230,038 and losses of $109,959 on those sales for 2007. The Bank realized gains of $225,438 and losses of $48,985 on those sales for 2006. Realized gains and losses were calculated based on the amortized cost of the securities at the date of trade. Income tax expense relating to net gains on sales of investment securities totaled $75,942, $47,761, and $68,146 for the years ended December 31, 2008, 2007, and 2006, respectively.

In July 2008, the Company sold its remaining two positions in securities classified as held to maturity. Inasmuch as these positions were liquidated prior to maturity in a manner which did not meet the prescribed requirements of SFAS 115, the Company may be precluded for a period of time from classifying any securities positions as held to maturity.

The Bank has no derivative financial instruments required to be disclosed under SFAS No. 119, Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments.

Note 4. Loans

Major categories of loans are as follows:

	2008	2007	2006
Mortgage:			
Residential	$ 87,707,878	$ 76,780,857	$ 68,340,050
Commercial	76,152,837	47,842,942	53,164,479
Construction and land development	6,589,673	5,876,285	1,609,132
Demand and time	6,974,607	5,184,349	5,077,680
Installment	60,593,752	66,490,020	67,726,942
	238,018,747	202,174,453	195,918,283
Unearned income on loans	(864,436)	(816,830)	(742,585)
	237,154,311	201,357,623	195,175,698
Allowance for credit losses	(2,021,690)	(1,604,491)	(1,839,094)
	$ 235,132,621	$ 199,753,132	$ 193,336,604

The Bank has an automotive indirect lending program where vehicle collateralized loans made by dealers to consumers are acquired by the Bank. The Bank's installment loan portfolio included approximately $43,970,000, $49,260,000, and $52,539,000 of such loans at December 31, 2008, 2007, and 2006, respectively.

The Bank makes loans to customers located primarily in Anne Arundel County and surrounding areas of Central Maryland. Although the loan portfolio is diversified, its performance will be influenced by the economy of the region.

Executive officers, directors, and their affiliated interests enter into loan transactions with the Bank in the ordinary course of business. These loans are made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with unrelated borrowers. They do not involve more than normal risk of collectibility or present other unfavorable terms. At December 31, 2008, 2007, and 2006, the amounts of such loans outstanding totaled $4,344,974, $4,009,224, and $3,293,148, respectively. During 2008, loan additions and

repayments totaled $653,500 and $317,750, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Loans (continued)

The allowance for credit losses is as follows:

	2008	2007	2006
Balance, beginning of year	$ 1,604,491	$ 1,839,094	$ 2,201,350
Provision for credit losses	1,145,649	50,000	62,000
Recoveries	352,933	305,841	357,803
Loans charged off	(1,081,383)	(590,444)	(782,059)
Balance, end of year	$ 2,021,690	$ 1,604,491	$ 1,839,094

Loans on which the accrual of interest has been discontinued totaled $866,912, $212,416, and $57,429 at December 31, 2008, 2007, and 2006, respectively. Interest that would have been accrued under the terms of these loans totaled $29,807, $20,037, and $10,658 for the years ended December 31, 2008, 2007, and 2006, respectively. Loans past due 90 days or more and still accruing interest totaled $22,551, $639,982 and $1,751 at December 31, 2008, 2007 and 2006, respectively.

Information regarding loans classified by the Bank as impaired is summarized as follows:

	2008	2007	2006
Loans classified as impaired with a valuation allowance	$ 1,387,043	$ 212,416	$ 57,429
Allowance for credit losses on impaired loans	629,036	159,312	35,423
Average balance of impaired loans	1,458,245	95,605	6,846

Following is a summary of cash receipts on impaired loans and how they were applied:

Cash receipts applied to reduce principal balance	$ 131,730	$ -	$ 9,723
Cash receipts recognized as interest income	41,062	-	-
Total cash receipts	$ 172,792	$ -	$ 9,723

No troubled debt restructurings transpired in 2008. All prior investments in troubled debt were performing under the terms of the modified agreement.

At December 31, 2007, the recorded investment in new troubled debt restructurings totaled $578,345. The allowance for credit losses relating to troubled debt restructurings totaled $0 at December 31, 2007. The average recorded investment in troubled debt restructurings totaled $611,379 for the year ended December 31, 2007. The Bank recognized $51,742 in interest income on troubled debt restructurings for cash payments received in 2007. All prior investments in troubled debt were performing under the terms of the modified agreement.

No troubled debt restructurings transpired in 2006. All prior investments in troubled debt were performing under the terms of the modified agreement.

The Bank has no commitments to loan additional funds to the borrowers of restructured, impaired, or non-accrual loans.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Premises and Equipment

A summary of premises and equipment is as follows:

	Useful lives	2008	2007	2006
Land		$ 684,977	$ 684,977	$ 684,977
Buildings	5-50 years	4,796,309	4,738,733	4,710,503
Equipment and fixtures	5-30 years	5,056,015	5,450,210	5,456,049
Construction in progress		121,973	60,226	26,088
		10,659,274	10,934,146	10,877,617
Accumulated depreciation		(7,559,826)	(7,846,238)	(7,471,603)
		$ 3,099,448	$ 3,087,908	$ 3,406,014

Construction in progress at December 31, 2008 relates primarily to a future branch site.

Depreciation expense totaled $347,040, $412,198, and $450,278 for the years ended December 31, 2008, 2007, and 2006, respectively. Amortization of software and intangible assets totaled $96,312, $109,797, and $97,954 for the years ended December 31, 2008, 2007, and 2006, respectively.

The Bank leases its South Crain Highway, Severna Park, and Linthicum branches. Minimum lease obligations under the South Crain Highway branch are $115,400 per year through September 2009, adjusted annually by the CPI. Minimum lease obligations under the Severna Park branch were $30,000 per year through September 2012. Minimum lease obligations under the Linthicum branch are $92,700 per year through December 2014, adjusted annually on a pre-determined basis, with one ten year extension option. The Bank is also required to pay all maintenance costs under all these leasing arrangements. Rent expense totaled $257,467, $252,087, and $236,166 for the years ended December 31, 2008, 2007, and 2006, respectively.

Note 6. Short-term borrowings

Short-term borrowings are as follows:

	2008	2007	2006
Notes payable - U.S. Treasury	$ 629,855	$ 502,529	$ 545,349

Notes payable to the U.S. Treasury represents Federal treasury tax and loan deposits accepted by the Bank from its customers to be remitted on demand to the Federal Reserve Bank. The Bank pays interest on these balances at a slight discount to the Federal funds rate. This arrangement is secured by investment securities with an amortized cost of approximately $1,000,000, $500,000 and $1,000,000 at December 31, 2008, 2007, and 2006, respectively.

The Bank owned 17,676 shares of common stock of the FHLB at December 31, 2008. The Bank is required to maintain an investment of .2% of total assets, adjusted annually, plus 4.5% of total advances, adjusted for advances and repayments. The credit available under this facility is determined at 20% of the Bank’s total assets, or approximately $66,010,000 at December 31, 2008. Long-term advances totaled $27,000,000 under this credit

arrangement at December 31, 2008 (see Note 7). This credit facility is secured by a floating lien on the Bank's residential mortgage loan portfolio. Average short-term borrowings under this facility approximated $1,924,000, $1,616,000 and $1,047,000 for 2008, 2007, and 2006, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6. Short-term borrowings (continued)

The Bank also has available $9,000,000 in a short-term credit facility, an unsecured line of credit, from another bank for short-term liquidity needs, if necessary. No outstanding borrowings existed under this credit arrangement at December 31, 2008, 2007, and 2006.

Note 7. Long-term Borrowings

Long-term borrowings are as follows:

	2008	2007	2006
Federal Home Loan Bank of Atlanta, convertible advances	$ 27,000,000	$ 17,000,000	$ 7,000,000
Mortgage payable-individual, interest at 7%, payments of $3,483, including principal and interest, due monthly through October 2010, secured by real estate	71,712	107,135	140,170
	$ 27,071,712	$ 17,107,135	$ 7,140,170

The Federal Home Loan Bank of Atlanta, convertible advances total includes the following:

A $7,000,000 convertible advance issued in 2000, which matures in September 2010, with interest at 5.84%, payable quarterly. The Federal Home Loan Bank of Atlanta has the option of converting the rate to a three-month LIBOR; however, if converted, the borrowing can be repaid without penalty. The proceeds of the convertible advance were used to purchase higher yielding investment securities.

A $10,000,000 convertible advance issued in 2007, which has a final maturity of November, 1, 2017, but is callable monthly. This advance has a 3.28% interest rate, with interest payable monthly. The proceeds of the convertible advance were used to fund loans and purchase investment securities.

A $5,000,000 convertible advance issued in 2008, which has a final maturity of July 23, 2018, but is callable quarterly starting July 23, 2009. This advance has a 2.73% interest rate, with interest payable quarterly. The proceeds of the convertible advance were used to fund loans.

A $5,000,000 convertible advance issued in 2008, which has a final maturity of August 22, 2018, but is callable quarterly starting August 22, 2011. This advance has a 3.34% interest rate, with interest payable quarterly. The proceeds of the convertible advance were used to fund loans.

At December 31, 2008, the scheduled maturities of long-term borrowings are approximately as follows:

	2008
2009	$ 38,000
2010	7,034,000
2014 and thereafter	20,000,000

	$ 27,072,000

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8. Junior Subordinated Debentures owed to Unconsolidated Subsidiary Trust

The Bancorp sponsored a trust, Glen Burnie Statutory Trust I, of which 100% of the common equity is owned by the Company. The trust was formed for the purpose of issuing Company-obligated mandatorily redeemable capital securities (the capital securities) to third-party investors and investing the proceeds from the sale of such capital securities solely in junior subordinated debt securities of the Company (the debentures). The debentures held by the trust are the sole assets of that trust. Distributions on the capital securities issued by the trust are payable semi-annually at a 10.6% rate per annum equal to the interest rate being earned by the trust on the debentures held by that trust. The capital securities are subject to mandatory redemption, in whole or in part, upon repayment of the debentures. The Company has entered into agreements which, taken collectively, fully and unconditionally guarantee the capital securities subject to the terms of each of the guarantees. The debentures held by the trust carry non-call provisions over the first 10 year period, and a declining 10 year premium call thereafter. Both the capital securities of the statutory trust and the junior subordinated debentures are scheduled to mature on September 7, 2030, unless called by the Bancorp not earlier than September 7, 2010.

Despite the fact that Trust I is not included in the Company's consolidated financial statements, the $5.0 million in trust preferred securities issued by the trust are included in the Tier 1 capital of the Bank for regulatory capital purposes as allowed by the Federal Reserve Board (the "Board"). In April 2005, the Board amended its risk-based capital standards for bank holding companies to allow the continued inclusion of outstanding and prospective issuances of trust preferred securities in the Tier 1 capital of bank holding companies, subject to stricter quantitative limits and qualitative standards. The Board also revised the quantitative limits applied to the aggregate amount of cumulative perpetual preferred stock, trust preferred securities, and minority interest in the equity accounts of most consolidated subsidiaries (collectively, restricted core capital elements) included in the Tier 1 capital of bank holding companies. The new quantitative limits become effective after a five-year transition period, ending March 31, 2009. In addition, the Board also revised the qualitative standards for capital instruments included in regulatory capital consistent with longstanding Board policies. The Board has adopted this final rule to address supervisory concerns, competitive equity considerations and changes in generally accepted accounting principles and to strengthen the definition of regulatory capital for bank holding companies. The Company does not expect that the quantitative limits will preclude it from including the $5.0 million in trust preferred securities in Tier 1 capital in the future.

Note 9. Deposits

Major classifications of interest-bearing deposits are as follows:

	2008	2007	2006
NOW and SuperNOW	$ 21,079,314	$ 23,154,540	$ 22,274,015
Money Market	12,764,167	12,948,342	15,341,221
Savings	45,801,719	47,381,613	50,234,238
Certificates of Deposit, $100,000 or more	27,882,777	20,654,230	22,380,391
Other time deposits	98,700,862	80,017,668	89,874,294
	$ 206,228,839	$ 184,156,393	$ 200,104,159

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Deposits (continued)

Interest expense on deposits is as follows:

	2008	2007	2006
NOW and SuperNOW	$ 30,618	$ 47,885	$ 52,047
Money Market	62,475	103,472	106,264
Savings	153,301	214,998	222,018
Certificates of Deposit, $100,000 or more	976,446	915,889	859,707
Other time deposits	3,557,345	3,542,181	3,540,835
	$ 4,780,185	$ 4,824,425	$ 4,780,871

At December 31, 2008, the scheduled maturities of time deposits are approximately as follows:

	2008
2009	$ 68,385,000
2010	34,732,000
2011	5,444,000
2012	3,146,000
2013	13,626,000
2014 and thereafter	1,251,000
	$ 126,584,000

Deposit balances of executive officers and directors and their affiliated interests totaled approximately $2,611,000, $2,213,000, and $2,308,000 at December 31, 2008, 2007, and 2006, respectively.

The Bank had no brokered deposits at December 31, 2008, 2007, and 2006.

Note 10. Income Taxes

The components of income tax expense for the years ended December 31, 2008, 2007, and 2006 are as follows:

	2008	2007	2006
Current:			
Federal	$ 655,129	$ 646,449	$ 493,052
State	271,112	199,611	167,706
Total current	926,241	846,060	660,758
Deferred income taxes (benefits):			
Federal	(1,275,873)	(80,277)	25,655
State	(329,730)	(7,443)	702
Total deferred	(1,605,603)	(87,720)	26,357

Income tax (benefit) expense	$	(679,362)	$	758,340	$	687,115

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10. Income Taxes (continued)

A reconciliation of income tax expense computed at the statutory rate of 34% to the actual income tax expense for the years ended December 31, 2008, 2007, and 2006 is as follows:

	2008	2007	2006
(Loss) income before income taxes (benefit)	$ (275,400)	$ 3,540,481	$ 3,407,160
Taxes computed at Federal income tax rate	$ (93,636)	$ 1,203,764	$ 1,158,434
Increase (decrease) resulting from:			
Tax-exempt income	(547,038)	(581,208)	(610,541)
State income taxes, net of Federal income tax benefit	(38,688)	126,832	110,686
Other	-	8,952	28,536
Income tax (benefit) expense	$ (679,362)	$ 758,340	$ 687,115

The relationship between pre-tax loss and income tax benefits for 2008 is affected by increased deferred tax benefits attributable to tax methodologies utilized for loan loss provisions.

The components of the net deferred income tax benefits as of December 31, 2008, 2007, and 2006 are as follows:

	2008	2007	2006
Deferred income tax benefits:			
Accrued deferred compensation	$ 82,049	$ -	$ -
Impairment loss on investment securities	1,110,771	-	-
Allowance for credit losses	563,737	80,300	90,186
Alternative minimum tax credits	66,371	94,642	37,678
Net unrealized depreciation on investment securities available for sale	500,186	272,816	199,155
Reserve for unfunded commitments	78,890	78,890	77,240
Total deferred income tax benefits	2,402,004	526,648	404,259
Deferred income tax liabilities:			
Accumulated depreciation	41,113	15,769	42,991
Accumulated securities discount accretion	74,408	57,367	69,137
Total deferred income tax liabilities	115,521	73,136	112,128
Net deferred income tax benefits	$ 2,286,483	$ 453,512	$ 292,131

Note 11. Pension and Profit Sharing Plans

The Bank has a money purchase pension plan, which provides for annual employer contributions based on employee compensation, and covers substantially all employees. Annual contributions, included in employee benefit expense, totaled $220,000, $201,321 and $200,005 for the years ended December 31, 2008, 2007 and 2006, respectively. The Bank is also making additional contributions under this plan for the benefit of certain employees, whose retirement funds were negatively affected by the termination of a prior defined benefit pension plan. These additional

contributions, also included in employee benefit expense, totaled $33,452, $37,105, and $47,495 for the years ended December 31, 2008, 2007, and 2006, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11. Pension and Profit Sharing Plans (continued)

The Bank also has a defined contribution retirement plan qualifying under Section 401(k) of the Internal Revenue Code that is funded through a profit sharing agreement and voluntary employee contributions.

The plan provides for discretionary employer matching contributions to be determined annually by the Board of Directors. The plan covers substantially all employees. The Bank's contributions to the plan, included in employee benefit expense, totaled $116,027, $340,254, and $335,724 for the years ended December 31, 2008, 2007, and 2006, respectively.

Note 12. Post-Retirement Health Care Benefits

The Bank has previously provided health care benefits to employees who retire at age 65 with five years of full time service immediately prior to retirement and two years of participation in the medical benefits plan. In 2001, the Bank amended the plan to include the current Board of Directors and their spouses and the spouses of current retirees. In the first quarter of 2002, the Bank again amended the plan so that all post-retirement healthcare benefits currently provided by the Bank to the above qualified participants terminated on December 31, 2006. The plan was funded only to the extent of the Bank's monthly payments of insurance premiums, which totaled $50,483 for the year ended December 31,2006.

The following table sets forth the financial status of the plan at December 31, 2006:

Net post-retirement benefit income for the year ended December 31, 2006 includes the following:

		2006
Interest cost	$	3,081
Amortization of net gain		(37,723)
Net post-retirement benefit income	$	(34,642)

Assumptions used in the accounting for net post-retirement benefit expense were as follows:

	2006
Health care cost trend rate	5.0%
Discount rate	6.5%

If the assumed health cost trend rate were increased to 6% for 2006, the total of the service and interest cost components of net periodic post-retirement health care income cost would increase by $0 to ($34,642) as of for the year ended December 31, 2006.

Note 13. Other Benefit Plans

The Bank has life insurance contracts on several officers and is the sole owner and beneficiary of the policies. Cash value totaled $7,434,573, $7,161,403, and $6,892,455 at December 31, 2008, 2007, and 2006, respectively. Income on their insurance investment totaled $273,170, $268,948, and $210,653 for 2008, 2007, and 2006, respectively.

The Bank has an unfunded grantor trust, as part of a change in control severance plan, covering substantially all employees. Participants in the plan are entitled to cash severance benefits upon termination of employment, for any reason other than just cause, should a "change in control" of the Company occur.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14. Other Operating Expenses

Other operating expenses include the following:

	2008	2007	2006
Professional services	$ 485,685	$ 479,877	$ 434,465
Stationery, printing and supplies	214,815	225,709	209,385
Postage and delivery	187,017	222,642	224,856
FDIC assessment	35,544	31,605	33,847
Directors fees and expenses	198,939	210,097	207,796
Marketing	255,921	236,917	232,258
Data processing	100,562	109,797	104,976
Correspondent bank services	60,706	95,407	89,924
Telephone	160,242	157,811	165,529
Liability insurance	71,497	67,959	81,508
Losses and expenses on real estate owned (OREO)	8,343	2,905	922
Other ATM expense	232,670	242,429	235,116
Other	396,749	293,770	343,296
	$ 2,408,690	$ 2,376,925	$ 2,363,878

Note 15. Commitments and Contingencies

Financial instruments:

The Bank is a party to financial instruments in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit, which involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated financial statements.

Outstanding loan commitments, unused lines of credit and letters of credit are as follows:

	2008	2007	2006
Loan commitments:			
Construction and land development	$ 400,000	$ -	$ 482,000
Other mortgage loans	2,590,000	685,000	528,000
	$ 2,990,000	$ 685,000	$ 1,010,000
Unused lines of credit:			
Home-equity lines	$ 6,395,182	$ 7,507,778	$ 6,410,947
Commercial lines	13,380,292	18,335,771	10,805,449
Unsecured consumer lines	785,487	815,960	809,802
	$ 20,560,961	$ 26,659,509	$ 18,026,198
Letters of credit:	$ 196,530	$ 197,000	$ 296,136

Loan commitments and lines of credit are agreements to lend to customers as long as there is no violation of any conditions of the contracts. Loan commitments generally have interest rates fixed at current market amounts, fixed expiration dates, and may require payment of a fee. Lines of credit generally have variable interest rates. Many of the loan commitments and lines of credit are expected to expire without being drawn upon; accordingly, the total commitment amounts do not necessarily

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15. Commitments and Contingencies (continued)

represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral or other security obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include deposits held in financial institutions, U.S. Treasury securities, other marketable securities, accounts receivable, inventory, property and equipment, personal residences, income-producing commercial properties, and land under development. Personal guarantees are also obtained to provide added security for certain commitments.

Letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to guarantee the installation of real property improvements and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds collateral and obtains personal guarantees supporting those commitments for which collateral or other securities is deemed necessary.

The Bank's exposure to credit loss in the event of nonperformance by the customer is the contractual amount of the commitment. Loan commitments, lines of credit, and letters of credit are made on the same terms, including collateral, as outstanding loans. As of December 31, 2008, the Bank has accrued $200,000 as a reserve for losses on unfunded commitments related to these financial instruments with off balance sheet risk, which is included in other liabilities.

Note 16. Stockholders' Equity

Restrictions on dividends:

Banking regulations limit the amount of dividends that may be paid without prior approval of the Bank's regulatory agencies. Regulatory approval is required to pay dividends that exceed the Bank's net profits for the current year plus its retained net profits for the preceding two years. Retained earnings from which dividends may not be paid without prior approval totaled approximately $12,430,000, $11,363,000, and $9,367,000 at December 31, 2008, 2007, and 2006, respectively, based on the earnings restrictions and minimum capital ratio requirements noted below.

Stock repurchase program:

In February 2008, the Company instituted a Stock Repurchase Program. Under the program, the Company may spend up to $1,000,000 to repurchase its outstanding stock. The repurchases may be made from time to time at a price not to exceed $12.50 per share. During 2008, the Company repurchased 50,300 shares at an average price of $11.48. In December 2008, the Company extended the program until December 31, 2009 and replenished the repurchase funds to $1,000,000.

Employee stock purchase benefit plans:

The Company has a stock-based compensation plan, which is described below. As determined under SFAS No. 123R utilizing the Black-Scholes option pricing model, management of the Company has not recorded any compensation expense for options issued during the years ended December 31, 2007 and 2006, as there would be no material impact in the reported net income. There were no options issued during the year ended December 31, 2008.

Employees who have completed one year of service are eligible to participate in the employee stock purchase plan. The number of shares of common stock granted under options will bear a uniform relationship to compensation. The plan allows employees to buy stock under options granted at 85% of the fair market value of the stock on the date of grant. Options are vested when granted and will expire no later than 27 months from the grant date or upon termination of employment. Activity under this plan is as follows:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16. Stockholders' Equity (continued)

	Shares		Grant Price
Outstanding December 31, 2005	-		
Granted on June 8, 2006, expiring December 11, 2006	4,755	$	14.15
Exercised	(2,395)		
Expired	(2,360)	$	14.15
Outstanding December 31, 2006	-		
Granted on August 9, 2007, expiring December 10, 2007	3,126	$	14.02
Exercised	(1,041)		
Expired	(2,085)	$	14.02
Outstanding December 31, 2007	-		

At December 31, 2008, shares of common stock reserved for issuance under the plan totaled 48,011.

The Board of Directors may suspend or discontinue the plan at its discretion.

Dividend reinvestment and stock purchase plan:

The Company's dividend reinvestment and stock purchase plan allows all participating stockholders the opportunity to receive additional shares of common stock in lieu of cash dividends at 95% of the fair market value on the dividend payment date.

During 2008, 2007, and 2006, shares of common stock purchased under the plan totaled 20,003, 12,791, and 15,113, respectively. At December 31, 2008, shares of common stock reserved for issuance under the plan totaled 145,844.

The Board of Directors may suspend or discontinue the plan at its discretion.

Stockholder purchase plan:

The Company's stockholder purchase plan allows participating stockholders an option to purchase newly issued shares of common stock. The Board of Directors shall determine the number of shares that may be purchased pursuant to options. Options granted will expire no later than three months from the grant date. Each option will entitle the stockholder to purchase one share of common stock, and will be granted in proportion to stockholder share holdings. At the discretion of the Board of Directors, stockholders may be given the opportunity to purchase unsubscribed shares.

There was no activity under this plan for the years ended December 31, 2008, 2007, and 2006.

At December 31, 2008, shares of common stock reserved for issuance under the plan totaled 313,919.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16. Stockholders' Equity (continued)

The Board of Directors may suspend or discontinue the plan at its discretion.

Under all three plans, options granted, exercised, and expired, shares issued and reserved, and grant prices have been restated for the effects of any stock dividends or stock splits.

Regulatory capital requirements:

The Company and Bank are subject to various regulatory capital requirements administered by Federal and State banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. The Company and Bank must meet specific capital guidelines that involve quantitative measures of their respective assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting principles. The Company's and Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and Bank to maintain minimum amounts and ratios (as defined in the regulations) of total and Tier I capital to risk-weighted assets and of Tier I capital to average assets. Management believes, as of December 31, 2008, 2007, and 2006, that both the Company and Bank meet all capital adequacy requirements to which they are subject.

The Bank has been notified by its regulator that, as of its most recent regulatory examination, it is regarded as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios. There have been no conditions or events since that notification that management believes have changed the Bank's category.

As discussed in Note 8, the capital securities held by the Glen Burnie Statutory Trust I qualifies as Tier I capital for the Company under Federal Reserve Board guidelines.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16. Stockholders' Equity (continued)

A comparison of capital as of December 31, 2008, 2007, and 2006 with minimum requirements is approximately as follows:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2008						
Total Capital (to Risk Weighted Assets)						
Company	$ 35,687,000	14.9%	$ 19,122,000	8.0%	N/A	
Bank	35,707,000	15.0%	19,107,000	8.0%	$ 23,884,000	10.0%
Tier I Capital (to Risk Weighted Assets)						
Company	33,665,000	14.1%	9,564,000	4.0%	N/A	
Bank	33,485,000	14.0%	9,553,000	4.0%	14,330,000	6.0%
Tier I Capital (to Average Assets)						
Company	33,665,000	10.5%	12,825,000	4.0%	N/A	
Bank	33,485,000	10.2%	13,196,000	4.0%	16,495,000	5.0%
As of December 31, 2007						
Total Capital (to Risk Weighted Assets)						
Company	$ 36,774,000	17.6%	$ 16,744,000	8.0%	N/A	
Bank	36,592,000	17.5%	16,728,000	8.0%	$ 20,910,000	10.0%
Tier I Capital (to Risk Weighted Assets)						
Company	35,170,000	16.8%	8,374,000	4.0%	N/A	
Bank	34,788,000	16.6%	8,363,000	4.0%	12,544,000	6.0%
Tier I Capital						

(to Average Assets)						
Company	35,170,000	11.3%	12,494,000	4.0%	N/A	
Bank	34,788,000	11.3%	12,271,000	4.0%	15,339,000	5.0%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16. Stockholders' Equity (continued)

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2006						
Total Capital (to Risk Weighted Assets)						
Company	$ 35,357,000	17.1%	$ 16,570,000	8.0%	N/A	
Bank	35,240,000	17.0%	16,564,000	8.0%	$ 20,705,000	10.0%
Tier I Capital (to Risk Weighted Assets)						
Company	33,518,000	16.2%	8,281,000	4.0%	N/A	
Bank	33,201,000	16.0%	8,285,000	4.0%	12,427,000	6.0%
Tier I Capital (to Average Assets)						
Company	33,518,000	10.3%	13,017,000	4.0%	N/A	
Bank	33,201,000	10.2%	13,046,000	4.0%	16,307,000	5.0%

Note 17. Earnings Per Common Share

Earnings per common share are calculated as follows:

	2008	2007	2006
Basic:			
Net income	$ 403,962	$ 2,782,141	$ 2,720,045
Weighted average common shares outstanding	2,981,124	2,988,796	2,972,362
Basic net income per share	$ 0.14	$ 0.93	$ 0.92

Diluted earnings per share calculations were not required for 2008, 2007, and 2006 as there were no options outstanding at December 31, 2008, 2007, and 2006.

In January 2008, the Company declared a six for five stock split effected in the form of a 20% stock dividend.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 18. Fair Values of Financial Instruments

In accordance with the disclosure requirements of SFAS No. 107, the estimated fair value and the related carrying values of the Company's financial instruments are as follows:

	2008		2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:						
Cash and due from banks	$ 6,960,377	$ 6,960,377	$ 8,220,582	$ 8,220,582	$ 9,005,691	$ 9,005,691
Interest-bearing deposits in other financial institutions	7,883,816	7,883,816	5,847,562	5,847,562	342,309	342,309
Federal funds sold	6,393,710	6,393,710	726,916	726,916	3,971,978	3,971,978
Investment securities available for sale	57,948,645	57,948,645	77,182,181	77,182,181	95,811,296	95,811,296
Investment securities held to maturity	-	-	683,832	726,193	683,363	729,960
Federal Home Loan Bank Stock	1,767,600	1,767,600	1,381,900	1,381,900	928,000	928,000
Maryland Financial Bank Stock	100,000	100,000	100,000	100,000	100,000	100,000
Common stock-Statutory Trust I	155,000	155,000	155,000	155,000	155,000	155,000
Ground rents	184,900	184,900	202,900	202,900	219,100	219,100
Loans, less allowance for credit losses	235,132,621	239,446,000	199,753,132	203,326,000	193,336,604	192,492,000
Accrued interest receivable	1,680,392	1,680,392	1,508,640	1,508,640	1,627,433	1,627,433
Financial liabilities:						
Deposits	269,767,598	272,091,000	252,916,766	251,088,000	274,833,457	273,033,000
Short-term borrowings	629,855	629,855	502,529	502,529	545,349	545,349

Long-term borrowings	27,071,712	27,162,000	17,107,135	16,982,135	7,140,170	7,151,651
Dividends payable	385,794	385,794	385,010	385,010	366,580	366,580
Accrued interest payable	139,579	139,579	134,274	134,274	145,642	145,642
Accrued interest payable on junior subordinated debentures	171,518	171,518	171,518	171,518	171,518	171,518
Junior subordinated debentures owed to unconsolidated subsidiary trust	5,155,000	5,281,827	5,155,000	6,031,097	5,155,000	5,155,000
Unrecognized financial instruments:						
Commitments to extend credit	23,550,961	23,550,961	27,344,509	27,344,509	19,036,198	19,036,198
Standby letters of credit	196,530	196,530	197,000	197,000	296,136	296,136

For purposes of the disclosures of estimated fair value, the following assumptions were used.

Loans:

The estimated fair value for loans is determined by discounting future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Investment securities:

Estimated fair values are based on quoted market prices.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 18. Fair Values of Financial Instruments (continued)

Deposits:

The estimated fair value of deposits with no stated maturity, such as noninterest-bearing demand deposits, savings, NOW accounts and money market accounts, is equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The fair value of certificates of deposit is based on the rates currently offered for deposits of similar maturities. The fair value estimates do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market.

Other assets and liabilities:

The estimated fair values for cash and due from banks, interest-bearing deposits in other financial institutions, Federal funds sold, accrued interest receivable and payable, and short-term borrowings are considered to approximate cost because of their short-term nature.

Other assets and liabilities of the Bank that are not defined as financial instruments are not included in the above disclosures, such as property and equipment. In addition, non-financial instruments typically not recognized in the financial statements nevertheless may have value but are not included in the above disclosures. These include, among other items, the estimated earnings power of core deposit accounts, the trained work force, customer goodwill, and similar items.

Note 19. Fair Value Measurements

Effective January 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurements which provides a framework for measuring and disclosing fair value under generally accepted accounting principles. SFAS No. 157 requires disclosures about the fair value of assets and liabilities recognized in the balance sheet in periods subsequent to initial recognition, whether the measurements are made on a recurring basis or on a nonrecurring basis.

SFAS No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS No. 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

Fair Value Hierarchy
Level 1 – Quoted prices in active markets for identical assets or liabilities
Level 2 – Other significant observable inputs (including quoted prices in active markets for similar assets or liabilities)
Level 3 – Significant unobservable inputs (including the Bank's own assumptions in determining the fair value of assets or liabilities)

In determining the appropriate levels, the Company performs a detailed analysis of assets and liabilities that are subject to SFAS No. 157.

Fair value measurements on a recurring basis at December 31, 2008 are as follows:

Fair

	Level 1	Level 2	Level 3	Value
Securities available for sale	$ -	$ 57,948,645	$ -	$ 57,948,645

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 19. Fair Value Measurements (continued)

Securities available-for-sale are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

The Bank may also be required, from time to time, to measure certain other financial assets and liabilities at fair value on a non-recurring basis in accordance with GAAP. Fair value measurements on a non-recurring basis at December 31, 2008 are as follows:

	Level 1	Level 2	Level 3	Fair Value
Impaired loans	$ -	$ -	$ 758,007	$ 758,007
OREO	-	550,000	-	550,000
	$ -	$ 550,000	$ 758,007	$ 1,308,007

The Bank is predominantly a cash flow lender with real estate serving as collateral on a majority of loans. Loans which are deemed to be impaired and foreclosed real estate assets are primarily valued on a nonrecurring basis at the fair values of the underlying real estate collateral. The Bank determines such fair values from independent appraisals. If the independent appraisals are current (within approximately six months), management deems them level 2 inputs. Non-current appraisals from which management derives fair values are considered level 3 inputs.

Note 20. Recently Issued Accounting Pronouncements

In December 2007, the FASB issued Statement No. 141 Revised 2007 (SFAS 141R), Business Combinations. SFAS 141R's objective is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after December 31, 2008. On January 1, 2008, the Company adopted SFAS No. 141R. The Company has determined that the adoption of this pronouncement did not have a significant impact on the financial statements.

In February 2007, the FASB issued Statement No. 159 (SFAS 159), The Fair Value Option for Financial Assets and Financial Liabilities-including an amendment of FASB Statement No. 115 which is effective as of the beginning of the first fiscal year that begins after November 15, 2007. Management has not elected to adopt this SFAS but will continue to evaluate the impact of adopting this Statement on the Company's financial statements for future periods.

In December 2007, the FASB issued SFAS 160, Noncontrolling Interests in Consolidated Financial Statements. SFAS 160's objective is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 shall be effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company does not expect the implementation of SFAS 160 to have a material impact on its consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 20. Recently Issued Accounting Pronouncements (continued)

In September 2006, the FASB ratified the consensus reached by the Emerging Issued Task Force (EITF) on Issue No. 06-04, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements. The scope of this Issue is limited to the recognition of a liability and related compensation costs for endorsement split-dollar life insurance arrangements that provide a benefit to an employee that extends to postretirement periods. Therefore, this Issue would not apply to a split-dollar life insurance arrangement that provides a specified benefit to an employee that is limited to the employee's active service period with an employer.

The consensus in this Issue is effective for fiscal years beginning after December 15, 2007, with earlier application permitted. Entities should recognize the effects of applying the consensus in this Issue through either (a) a change in accounting principle through a cumulative-effect adjustment to retained earnings or to other components of equity or net assets in the statement of financial position as of the beginning of the year of adoption or (b) a change in accounting principle through retrospective application to all prior periods. On January 1, 2008, the Company adopted EITF No. 06-04 and under option (a) recorded a cumulative accrued expense and reduction in stockholder’s equity totaling $179,794 statements.

On January 12, 2009, the FASB issued FASB Staff Position EITF 99-20-1, Amendments to the Impairment Guidance of EITF Issue No. 99-20 (FSP). FASB FSP 99-20-1 amends the impairment guidance in FASB EITF Issue No. 99-20, Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests that Continue to be held by a Transferor in Securitized Financial Assets. The intent of the FSP is to reduce complexity and achieve more consistent determinations as to whether other-than-temporary impairments of available for sale or held to maturity debt securities have occurred. The FSP is effective for interim and annual reporting periods ending after December 15, 2008. The adoption of this FSP did not have an impact on the Company’s consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities – an Amendment of FASB Statement No. 133.” This Statement amends and expands the disclosure requirements of SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities.” The Statement requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company does not expect the implementation of SFAS 161 to have a material impact on its consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, “The Hierarchy of Generally Accepted Principles.” This statement identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (“GAAP”) in the United States. The Statement is directed to entities rather than auditors because entities are responsible for the selection of accounting principles for financial statements that are presented in conformity with GAAP. This Statement is effective 60 days following the SEC’s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, “The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.” The Company does not expect the implementation of SFAS 162 to have a material impact on its consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 21. Parent Company Financial Information

The Balance Sheets, Statements of Income, and Statements of Cash Flows for Glen Burnie Bancorp (Parent Only) are presented below:

Balance Sheets

December 31,	2008	2007	2006
Assets			
Cash	$ 338,902	$ 532,222	$ 441,919
Investment in The Bank of Glen Burnie	32,727,244	34,354,422	32,884,293
Investment in GBB Properties, Inc.	261,999	263,787	265,579
Investment in the Glen Burnie Statutory Trust I	155,000	155,000	155,000
Due from subsidiaries	22,878	22,709	26,820
Other assets	114,541	119,542	120,000
Total assets	$ 33,620,564	$ 35,447,682	$ 33,893,611
Liabilities and Stockholders' Equity			
Dividends payable	$ 385,794	$ 385,010	$ 366,580
Accrued interest payable on borrowed funds	171,518	171,518	171,518
Other liabilities	-	-	-
Borrowed funds from subsidiary	5,155,000	5,155,000	5,155,000
Total liabilities	5,712,312	5,711,528	5,693,098
Stockholders' equity:			
Common stock	2,967,727	2,498,465	2,484,633
Surplus	11,568,241	11,921,129	11,719,907
Retained earnings	14,129,637	15,750,156	14,312,496
Accumulated other comprehensive loss, net of benefits	(757,353)	(433,596)	(316,523)
Total stockholders' equity	27,908,252	29,736,154	28,200,513
Total liabilities and stockholders' equity	$ 33,620,564	$ 35,447,682	$ 33,893,611

The borrowed funds from subsidiary balance represents the junior subordinated debt securities payable to the wholly-owned subsidiary trust that was deconsolidated as a result of applying the provisions of FIN 46. The Company continues to guarantee the capital securities issued by the trust, which totaled $5,000,000 at December 31, 2008 (See Note 8).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 21. Parent Company Financial Information (continued)

Statements of Income

Years Ended December 31,	2008	2007	2006
Dividends and distributions from subsidiaries	$ 1,902,239	$ 1,565,000	$ 1,350,000
Other income	16,430	16,430	16,430
Interest expense on junior subordinated debentures	(546,180)	(546,430)	(546,430)
Other expenses	(69,468)	(62,271)	(59,453)
Income before income tax benefit and equity in undistributed net income of subsidiaries	1,303,021	972,729	760,547
Income tax benefit	226,356	224,002	227,647
Change in undistributed equity of subsidiaries	(1,125,415)	1,585,410	1,731,851
Net income	$ 403,962	$ 2,782,141	$ 2,720,045

Statements of Cash Flows

Years Ended December 31,	2008	2007	2006
Cash flows from operating activities:			
Net income	$ 403,962	$ 2,782,141	$ 2,720,045
Adjustments to reconcile net income to net cash provided by operating activities:			
Decrease in other assets	5,001	458	7,250
(Increase) decrease in due from subsidiaries	(169)	4,111	(3,932)
Decrease in other liabilities	-	-	(2,032)
Change in undistributed equity of Subsidiaries	1,125,415	(1,585,410)	(1,731,851)
Net cash provided by operating activities	1,534,209	1,201,300	989,480
Cash flows from financing activities:			
Proceeds from dividend reinvestment plan	194,054	200,459	245,059
Proceeds from issuance of common stock	-	14,595	33,891
	(577,239)	-	-

Repurchase and retirement of common stock			
Dividends paid	(1,344,344)	(1,326,051)	(1,309,970)
Net cash used in financing activities	(1,727,529)	(1,110,997)	(1,031,020)
(Decrease) increase in cash	(193,320)	90,303	(41,540)
Cash, beginning of year	532,222	441,919	483,459
Cash, end of year	$ 338,902	$ 532,222	$ 441,919

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 22. Quarterly Results of Operations (Unaudited)

The following is a summary of consolidated unaudited quarterly results of operations:

	2008			
(Dollars in thousands,	Three months ended,			
except per share amounts)	December 31	September 30	June 30	March 31
Interest income	$ 4,604	$ 4,667	$ 4,492	$ 4,413
Interest expense	1,661	1,546	1,499	1,548
Net interest income	2,943	3,121	2,993	2,865
Provision for credit losses	700	239	152	55
Net securities gains	50	86	48	7
Income before income taxes	272	(1,915)	743	625
Net income	1,382	(2,118)	604	536
Net income per share (basic and diluted)	$ 0.47	$ (0.71)	$ 0.20	$ 0.18

	2007			
(Dollars in thousands,	Three months ended,			
except per share amounts)	December 31	September 30	June 30	March 31
Interest income	$ 4,487	$ 4,476	$ 4,465	$ 4,409
Interest expense	1,506	1,441	1,507	1,517
Net interest income	2,981	3,035	2,958	2,892
Provision for credit losses	-	-	20	30
Net securities gains	-	115	4	1
Income before income taxes	903	1,049	873	715
Net income	700	785	691	606
Net income per share (basic and diluted)	$ 0.23	$ 0.27	$ 0.23	$ 0.20

	2006			
(Dollars in thousands,	Three months ended,			
except per share amounts)	December 31	September 30	June 30	March 31
Interest income	$ 4,542	$ 4,492	$ 4,447	$ 4,174
Interest expense	1,609	1,538	1,480	1,206
Net interest income	2,933	2,954	2,967	2,968
Provision for credit losses	62	-	-	-
Net securities gains	106	70	-	-
Income before income taxes	903	912	844	748
Net income	609	772	713	626
	$ 0.21	$ 0.26	$ 0.24	$ 0.21

Net income per share (basic and diluted)