FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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PEDIATRIC SERVICES OF AMERICA INC

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2001

OR

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

For the transition period from ______ to ______

Commission file number 0-23946

PEDIATRIC SERVICES OF AMERICA, INC.
(Exact name of Registrant as specified in its charter)

Delaware	58-1873345
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

310 Technology Parkway, Norcross GA 30092-2929
(Address of principal executive offices, including zip code)

(770) 441-1580
(Registrant's telephone number, including area code)

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 [_]

As of July 31, 2001, the Registrant had 6,709,856 shares of Common Stock, $0.01 Par Value, outstanding.

FORM 10-Q
PEDIATRIC SERVICES OF AMERICA, INC.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

PEDIATRIC SERVICES OF AMERICA, INC
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

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<S>	June 30, 2001 (Unaudited) <C>	September 30, 2000 <C>
Assets		
Current assets:		
Cash and cash equivalents	$ 13,801	$ 14,912
Accounts receivable, less allowances for doubtful accounts of $6,257 and $7,628, respectively	30,526	35,389
Prepaid expenses	1,223	656
Deferred income taxes	2,058	3,792
Other current assets	4,161	3,057
Total current assets	51,769	57,806
Property and equipment:		
Home care equipment held for rental	28,331	27,831
Furniture and fixtures	10,531	10,226
Vehicles	725	751
Leasehold improvements	1,206	1,039
	40,793	39,847
Accumulated depreciation and amortization	(31,349)	(27,999)
	9,444	11,848
Other assets:		
Goodwill, less accumulated amortization of $9,056 and $7,386, respectively	32,263	33,933
Certificates of need, less accumulated amortization of $480 and $404, respectively	193	269
Deferred financing fees, less accumulated amortization of $642 and $549, respectively	872	1,419
Non-compete agreements, less accumulated amortization of $1,104 and $1,084, respectively	56	76
Deferred income taxes	2,321	-
Other	237	242
	35,942	35,939
Total assets	$ 97,155	$105,593

</TABLE>

See accompanying notes.

PEDIATRIC SERVICES OF AMERICA, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS--(Continued)
(In thousands)

	June 30, 2001 (Unaudited)	September 30, 2000
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 6,846	$ 5,477
Accrued compensation	4,762	5,513
Income taxes payable	1,405	610
Accrued insurance	5,641	5,002
Other accrued liabilities	4,983	6,179
Deferred revenue	584	618
Current maturities of long-term obligations to related parties	25	50
Current maturities of long-term obligations	13	18
Total current liabilities	24,259	23,467
Long-term obligations to related parties, net of current maturities	25	50
Long-term obligations, net of current maturities	33,054	45,439
Deferred income taxes	-	1,106
Stockholders' equity:		
Preferred stock, $.01 par value, 2,000 shares authorized, no shares issued and outstanding	-	-
Common stock, $.01 par value, 80,000 shares authorized, 6,708 and 6,658 shares issued and outstanding at June 30, 2001 and September 30, 2000, respectively	67	67
Additional paid-in capital	48,452	48,362
Accumulated deficit	(8,702)	(12,898)
Total stockholders' equity	39,817	35,531
Total liabilities and stockholders' equity	$97,155	$105,593

See accompanying notes.

PEDIATRIC SERVICES OF AMERICA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Three Months Ended June 30, 2001 (Unaudited)	Three Months Ended June 30, 2000 (Unaudited)	Nine Months Ended June 30, 2001 (Unaudited)	Nine Months Ended June 30, 2000 (Unaudited)
Net revenue	$46,258	$45,397	$137,527	$140,902
Costs and expenses:				
Operating salaries, wages and employee benefits	20,119	21,219	61,077	65,913
Other operating costs	17,946	16,439	51,820	50,939
Corporate, general and administrative	4,600	4,276	13,696	14,092
Provision for doubtful accounts	353	1,121	1,793	5,413
Depreciation and amortization	1,867	2,009	5,626	6,113
Total costs and expenses	44,885	45,064	134,012	142,470
Operating income (loss)	1,373	333	3,515	(1,568)
Other income	32	-	32	-
Interest income	119	161	507	388
Interest expense	(898)	(1,468)	(3,121)	(6,370)
Income (loss) from continuing operations	626	(974)	933	(7,550)
Discontinued operations				
Gain on disposal of discontinued operations	-	407	-	24,721

Income (loss) before extraordinary item.........	626	(567)	933	17,171
Extraordinary item.............................	-	10,299	3,263	10,299
Net income....................................	$ 626	$ 9,732	$ 4,196	$ 27,470
Basic net income per share data:				
Income (loss) from continuing operations........	$ 0.09	$ (0.15)	$ 0.14	$ (1.13)
Gain on disposal of discontinued operations.....	-	0.06	-	3.71
Income (loss) before extraordinary item.........	0.09	(0.09)	0.14	2.58
Extraordinary item.............................	-	1.55	0.49	1.55
Net income....................................	$ 0.09	$ 1.46	$ 0.63	$ 4.13
Diluted net income per share data:				
Income (loss) from continuing operations........	$ 0.09	$ (0.15)	$ 0.14	$ (1.13)
Gain on disposal of discontinued operations.....	-	0.06	-	3.71
Income (loss) before extraordinary item.........	0.09	(0.09)	0.14	2.58
Extraordinary item.............................	-	1.55	0.47	1.55
Net income....................................	$ 0.09	$ 1.46	$ 0.61	$ 4.13
Weighted average shares outstanding:				
Basic...	6,696	6,658	6,674	6,654
Diluted.......................................	6,934	6,658	6,923	6,654

</TABLE>

See accompanying notes.

PEDIATRIC SERVICES OF AMERICA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

<TABLE>
<CAPTION>

	Nine Months Ended June 30, 2001	2000
Operating activities	(Unaudited)	(Unaudited)
<S>	<C>	<C>
Income (loss) from continuing operations.......................................	$ 933	$ (7,550)
Adjustments to reconcile income (loss) from continuing operations to net cash provided by operating activities:		
Depreciation and amortization..	5,626	6,113
Provision for doubtful accounts..	1,793	5,413
Amortization of deferred financing fees......................................	220	599
Deferred income taxes..	(1,693)	(3,559)
Changes in operating assets and liabilities:		
Accounts receivable..	3,070	10,213
Prepaid expenses...	(567)	(228)
Other assets...	(1,207)	615
Accounts payable...	1,369	(4,169)
Income taxes...	795	2,807
Accrued liabilities..	(1,342)	(5,277)
Net cash provided by operating activities of continuing operations..	8,997	4,977
Net cash used in operating activities of discontinued operations..	-	(842)
Net cash provided by operating activities......................................	8,997	4,135
Investing activities		
Purchases of property and equipment..	(1,349)	(1,039)
Proceeds from sale of division...	-	78,031
Other, net...	-	41
Net cash (used in) provided by investing activities of continuing operations.....	(1,349)	77,033
Net cash used in investing activities of discontinued operations................	-	(24)
Net cash (used in) provided by investing activities............................	(1,349)	77,009
Financing activities		

Principal payments on long-term debt	(8,849)	(81,723)
Deferred financing fees	-	(251)
Proceeds from exercise of stock options	90	-
Net cash used in financing activities	(8,759)	(81,974)
Decrease in cash and cash equivalents	(1,111)	(830)
Cash and cash equivalents at beginning of period	14,912	8,361
Cash and cash equivalents at end of period	$ 13,801	$ 7,531
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 4,504	$ 8,327
Cash paid for taxes	$ 965	$ 667

</TABLE>

See accompanying notes.

PEDIATRIC SERVICES OF AMERICA, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Unaudited

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Pediatric Services of America, Inc. (the "Company") and its majority-owned subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. Results of operations for the three and nine months ended June 30, 2001 are not necessarily indicative of the results to be expected for the entire fiscal year ending September 30, 2001. These condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended September 30, 2000 included in the Company's Annual Report on Form 10-K for such year filed with the Securities and Exchange Commission. Principal accounting policies are set forth in the Company's 2000 Annual Report.

2. Description of Business

The Company provides a broad range of pediatric health care services and equipment including nursing, respiratory therapy, rental and sale of durable medical equipment, pharmaceutical services and infusion therapy services. In addition, the Company provides pediatric rehabilitation services, day treatment centers for medically fragile children, pediatric well care services and special needs educational services for pediatric patients. The Company also provides case management services in order to assist the family and patient by coordinating the provision of services between the insurer or other payor, the physician, the hospital and other health care providers. The Company's services are designed to provide a high quality, lower cost alternative to prolonged hospitalization for medically fragile children. As a complement to its pediatric respiratory and infusion therapy services, the Company also provides respiratory and infusion therapy and related services for adults.

3. Use of Estimates

The preparation of the condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of net revenue and expenses during the reporting period. Actual results could differ from those estimates and the differences could be material. Due to the nature of the industry and the reimbursement environment in which the Company operates, certain estimates are required in recording net revenue and determining the provision for doubtful accounts. Inherent in these estimates is the risk that they will have to be revised or updated as additional information becomes available to management.

4. Accounts Receivable

Accounts receivable include approximately $7.6 million and $7.7 million for which services have been rendered but the amounts were unbilled as of June 30, 2001 and September 30, 2000, respectively. Such unbilled amounts are primarily a result of the time required to obtain and reconcile information from field locations in order to process bills for services rendered.

5. Concentration of Credit Risk

The Company's principal financial instruments subject to potential concentrations of credit risk are cash and cash equivalents and accounts receivable. Cash and cash equivalents are held primarily in one financial institution. The Company performs periodic evaluations of the relative credit standing of this financial institution. The concentration of credit risk with respect to accounts receivable, which are primarily health care industry related, represent a risk to the Company given the current health care environment. The risk is somewhat limited due to the large number of payors including Medicare and Medicaid, insurance companies, and individuals and the diversity of geographic locations in which the Company operates.

6. Reclassifications

Certain amounts for prior periods have been reclassified to conform to the current year presentation.

7. Impact of Recently Issued Accounting Standards

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, "Business Combinations", and No. 142, "Goodwill and Other Intangible Assets", effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives. The Company is planning to adopt the new rules effective October 1, 2001. The Company is evaluating the impact of the adoption of these standards and has not yet determined the effect of adoption on its financial position and results of operations.

8. Discontinued Operations

The paramedical testing operations are reflected as a discontinued operation and the condensed consolidated financial statements of the Company for all periods presented have been restated to reflect the discontinued operations.

Certain liabilities were not assumed by Hooper Holmes, Inc. in the sale of the paramedical testing division. These liabilities include accounts payable, additional accrued compensation and other accrued liabilities which totaled approximately $0.7 million at June 30, 2001.

9. Income Taxes

The Company has recorded a partial valuation allowance against the net deferred tax assets as of June 30, 2001 and September 30, 2000. In recording the valuation allowance, management considered whether it is more likely than not that some or all of the deferred tax assets will be realized. This analysis includes considering scheduled reversal of deferred tax liabilities, projected future taxable income, carryback potential and tax planning strategies.

In the three and nine months ended June 30, 2001, the Company had a current income tax expense of $1.1 million and $2.1 million, respectively, which was offset by the reduction of the valuation allowance related to the net deferred tax asset resulting in zero income tax expense.

10. Long-Term Borrowing Arrangements

Subject to the terms and conditions of the Amended and Restated Loan Security Agreement, the Lender made available a total credit facility of up to $30.0 million. At June 30, 2001, the calculated availability was $22.3 million. The total credit facility is comprised of a revolving line of credit up to the available limit, consisting of Loans and Letters of Credit. As of June 30, 2001, the Company had no outstanding borrowings under the Amended and Restated Loan Security Agreement.

In the second quarter of fiscal year 2001, the Company completed a series of transactions to repurchase a total of $12.4 million of the Senior Subordinated Notes (the "Notes") for $8.8 million cash plus accrued interest. The pre-tax gain (net of the write-off of the related deferred financing fees) of $3.3 million is reflected as an extraordinary item in the condensed consolidated statements of operations for the nine months ended June 30, 2001.

11. Basic and Diluted Net Income Per Share

Basic net income per share is computed using the weighted average number of shares of common stock outstanding during the period. Diluted net income per share is computed using the weighted average number of shares of common stock outstanding and the dilutive effect of common equivalent shares (calculated using the treasury stock method). The dilutive effect of the weighted average options included in the diluted earnings per share is 238,826 and 249,795 for the three and nine months ended June 30, 2001, respectively. For the three and nine months ended June 30, 2000, weighted average shares outstanding for continuing operations for basic and diluted computations are the same since the impact of common equivalent shares on earnings per share is anti-dilutive.

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

Forward-Looking Statements

This Form 10-Q contains certain forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) relating to future financial performance of Pediatric Services of America, Inc. (the "Company"). When used in this Form 10-Q, the words "may," "could," "should," "would," "believe," "feel," "expects," "anticipate," "estimate," "intend," "plan" and similar expressions may be indicative of forward-looking statements. These statements by their nature involve substantial risks and uncertainties, certain of which are beyond the Company's control. The Company cautions that various factors, including the factors described hereunder and those discussed in the Company's filings with the Securities and Exchange Commission, as well as general economic conditions, industry trends, the Company's ability to collect for equipment sold or rented, assimilate and manage previously acquired field operations, collect accounts receivable, including receivables related to acquired businesses and receivables under appeal, hire and retain qualified personnel and comply with and respond to billing requirements issues, including those related to the Company's billing and collection system could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements of the Company made by or on behalf of the Company. Any forward-looking statement speaks only as of the date on which such statement is made, and the Company undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of an unanticipated event. New factors emerge from time to time, and it is not possible for management to predict all of such factors. Further, management cannot assess the impact of each such factor on the business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements of the Company included in this quarterly report.

Recent Developments

During the third quarter of fiscal year 2001, the Company continued its strategic plan (the "Plan") of leveraging its opportunities in its core competencies. To date, the Company's investments in sales and marketing resources have not produced the anticipated revenue growth in its core respiratory programs. During the three months ended June 30, 2001, the Company implemented a number of changes in its sales and marketing program to improve its effectiveness. The Company remains optimistic that it will achieve the anticipated growth. During the three months ended June 30, 2001, the Company successfully met its cash collection targets which resulted in an additional $3.1 million cash on hand. With this liquidity position, the Company is actively seeking to invest in acquisition opportunities that enhance its core competencies.

During the three months ended June 30, 2001, the Company continued its efforts to aggressively manage its portfolio of payor contracts with the objective of maximizing reimbursement for core services. As contracts have entered their renewal cycles, the Company has been able to negotiate improved prices on selected core services. During the third quarter of fiscal 2001, the Company's nurse recruiting specialist has had a positive impact on unstaffed nursing hours in select markets. As a result, the Company has experienced sequential revenue growth in these select markets. The Company intends to invest in additional resources to improve markets that continue to experience relatively high unstaffed nursing hours. During the third quarter of fiscal 2001, the Company experienced sporadic blood product shortages in its pharmacy services line. The Company is aggressively managing the availability of product and patient requirements.

The Company and its risk brokers continue to proactively monitor its prevention programs and carriers claim settlement process across all insured benefit programs.

Although the Company has delivered positive results to date, there can be no assurance that the Company will be able to achieve the expected future results from the Plan without negatively impacting operations.

Results of Operations

Due to the nature of the industry and the reimbursement environment in which the Company operates, certain estimates are required in recording net revenue. Inherent in these estimates is the risk that net revenue will have to be revised or updated, with the changes recorded in subsequent periods as additional information becomes available to management.

The following table is derived from the Company's unaudited condensed consolidated statements of operations for the periods indicated and presents results of continuing operations as a percentage of net revenue and the percentage change in the dollar amounts of each item from the comparative prior period:

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	Percentage of Net Revenue				Period-to-Period Percentage Increase (Decrease)	
	Three Months Ended June 30,		Nine Months Ended June 30,		Three Months Ended June 30,	Nine Months Ended June 30,
	2001	2000	2001	2000	2001	2001
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Net revenue................................	100.0%	100.0%	100.0%	100.0%	2%	(2)%
Operating salaries, wages and employee benefits...............................	43.5	46.7	44.4	46.8	(5)	(7)
Other operating costs......................	38.8	36.2	37.7	36.2	9	2
Corporate, general and administrative......	9.9	9.4	10.0	10.0	8	(3)
Provision for doubtful accounts............	0.8	2.5	1.3	3.8	(69)	(67)
Depreciation and amortization..............	4.0	4.5	4.1	4.3	(7)	(8)
Operating income (loss)....................	3.0	0.7	2.5	(1.1)	312	324
Other income...............................	0.1	-	-	-	-	-
Interest income............................	0.3	0.4	0.4	0.3	(27)	31
Interest expense...........................	(1.9)	(3.2)	(2.3)	(4.5)	(39)	(51)
Income (loss) from continuing operations...	1.5%	(2.1)%	0.6%	(5.3)%	169%	111%

</TABLE>

The following table sets forth for the periods indicated the net revenue breakdown by service: (in thousands)

	Three Months Ended June 30, 2001	Three Months Ended June 30, 2000	Nine Months Ended June 30, 2001	Nine Months Ended June 30, 2000
Pediatric Home Health Care				
Nursing	$21,352	$20,466	$ 63,808	$ 62,668
Respiratory Therapy Equipment	3,803	4,119	11,179	13,336
Home Medical Equipment	377	454	1,045	1,484
Pharmacy and Other	9,945	8,904	30,004	26,361
Total Pediatric Home Health Care	35,477	33,943	106,036	103,849
Adult Home Health Care:				
Nursing	2,945	2,800	8,430	8,787
Respiratory Therapy Equipment	4,042	4,384	12,033	13,543
Home Medical Equipment	632	1,073	2,103	3,444
Pharmacy and Other	3,162	3,197	8,925	11,279
Total Adult Home Health Care	10,781	11,454	31,491	37,053
Total Net Revenue	$46,258	$45,397	$137,527	$140,902

Three Months Ended June 30, 2001 Compared to Three Months Ended June 30, 2000

Net revenue increased $0.9 million, or 2%, to $46.3 million in the three months ended June 30, 2001 from $45.4 million in the three months ended June 30, 2000. Pediatric home health care net revenue increased by $1.5 million for the three months ended June 30, 2001, primarily due to the Company's growth in its core products. Adult health care net revenue decreased $0.6 million for the three months ended June 30, 2001, primarily as a result of the reduction in non-core services to the pharmacy and respiratory therapy/home medical equipment patients. In the three months ended June 30, 2001, the Company derived approximately 50% of its net revenue from commercial insurers and other private payors, 43% from Medicaid and 7% from Medicare.

Operating salaries, wages and employee benefits consist primarily of branch office employee costs. Operating salaries, wages and employee benefits decreased $1.1 million, or 5%, to $20.1 million in the three months ended June 30, 2001 from $21.2 million in the three months ended June 30, 2000. Labor costs have decreased across all services primarily as a result of headcount reductions. As a percentage of net revenue, operating salaries, wages and employee benefits for the three months ended June 30, 2001 decreased to 44% from 47% for the three months ended June 30, 2000.

Other operating costs include medical supplies, branch office rent, utilities, vehicle expenses, allocated insurance costs and cost of sales. Cost of sales consists primarily of the costs of pharmaceuticals and related services. Other operating costs increased $1.5 million, or 9%, to $17.9 million in the three months ended June 30, 2001, from $16.4 million in the three months ended June 30, 2000. The increase in other operating costs relates primarily to increased workers compensation losses as well as increased equipment distribution costs in the three months ended June 30, 2001. As a percentage of net revenue, other operating costs for the three months ended June 30, 2001 increased to 39% from 36% for the three months ended June 30, 2000.

Corporate, general and administrative costs increased $0.3 million, or 8%, to $4.6 million in the three months ended June 30, 2001, from $4.3 million in the three months ended June 30, 2000. As a percentage of net revenue, corporate, general and administrative costs for the three months ended June 30, 2001, increased slightly compared to the three months ended June 30, 2000.

Provision for doubtful accounts decreased $0.8 million, or 69%, to $0.3 million in the three months ended June 30, 2001, from $1.1 million in the three months ended June 30, 2000. Cash collections as a percentage of net revenue were 105% and 112% for the three months ended June 30, 2001 and 2000, respectively. The Company continues to experience strong cash collections and improvements in the reimbursement processes contributing to a

lower provision for doubtful accounts.

Depreciation and amortization decreased $0.1 million, or 7%, to $1.9 million in the three months ended June 30, 2001 from $2.0 million in the three months ended June 30, 2000. As a percentage of the Company's net revenue, depreciation and amortization costs for the three months ended June 30, 2001 decreased slightly compared to the three months ended June 30, 2000.

Interest expense decreased $0.6 million, or 39%, to $0.9 million in the three months ended June 30, 2001, from $1.5 million in the three months ended June 30, 2000. The Company's average debt outstanding decreased $23.6 million as the Company completed a series of transactions to repurchase a portion of the Notes.

Interest income decreased $0.1 million in the three months ended June 30, 2001. The Company invested its excess cash balances in highly liquid investments.

Nine Months Ended June 30, 2001 Compared to Nine Months Ended June 30, 2000

Net revenue decreased $3.4 million, or 2%, to $137.5 million in the nine months ended June 30, 2001 from $140.9 million in the nine months ended June 30, 2000. In part, the reduction in net revenue reflects the continued efforts to reduce non-core and/or non-profitable products and services consistent with the Plan. In addition, the Company's investment in sales and marketing resources in the core respiratory programs failed to contribute significantly to the net revenues for the nine months ended June 30, 2001. Pediatric home health care net revenue increased $2.2 million primarily due to the Company's growth in its core products. Adult health care net revenue decreased $5.6 million for the nine months ended June 30, 2001, primarily as a result of the reduction in non-core services to the pharmacy and respiratory therapy/home medical equipment patients. In the nine months ended June 30, 2001, the Company derived approximately 49% of its net revenue from commercial insurers and other private payors, 44% from Medicaid and 7% from Medicare.

Operating salaries, wages and employee benefits consist primarily of branch office employee costs. Operating salaries, wages and employee benefits decreased $4.8 million, or 7%, to $61.1 million in the nine months ended June 30, 2001 from $65.9 million in the nine months ended June 30, 2000. Labor costs have decreased across all services primarily as a result of headcount reductions. As a percentage of net revenue, operating salaries, wages and employee benefits for the nine months ended June 30, 2001 decreased to 44% from 47% for the nine months ended June 30, 2000.

Other operating costs include medical supplies, branch office rent, utilities, vehicle expenses, allocated insurance costs and cost of sales. Cost of sales consists primarily of the costs of pharmaceuticals and related services. Other operating costs increased $0.9 million, or 2%, to $51.8 million in the nine months ended June 30, 2001, from $50.9 million in the nine months ended June 30, 2000. As a percentage of net revenue, other operating costs for the nine months ended June 30, 2001 increased to 38% from 36% for the nine months ended June 30, 2000.

Corporate, general and administrative costs decreased $0.4 million, or 3%, to $13.7 million in the nine months ended June 30, 2001, from $14.1 million in the nine months ended June 30, 2000. This decrease was primarily attributable to the reduction in the use of outside labor. As a percentage of net revenue, corporate, general and administrative costs for the nine months ended June 30, 2001, was comparable to the nine months ended June 30, 2000.

Provision for doubtful accounts decreased $3.6 million, or 67%, to $1.8 million in the nine months ended June 30, 2001, from $5.4 million in the nine months ended June 30, 2000. Cash collections as a percentage of net revenue were 103% and 107% for the nine months ended June 30, 2001 and 2000, respectively. The Company continues to experience strong cash collections and improvements in the reimbursement processes contributing to a lower provision for doubtful accounts.

Depreciation and amortization decreased $0.5 million, or 8%, to $5.6 million in the nine months ended June

30, 2001 from $6.1 million in the nine months ended June 30, 2000. As a percentage of the Company's net revenue, depreciation and amortization costs for the nine months ended June 30, 2001 decreased slightly compared to the nine months ended June 30, 2000.

Interest expense decreased $3.2 million, or 51%, to $3.1 million in the nine months ended June 30, 2001, from $6.4 million in the nine months ended June 30, 2000. The Company's average debt outstanding decreased $37.6 million as the amount outstanding under the Credit Agreement was paid down to zero on November 1, 1999 and the Company completed a series of transactions to repurchase a portion of the Notes.

Interest income increased $0.1 million in the nine months ended June 30, 2001. The Company invested its excess cash balances in highly liquid investments.

Liquidity and Capital Resources

Subject to the terms and conditions of the Amended and Restated Loan Security Agreement, the Lender shall make available a total credit facility of up to $30.0 million. At June 30, 2001, the calculated availability was $22.3 million. The total credit facility shall be comprised of a revolving line of credit up to the available limit, consisting of Loans and Letters of Credit. As of the date of this Report, the Company has no outstanding borrowings under the Amended and Restated Loan Security Agreement.

In the second quarter of fiscal year 2001, the Company completed a series of transactions to repurchase a total of $12.4 million of the Senior Subordinated Notes (the "Notes") for $8.8 million cash plus accrued interest. The pre-tax gain (net of the write-off of the related deferred financing fees) of $3.3 million is reflected as an extraordinary item in the condensed consolidated statements of operations for the nine months ended June 30, 2001.

At June 30, 2001, total borrowings under the Notes were approximately $33.1 million.

Cash collections as a percentage of net revenue for the three months ended June 30, 2001 and 2000 were 105% and 112%, respectively. The organizational restructuring of the Company's reimbursement process continues and indications of progress to date are positive. While management anticipates that continued implementation of the Plan will achieve the desired results, there can be no assurance that this will result in the Company realizing operating improvements and improved cash flow.

The Company's investments in property and equipment are attributable largely to purchases of medical equipment rented to patients and computer equipment. Capital expenditures for computer equipment and software development have been substantially completed. The Company anticipates future capital expenditures for enhancements of existing technology. However, the Company does not anticipate these capital expenditures to be significant.

Management currently believes that its liquidity position will be adequate to satisfy the Company's working capital requirements and potential acquisitions.

Quarterly Operating Results and Seasonality

The Company's quarterly results may vary significantly depending primarily on factors such as rehospitalizations of patients, the timing of new branch office openings and pricing pressures due to legislative and regulatory initiatives to contain health care costs. The Company's operating results for any particular quarter may not be indicative of the results for the full fiscal year.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

The Company's principal financial instruments subject to potential concentration of credit risk are cash and cash equivalents and accounts receivable. Cash and cash equivalents are held primarily in one financial institution. The Company performs periodic evaluations of the relative credit standing of this financial institution. The concentration of credit risk with respect to accounts receivable, which are primarily health care industry related, represent a risk to the Company given the current health care environment. The risk is somewhat limited due to the large number of payors including Medicare and Medicaid, insurance companies, and individuals and the diversity of geographic locations in which the Company operates.

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings.

On March 11, 1999, a putative class action complaint was filed against the Company in the United States District Court for the Northern District of Georgia. The Company and certain of its then current officers and directors were named as defendants. To the Company's knowledge, no other putative class action complaints were filed within the 60-day time period provided for in the Private Securities Litigation Reform Act. The plaintiffs and their counsel were appointed lead plaintiffs and lead counsel, and an amended complaint was filed on or about July 22, 1999. In general, the plaintiffs allege that prior to the decline in the price of the Company's Common Stock on July 28, 1998, there were violations of the Federal Securities Laws arising from misstatements of material information in and/or omissions of material information from certain of the Company's securities filings and other public disclosures principally related to its reporting of accounts receivable and the allowance for doubtful accounts. The amended complaint purports to expand the class to include all persons who purchased the Company's Common Stock during the period from July 29, 1997 through and including July 29, 1998. On October 8, 1999, the Company and the individuals named as defendants moved to dismiss the amended complaint on both substantive and procedural grounds. On March 30, 2000, the Court denied the Company's motion to dismiss. On May 15, 2000, the Company and the individuals named as defendants filed their answer, denying liability.

On February 27, 2001, Plaintiffs' Motion for Class Certification was granted by the court. Discovery in the case closed on July 31, 2001 with a period of expert discovery to follow through December 14, 2001. The Company and the individuals named as defendants deny that they have violated any of the requirements or obligations of the Federal Securities Laws.

On July 28, 1999, a civil action was filed against the Company and certain of its current and former officers and directors in the United States District Court for the Middle District of Tennessee. The action was filed by Phyllis T. Craighead and Healthmark Partners, LLC, as well as a liquidating trust apparently established to wind up the business affairs of their corporation, Kids & Nurses, Inc. In the original complaint, in general, the plaintiffs alleged that the defendants violated Federal and Tennessee Securities Laws and committed common law fraud in connection with the Company's purchase of Kids and Nurses, Inc. in November, 1997. The plaintiffs seek actual damages in an amount between $2.5 million and $3.5 million, plus punitive damages and the costs of litigation, including reasonable attorneys' fees. On September 24, 1999, the defendants filed a motion to dismiss the complaint on both substantive and procedural grounds. On December 20, 1999, the plaintiffs filed an amended complaint in which they withdrew their claims under the Federal securities laws, and added claims under Georgia's securities laws. The plaintiffs also filed a brief in response to the Company's motion to dismiss. On February 1, 2000, the defendants filed an amended motion to dismiss addressing the allegations of the amended complaint. On March 29, 2001 the motion to dismiss was denied without prejudice pending a ruling by the Tennessee Supreme Court on an unrelated case. On May 2, 2001, the Company and the individuals named as defendants, filed their answer, denying liability. The Company and the individuals named as defendants deny that they have violated any of the requirements or obligations of any applicable Federal or State securities laws, or any other applicable law.

In the opinion of the Company's management, the ultimate disposition of these two lawsuits should not have a material adverse effect on the Company's financial condition or results of operations, however, there can be no assurance that the Company will not sustain material liability as a result of or related to these lawsuits.

ITEM 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

No exhibits are filed as part of this Report.

(b) Reports on Form 8-K

On May 24, 2001, the Company filed a Current Report on Form 8-K, announcing the resignation of John M. Harrington as Chief Operating Officer of the Company. The Company also announced other management changes.

SIGNATURES

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

PEDIATRIC SERVICES OF AMERICA, INC.
(Registrant)

Date: August 3, 2001 By: /s/ James M. McNeill

James M. McNeill
Senior Vice President,
Chief Financial Officer,
Treasurer and Secretary
(Duly authorized officer and
Principal Financial Officer)