

Emergency Medical Services CORP  
Form 10-Q  
August 04, 2009  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**FORM 10-Q**

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(Mark one)

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

For the quarterly period ended June 30, 2009

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 numbers:

001-32701

333-127115

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# 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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

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

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

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Shares of class A common stock outstanding at July 28, 2009 10,511,354; shares of class B common stock outstanding at July 28, 2009 142,545; LP exchangeable units outstanding at July 28, 2009 32,107,500.

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**ON FORM 10-Q**

**FOR THE THREE AND SIX MONTHS ENDED**

**JUNE 30, 2009**

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	Quarter ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Net revenue	\$ 637,291	\$ 571,079	\$ 1,250,313	\$ 1,136,865
Compensation and benefits	438,628	400,501	865,162	794,852
Operating expenses	82,173	83,704	166,845	166,927
Insurance expense	28,357	17,568	50,861	38,531
Selling, general and administrative expenses	16,279	15,520	31,315	30,112
Depreciation and amortization expense	16,157	17,446	32,925	35,163
Income from operations	55,697	36,340	103,205	71,280
Interest income from restricted assets	1,120	1,735	2,386	3,490
Interest expense	(10,279)	(10,354)	(20,469)	(20,270)
Realized gain on investments	847	1,571	1,486	2,243
Interest and other income	423	287	940	589
Income before income taxes and equity in earnings of unconsolidated subsidiary	47,808	29,579	87,548	57,332
Income tax expense	(18,885)	(11,348)	(34,611)	(22,032)
Income before equity in earnings of unconsolidated subsidiary	28,923	18,231	52,937	35,300
Equity in earnings of unconsolidated subsidiary	96	104	153	54
Net income	29,019	18,335	53,090	35,354
Other comprehensive income (loss), net of tax:				
Unrealized holding losses during the period	(1,377)	(3,107)	(2,534)	(1,760)
Unrealized gains (losses) on derivative financial instruments	916	2,165	1,267	(760)
Comprehensive income	\$ 28,558	\$ 17,393	\$ 51,823	\$ 32,834
Basic earnings per common share	\$ 0.69	\$ 0.44	\$ 1.26	\$ 0.85
Diluted earnings per common share	\$ 0.67	\$ 0.43	\$ 1.23	\$ 0.82
Weighted average common shares outstanding, basic	42,354,667	41,573,893	42,140,632	41,572,162
Weighted average common shares outstanding, diluted	43,334,340	43,022,034	43,215,657	43,052,668

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

Table of Contents**Emergency Medical Services Corporation****Consolidated Balance Sheets**

(in thousands, except share and per share data)

	June 30, 2009 (Unaudited)	December 31, 2008
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 267,139	\$ 146,173
Insurance collateral	49,174	55,052
Trade and other accounts receivable, net	471,627	472,501
Parts and supplies inventory	21,267	21,160
Prepays and other current assets	34,387	28,378
Current deferred tax assets	90,385	91,910
Total current assets	933,979	815,174
Non-current assets:		
Property, plant and equipment, net	121,198	124,869
Intangible assets, net	77,587	76,141
Non-current deferred tax assets	5,327	36,351
Insurance collateral	124,921	119,644
Goodwill	335,451	346,013
Other long-term assets	22,292	23,027
Total assets	\$ 1,620,755	\$ 1,541,219
<b>Liabilities and Equity</b>		
Current liabilities:		
Accounts payable	\$ 64,777	\$ 57,318
Accrued liabilities	264,466	257,918
Current portion of long-term debt	4,025	4,905
Total current liabilities	333,268	320,141
Long-term debt	451,868	453,600
Insurance reserves and other long-term liabilities	230,269	228,439
Total liabilities	1,015,405	1,002,180
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, 10,467,280 and 9,606,766 issued and outstanding in 2009 and 2008, respectively)	105	96
Class B common stock (\$0.01 par value; 40,000,000 shares authorized, 142,545 issued and outstanding in 2009 and 2008)	1	1
Class B special voting stock (\$0.01 par value; 1 share authorized, issued and outstanding in 2009 and 2008)		
LP exchangeable units (32,107,500 shares issued and outstanding in 2009 and 2008)	212,361	212,361
Additional paid-in capital	138,849	124,370
Retained earnings	256,893	203,803
Accumulated other comprehensive loss	(2,859)	(1,592)
Total equity	605,350	539,039
Total liabilities and equity	\$ 1,620,755	\$ 1,541,219

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





Table of Contents**Emergency Medical Services Corporation****Consolidated Statements of Cash Flows****(unaudited; in thousands)**

	Quarter ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
<b>Cash Flows from Operating Activities</b>				
Net income	\$ 29,019	\$ 18,335	\$ 53,090	\$ 35,354
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	16,661	17,973	33,741	36,269
Loss (gain) on disposal of property, plant and equipment	38	(90)	36	(103)
Equity-based compensation expense	1,104	562	1,754	1,124
Equity in earnings of unconsolidated subsidiary	(96)	(104)	(153)	(54)
Dividends received			713	
Deferred income taxes	17,333	8,266	31,928	18,622
Changes in operating assets/liabilities, net of acquisitions:				
Trade and other accounts receivable	3,499	12,556	874	(13,752)
Parts and supplies inventory	(87)	6	(107)	(14)
Prepays and other current assets	12,530	1,294	4,690	(4,638)
Accounts payable and accrued liabilities	20,120	3,100	11,620	(10,289)
Insurance accruals	(1,124)	(3,741)	2,753	(7,140)
Net cash provided by operating activities	98,997	58,157	140,939	55,379
<b>Cash Flows from Investing Activities</b>				
Purchases of property, plant and equipment	(12,878)	(7,653)	(20,085)	(10,180)
Proceeds from sale of property, plant and equipment	39	157	60	220
Acquisition of businesses, net of cash received	(133)	(6,679)	(133)	(19,957)
Net change in insurance collateral	(15,243)	12,731	(1,933)	14,856
Other investing activities	27	1,975	(643)	2,628
Net cash provided by (used in) investing activities	(28,188)	531	(22,734)	(12,433)
<b>Cash Flows from Financing Activities</b>				
EMSC issuance of class A common stock	3,825	33	4,723	45
Repayments of capital lease obligations and other debt	(1,453)	(1,570)	(2,612)	(16,721)
Increase (decrease) in bank overdrafts	(190)	(287)	650	3,835
Borrowings under revolving credit facility				14,000
Net cash provided by (used in) financing activities	2,182	(1,824)	2,761	1,159
Change in cash and cash equivalents	72,991	56,864	120,966	44,105
Cash and cash equivalents, beginning of period	194,148	16,155	146,173	28,914
Cash and cash equivalents, end of period	\$ 267,139	\$ 73,019	\$ 267,139	\$ 73,019
<b>Non-cash Activities</b>				
Capital lease obligations incurred	\$	\$ 682	\$	\$ 682

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



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**Emergency Medical Services Corporation**

**Notes to Unaudited Consolidated Financial Statements**

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

**1. General**

***Basis of Presentation of Financial Statements***

The accompanying interim consolidated financial statements for Emergency Medical Services Corporation ( EMSC or the Company ) have been prepared in accordance with U. S. generally accepted accounting principles ( GAAP ) for interim reporting, and accordingly, do not include all of the disclosures required for annual financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included. All such adjustments are of a normal, recurring nature. Operating results for the three and six month periods ended June 30, 2009 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2009. 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, 2008.

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

The Company is party to a management agreement with a wholly-owned subsidiary of Onex Corporation, the Company s principal equityholder. In exchange for an annual management fee of \$1.0 million, the Onex subsidiary provides the Company with corporate finance and strategic planning consulting services. For each of the three and six months ended June 30, 2009 and 2008, the Company expensed \$250 and \$500, respectively, in respect of this fee.

**2. Summary of Significant Accounting Policies**

***Consolidation***

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

*Use of Estimates*

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

*Insurance*

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

Insurance reserves are established for automobile, workers compensation, general liability and professional liability claims utilizing policies with both fully-insured and self-insured components. This includes the use of an off-shore captive insurance program through a wholly-owned subsidiary for certain 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

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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 June 2009. As a result of this actuarial valuation, the Company recorded an increase of \$4.4 million during the three months ended June 30, 2009 in its provision for insurance liabilities related to reserves for losses in prior years. A total increase of \$5.2 million was recorded during the six months ended June 30, 2009. As a result of the actuarial valuation completed in June 2008, the Company recorded reductions in its provision for insurance liabilities of approximately \$3.4 million during the three months ended June 30, 2008 and \$6.2 million during the six months ended June 30, 2008.

The long-term portion of insurance reserves was \$137.4 million and \$139.0 million as of June 30, 2009 and December 31, 2008, respectively.

***Trade and Other Accounts Receivable, net***

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

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
Gross trade accounts receivable	\$ 1,911,707	\$ 1,792,546
Allowance for contractual discounts	955,926	885,401
Allowance for uncompensated care	559,241	514,475
Net trade accounts receivable	396,540	392,670
Other receivables, net	75,087	79,831
Net accounts receivable	\$ 471,627	\$ 472,501

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

AMR contractual allowances are determined primarily on payor reimbursement schedules that are included and regularly updated in the billing systems, and by historical collection experience. The billing systems calculate the difference between payor specific gross billings and contractually agreed to, or governmentally driven, reimbursement rates. The allowance for uncompensated care at AMR is related principally to

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receivables recorded for self-pay patients. AMR s allowances on self-pay accounts receivable are estimated on claim level, historical write-off experience.

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

### ***Revenue Recognition***

Revenue is recognized at the time of service and is recorded net of provisions for contractual discounts and estimated uncompensated care. Provisions for contractual discounts and estimated uncompensated care as a

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percentage of gross revenue and as a percentage of gross revenue less provision for contractual discounts are as follows:

	Quarter ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Gross revenue	100.0%	100.0%	100.0%	100.0%
Provision for contractual discounts	49.4%	46.1%	48.7%	45.9%
Revenue net of contractual discounts	50.6%	53.9%	51.3%	54.1%
Provision for uncompensated care as a percentage of gross revenue	20.4%	19.3%	20.0%	19.0%
Provision for uncompensated care as a percentage of gross revenue less contractual discounts	40.2%	35.8%	39.0%	35.1%

Healthcare reimbursement is complex and may involve lengthy delays. Third-party payors are continuing their efforts to control expenditures for healthcare, including proposals to revise reimbursement policies. The Company has from time to time experienced delays in reimbursement from third-party payors. In addition, third-party payors may disallow, in whole or in part, claims for reimbursement based on determinations that certain amounts are not reimbursable under plan coverage, determinations of medical necessity, or the need for additional information. Laws and regulations governing the Medicare and Medicaid programs are very complex and subject to interpretation. Revenue is recognized on an estimated basis in the period which related services are rendered. As a result, there is a reasonable possibility that recorded estimates will change materially in the short-term. Such amounts, including adjustments between provisions for contractual discounts and uncompensated care, are adjusted in future periods, as adjustments become known. These adjustments were less than 1% of net revenue for the three and six month periods ending June 30, 2009 and 2008.

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

### ***Equity Structure***

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

As of June 30, 2009, the Company holds 24.8% 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.

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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 if one class, and entitle holders to receive distributions only if the equivalent dividends are declared on the



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Company's class B common stock. Accordingly, the Company accounts for the LP exchangeable units as if the LP exchangeable units were shares of its common stock, including reporting the LP exchangeable units in the equity section of the Company's balance sheet and including the number of outstanding LP exchangeable units in both its basic and diluted earnings per share calculations.

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

The Company adopted Statement of Financial Accounting Standards ( SFAS ) No. 157 *Fair Value Measurements* ( SFAS 157 ) effective January 1, 2008, which among other things, requires additional disclosures about financial instruments that are reported at fair value. SFAS 157 establishes a hierarchal disclosure framework which ranks the level of market price observability used in measuring financial instruments at fair value. Market price observability is impacted by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Financial instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. As required by SFAS 157, the Company does not adjust the quoted price for these assets or liabilities.

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

Level 3 Pricing inputs are unobservable as of the reporting date and reflect the Company's own assumptions about the fair value of the asset or liability.

The following table summarizes the valuation of EMSC's financial instruments by the above SFAS 157 fair value hierarchy levels as of June 30, 2009:

Description	Total	Level 1	Level 2	Level 3
Assets:				
Securities	\$ 85,081	\$ 64,299	\$ 20,782	\$
Liabilities:				
Derivatives	\$ 3,709	\$	\$ 3,709	\$

Financial Accounting Standards Board ( FASB ) Staff Position No. 157-2 ( FSP 157-2 ) delayed the application of SFAS 157 to nonfinancial assets and liabilities until January 1, 2009. Adoption of FSP 157-2 did not have an impact on the Company's financial statements during the three or six months ended June 30, 2009.

***Recent Accounting Pronouncements***

In June 2009, the FASB issued SFAS No. 167 *Amendments to FASB Interpretation No. 46(R)* ( SFAS 167 ), which modifies the analysis required to identify controlling financial interest in variable interest entities. SFAS 167 is effective for the Company beginning on January 1, 2010. Management does not expect the adoption of SFAS 167 to have a material effect on the Company's consolidated financial statements and related disclosures.

In June 2009, the FASB issued SFAS No. 166 *Accounting for Transfers of Financial Assets - an amendment of FASB Statement 140* ( SFAS 166 ), which clarifies circumstances under which a transferor has surrendered control and, thus, should remove the asset together with any related liabilities from its balance sheet. SFAS 166 is effective for the Company beginning on January 1, 2010. Management does not expect the adoption of SFAS 166 to have a material effect on the Company's consolidated financial statements and related disclosures.

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In May 2009, the FASB issued SFAS No. 165 *Subsequent Events* ( SFAS 165 ), which defines further disclosure requirements for events which occur after the balance sheet date but before financial statements are issued. SFAS 165 is effective for the Company beginning on April 1, 2009. In accordance with SFAS 165, the Company's management has evaluated events subsequent to June 30, 2009 through August 4, 2009 which is the issuance date of this report. There has been no material event noted in this period which would either impact the results reflected in this report or the Company's results going forward.

**3. Acquisitions**

The Company adopted SFAS No. 141 (revised 2007) Business Combinations ( SFAS 141(R) ) effective January 1, 2009. The impact to the Company's consolidated financial statements and related disclosures will depend on the nature and terms of the business combinations entered into subsequent to adoption of SFAS 141(R). The Company expensed \$257 upon adoption of SFAS 141(R) and expensed a total of \$191 and \$911 during the three and six months ended June 30, 2009, respectively. These costs are included in operating expenses on the accompanying statement of operations and previously would have been recorded as a component of goodwill.

In January 2009, the Company entered into an agreement for the acquisition of the air ambulance business of Skyservice Business Aviation Inc. ( Skyservice Air Ambulance ), a fixed-wing air ambulance operator based in Montreal, Canada, with operations in Quebec, Ontario and British Columbia. Founded in 1989, Skyservice Air Ambulance provides worldwide air ambulance service. Completion of the transaction is subject to currently pending Canadian regulatory approval.

**4. Accrued Liabilities**

Accrued liabilities were as follows at June 30, 2009 and December 31, 2008:

	<b>June 30,</b>		<b>December 31,</b>
	<b>2009</b>		<b>2008</b>
Accrued wages and benefits	\$ 97,153	\$	95,029
Accrued paid time-off	26,794		25,505
Current portion of self-insurance reserves	65,407		61,099
Accrued restructuring	190		200
Current portion of compliance and legal	4,267		2,616
Accrued billing and collection fees	4,062		4,127
Accrued profit sharing	19,230		22,954
Accrued interest	9,755		9,964
Other	37,608		36,424
Total accrued liabilities	\$ 264,466	\$	257,918

**5. Long-Term Debt**

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Long-term debt consisted of the following at June 30, 2009 and December 31, 2008:

	June 30, 2009	December 31, 2008
Senior subordinated notes due 2015	\$ 250,000	\$ 250,000
Senior secured term loan due 2012 (2.34% at June 30, 2009)	200,813	201,862
Notes due at various dates from 2009 to 2022 with interest rates from 6% to 10%	1,221	1,632
Capital lease obligations due at various dates from 2010 to 2018 (see note 7)	3,859	5,011
	455,893	458,505
Less current portion	(4,025)	(4,905)
Total long-term debt	\$ 451,868	\$ 453,600

### 6. Derivative Instruments and Hedging Activities

The Company manages its exposure to changes in market interest rates. The Company's use of derivative instruments is limited to highly effective fixed interest rate swap agreements used to manage well-defined interest rate risk exposures. The Company monitors

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its positions and the credit ratings of its counterparties and does not anticipate non-performance by the counterparties. The Company does not enter into interest rate swap agreements for trading purposes.

In March 2009, the Company amended the interest rate swap agreement originally entered into in December 2007. The amendment changed the hedged interest rate from the 3-month LIBOR to the 1-month LIBOR. The swap agreement is with major financial institutions with a notional principal balance of \$200 million. The amended swap agreement effectively converts \$200 million of variable rate debt to fixed rate debt with an effective rate of 6.1%. The Company continues to make interest payments based on the variable rate associated with the debt (based on LIBOR which had a rate of less than 1% at June 30, 2009) and periodically settles with its counterparties for the difference between the rate paid and the fixed rate. The swap agreement will expire in December 2009. The Company recorded, as a component of other comprehensive income, a decrease to the liability associated with the fair value of the fixed interest rate swap agreement in the amount of \$1.5 million and \$2.1 million for the three and six months ended June 30, 2009, respectively, and a decrease of \$3.8 million and an increase of \$0.1 million during the same periods in 2008, in each case before applicable tax impacts. The net additional interest payments made or received under this swap agreement are recognized in interest expense. Over the remaining term of the agreement, the Company expects to reclassify \$3.7 million of deferred loss before applicable tax impacts from accumulated other comprehensive loss to interest expense as related interest payments that are being hedged are recognized.

**7. Commitments and Contingencies**

*Lease Commitments*

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

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

*Forward Purchase Commitment*

Beginning in March 2009, AMR entered into a series of forward purchase contracts which fix the price for a portion of its total monthly diesel fuel usage from April 1, 2009 through June 30, 2010. For the six months ending December 31, 2009, the Company is under contract to purchase 200,000 gallons of diesel fuel per month at prices ranging from \$2.63 to \$2.79 per gallon. For the twelve months ending June 30, 2010, the Company is under contract to purchase 50,000 gallons of diesel fuel per month at prices ranging from \$2.85 to \$2.99 per gallon. These forward purchase contracts represent approximately 40% of the Company's total monthly diesel fuel usage. Based on the terms of the contracts, the Company has concluded they do not qualify as derivatives. The impact related to these contracts during the three months ended June 30, 2009 was additional operating expense of \$0.1 million.

*Services*

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

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***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.

In December 2006, AMR received a subpoena from the Department of Justice. The subpoena requested copies of documents for the period from January 2000 through the present. The subpoena required AMR to produce a broad range of documents relating to the operations of certain AMR affiliates in New York. The Company continues to cooperate with governmental requests for documents and information.

Three different lawsuits purporting to be class actions have been filed against AMR and certain subsidiaries in California alleging violations of California wage and hour laws. On April 16, 2008, Lori Bartoni commenced a suit in the Superior Court for the State of California, County of Alameda, which has since been removed to the United States District Court, Northern District of California; on July 8, 2008, Vaughn Banta filed suit in the Superior Court of the State of California, County of Los Angeles; on January 22, 2009, Laura Karapetian filed suit in the Superior Court of the State of California, County of Los Angeles. At the present time, courts have not certified classes in any of these cases. Plaintiffs allege principally that the AMR entities failed to pay daily overtime charges pursuant to California law, and failed to provide required meal breaks or pay premium compensation for missed meal breaks. Plaintiffs are seeking to certify the classes and are seeking lost wages, punitive damages, attorneys' fees and other sanctions permitted under California law for violations of wage hour laws. The Company is unable at this time to estimate the amount of potential damages, if any.

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

**8. Equity Based Compensation**

The Company 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. The stock options are valued using the Black-Scholes valuation model 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; these performance measures were satisfied during the first quarter of 2009 with respect to the options granted in the first quarter of 2005. Options with similar provisions were granted to non-employee directors. As the vesting period for these shares was complete during the first quarter of 2009, the Company did not recor