

Emergency Medical Services L.P.
Form 10-Q
November 04, 2009
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 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

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.

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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

Shares of class A common stock outstanding at October 30, 2009 19,865,513; shares of class B common stock outstanding at October 30, 2009 133,957; LP exchangeable units outstanding at October 30, 2009 22,916,088.

Table of Contents

EMERGENCY MEDICAL SERVICES CORPORATION

INDEX TO QUARTERLY REPORT

ON FORM 10-Q

FOR THE THREE AND NINE MONTHS ENDED

SEPTEMBER 30, 2009

Part I. Financial Information

<u>Item 1.</u>	<u>Financial Statements (Unaudited):</u> <u>Consolidated Statements of Operations and Comprehensive Income</u> <u>Consolidated Balance Sheets</u> <u>Consolidated Statements of Cash Flows</u> <u>Notes to Unaudited Consolidated Financial Statements</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>

Part II. Other Information

<u>Item 1.</u>	<u>Legal Proceedings</u>
<u>Item 1A.</u>	<u>Risk Factors</u>
<u>Item 6.</u>	<u>Exhibits</u>

Signatures

Table of Contents**EMERGENCY MEDICAL SERVICES CORPORATION****PART I. FINANCIAL INFORMATION****FOR THE THREE AND NINE MONTHS ENDED****SEPTEMBER 30, 2009****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 September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Net revenue	\$ 665,056	\$ 679,328	\$ 1,915,369	\$ 1,816,193
Compensation and benefits	467,625	426,755	1,332,787	1,221,607
Operating expenses	85,510	135,087	252,355	302,014
Insurance expense	24,845	25,109	75,706	63,640
Selling, general and administrative expenses	15,871	20,509	47,186	50,621
Depreciation and amortization expense	15,733	16,993	48,658	52,156
Income from operations	55,472	54,875	158,677	126,155
Interest income from restricted assets	1,082	1,623	3,468	5,113
Interest expense	(10,280)	(11,117)	(30,749)	(31,387)
Realized gain on investments	544	768	2,030	3,011
Interest and other income	502	508	1,442	1,097
Income before income taxes and equity in earnings of unconsolidated subsidiary	47,320	46,657	134,868	103,989
Income tax expense	(18,533)	(18,138)	(53,144)	(40,170)
Income before equity in earnings of unconsolidated subsidiary	28,787	28,519	81,724	63,819
Equity in earnings of unconsolidated subsidiary	91	98	244	152
Net income	28,878	28,617	81,968	63,971
Other comprehensive income (loss), net of tax:				
Unrealized holding gains (losses) during the period	761	(869)	(1,773)	(2,629)
Unrealized gains (losses) on derivative financial instruments	1,105	205	2,372	(555)
Comprehensive income	\$ 30,744	\$ 27,953	\$ 82,567	\$ 60,787
Basic earnings per common share	\$ 0.67	\$ 0.69	\$ 1.93	\$ 1.54
Diluted earnings per common share	\$ 0.66	\$ 0.66	\$ 1.89	\$ 1.49
Weighted average common shares outstanding, basic	42,809,582	41,637,765	42,366,065	41,594,270

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Weighted average common shares outstanding, diluted	43,769,788	43,062,364	43,402,818	43,058,904
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The accompanying notes are an integral part of these financial statements.

Table of Contents**Emergency Medical Services Corporation****Consolidated Balance Sheets****(in thousands, except share and per share data)**

	September 30, 2009 (Unaudited)	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 331,105	\$ 146,173
Insurance collateral	30,192	55,052
Trade and other accounts receivable, net	464,241	472,501
Parts and supplies inventory	21,226	21,160
Prepays and other current assets	40,657	28,378
Current deferred tax assets	17,874	91,910
Total current assets	905,295	815,174
Non-current assets:		
Property, plant and equipment, net	123,520	124,869
Intangible assets, net	73,034	76,141
Non-current deferred tax assets		36,351
Insurance collateral	138,662	119,644
Goodwill	337,433	346,013
Other long-term assets	22,067	23,027
Total assets	\$ 1,600,011	\$ 1,541,219
Liabilities and Equity		
Current liabilities:		
Accounts payable	\$ 67,844	\$ 57,318
Accrued liabilities	262,866	257,918
Current portion of long-term debt	3,462	4,905
Total current liabilities	334,172	320,141
Long-term debt	451,751	453,600
Non-current deferred tax liability	5,673	
Insurance reserves and other long-term liabilities	167,013	228,439
Total liabilities	958,609	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, 19,823,327 and 9,606,766 issued and outstanding in 2009 and 2008, respectively)	198	96
Class B common stock (\$0.01 par value; 40,000,000 shares authorized, 133,957 and 142,545 issued and outstanding in 2009 and 2008, respectively)	1	1
Class B special voting stock (\$0.01 par value; 1 share authorized, issued and outstanding in 2009 and 2008)		
LP exchangeable units (22,916,088 and 32,107,500 shares issued and outstanding in 2009 and 2008, respectively)	151,568	212,361
Additional paid-in capital	204,857	124,370
Retained earnings	285,771	203,803
Accumulated other comprehensive loss	(993)	(1,592)
Total equity	641,402	539,039
Total liabilities and equity	\$ 1,600,011	\$ 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 September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Cash Flows from Operating Activities				
Net income	\$ 28,878	\$ 28,617	\$ 81,968	\$ 63,971
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	16,242	17,465	49,983	53,734
Loss (gain) on disposal of property, plant and equipment	33	(41)	69	(144)
Equity-based compensation expense	1,121	717	2,875	1,841
Equity in earnings of unconsolidated subsidiary	(91)	(98)	(244)	(152)
Dividends received			713	
Deferred income taxes	18,061	17,827	49,989	36,449
Changes in operating assets/liabilities, net of acquisitions:				
Trade and other accounts receivable	7,574	(40,747)	8,448	(54,499)
Parts and supplies inventory	41	(53)	(66)	(67)
Prepays and other current assets	(6,270)	(2,763)	(1,580)	(7,401)
Accounts payable and accrued liabilities	(1,007)	52,316	10,613	42,027
Insurance accruals	4,280	1,807	7,033	(5,333)
Net cash provided by operating activities	68,862	75,047	209,801	130,426
Cash Flows from Investing Activities				
Purchases of property, plant and equipment	(13,576)	(11,574)	(33,661)	(21,754)
Proceeds from sale of property, plant and equipment	41	127	101	347
Acquisition of businesses, net of cash received	(1,241)	(8,368)	(1,374)	(28,325)
Net change in insurance collateral	6,002	1,127	4,069	15,983
Other investing activities	(166)	764	(809)	3,392
Net cash used in investing activities	(8,940)	(17,924)	(31,674)	(30,357)
Cash Flows from Financing Activities				
EMSC issuance of class A common stock	2,437	1,875	7,160	1,920
Repayments of capital lease obligations and other debt	(1,214)	(1,285)	(3,826)	(18,006)
Increase in bank overdrafts	2,821	4,950	3,471	8,785
Borrowings under revolving credit facility				14,000
Net cash provided by financing activities	4,044	5,540	6,805	6,699
Change in cash and cash equivalents	63,966	62,663	184,932	106,768
Cash and cash equivalents, beginning of period	267,139	73,019	146,173	28,914
Cash and cash equivalents, end of period	\$ 331,105	\$ 135,682	\$ 331,105	\$ 135,682
Non-cash Activities				
Capital lease obligations incurred	\$	\$	\$	\$ 682

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

Table of Contents

Emergency Medical Services Corporation

Notes to Unaudited Consolidated Financial Statements

(in thousands, except share and per share data)

1. General

Basis of Presentation of Financial Statements

The accompanying interim consolidated financial statements for Emergency Medical Services Corporation (EMSC or the Company) have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim reporting and accordingly, do not include all of the disclosures required for annual financial statements. In the opinion of management, 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 and nine month periods ended September 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 nine months ended September 30, 2009 and 2008, the Company expensed \$250 and \$750, 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 sheet date.

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

The Company's most recent actuarial valuation was completed in September 2009. As a result of this actuarial valuation, the Company recorded a decrease of \$0.9 million during the three months ended September 30, 2009 in its provision for

Table of Contents

insurance liabilities related to reserves for losses in prior years. A total increase of \$4.3 million was recorded during the nine months ended September 30, 2009. As a result of the actuarial valuation completed in September 2008, the Company recorded an increase in its provision for insurance liabilities of approximately \$2.1 million during the three months ended September 30, 2008. For the nine months ended September 30, 2008, the Company recorded a reduction of approximately \$4.0 million related to its reserves for losses in prior years.

The long-term portion of insurance reserves was \$138.3 million and \$139.0 million as of September 30, 2009 and December 31, 2008, 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 and allowances are as follows:

	September 30, 2009	December 31, 2008
Gross trade accounts receivable	\$ 1,925,672	\$ 1,792,546
Allowance for contractual discounts	970,660	885,401
Allowance for uncompensated care	573,135	514,475
Net trade accounts receivable	381,877	392,670
Other receivables, net	82,364	79,831
Net accounts receivable	\$ 464,241	\$ 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 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 percentage of gross revenue and as a percentage of gross revenue less provision for contractual discounts are as follows:

	Quarter ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Gross revenue	100.0%	100.0%	100.0%	100.0%
Provision for contractual discounts	49.2%	43.4%	48.9%	45.0%
Revenue net of contractual discounts	50.8%	56.6%	51.1%	55.0%
Provision for uncompensated care as a percentage of gross revenue	20.3%	19.7%	20.1%	19.2%
Provision for uncompensated care as a percentage of gross revenue less contractual discounts	39.9%	34.8%	39.3%	35.0%

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

Table of Contents

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 nine month periods ending September 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.

On August 12, 2009, a public secondary offering was closed in which 9.2 million shares of class A common stock were sold by certain persons who are affiliated with the Company's principal equity holder. In order to affect the secondary offering, holders of LP exchangeable units exchanged 9.2 million units into class B common stock. Upon transfer, the class B common stock converted automatically into the 9.2 million shares of class A common stock sold in the offering. Proceeds from the offering were paid entirely to the selling stockholders.

As of September 30, 2009, the Company holds 46.5% 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.

Fair Value Measurement

Effective January 1, 2008, the Company began providing additional disclosures about financial instruments that are reported at fair value. Balances are classified based on a hierarchical framework which ranks the level of market price observability used in measuring financial instruments at fair value. Market price observability is impacted by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

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

Level 1 Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. The Company does not adjust the quoted price for these assets or liabilities.

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.

Table of Contents

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 fair value hierarchy levels as of September 30, 2009:

Description	Total	Level 1	Level 2	Level 3
Assets:				
Securities	\$ 85,771	\$ 67,804	\$ 17,967	\$
Liabilities:				
Derivatives	\$ 1,920	\$	\$ 1,920	\$

The Company also estimates the fair value of its fixed rate, senior subordinated notes based on quoted market prices. The estimated fair value of the senior subordinated notes at September 30, 2009 was approximately \$266 million with a carrying value of \$250 million.

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) modified the analysis required to identify controlling financial interest in variable interest entities. The new requirements are effective for the Company beginning on January 1, 2010. Management does not expect the adoption of these new requirements to have a material effect on the Company's consolidated financial statements and related disclosures.

In June 2009, the FASB clarified circumstances under which a transferor has surrendered control and, thus, should remove the asset together with any related liabilities from its balance sheet. The guidance is effective for the Company beginning on January 1, 2010. Management does not expect the adoption of this guidance to have a material effect on the Company's consolidated financial statements and related disclosures.

In May 2009, the FASB defined further disclosure requirements for events which occur after the balance sheet date but before financial statements are issued. The new requirements are effective for the Company beginning on April 1, 2009. In accordance with these requirements, the Company's management has evaluated events subsequent to September 30, 2009 through November 4, 2009 which is the issuance date of this report. There has been no material event noted in this period which would impact the results reflected in this report, the Company's results going forward, or require additional disclosure.

3. Acquisitions

Effective January 1, 2009, the Company adopted changes in requirements for recording costs associated with business combinations. 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 January 1, 2009. The Company expensed \$257 upon adoption of the new requirements and expensed a

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total of \$911 during the nine months ended September 30, 2009. There were no associated costs expensed during the three months ended September 30, 2009. 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. Income Taxes

The Company operates in multiple taxing jurisdictions and in the normal course of business is examined by federal and state tax authorities. In preparation for such examinations, the Company established reserves for uncertain tax positions beginning in the first quarter of 2007. The Company periodically assesses the amount of such reserves and adjusts the reserve balances as necessary. During the third quarter of 2009, the Company reduced its unrecognized tax benefits by \$64.4 million related to prior year tax positions, which were recorded in Insurance Reserves and Other Long-term Liabilities on the accompanying balance sheets. The reduction to these tax liabilities was offset primarily in Current Deferred Tax Assets.

Table of Contents**5. Accrued Liabilities**

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

	September 30, 2009	December 31, 2008
Accrued wages and benefits	\$ 98,820	\$ 95,029
Accrued paid time-off	25,817	25,505
Current portion of self-insurance reserves	68,840	61,099
Accrued restructuring	186	200
Current portion of compliance and legal	3,614	2,616
Accrued billing and collection fees	4,455	4,127
Accrued profit sharing	27,066	22,954
Accrued interest	3,551	9,964
Other	30,517	36,424
Total accrued liabilities	\$ 262,866	\$ 257,918

6. Long-Term Debt

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

	September 30, 2009	December 31, 2008
Senior subordinated notes due 2015	\$ 250,000	\$ 250,000
Senior secured term loan due 2012 (2.26% at September 30, 2009)	200,289	201,862
Notes due at various dates from 2009 to 2022 with interest rates from 6% to 10%	1,378	1,632
Capital lease obligations due at various dates from 2010 to 2018 (see note 8)	3,546	5,011
	455,213	458,505
Less current portion	(3,462)	(4,905)
Total long-term debt	\$ 451,751	\$ 453,600

7. 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 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 speculative purposes.

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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 September 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 \$1.8 million and \$3.9 million for the three and nine months ended September 30, 2009, respectively, and an increase of \$1.0 million and \$1.1 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 \$1.9 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.

Table of Contents

8. Commitments and Contingencies

Lease Commitments

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

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

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 three months ending December 31, 2009, the Company is under contract to purchase 200,000 gallons of diesel fuel per month at a price of \$2.79 per gallon. For the nine months ending June 30, 2010, the Company is under contract to purchase 50,000 gallons of diesel fuel per month at prices ranging from \$2.91 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 nine months ended September 30, 2009 was additional operating expense of \$0.1 million. There was not a material impact to operating expense related to these contracts during the three months ended September 30, 2009.

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.

Other Legal Matters

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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.

Table of Contents

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.

9. Equity Based Compensation

The Company's stock options are valued using the Black-Scholes valuation model on the date of grant. Equity based compensation has been issued under the plans described below.

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 record a compensation charge for the three months ended September 30, 2009. A compensation charge of \$431 was recorded for the three months ended September 30, 2008. The compensation charge recorded for the nine months ended September 30, 2009 and 2008 was \$97 and \$1,293, respectively.

Long-Term Incentive Plan

The Company's original 2007 Long-Term Incentive Plan was approved by stockholders in May 2007 and an Amended and Restated 2007 Long-Term Incentive Plan (the "Plan") was approved by stockholders in May 2008. The Plan 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 under the Plan to key employees during the three months ended September 30, 2009. The options permit employees to purchase an aggregated 3,750 shares of class A common stock at a weighted average exercise price of \$42.47 per share, vest ratably over a period of 4 years and have a maximum term of ten years. The Company also granted 3,750 shares of restricted stock pursuant to the Plan during such period, which vest ratably over a period of three years.

The Company recorded a compensation charge of \$996 and \$186 during the three months ended September 30, 2009 and 2008, respectively, and \$2,403 and \$248 during the nine months ended September 30, 2009 and 2008, respectively, in connection with the Plan.

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) 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 annual stockholder meeting. In connection with this plan, the Company granted 3,018 RSUs per director in 2009. The Company granted 4,145 RSUs per director following the 2008 annual stockholder meeting and granted an additional 2,374 RSUs to a director upon his election to the board of directors in October 2008. The Company expensed \$125 and \$100 for each of the three month periods ended September 30, 2009 and 2008, respectively, and \$375 and \$300 for the nine month periods ended September 30, 2009 and 2008, respectively.

Stock Purchase Plan/Employee Stock Purchase Plan

During the second quarter of 2009, the Company commenced an offering of its class A common stock to eligible employees and independent contractors associated with the Company and its subsidiaries pursuant to a Stock Purchase Plan and the Company's Employee Stock Purchase Plan (together, the SPPs). The purchases of stock under the SPPs occurred in October 2009 at a 5% discount to the closing price of the Company's class A common stock on October 15, 2009. No compensation charge has been recorded for the SPPs in the nine month period ended September 30, 2009.

10. Segment Information

The Company is organized around two separately managed business units: healthcare transportation services and hospital-based physician services, which have been identified as operating segments. The healthcare transportation services reportable

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Table of Contents

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 hospital-based physician services reportable segment provides outsourced business services to hospitals primarily for emergency departments and urgent care centers, as well as for certain hospitalist/ inpatient, radiology and anesthesiology services. The Chief Executive Officer has been identified as the chief operating decision maker (CODM) as he assesses the performance of the business units and decides how to allocate resources to the business units.

Net income before equity in earnings of unconsolidated subsidiary, income tax expense, interest and other income, 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 September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Healthcare Transportation Services				
Revenue	\$ 338,768	\$ 425,335	\$ 1,010,718	\$ 1,075,323
Segment Adjusted EBITDA	31,838	47,184	98,151	101,558
Emergency Management Services				
Revenue	326,288	253,993	904,651	740,870
Segment Adjusted EBITDA	40,449	26,307	112,652	81,866
Total				
Total revenue	665,056	679,328	1,915,369	1,816,193
Total Adjusted EBITDA	72,287	73,491	210,803	183,424
Reconciliation of Adjusted EBITDA to Net Income				
Adjusted EBITDA	\$ 72,287	\$ 73,491	\$ 210,803	\$ 183,424
Depreciation and amortization expense	(15,733)	(16,993)	(48,658)	(52,156)
Interest expense	(10,280)	(11,117)	(30,749)	(31,387)
Realized gain on investments	544	768	2,030	3,011
Interest and other income	502	508	1,442	1,097
Income tax expense	(18,533)	(18,138)	(53,144)	(40,170)
Equity in earnings of unconsolidated subsidiary	91	98	244	152
Net income	\$ 28,878	\$ 28,617	\$ 81,968	\$ 63,971

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

	Quarter ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Adjusted EBITDA	\$ 72,287	\$ 73,491	\$ 210,803	\$ 183,424
Interest paid	(9,773)	(10,644)	(29,424)	(29,808)
Change in accounts receivable	7,574	(40,747)	8,448	(54,499)
Change in other operating assets/liabilities	(2,956)	51,307	16,000	29,226
Equity based compensation	1,121	717	2,875	1,841
Other	609	923	1,099	242
Cash flows provided by operating activities	\$ 68,862	\$ 75,047	\$ 209,801	\$ 130,426

11. Guarantors of Debt

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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. (f/k/a EMSC Management, 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

Table of Contents

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 September 30, 2009**

	EMSC	EMS LP	Issuer AMR HoldCo, Inc.	Issuer EmCare HoldCo, Inc.	Subsidiary Guarantors	Subsidiary Non-Guarantor	Eliminations/ Adjustments	Total
Net revenue	\$	\$	\$	\$	\$ 665,056	\$ 7,226	\$ (7,226)	\$ 665,056
Compensation and benefits					467,625			467,625
Operating expenses					85,510			85,510
Insurance expense					23,714	8,357	(7,226)	24,845
Selling, general and administrative expenses					15,871			15,871
Depreciation and amortization expense					15,733			15,733
Income (loss) from operations					56,603	(1,131)		55,472
Interest income from restricted assets					495	587		1,082
Interest expense					(10,280)			(10,280)
Realized gain on investments						544		544
Interest and other income					502			502
Income before income taxes					47,320			47,320
Income tax expense					(18,533)			(18,533)
Income before equity in earnings of unconsolidated subsidiaries					28,787			28,787
Equity in earnings of unconsolidated subsidiaries	28,878	28,878	8,409	20,469	91		(86,634)	91
Net income	\$ 28,878	\$ 28,878	\$ 8,409	\$ 20,469	\$ 28,878	\$	\$ (86,634)	\$ 28,878

Consolidating Statement of Operations**For the quarter ended September 30, 2008**

Issuer Issuer

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	EMSC	EMS LP	AMR HoldCo, Inc.	EmCare HoldCo, Inc.	Subsidiary Guarantors	Subsidiary Non-Guarantor	Eliminations/ Adjustments	Total
Net revenue	\$	\$	\$	\$	\$ 679,328	\$ 8,845	\$ (8,845)	\$ 679,328
Compensation and benefits					426,755			426,755
Operating expenses					135,087			135,087
Insurance expense					23,423	10,531	(8,845)	25,109
Selling, general and administrative expenses					20,509			20,509
Depreciation and amortization expense					16,993			16,993
Restructuring charge								
Income (loss) from operations					56,561	(1,686)		54,875
Interest income from restricted assets					705	918		1,623
Interest expense					(11,117)			(11,117)
Realized gain on investments						768		768
Interest and other income					508			508
Income before income taxes					46,657			46,657
Income tax expense					(18,138)			(18,138)
Income before equity in earnings of unconsolidated subsidiaries					28,519			28,519
Equity in earnings of unconsolidated subsidiaries	28,617	28,617	16,768	11,849	98		(85,851)	98
Net income	\$ 28,617	\$ 28,617	\$ 16,768	\$ 11,849	\$ 28,617	\$	\$ (85,851)	\$ 28,617

Table of Contents**Consolidating Statement of Operations****For the nine months ended September 30, 2009**

	EMSC	EMS LP	Issuer AMR HoldCo, Inc.	Issuer EmCare HoldCo, Inc.	Subsidiary Guarantors	Subsidiary Non-Guarantor	Eliminations/ Adjustments	Total
Net revenue	\$	\$	\$	\$	\$ 1,915,369	\$ 21,256	\$ (21,256)	\$ 1,915,369
Compensation and benefits					1,332,787			1,332,787
Operating expenses					252,355			252,355
Insurance expense					71,693	25,269	(21,256)	75,706
Selling, general and administrative expenses					47,186			47,186
Depreciation and amortization expense					48,658			48,658
Income (loss) from operations					162,690	(4,013)		158,677
Interest income from restricted assets					1,485	1,983		3,468
Interest expense					(30,749)			(30,749)
Realized gain on investments						2,030		2,030
Interest and other income					1,442			1,442
Income before income taxes					134,868			134,868
Income tax expense					(53,144)			(53,144)
Income before equity in earnings of unconsolidated subsidiaries					81,724			81,724
Equity in earnings of unconsolidated subsidiaries	81,968	81,968	26,344	55,624	244		(245,904)	244
Net income	\$ 81,968	\$ 81,968	\$ 26,344	\$ 55,624	\$ 81,968	\$	\$ (245,904)	\$ 81,968

Consolidating Statement of Operations**For the nine months ended September 30, 2008**

	EMSC	EMS LP	Issuer AMR HoldCo, Inc.	Issuer EmCare HoldCo, Inc.	Subsidiary Guarantors	Subsidiary Non-Guarantor	Eliminations/ Adjustments	Total
Net revenue	\$	\$	\$	\$	\$ 1,816,193	\$ 27,554	\$ (27,554)	\$ 1,816,193
Compensation and benefits					1,221,607			1,221,607
Operating expenses					302,014			302,014
Insurance expense					57,585	33,609	(27,554)	63,640
Selling, general and administrative expenses								