UNITED STATES

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 September 23, 2016

¨ **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 001-14141 and 333-46983

L-3 COMMUNICATIONS HOLDINGS, INC.

L-3 COMMUNICATIONS CORPORATION

(Exact names of registrants as specified in their charters)

Delaware **(State or other jurisdiction of** **incorporation or organization)**	**13-3937434 and 13-3937436** **(I.R.S. Employer** **Identification Nos.)**
600 Third Avenue, New York, NY **(Address of principal executive offices)**	**10016** **(Zip Code)**

(212) 697-1111

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrants (1) have 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 registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. x Yes ¨ No

Indicate by check mark whether the registrants have submitted electronically and posted on their 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 registrants were required to submit and post such files). x Yes ¨ No

Indicate by check mark whether the registrant, L-3 Communications Holdings, Inc., is a large accelerated filer, accelerated filer, non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant, L-3 Communications Corporation, Inc., is a large accelerated filer, accelerated filer, non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrants are shell companies (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes x No

There were 77,308,876 shares of L-3 Communications Holdings, Inc. common stock with a par value of $0.01 outstanding as of the close of business on October 21, 2016.

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For the quarterly period ended September 23, 2016

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

L-3 COMMUNICATIONS HOLDINGS, INC.

AND L-3 COMMUNICATIONS CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except share data)

	(Unaudited) September 23, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 411	$ 207
Billed receivables, net of allowances of $13 in 2016 and $15 in 2015	812	746
Contracts in process	2,265	2,081
Inventories	361	333
Other current assets	160	201
Assets of discontinued operations		664
Total current assets	4,009	4,232
Property, plant and equipment, net	1,083	1,097
Goodwill	6,284	6,281
Identifiable intangible assets	181	199
Deferred income taxes	4	3
Other assets	250	255
Total assets	$ 11,811	$ 12,067
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 549	$ 499
Accounts payable, trade	426	297
Accrued employment costs	519	504
Accrued expenses	391	390
Advance payments and billings in excess of costs incurred	453	562
Income taxes	8	13
Other current liabilities	404	394
Liabilities of discontinued operations		220
Total current liabilities	2,750	2,879

Pension and postretirement benefits		1,027		1,047
Deferred income taxes		286		219
Other liabilities		326		368
Long-term debt		2,782		3,125
Total liabilities		7,171		7,638
Commitments and contingencies (see Note 18)				
Equity:				
L-3 shareholders equity:				
L-3 Communications Holdings, Inc. s common stock: $.01 par value; 300,000,000 shares authorized, 77,355,596 shares outstanding at September 23, 2016 and 78,133,763 shares outstanding at December 31, 2015 (L-3 Communications Corporation s common stock: $.01 par value, 100 shares authorized, issued and outstanding)		6,225		6,052
L-3 Communications Holdings, Inc. s treasury stock (at cost), 82,052,903 shares at September 23, 2016 and 79,375,063 shares at December 31, 2015		(7,177)		(6,851)
Retained earnings		6,087		5,728
Accumulated other comprehensive loss		(567)		(574)
Total L-3 shareholders equity		4,568		4,355
Noncontrolling interests		72		74
Total equity		4,640		4,429
Total liabilities and equity	$	11,811	$	12,067

See notes to unaudited condensed consolidated financial statements.

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L-3 COMMUNICATIONS HOLDINGS, INC.

AND L-3 COMMUNICATIONS CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share data)

	Third Quarter Ended	
	September 23, 2016	September 25, 2015
Net sales:		
Products	$ 1,500	$ 1,600
Services	1,005	964
Total net sales	2,505	2,564
Cost of sales:		
Products	(1,355)	(1,409)
Services	(935)	(880)
Total cost of sales	(2,290)	(2,289)
Loss related to business divestitures		(9)
Goodwill impairment charges		(35)
Operating income	215	231
Interest expense	(41)	(43)
Interest and other income, net	6	3
Income from continuing operations before income taxes	180	191
Provision for income taxes	(29)	(63)
Income from continuing operations	151	128
Loss from discontinued operations, net of income taxes		(424)
Net income (loss)	151	(296)
Net income from continuing operations attributable to noncontrolling interests	(3)	(3)
Net income (loss) attributable to L-3	$ 148	$ (299)
Basic earnings (loss) per share attributable to L-3 Holdings common shareholders:		
Continuing operations	$ 1.91	$ 1.56
Discontinued operations		(5.30)

Basic earnings (loss) per share	$	1.91	$	(3.74)
Diluted earnings (loss) per share attributable to L-3 Holdings common shareholders:				
Continuing operations	$	1.88	$	1.54
Discontinued operations				(5.22)
Diluted earnings (loss) per share	$	1.88	$	(3.68)
Cash dividends declared per common share	$	0.70	$	0.65
L-3 Holdings weighted average common shares outstanding:				
Basic		77.3		80.0
Diluted		78.8		81.2

See notes to unaudited condensed consolidated financial statements.

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L-3 COMMUNICATIONS HOLDINGS, INC.

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share data)

	Year-to-Date Ended	
	September 23, 2016	September 25, 2015
Net sales:		
Products	$ 4,561	$ 4,728
Services	2,961	2,867
Total net sales	7,522	7,595
Cost of sales:		
Products	(4,095)	(4,312)
Services	(2,713)	(2,648)
Total cost of sales	(6,808)	(6,960)
Loss related to business divestitures		(29)
Goodwill impairment charges		(35)
Operating income	714	571
Interest expense	(125)	(124)
Interest and other income, net	15	11
Debt retirement charge	(5)	
Income from continuing operations before income taxes	599	458
Provision for income taxes	(130)	(105)
Income from continuing operations	469	353
Income (loss) from discontinued operations, net of income taxes	63	(416)
Net income (loss)	532	(63)
Net income from continuing operations attributable to noncontrolling interests	(10)	(11)
Net income (loss) attributable to L-3	$ 522	$ (74)
Basic earnings (loss) per share attributable to L-3 Holdings common shareholders:		
Continuing operations	$ 5.93	$ 4.19
Discontinued operations	0.81	(5.10)

Basic earnings (loss) per share	$	6.74	$	(0.91)
Diluted earnings (loss) per share attributable to L-3 Holdings common shareholders:				
Continuing operations	$	5.83	$	4.14
Discontinued operations		0.80		(5.03)
Diluted earnings (loss) per share	$	6.63	$	(0.89)
Cash dividends declared per common share	$	2.10	$	1.95
L-3 Holdings weighted average common shares outstanding:				
Basic		77.4		81.5
Diluted		78.7		82.7

See notes to unaudited condensed consolidated financial statements.

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L-3 COMMUNICATIONS HOLDINGS, INC.

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)

	Third Quarter Ended		Year-to-Date Ended	
	September 23, 2016	September 25, 2015	September 23, 2016	September 25, 2015
Net income (loss)	$ 151	$ (296)	$ 532	$ (63)
Other comprehensive income (loss):				
Foreign currency translation adjustments	(31)	(55)	(27)	(84)
Unrealized (losses) gains on hedging instruments[1]		(7)	10	(3)
Pension and postretirement benefit plans:				
Amortization of net loss and prior service cost previously recognized[2]	8	10	24	32
Net gain arising during the period[3]				9
Total other comprehensive (loss) income	(23)	(52)	7	(46)
Comprehensive income (loss)	128	(348)	539	(109)
Comprehensive income attributable to noncontrolling interests	(3)	(3)	(10)	(11)
Comprehensive income (loss) attributable to L-3	$ 125	$ (351)	$ 529	$ (120)

(1) Net of income tax benefits of $3 million for the quarterly period ended September 25, 2015, and income taxes of $4 million and income tax benefits of $2 million for the year-to-date periods ended September 23, 2016 and September 25, 2015, respectively.

(2) Net of income taxes of $4 million and $7 million for the quarterly periods ended September 23, 2016 and September 25, 2015, respectively, and income taxes of $13 million and $18 million for the year-to-date periods ended September 23, 2016 and September 25, 2015, respectively.

(3) Represents the reclassification of actuarial losses into net income related to the Marine Systems International business divestiture in accordance with Accounting Standards Codification 715, *Defined Benefit Plans Pension*. Amount is net of income taxes of $5 million for the year-to-date period ended September 25, 2015.

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(in millions, except per share data)

	L-3 Holdings Common Stock Shares Outstanding	L-3 Holdings Common Stock Par Value	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Equity
For the Year-to-Date Period Ended September 23, 2016:								
Balance at December 31, 2015	78.1	$ 1	$ 6,051	$ (6,851)	$ 5,728	$ (574)	$ 74	$ 4,429
Net income					522		10	532
Other comprehensive income						7		7
Distributions to noncontrolling interests							(12)	(12)
Cash dividends declared on common stock ($2.10 per share)					(165)			(165)
Shares issued:								
Employee savings plans	0.7		94					94
Exercise of stock options	0.6		49					49
Employee stock purchase plan	0.4		16					16
Vesting of restricted stock and performance units	0.5							
Repurchases of common stock to satisfy tax withholding obligations	(0.2)		(20)					(20)
Stock-based compensation expense			34					34
Treasury stock purchased	(2.7)			(326)				(326)
Other					2			2
Balance at September 23, 2016	77.4	$ 1	$ 6,224	$ (7,177)	$ 6,087	$ (567)	$ 72	$ 4,640

For the Year-to-Date Period Ended September 25, 2015:								
Balance at December 31, 2014	82.0	$ 1	$ 5,798	$ (6,111)	$ 6,181	$ (584)	$ 75	$ 5,360
Net (loss) income					(74)		11	(63)
Other comprehensive loss						(46)		(46)
Distributions to noncontrolling interests							(11)	(11)
Cash dividends declared on common stock ($1.95 per share)					(162)			(162)
Shares issued:								
Employee savings plans	0.8		95					95
Exercise of stock options	0.6		65					65
Employee stock purchase plan	0.3		17					17
Vesting of restricted stock units	0.7							
Repurchases of common stock to satisfy tax withholding obligations	(0.2)		(33)					(33)
Stock-based compensation expense			36					36
Treasury stock purchased	(5.2)			(605)				(605)
Other			6					6
Balance at September 25, 2015	79.0	$ 1	$ 5,984	$ (6,716)	$ 5,945	$ (630)	$ 75	$ 4,659

See notes to unaudited condensed consolidated financial statements.

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L-3 COMMUNICATIONS HOLDINGS, INC.

AND L-3 COMMUNICATIONS CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

	Year-to-Date Ended	
	September 23, 2016	September 25, 2015
Operating activities:		
Net income (loss)	$ 532	$ (63)
Less: (Income) loss from discontinued operations, net of tax	(63)	416
Income from continuing operations	469	353
Depreciation of property, plant and equipment	121	123
Amortization of intangibles and other assets	32	32
Deferred income tax provision	48	5
Stock-based employee compensation expense	34	35
Contributions to employee savings plans in L-3 Holdings common stock	92	87
Goodwill impairment charges		35
Amortization of pension and postretirement benefit plans net loss and prior service cost	37	50
Amortization of bond discounts and deferred debt issue costs (included in interest expense)	6	6
Loss related to business divestitures		29
Other non-cash items	8	(5)
Changes in operating assets and liabilities, excluding amounts from acquisitions and divestitures, and discontinued operations:		
Billed receivables	(69)	36
Contracts in process	(193)	(181)
Inventories	(31)	(77)
Other assets	21	(11)
Accounts payable, trade	130	117
Accrued employment costs	8	41
Accrued expenses	3	(34)
Advance payments and billings in excess of costs incurred	(102)	6
Income taxes		(8)
Other current liabilities	(3)	(6)
Pension and postretirement benefits	(19)	(18)
All other operating activities	(13)	(18)
Net cash from operating activities from continuing operations	579	597
Investing activities:		

Business acquisitions, net of cash acquired	(27)	(260)
Proceeds from the sale of businesses, net of closing date cash balances	561	308
Capital expenditures	(126)	(137)
Dispositions of property, plant and equipment	15	2
Other investing activities	7	5
Net cash from (used in) investing activities from continuing operations	430	(82)
Financing activities:		
Borrowings under revolving credit facility	335	861
Repayment of borrowings under revolving credit facility	(335)	(861)
Redemption of senior notes	(298)	
Common stock repurchased	(326)	(605)
Dividends paid on L-3 Holdings common stock	(166)	(163)
Proceeds from exercises of stock options	49	41
Proceeds from employee stock purchase plan	23	26
Repurchases of common stock to satisfy tax withholding obligations	(20)	(33)
Other financing activities	(8)	(1)
Net cash used in financing activities from continuing operations	(746)	(735)
Effect of foreign currency exchange rate changes on cash and cash equivalents	(3)	(14)
Net cash (used in) from discontinued operations:		
Operating activities	(56)	58
Investing activities		(4)
Net cash (used in) from discontinued operations	(56)	54
Change in cash balance in assets held for sale		61
Net increase (decrease) in cash and cash equivalents	204	(119)
Cash and cash equivalents, beginning of the period	207	442
Cash and cash equivalents, end of the period	$ 411	$ 323

See notes to unaudited condensed consolidated financial statements.

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L-3 COMMUNICATIONS HOLDINGS, INC.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS

1. Description of Business

L-3 Communications Holdings, Inc. derives all of its operating income and cash flows from its wholly-owned subsidiary, L-3 Communications Corporation (L-3 Communications). L-3 Communications Holdings, Inc. (L-3 Holdings and, together with its subsidiaries, referred to herein as L-3 or the Company) is a prime contractor in Intelligence, Surveillance and Reconnaissance (ISR) systems, aircraft sustainment (including modifications, logistics and maintenance), simulation and training, night vision and image intensification equipment, and security and detection systems. L-3 is also a leading provider of a broad range of communication and electronic systems and products used on military and commercial platforms. The Company s customers include the United States (U.S.) Department of Defense (DoD) and its prime contractors, U.S. Government intelligence agencies, the U.S. Department of Homeland Security (DHS), foreign governments, and domestic and international commercial customers.

On December 7, 2015, the Company entered into a definitive agreement to sell its National Security Solutions (NSS) business to CACI International Inc. The transaction was completed on February 1, 2016. NSS provides cybersecurity solutions, high-performance computing, enterprise IT services, analytics and intelligence analysis to the DoD, U.S. Government intelligence agencies, federal civilian agencies and foreign governments. In accordance with Accounting Standards Update (ASU) 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, the assets and liabilities and results of operations of NSS are reported as discontinued operations for all periods presented. Accordingly, all references made to financial data in this Quarterly Report on Form 10-Q are to the Company s continuing operations, unless specifically noted. See Note 5 for additional information.

The Company has the following three reportable segments: (1) Electronic Systems, (2) Aerospace Systems and (3) Communication Systems. Electronic Systems provides a broad range of components, products, subsystems, systems, and related services for military and commercial customers in several niche markets across several business areas. These business areas include precision engagement & training, sensor systems, power & propulsion systems, aviation products & security systems, warrior systems and advanced programs. Aerospace Systems delivers integrated solutions for the global ISR market and provides modernization, upgrade, sustainment, and maintenance and logistics support for a wide variety of aircraft and ground systems. Communication Systems delivers products and services for the global communications market, specializing in strategic and tactical airborne, space, ground and sea-based communication systems.

Financial information with respect to the Company s segments is included in Note 22 to the unaudited condensed consolidated financial statements and in Note 21 to the audited consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2015.

2. Basis of Presentation

These unaudited condensed consolidated financial statements for the quarterly and year-to-date periods ended September 23, 2016 should be read in conjunction with the audited consolidated financial statements of L-3 Holdings and L-3 Communications included in their Annual Report on Form 10-K for the year ended December 31, 2015.

Principles of Consolidation and Reporting

The accompanying financial statements comprise the consolidated financial statements of L-3 Holdings and L-3 Communications. L-3 Holdings only asset is its investment in the common stock of L-3 Communications, its wholly-owned subsidiary, and its only obligations are: (1) its guarantee of borrowings under the Amended and

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L-3 COMMUNICATIONS HOLDINGS, INC.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS (continued)

Restated Revolving Credit Facility (Credit Facility) of L-3 Communications and (2) its guarantee of other contractual obligations of L-3 Communications and its subsidiaries. All issuances of and conversions into L-3 Holdings equity securities, including grants of stock options, restricted stock units and performance units by L-3 Holdings to employees and directors of L-3 Communications and its subsidiaries, have been reflected in the consolidated financial statements of L-3 Communications. As a result, the consolidated financial positions, results of operations and cash flows of L-3 Holdings and L-3 Communications are substantially the same. See Note 24 for additional information regarding the unaudited financial information of L-3 Communications and its subsidiaries.

The unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission (SEC). Accordingly, they do not include all of the disclosures required by U.S. GAAP for a complete set of annual audited financial statements. The December 31, 2015 condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. In the opinion of management, all adjustments (consisting of normal and recurring adjustments) considered necessary for a fair statement of the results for the interim periods presented have been included. The results of operations for the interim periods are not necessarily indicative of results for the full year.

It is generally the Company s established practice to close its books for the quarters ending March, June and September on the Friday preceding the end of the calendar quarter. The interim unaudited condensed consolidated financial statements included herein have been prepared and are labeled based on that convention. The Company closes its books for annual periods on December 31 regardless of what day it falls on.

Certain reclassifications have been made to conform prior-year amounts to the current-year presentation.

Accounting Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of sales and costs of sales during the reporting period. The most significant of these estimates and assumptions for L-3 relate to contract revenue, profit and loss recognition, fair values of assets acquired and liabilities assumed in business combinations, market values for inventories reported at lower of cost or market, pension and post-retirement benefit obligations, stock-based employee compensation expense, income taxes, including the valuation of deferred tax assets, litigation reserves and environmental obligations, accrued product warranty costs, liabilities for the voluntary return program of various EoTech holographic weapons sight (HWS) products, and the recoverability, useful lives and valuation of recorded amounts of long-lived assets, identifiable intangible assets and goodwill. Changes in estimates are reflected in the periods during which they become known. Actual amounts may differ from these estimates and could differ materially.

Sales and profits on contracts that are covered by accounting standards for construction-type and production-type contracts and federal government contractors are substantially recognized using percentage-of-completion (POC) methods of accounting. Approximately 49% of the Company s net sales in 2015 were accounted for under contract accounting standards, of which approximately 41% were fixed-price type contracts and approximately 8% were cost-plus type contracts. For contracts that are accounted for under contract

L-3 COMMUNICATIONS HOLDINGS, INC.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS (continued)

accounting standards, sales and profits are recognized based on: (1) a POC method of accounting (fixed-price type contracts), (2) allowable costs incurred plus the estimated profit on those costs (cost-plus type contracts), or (3) direct labor hours expended multiplied by the contractual fixed rate per hour plus incurred costs for material (time-and-material type contracts). Sales and profits on fixed-price production contracts under which units are produced and delivered in a continuous or sequential process are recorded as units are delivered based on their contractual selling prices (the units-of-delivery method). Sales and profits on each fixed-price production contract under which units are not produced and delivered in a continuous or sequential process, or under which a relatively few number of units are produced, are recorded based on the ratio of actual cumulative costs incurred to total estimated costs at completion of the contract, multiplied by the total estimated contract revenue, less cumulative sales recognized in prior periods (the cost-to-cost method). Under both POC methods of accounting, a single estimated total profit margin is used to recognize profit for each contract over its entire period of performance, which can exceed one year.

Accounting for the sales and profits on these fixed-price type contracts requires the preparation of estimates of: (1) the total contract revenue, (2) the total costs at completion, which is equal to the sum of the actual incurred costs to date on the contract and the estimated costs to complete the contract s statement of work, and (3) the measurement of progress towards completion. The estimated profit or loss at completion on a contract is equal to the difference between the total estimated contract revenue and the total estimated cost at completion. The profit recorded on a contract in any period using either the units-of-delivery method or cost-to-cost method is equal to the current estimated total profit margin multiplied by the cumulative sales recognized, less the amount of cumulative profit previously recorded for the contract.

Sales and profits on cost-plus type contracts that are covered by contract accounting standards are recognized as allowable costs are incurred on the contract, at an amount equal to the allowable costs plus the estimated profit on those costs. The estimated profit on a cost-plus type contract is fixed or variable based on the contractual fee arrangement. Incentive and award fees are the primary variable fee contractual arrangement types for the Company. Incentive and award fees on cost-plus type contracts are included as an element of total estimated contract revenues and are recorded as sales when a basis exists for the reasonable prediction of performance in relation to established contractual targets and the Company is able to make reasonably dependable estimates for them.

Sales and profits on time-and-material type contracts are recognized on the basis of direct labor hours expended multiplied by the contractual fixed rate per hour, plus the actual costs of materials and other direct non-labor costs.

Revisions or adjustments to estimates for a contract s revenue, estimated costs at completion and estimated profit or loss are often required as work progresses under a contract, as experience is gained, as facts and circumstances change and as new information is obtained, even though the scope of work required under the contract may not change. Revisions or adjustments may also be required if contract modifications occur. The impact of revisions in profit (loss) estimates for all types of contracts subject to POC accounting are recognized on a cumulative catch-up basis in the period in which the revisions are made. The revisions in contract estimates, if significant, can materially affect the Company s results of operations and cash flows, as well as reduce the valuations of receivables and inventories, and in some cases result in liabilities to complete contracts in a loss position. Aggregate net changes in contract estimates amounted to increases of $127 million, or 18%, of consolidated operating income ($1.03 per diluted share) for the year-to-date period ended September 23, 2016, and increases of $50 million, or 9%, of consolidated operating income ($0.49 per diluted share) for the year-to-date period ended September 25, 2015.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS (continued)

As previously disclosed, during the fourth quarter of 2015, the Company commenced a voluntary return program and began accepting customer returns for various EoTech HWS products that may have been affected by certain performance issues. The return program gives eligible owners of such HWS products the option to return their products in exchange for a refund of the purchase price, including shipping costs. The Company initially recorded a reduction to net sales of $20 million in the Warrior Systems sector of the Electronic Systems segment in the fourth quarter of 2015, associated with establishing a product returns allowance to reflect the estimated cost of the return program. Beginning in the first quarter of 2016, with the benefit of a larger volume of actual refund transactions, the Company began using a statistical analysis of the voluntary return program to estimate the number and cost of future refunds. In its statistical analysis, the Company utilized empirical models to forecast the expected emergence pattern of new refunds over time to produce a probabilistic distribution of new refund costs that reflects the existing level of estimation uncertainty. Based on this analysis, the Company expects the total cost of the voluntary return program to be approximately $36 million. The Company recorded the $16 million increase in the product returns allowance as a reduction to net sales during 2016. The product returns allowance, net of refund payments made to eligible owners, was $8 million at September 23, 2016, and is included in other current liabilities on the unaudited condensed consolidated balance sheets. As of October 20, 2016, the Company had approved refunds at a cost of approximately $32 million, with an average refund cost per unit of $500. The Company will continue to monitor the product returns allowance. The Company s ongoing evaluation may cause it to record further adjustments to the allowance in future periods. These adjustments could be material. Furthermore, during the third quarter of 2016, the Company recorded a $14 million pre-tax charge in the Electronics Systems segment for a settlement in principle of the class action litigation, which is subject to court approval, in connection with the EoTech HWS. See Note 18, *Commitments and Contingencies* for further details regarding the class action litigation.

For a more complete discussion of these estimates and assumptions, see the Annual Report on Form 10-K for the year ended December 31, 2015.

3. New Accounting Standards Implemented

In March 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-09*, Improvements to Employee Share-Based Payment Accounting*, which simplifies several aspects of the accounting for share-based payments, including the income tax consequences and classification on the statement of cash flows. Under the new standard, all excess tax benefits and tax deficiencies will be recognized as income tax expense or benefit in the income statement as discrete items in the reporting period in which they occur. Additionally, excess tax benefits will be classified as an operating activity on the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods, and early adoption is permitted. The amendments requiring recognition of excess tax benefits and tax deficiencies in the income statement must be applied prospectively, and entities may elect to apply the amendments related to the presentation of excess tax benefits on the statement of cash flows using either a prospective or retrospective transition method. Effective January 1, 2016, the Company adopted ASU 2016-09 and applied the amendments relating to the presentation of excess tax benefits on the statement of cash flows using a retrospective transition method. See Note 11 for additional information.

4. Accounting Standards Issued and Not Yet Implemented

In August 2016, the FASB issued ASU 2016-15*, Statement of Cash Flows Classification of Certain Cash Receipts and Cash Payments*, which provides guidance regarding cash flow statement classification of: (1) debt prepayment or debt extinguishment costs, (2) settlement of zero-coupon debt instruments or other debt

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instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, (3) contingent consideration payments made after a business combination, (4) proceeds from the settlement of insurance claims, (5) proceeds from the settlement of corporate-owned life insurance policies, (6) distributions received from equity method investees, (7) beneficial interests in securitization transactions, and (8) separately identifiable cash flows and application of the predominance principle. The new standard will be effective for the Company for interim and annual reporting periods beginning on January 1, 2018, with early adoption permitted. The adoption of this standard will not have an impact on the Company s financial position or results of operations, however, the Company expects that there may be an immaterial reclassification of items within the operating, investing and financing activities on its statement of cash flows. The Company plans to early adopt this standard in the fourth quarter of 2016.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which updates the existing guidance on accounting for leases and requires new qualitative and quantitative disclosures about the Company s leasing activities. The new standard requires the Company to recognize lease assets and lease liabilities on the balance sheet for all leases under which the Company is the lessee, including those classified as operating leases under previous accounting guidance. The new standard allows the Company to make an accounting policy election not to recognize on the balance sheet lease assets and liabilities for leases with a term of 12 months or less. The accounting applied by a lessor is largely unchanged from previous guidance. The new standard, as amended, will be effective for the Company for interim and annual reporting periods beginning on January 1, 2019, with early adoption permitted. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients that the Company may elect to apply. The Company is currently evaluating the expected impact of the adoption of this standard on its consolidated financial statements and related disclosures.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which will replace numerous requirements in U.S. GAAP, including industry-specific requirements, provide companies with a single revenue recognition model for recognizing revenue from contracts with customers and significantly expand the disclosure requirements for revenue arrangements. The new standard, as amended, will be effective for the Company for interim and annual reporting periods beginning on January 1, 2018, with early application permitted beginning on January 1, 2017. The two permitted transition methods under the new standard are the full retrospective method, in which case the standard would be applied to each prior reporting period presented, or the modified retrospective method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application with disclosure of results under the new and old standards for the first year of adoption.

The Company has made progress toward completing its evaluation of the potential changes from adopting this new standard on its financial reporting and disclosures. The Company has evaluated the impact of the standard on all of its revenue streams and most of its contracts. The Company expects to complete the contract evaluations and validate the results by the first quarter of 2017. The Company has also made significant progress on drafting its accounting policies and evaluating the new disclosure requirements. The Company expects to complete the evaluation of the impact of the accounting and disclosure changes on its business processes, controls and systems during the first half of 2017, design any changes to such business processes, controls and systems by the middle of 2017, and implement the changes over the remainder of 2017.

Under the new standard, an entity recognizes revenue when or as it satisfies a performance obligation by transferring a good or service to the customer, either at a point in time or over time. The Company expects to

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recognize revenue over time on most of its contracts that are covered by contract accounting standards using cost inputs to measure progress toward completion of its performance obligations, which is similar to the POC cost-to-cost method currently used on certain of these contracts. The Company currently recognizes sales on fixed-priced production contracts that are covered by contract accounting standards, and under which units are produced and delivered in a continuous or sequential process as units are delivered, based on their contractual selling prices (units-of-delivery method). The Company expects to discontinue the use of the units-of-delivery method under the new standard. Approximately 50% of the Company s net sales are generated from revenue arrangements accounted for under contract accounting standards, including approximately 15% that use the units-of-delivery method. While the Company is currently evaluating the expected impact of the adoption of this standard on its consolidated financial statements, related disclosures and the transition alternatives available, the Company will adopt the standard as of January 1, 2018. Furthermore, the Company expects to determine the transition method and the effect of this standard on the Company s consolidated financial statements in the first quarter of 2017.

Other accounting standard updates effective for interim and annual periods beginning after December 31, 2016 are not expected to have an impact on the Company s financial position, results of operations or cash flows.

5. Divestitures and Acquisitions

Discontinued Operations

As discussed in Note 1, on February 1, 2016, the Company completed the sale of its NSS business to CACI International Inc. for a sales price of $547 million. The sales price was finalized as of September 23, 2016, with no significant changes to preliminary amounts.

The table below presents statements of operations data for NSS, which was previously a reportable segment and has been classified as a discontinued operation and includes allocated interest expense for debt not directly attributable or related to L-3 s other operations. Interest expense was allocated in accordance with the accounting standards for discontinued operations and was based on the ratio of NSS s net assets to the sum of: (1) total L-3 consolidated net assets and (2) L-3 consolidated total debt.

	Third Quarter Ended		Year-to-Date Ended	
	September 23, 2016	September 25, 2015	September 23, 2016	September 25, 2015
	(in millions)			
Net sales	$	$ 271	$ 86	$ 773
Cost of sales		(260)	(92)	(736)

Gain related to business divestiture[1]			64	
Goodwill impairment charges		(456)		(456)
Operating (loss) income from discontinued operations		(445)	58	(419)
Interest expense allocated to discontinued operations		(4)		(15)
(Loss) income from discontinued operations before income taxes		(449)	58	(434)
Income tax benefit		25	5	18
(Loss) income from discontinued operations, net of income taxes	$	$ (424)	$ 63	$ (416)

[1] The year-to-date period ended September 23, 2016 includes a gain of $64 million (before and after income taxes) on the sale of the NSS business.

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The major classes of assets and liabilities included in discontinued operations related to NSS are presented in the table below.

	December 31, 2015 (in millions)
Assets	
Current assets	$ 201
Property, plant and equipment, net	25
Goodwill[1]	390
Other assets	48
Total assets of discontinued operations	$ 664
Liabilities	
Accounts payable, trade	$ 48
Other current liabilities	78
Current liabilities	126
Long-term liabilities	94
Total liabilities of discontinued operations	$ 220

(1) The goodwill balance at December 31, 2015 is based on an allocation of the goodwill attributable to the NSS reporting unit to discontinued operations based on the relative fair value of the NSS business retained by L-3 and NSS business sold.

Business Divestitures

2015 Business Divestitures

Marine Systems International (MSI) Divestiture. On May 29, 2015, the Company completed the sale of its MSI business to Wärtsilä Corporation for a sales price of 295 million (approximately $318 million), in addition to the assumption by Wärtsilä Corporation of approximately 60 million of MSI employee pension-related liabilities. The sales price was finalized as of June 24, 2016, with no significant changes to preliminary amounts. MSI was a sector within the Company s Electronic Systems segment, primarily selling to the commercial shipbuilding industry. The Company recorded a pre-tax loss of $17 million ($6 million after income taxes) for the year-to-date period ended September 25, 2015, related to the divestiture of MSI.

Broadcast Sports Inc. (BSI) Divestiture. On April 24, 2015, the Company divested its BSI business for a sales price of $26 million. BSI provided wireless technology and communications systems services for use in the field of sports television broadcasting, and was included in the Sensor Systems sector of the Electronic Systems segment. The Company recorded a pre-tax loss of $1 million (less than $1 million after income taxes) and $4 million ($6 million after income taxes) for the quarterly and year-to-date periods ended September 25, 2015, respectively, related to the divestiture of BSI.

Tinsley Product Line Divestiture. On July 27, 2015, the Company divested its Tinsley Product Line for a sales price of $4 million. Tinsley provided optical components, sub-assemblies and passive sub-systems and was included in the Sensor Systems sector of the Electronic Systems segment. The divestiture resulted in a pre-tax loss of $8 million ($6 million after income taxes) during the quarterly and year-to-date periods ended September 25, 2015.

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Business Acquisitions

The business acquisitions discussed below are included in the Company s results of operations from their respective dates of acquisition.

2016 Business Acquisitions

Advanced Technical Materials, Inc. (ATM) Acquisition. On January 22, 2016, the Company acquired the assets of ATM for a purchase price of $27 million, which was financed with cash on hand. The purchase price and purchase price allocation of ATM was finalized as of September 23, 2016, with no significant changes to preliminary amounts. ATM develops and manufactures a broad product line of passive microwave waveguides and specialized coaxial components. The aggregate goodwill recognized for this business was $20 million, which was assigned to the Communication Systems reportable segment, all of which is expected to be deductible for income tax purposes.

2015 Business Acquisitions

ForceX, Inc. Acquisition. On October 13, 2015, the Company acquired ForceX, Inc., renamed L-3 ForceX, for a purchase price of $61 million, which was financed with cash on hand. The purchase price and purchase price allocation of L-3 ForceX was finalized as of September 23, 2016, with no significant changes to preliminary amounts. L-3 ForceX specializes in ISR mission management software and geospatial application technology programs, offering an array of advanced products, including cueing system software, hardware and video algorithms, and wide-area sensor integration solutions and software. L-3 ForceX s proprietary processing, exploitation and dissemination capability provides an integrated tactical operational picture, allowing users to make critical decisions in real time. L-3 ForceX also supports several key DoD ISR initiatives and classified programs. L-3 ForceX s customer base includes the U.S. Air Force, U.S. Special Operations Command, the Naval Surface Warfare Center and a variety of DoD agencies. The aggregate goodwill recognized for this business was $53 million, which was assigned to the Electronic Systems reportable segment, of which $52 million is expected to be deductible for income tax purposes.

CTC Aviation Group Acquisition. On May 27, 2015, the Company acquired CTC Aviation Group, renamed L-3 CTC Ltd. (L-3 CTC), for a purchase price of £153 million (approximately $236 million), which was financed with cash on hand. The purchase price and purchase price allocation of L-3 CTC was finalized as of June 24, 2016, with no significant changes to preliminary amounts. L-3 CTC is a global airline pilot training and crew resourcing specialist, based in the United Kingdom, which offers customized and innovative solutions to major airlines and flight training customers globally. L-3 CTC expands L-3 s commercial aviation training business to encompass a growing portfolio of airline and third-party training company customers. The aggregate goodwill recognized for this business was $182 million, which was assigned to the Electronic Systems reportable segment, and is not expected to be deductible for income tax purposes.

MITEQ, Inc. Acquisition. On January 21, 2015, the Company acquired the assets of MITEQ, Inc. (Miteq) for a purchase price of $41 million, which was financed with cash on hand. The purchase price and purchase price allocation of Miteq was finalized as of September 25, 2015, with no significant changes to preliminary amounts. Miteq was combined with the Company s Narda Microwave-East business, and the new organization was re-named L-3 Narda-Miteq. Miteq offers a broad product line of active and passive RF microwave components and low-power satellite communications (SATCOM) products for space and military applications that complement the existing Narda Microwave East product line. The combined L-3 Narda-Miteq business provides products for the DoD, other U.S. Government agencies, prime contractors and commercial customers. The aggregate goodwill recognized for this business was $11 million, of which $4 million is expected to be deductible for income tax purposes. The goodwill was assigned to the Communication Systems reportable segment.

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Business Acquisitions Completed or Agreements to Acquire Businesses Entered Into After September 23, 2016

Agreement to Acquire Certain Assets of Implant Sciences. On October 10, 2016, the Company entered into an asset purchase agreement (APA) to acquire the explosives trace detection (ETD) business of Implant Sciences Corporation (Implant) at a future date for a purchase price of $118 million, in addition to the assumption of specified liabilities. The Company intends to finance the asset purchase with cash on hand. Implant filed for bankruptcy protection pursuant to Chapter 11 of the U.S. Bankruptcy Code on October 10, 2016. Accordingly, the completion of this sale transaction is subject to approval by the U.S. Bankruptcy Court. Pursuant to the terms of the APA, the Company will be, subject to U.S. Bankruptcy Court approval, entitled to a breakup fee and expense reimbursement if it does not prevail as the successful bidder after concluding a bankruptcy auction process.

Micreo Limited and Aerosim Acquisitions. On September 30, 2016, the Company acquired Micreo Limited (Micreo) and Flight Training Acquisitions LLC (Aerosim), in separate transactions, for an aggregate purchase price of approximately $82 million, which was financed with cash on hand. The final purchase prices are subject to customary adjustments for final working capital. Micreo specializes in solutions that utilize high-performance microwave, millimeter wave and photonic technology that complements the Company s wide range of sensor products and is expected to strengthen the development of the Company s future products in the higher Electronic Warfare (EW) radio frequency (RF) bandwidth. Micreo currently supports a variety of airborne, land and security programs in Australia. Aerosim provides innovative, portable and flexible pilot and maintenance technician training products and provides a flight school for prospective airline pilots. Aerosim s commercial training capabilities are complementary to those offered by L-3 Commercial Training Solutions.

Unaudited Pro Forma Statements of Operations Data

The following unaudited pro forma Statements of Operations data present the combined results of the Company and its business acquisitions completed during the year-to-date period ended September 23, 2016 and the year ended December 31, 2015, assuming that the business acquisitions completed during these periods had occurred on January 1, 2015.

	Third Quarter Ended		Year-to-Date Ended	
	September 23, 2016	September 25, 2015	September 23, 2016	September 25, 2015
	(in millions, except per share data)			
Pro forma net sales	$ 2,505	$ 2,577	$ 7,522	$ 7,661
Pro forma income from continuing operations attributable to L-3	148	127	458	350

Pro forma net income (loss) attributable to L-3	148	(297)	521	(66)
Pro forma diluted earnings per share from continuing operations	1.88	1.56	5.82	4.23
Pro forma diluted earnings (loss) per share	1.88	(3.66)	6.62	(0.80)

The unaudited pro forma results disclosed in the table above are based on various assumptions and are not necessarily indicative of the results of operations that would have occurred had the Company completed these acquisitions on January 1, 2015.

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6. Contracts in Process

The components of contracts in process are presented in the table below.

	September 23, 2016	December 31, 2015
	(in millions)	
Unbilled contract receivables, gross	$ 2,180	$ 2,097
Unliquidated progress payments	(886)	(869)
Unbilled contract receivables, net	1,294	1,228
Inventoried contract costs, gross	1,165	975
Unliquidated progress payments	(194)	(122)
Inventoried contract costs, net	971	853
Total contracts in process	$ 2,265	$ 2,081

Inventoried Contract Costs. In accordance with contract accounting standards, the Company s U.S. Government contractor businesses account for the portion of their general and administrative (G&A), independent research and development (IRAD) and bids and proposal (B&P) costs that are allowable and reimbursable indirect contract costs under U.S. Government procurement regulations on their U.S. Government contracts (revenue arrangements) as inventoried contract costs. G&A, IRAD and B&P costs are allocated to contracts for which the U.S. Government is the end customer and are charged to costs of sales when sales on the related contracts are recognized. The Company s U.S. Government contractor businesses record the unallowable portion of their G&A, IRAD and B&P costs to expense as incurred, and do not include them in inventoried contract costs.

The table below presents a summary of G&A, IRAD and B&P costs included in inventoried contract costs and the changes to them, including amounts charged to cost of sales by the Company s U.S. Government contractor businesses for the periods presented.

	Third Quarter Ended	Year-to-Date Ended

	September 23, 2016	September 25, 2015	September 23, 2016	September 25, 2015
		(in millions)		
Amounts included in inventoried contract costs at beginning of the period	$ 163	$ 126	$ 137	$ 117
Contract costs incurred:				
IRAD and B&P	76	69	213	204
Other G&A	201	217	611	611
Total	277	286	824	815
Amounts charged to cost of sales	(270)	(267)	(791)	(787)
Amounts included in inventoried contract costs at end of the period	$ 170	$ 145	$ 170	$ 145

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The table below presents a summary of selling, general and administrative expenses and research and development expenses for the Company s commercial businesses, which are expensed as incurred and included in cost of sales on the unaudited condensed consolidated statements of operations.

	Third Quarter Ended		Year-to-Date Ended	
	September 23, 2016	September 25, 2015	September 23, 2016	September 25, 2015
	(in millions)			
Selling, general and administrative expenses	$ 53	$ 53	$ 164	$ 200
Research and development expenses	16	13	40	38
Total	$ 69	$ 66	$ 204	$ 238

7. Inventories

Inventories at Lower of Cost or Market. The table below presents the components of inventories at the lower of cost (first-in, first-out or average cost) or realizable value.

	September 23, 2016	December 31, 2015
	(in millions)	
Raw materials, components and sub-assemblies	$ 186	$ 164
Work in process	107	103
Finished goods	68	66
Total	$ 361	$ 333

8. Goodwill and Identifiable Intangible Assets

Goodwill. In accordance with the accounting standards for business combinations, the Company records the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition (commonly referred to as the purchase price allocation). The table below presents the changes in goodwill allocated to the Company s reporting units in each reportable segment.

	Electronic Systems	Aerospace Systems	Communication Systems	Consolidated Total
		(in millions)		
Goodwill	$ 3,994	$ 1,691	$ 1,038	$ 6,723
Accumulated impairment losses	(69)	(338)	(35)	(442)
Balance at December 31, 2015	3,925	1,353	1,003	6,281
Business acquisitions[1]	2		20	22
Foreign currency translation adjustments[2]	(31)	12		(19)
Balance at September 23, 2016	$ 3,896	$ 1,365	$ 1,023	$ 6,284
Goodwill	$ 3,965	$ 1,703	$ 1,058	$ 6,726
Accumulated impairment losses	(69)	(338)	(35)	(442)
	$ 3,896	$ 1,365	$ 1,023	$ 6,284

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(1) The net increase in goodwill for the Electronic Systems segment was due to the final purchase price allocations for the ForceX, Inc. and CTC Aviation Group business acquisitions. The increase in goodwill for the Communication Systems segment was due to the ATM, Inc. business acquisition.

(2) The decrease in goodwill presented in the Electronic Systems segment was due to the strengthening of the U.S. dollar against the British pound, partially offset by the weakening of the U.S. dollar against the Canadian dollar and the Euro during the year-to-date period ended September 23, 2016. The increase in goodwill presented in the Aerospace Systems segment was due to the weakening of the U.S. dollar against the Canadian dollar during the year-to-date period ended September 23, 2016.

Identifiable Intangible Assets. The most significant identifiable intangible asset that is separately recognized for the Company s business acquisitions is customer contractual relationships. All of the Company s customer relationships are established through written customer contracts (revenue arrangements). The fair value for customer contractual relationships is determined, as of the date of acquisition, based on estimates and judgments regarding expectations for the estimated future after-tax earnings and cash flows (including cash flows for working capital) arising from the follow-on sales on contract (revenue arrangement) renewals expected from the customer contractual relationships over their estimated lives, including the probability of expected future contract renewals and sales, less a contributory assets charge, all of which is discounted to present value.

Identifiable Intangible Assets. The table below presents information for the Company s identifiable intangible assets that are subject to amortization.

		September 23, 2016			December 31, 2015		
	Weighted Average Amortization Period (in years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		(in millions)					
Customer contractual relationships	17	$ 376	$ 263	$ 113	$ 370	$ 246	$ 124
Technology	11	158	99	59	156	91	65
Other	18	21	12	9	21	11	10

Total	15	$ 555	$ 374	$ 181	$ 547	$ 348	$ 199

The table below presents amortization expense recorded by the Company for its identifiable intangible assets.

	Third Quarter Ended		Year-to-Date Ended	
	September 23, 2016	September 25, 2015	September 23, 2016	September 25, 2015
	(in millions)			
Amortization expense	$ 9	$ 9	$ 26	$ 26

Based on gross carrying amounts at September 23, 2016, the Company s estimate of amortization expense for identifiable intangible assets for the years ending December 31, 2016 through 2020 is presented in the table below.

Income from operations	132,579	101,716	79,343	19,382	67,166	2,282	33,726
Interest income from restricted assets	7,143	5,987	4,014	1,308	2,808	316	404
Interest expense	(46,948)	(45,605)	(47,813)	(5,644)	(9,961)	(908)	(4,691)
Realized gain (loss) on investments	245	(467)	(164)		(1,140)	90	
Interest and other income	2,055	2,346	1,040	714	240	22	304
Loss on early debt extinguishment		(377)	(2,040)				
Fresh-start accounting adjustments(1)							46,416
Income before income taxes and cumulative effect of a change in accounting principle	95,074	63,600	34,380	15,760	59,113	1,802	76,159
Income tax expense	(36,104)	(24,961)	(14,372)	(6,278)	(21,764)	(8,633)	(829)
Income (loss) before cumulative effect of a change in accounting principle	58,970	38,639	20,008	9,482	37,349	(6,831)	75,330
Cumulative effect of a change in accounting principle(2)							(223,721)
Equity in earnings of unconsolidated subsidiary	848	432	59				
Net income (loss)	$ 59,818	$ 39,071	$ 20,067	$ 9,482	$ 37,349	$ (6,831)	$ (148,391)
Net income per share:							
Basic	$ 1.44	$ 0.94	$ 0.56				
Diluted	$ 1.39	$ 0.92	$ 0.55				
Weighted average number of common shares outstanding:							
Basic	41,551,207	41,502,632	33,621,542				
Diluted	43,146,881	42,528,885	34,282,176				
Other Financial Data:							
Cash flows provided by (used in):							
Operating activities	$ 97,818	$ 165,742	$ 109,963	$ 15,966	$ 127,679	$ 30,009	$ 58,769
Investing activities	(100,226)	(113,127)	(909,629)	(21,667)	(81,516)	(15,136)	(98,835)
Financing activities	(8,014)	(31,327)	803,083	10,856	(47,328)	(47,222)	(8,060)
Cash and cash equivalents	28,914	39,336	18,048	14,631	9,476	10,641	42,990
Total assets	1,479,563	1,318,217	1,267,028	983,510	949,599	914,746	
Long-term debt and capital lease obligations, including current maturities	482,883	479,775	502,184	11,497	15,480	24,057	
Shareholders' or Combined Equity	449,496	386,040	344,984	598,277	573,840	560,539	

(1)

Reflects the impact of push-down accounting adjustments on the combined companies of Laidlaw's emergence from bankruptcy.

(2) Reflects an impairment of goodwill recorded in connection with the adoption of SFAS No. 142.

Quarterly Results

The following table summarizes our unaudited results for each quarter in the years ended December 31, 2007 and 2006 (in thousands, except per share amounts).

	2007			
	For the three months ended			
	March 31,	June 30,	September 30,	December 31,
Net revenue	$ 523,319	$ 516,712	$ 529,752	$ 537,210
Income from operations	35,764	33,187	33,294	30,334
Net income	16,631	15,095	14,670	13,422
Basic net income per common share	0.40	0.36	0.35	0.32
Diluted net income per common share	0.39	0.35	0.34	0.31

	2006			
	For the three months ended			
	March 31,	June 30,	September 30,	December 31,
Net revenue	$ 469,124	$ 478,451	$ 485,697	$ 500,933
Income from operations	21,710	27,306	26,296	26,404
Net income	7,261	10,718	10,284	10,808
Basic net income per common share	0.17	0.26	0.25	0.26
Diluted net income per common share	0.17	0.25	0.24	0.25

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with the audited financial statements and the notes to the audited financial statements included in Item 8 of this Report and the "Selected Financial Data" included in Item 6 of this Report. The following discussion includes periods before the acquisition of AMR and EmCare. Accordingly, the discussion and analysis of historical periods do not fully reflect the impact the acquisition of AMR and EmCare have had on us. In addition, this discussion contains forward-looking statements and involves numerous risks and uncertainties, including, but not limited to, those described in the "Risk Factors" section in Item 1A of this Report. Our results may differ materially from those anticipated in any forward-looking statements.

Our financial statements referred to in this Item 7 are included in Item 8 of this Annual Report.

Company Overview

We are a leading provider of emergency medical services in the United States. We operate our business and market our services under the AMR and EmCare brands. AMR is the leading provider of medical transport services in the United States. EmCare is the leading provider of outsourced emergency department staffing and management services in the United States. Approximately 88% of our net revenue for the year ended December 31, 2007 was generated under exclusive contracts. During 2007, we provided emergency medical, ambulance and other transport services to approximately 10.6 million patients in more than 2,000 communities nationwide.

American Medical Response

Over its more than 50 years of operating history, AMR has developed the largest network of ambulance transport services in the United States based on net revenue and number of transports. AMR has an 8% share of the total ambulance services market and a 21% share of the private provider ambulance market. During the year ended December 31, 2007, AMR treated and transported approximately 3.4 million patients in 37 states. As of December 31, 2007, AMR had approximately 3,300 contracts with communities, government agencies, healthcare providers and insurers to provide ambulance services. For the year ended December 31, 2007, approximately 56% of AMR's net revenue was generated from emergency 911 ambulance transport services. Non-emergency ambulance transport services, including critical care transfer, wheelchair transports and other interfacility transports, or IFTs, accounted for 31% of AMR's net revenue for the same period. The balance of net revenue for 2007 was generated from the provision of training, dispatch centers and other services to communities and public safety agencies and from revenue associated with fixed-wing medical transportation services.

EmCare

Over its more than 30 years of operating history, EmCare has become the largest provider of outsourced emergency department staffing and related management services to healthcare facilities based on number of contracts with hospitals and affiliated physician groups. EmCare has an 8% share of the total emergency department services market and a 12% share of the outsourced emergency department services market. During the year ended December 31, 2007, EmCare had approximately 7.2 million patient visits in 40 states.

EmCare primarily provides emergency department staffing and related management services to healthcare facilities. EmCare recruits and hires or subcontracts with physicians and other healthcare professionals, who then provide professional services within the healthcare facilities with which we contract. We also provide billing and collection, risk management and other administrative services to our healthcare professionals and to independent physicians. EmCare has 395 contracts with hospitals and independent physician groups to provide emergency department, hospitalist and radiology staffing, and related management and other administrative services.

Key Factors and Measures We Use to Evaluate Our Business

The key factors and measures we use to evaluate our business focus on the number of patients we treat and transport and the costs we incur to provide the necessary care and transportation for each of our patients.

We evaluate our revenue net of provisions for contractual payor discounts and provisions for uncompensated care. Medicaid, Medicare and certain other payors receive discounts from our standard charges, which we refer to as contractual discounts. In addition, individuals we treat and transport may be personally responsible for a deductible or co-pay under their third party payor coverage, and most of our contracts require us to treat and transport patients who have no insurance or other third party payor coverage. Due to the uncertainty regarding collectibility of charges associated with services we provide to these patients, which we refer to as uncompensated care, our net revenue recognition is based on expected cash collections. Our net revenue is gross billings after provisions for contractual discounts and estimated uncompensated care. Provisions for contractual discounts and uncompensated care have increased historically primarily as a result of increases in gross billing rates. The table below summarizes our approximate payor mix as a percentage of both net revenue and total transports and patient visits for the years ended December 31, 2007 and 2006 and for the eleven months ended December 31, 2005.

	Percentage of Net Revenue			Percentage of Total Volume		
	Year ended December 31, 2007	Year ended December 31, 2006	Eleven months ended December 31, 2005	Year ended December 31, 2007	Year ended December 31, 2006	Eleven months ended December 31, 2005
Medicare	24.8%	25.6%	26.3%	26.2%	26.5%	25.7%
Medicaid	4.6	4.8	5.0	10.9	10.8	12.5
Commercial insurance and managed care	48.5	49.4	49.8	40.6	41.0	41.1
Self-pay	4.6	4.8	4.4	22.3	21.7	20.7
Subsidies and fees	17.5	15.4	14.5			
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

In addition to continually monitoring our payor mix, we also analyze the following measures in each of our business segments:

AMR

Approximately 89% of AMR's net revenue for the year ended December 31, 2007 was transport revenue derived from the treatment and transportation of patients, including fixed wing medical transportation services, based on billings to third party payors, healthcare facilities and patients. The balance of AMR's net revenue is derived from direct billings to communities and government agencies for the provision of training, dispatch center and other services. AMR's measures for transport net revenue include:

Transports. We utilize transport data, including the number and types of transports, to evaluate net revenue and as the basis by which we measure certain costs of the business. We segregate transports into two main categories ambulance transports (including emergency, as well as non-emergency, critical care and other interfacility transports) and wheelchair transports due to the significant differences in reimbursement and the associated costs of providing ambulance and wheelchair transports. As a result of these differences, in certain analyses we weight our transport numbers according to category in an effort to better measure net revenue and costs.

Net revenue per transport. Net revenue per transport reflects the expected net revenue for each transport based on gross billings less all estimated provisions for contractual discounts and uncompensated care. In order to better understand the trends across service lines and in our transport rates, we analyze our net revenue per transport based on weighted transports to reflect the differences in our transportation mix.

The change from period to period in the number of transports is influenced by changes in transports in existing markets from both new and existing facilities we serve for non-emergency transports, and the effects of general community conditions for emergency transports. The general community conditions may include (1) the timing, location and severity of influenza, allergens and other annually recurring viruses, (2) severe weather that affects a region's health status and/or infrastructure and (3) community-specific demographic changes.

The costs we incur in our AMR business segment consist primarily of compensation and benefits for ambulance crews and support personnel, direct and indirect operating costs to provide transportation services, and costs related to accident and insurance claims. AMR's key cost measures include:

Unit hours and cost per unit hour. Our measurement of a unit hour is based on a fully staffed ambulance or wheelchair van for one operating hour. We use unit hours and cost per unit hour to measure compensation-related costs and the efficiency of our deployed resources. We monitor unit hours and cost per unit hour on a combined basis, as well as on a segregated basis between ambulance and wheelchair transports.

Operating costs per transport. Operating costs per transport is comprised of certain direct operating costs, including vehicle operating costs, medical supplies and other transport-related costs, but excluding compensation-related costs. Monitoring operating costs per transport allows us to better evaluate cost trends and operating practices of our regional and local management teams.

Accident and insurance claims. We monitor the number and magnitude of all accident and insurance claims in order to measure the effectiveness of our risk management programs. Depending on the type of claim (workers compensation, auto, general or professional liability), we monitor our performance by utilizing various bases of measurement, such as net revenue, miles driven, number of vehicles operated, compensation dollars, and number of transports.

We have focused our risk mitigation efforts on employee training for proper patient handling techniques, development of clinical and medical equipment protocols, driving safety, implementation of technology to reduce auto incidents and other risk mitigation processes which we believe has resulted in a reduction in the frequency, severity and development of claims.

Depreciation expense relates primarily to charges for usage of vehicles, computer hardware and software, equipment and other technologies. Amortization expense relates primarily to intangibles recorded for customer relationships.

EmCare

Of EmCare's net revenue for the year ended December 31, 2007, approximately 99% was derived from our hospital contracts for emergency department staffing, hospitalist and radiology services and other management services. Of this revenue, approximately 74% was generated from billings to third party payors and patients for patient visits and approximately 26% was generated from billings to hospitals and affiliated physician groups for professional services. EmCare's key net revenue measures are:

Patient visits. We utilize patient visits to evaluate net revenue and as the basis by which we measure certain costs of the business.

Number of contracts. This reflects the number of contractual relationships we have for outsourced emergency department staffing and related management services, hospitalist services and other management services. We analyze the change in our number of contracts from period to period based on "net new contracts," which is the difference between total new contracts and contracts that have terminated.

Revenue per patient visit. This reflects the expected net revenue for each patient visit based on gross billings less all estimated provisions for contractual discounts and uncompensated care. Net revenue per patient visit also includes net revenue from billings to third party payors and hospitals.

The change from period to period in the number of patient visits under our "same store" contracts is influenced by general community conditions as well as hospital-specific elements, many of which are beyond our direct control. The general community conditions include (1) the timing, location and severity of influenza, allergens and other annually recurring viruses and (2) severe weather that affects a region's health status and/or infrastructure. Hospital-specific elements include the timing and extent of facility renovations, hospital staffing issues and regulations that affect patient flow through the hospital.

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

Provider compensation per patient visit. Provider compensation per patient visit includes all compensation and benefit costs for all professional providers, including physicians, physician assistants and nurse practitioners, during each patient visit. Providers include all full-time, part-time and independently contracted providers. Analyzing provider compensation per patient visit enables us to monitor our most significant cost in performing services under our contracts.

Professional liability costs. These costs include provisions for estimated losses for actual claims, and claims likely to be incurred in the period, within our self-insurance limits based on our past loss experience, as well as actual direct costs, including investigation and defense costs, claims payments, reinsurance costs and other costs related to provider professional liability.

Depreciation expense relates primarily to charges for usage of medical equipment, computer hardware and software, and other technologies. Amortization expense relates primarily to intangibles recorded for customer relationships.

Non-GAAP Measures

Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA")

Adjusted EBITDA is defined as net income before equity in earnings of unconsolidated subsidiary, income tax expense, loss on early debt extinguishment, interest and other income, realized gain (loss) on investments, interest expense, and depreciation and amortization. Adjusted EBITDA is commonly used by management and investors as a measure of leverage capacity, debt service ability and liquidity. Adjusted EBITDA is not considered a measure of financial performance under U.S. generally accepted accounting principles, or GAAP, and the items excluded from Adjusted EBITDA are significant components in understanding and assessing our financial performance. Adjusted EBITDA should not be considered in isolation or as an alternative to such GAAP measures as net income, cash flows provided by or used in operating, investing or financing activities or other financial statement data presented in our financial statements as an indicator of financial performance or liquidity. Since Adjusted EBITDA is not a measure determined in accordance with GAAP and is susceptible to varying calculations, Adjusted EBITDA, as presented, may not be comparable to other similarly titled measures of other companies.

During the year ended December 31, 2007, we reclassified income earned on insurance related assets as Interest Income from Restricted Assets; such income was previously reported as a component of insurance expense. Previous amounts have been reclassified to conform to the current year presentation.

The following tables set forth a reconciliation of Adjusted EBITDA to net income for our company, and reconciliations of Adjusted EBITDA to income from operations for our two operating segments and a reconciliation of Adjusted EBITDA to cash flows from operating activities, using data derived from our financial statements for the periods indicated (amounts in thousands):

	Year ended December 31,		Predecessor/ Successor	
	2007	2006	Year ended December 31, 2005	Eleven months ended December 31, 2005
			(unaudited)	
Consolidated/Combined				
Adjusted EBITDA	$ 210,205	$ 173,708	$ 132,418	$ 137,500
Depreciation and amortization expense	(70,483)	(66,005)	(58,037)	(54,143)
Interest income from restricted assets	(7,143)	(5,987)	(4,189)	(4,014)
Income from operations	132,579	101,716	70,192	79,343
Interest income from restricted assets	7,143	5,987	4,189	4,014
Interest expense	(46,948)	(45,605)	(48,982)	(47,813)
Realized gain (loss) on investments	245	(467)	(151)	(164)
Interest and other income	2,055	2,346	1,036	1,040
Loss on debt extinguishment		(377)	(2,040)	(2,040)
Equity in earnings of unconsolidated subsidiary	848	432	59	59
Income tax expense	(36,104)	(24,961)	(10,312)	(14,372)
Net income	$ 59,818	$ 39,071	$ 13,991	$ 20,067
AMR				
Adjusted EBITDA	$ 92,725	$ 90,671	$ 94,478	$ 93,404
Depreciation and amortization expense	(56,560)	(53,024)	(47,508)	(44,090)
Interest income from restricted assets	(2,881)	(2,444)	(1,721)	(1,721)
Income from operations	$ 33,284	$ 35,203	$ 45,249	$ 47,593
EmCare				
Adjusted EBITDA	$ 117,480	$ 83,037	$ 37,940	$ 44,096
Depreciation and amortization expense	(13,923)	(12,981)	(10,507)	(10,031)
Interest income from restricted assets	(4,262)	(3,543)	(2,468)	(2,293)
Income from operations	$ 99,295	$ 66,513	$ 24,965	$ 31,772

	Year ended December 31, 2007	Year ended December 31, 2006	Eleven months ended December 31, 2005
Adjusted EBITDA	$ 210,205	$ 173,708	$ 137,500
Interest paid	(44,874)	(43,506)	(45,642)
Change in accounts receivable	(74,991)	(4,740)	(36,617)
Change in other operating assets/liabilities	5,868	38,072	51,644
Equity based compensation	1,727	1,431	2,780
Other	(117)	777	298

	Year ended December 31, 2007	Year ended December 31, 2006	Eleven months ended December 31, 2005
Cash flows provided by operating activities	$ 97,818	$ 165,742	$ 109,963

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Factors Affecting Operating Results

Re-Capitalization Activities

On February 10, 2005, an investor group led by Onex Partners LP and Onex Corporation, and including members of our management, purchased our operating subsidiaries, AMR and EmCare, from Laidlaw International, Inc. To fund the $828.8 million purchase price of these acquisitions, we received equity contributions of $219.2 million, issued and sold $250.0 million principal amount of senior subordinated notes, and entered into a $450.0 million senior secured credit agreement comprised of a $100.0 million revolving credit facility and a $350.0 million term loan. We borrowed the full amount of the term loan and $20.2 million under the revolving credit facility to fund our acquisition of AMR and EmCare, including the payment of related fees and expenses, and we have used balances outstanding from time to time under the revolving credit facility for working capital purposes. The increase in the outstanding balance of long-term debt in February 2005 resulted in a corresponding increase in interest expense.

On December 21, 2005, Emergency Medical Services Corporation completed its initial public offering of 8,100,000 shares of class A common stock; trading of those shares commenced on the New York Stock Exchange on December 16, 2005. We used a significant portion of the net proceeds of $101.9 million from this initial public offering to repay $99.1 million of debt outstanding under our senior secured credit facility and we used the balance for working capital, capital expenditures and other general corporate purposes. This reduction to the outstanding balance of long-term debt in December 2005, and additional debt repayments made in 2006 of $19.4 million, have resulted in a corresponding decrease in our interest costs.

Rate Changes by Government Sponsored Programs

In February 2002, the Health Care Financing Administration, now renamed the Centers for Medicare and Medicaid Services, issued the Medicare Ambulance Fee Schedule Final Rule, or Final Rule, that revised Medicare policy on the coverage of ambulance transport services, effective April 1, 2002. The Final Rule was the result of a mandate under the Balanced Budget Act of 1997, or BBA, to establish a national fee schedule for payment of ambulance transport services that would control increases in expenditures under Part B of the Medicare program, establish definitions for ambulance transport services that link payments to the type of services furnished, consider appropriate regional and operational differences and consider adjustments to account for inflation, among other provisions. The Final Rule provided for a five-year phase-in of a national fee schedule, beginning April 1, 2002. We estimate that the impact of the ambulance service rate decreases under the national fee schedule mandated under the BBA, as modified by the phase-in provisions of the Medicare Modernization Act, resulted in an increase in AMR's net revenue of approximately $16 million during calendar year 2005, resulted in a decrease in AMR's net revenue of approximately $17 million in 2006, and resulted in a decrease in AMR's net revenue of approximately $7 million in 2007. Based upon the current Medicare transport mix, we expect a further increase in our net revenue totaling approximately $5 million for the period 2008 through 2010. Although we have been able to substantially mitigate the phased-in reductions of the BBA through additional fee and subsidy increases, we may not be able to continue to do so.

Medicare pays for all EmCare physicians' services based upon a national fee schedule. The rate formula may result in significant yearly fluctuations which may be unrelated to changes in the actual cost of providing physician services.

Changes in Net New Contracts

Our operating results are affected directly by the number of net new contracts we have in a period, reflecting the effects of both new contracts and contract expirations. We regularly bid for new

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contracts, frequently in a formal competitive bidding process that often requires written responses to a Request for Proposal, or RFP, and, in any fiscal period, certain of our contracts will expire. We may elect not to seek extension or renewal of a contract if we determine that we cannot do so on favorable terms. With respect to expiring contracts we would like to renew, we may be required to seek renewal through an RFP, and we may not be successful in retaining any such contracts, or retaining them on terms that are as favorable as present terms.

Hurricane Katrina and our Gulf Coast Operations

AMR provides ambulance services in Gulfport and Biloxi, Mississippi and several other Gulf Coast communities. Although our dispatch center was damaged by hurricane Katrina and we had damage to a small number of vehicles, we were able to maintain communications through our use of back-up generators and other emergency supplies. We worked closely with the Federal Emergency Management Agency, or FEMA, and other federal, state and local agencies and deployed additional ambulance transportation resources where they were most needed, particularly in the coastal areas of Mississippi, Louisiana and Alabama. For the eleven months ended December 31, 2005, revenue derived from additional hurricane-related services was 0.9% of net revenue and related expenses were 0.9% of total expenses included in income from operations. During 2006, we recorded approximately $2.2 million in additional revenue from hurricane-related deployment in 2005.

EmCare operations generally were unaffected by Katrina, with only one facility in the affected area. EmCare deployed additional resources to assist at that facility, and we experienced a volume increase in certain facilities in adjacent states where evacuees were relocated.

Inflation and Fuel Costs

Certain of our expenses, such as wages and benefits, insurance, fuel and equipment repair and maintenance costs, are subject to normal inflationary pressures. Although we have generally been able to offset inflationary cost increases through increased operating efficiencies and successful negotiation of fees and subsidies, we can provide no assurance that we will be able to offset any future inflationary cost increases through similar efficiencies and fee changes.

Fuel costs represented approximately 12.2% of AMR's operating expenses for the years ended December 31, 2007 and 2006, and 12.5% for the same period in 2005. Increases in fuel costs, without mitigation through fee and subsidy increases, would continue to adversely affect AMR's operating results.

Critical Accounting Policies

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. The following are our most critical accounting policies, which are those that require management's most difficult, subjective and complex judgments, requiring the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

The following discussion is not intended to represent a comprehensive list of our accounting policies. For a detailed discussion of the application of these and other accounting policies, see note 2 to our audited financial statements included in Item 8 of this Report.

Claims Liability and Professional Liability Reserves

We are self-insured up to certain limits for costs associated with workers compensation claims, automobile, professional liability claims and general business liabilities. Reserves are established for estimates of the loss that we will ultimately incur on claims that have been reported but not paid and claims that have been incurred but not reported. These reserves are based upon independent actuarial valuations, which are updated quarterly. Reserves other than general liability reserves are discounted at a rate commensurate with the interest rate on monetary assets that essentially are risk free and have a maturity comparable to the underlying liabilities. The actuarial valuations consider a number of factors, including historical claim payment patterns and changes in case reserves, the assumed rate of increase in healthcare costs and property damage repairs. Historical experience and recent trends in the historical experience are the most significant factors in the determination of these reserves. We believe the use of actuarial methods to account for these reserves provides a consistent and effective way to measure these subjective accruals. However, given the magnitude of the claims involved and the length of time until the ultimate cost is known, the use of any estimation technique in this area is inherently sensitive. Accordingly, our recorded reserves could differ from our ultimate costs related to these claims due to changes in our accident reporting, claims payment and settlement practices or claims reserve practices, as well as differences between assumed and future cost increases. Accrued unpaid claims and expenses that are expected to be paid within the next twelve months are classified as current liabilities. All other accrued unpaid claims and expenses are classified as non-current liabilities.

Trade and Other Accounts Receivable

Our internal billing operations have primary responsibility for billing and collecting our accounts receivable. We utilize various processes and procedures in our collection efforts depending on the payor classification; these efforts include monthly statements, written collection notices and telephonic follow-up procedures for certain accounts. AMR writes off amounts not collected through our internal collection efforts to our uncompensated care allowance, and sends these receivables to third party collection agencies for further follow-up collection efforts. To simplify the recording of any third party collection agency recoveries, EmCare classifies accounts sent to third party collection agencies as "delinquent" within the billing system and they are written off. Accordingly, we record any subsequent collections through third party collection efforts as a recovery, in the case of AMR, and record it against our "delinquent" status account, in the case of EmCare.

As we discuss further in our "Revenue Recognition" policy below, we determine our allowances for contractual discounts and uncompensated care based on sophisticated information systems and financial models, including payor reimbursement schedules, historical write-off experience and other economic data. We record our patient-related accounts receivable net of estimated allowances for contractual discounts and uncompensated care in the period in which we perform services. We record gross fee-for-service revenue and related receivables based upon established fee schedule prices. We reduce our recorded revenue and receivables for estimated discounts to patients covered by contractual insurance arrangements, and reduce these further by our estimate of uncollectible accounts.

Our provision and allowance for uncompensated care is based primarily on the historical collection and write-off activity of our approximately 10.6 million annual patient encounters. We extract this data from our billing systems regularly and use it to compare our accounts receivable balances to estimated ultimate collections. Our allowance for uncompensated care is related principally to receivables we record for self-pay patients and is not recorded on specific accounts due to the volume of individual patient receivables and the thousands of commercial and managed care contracts.

We also have other receivables related to facility and community subsidies and contractual receivables for providing staffing to communities for special events. We review these other receivables periodically to determine our expected collections and whether any allowances may be necessary. We write the balance off after we have exhausted all collection efforts.

Revenue Recognition

A significant portion of our revenue is derived from Medicare, Medicaid and private insurance payors that receive discounts from our standard charges, which are referred to as contractual provisions. Additionally, we are also subject to collection risk for services provided to uninsured patients or for the deductible or co-pay portion of services for insured patients, which are referred to as uncompensated care. We record our healthcare services revenue net of estimated provisions for contractual allowances and uncompensated care.

Healthcare reimbursement is complex and may involve lengthy delays. Third party payors are continuing their efforts to control expenditures for healthcare and may disallow, in whole or in part, claims for reimbursement based on determinations that certain amounts are not reimbursable under plan coverage, were for services provided that were not determined medically necessary, or insufficient supporting information was provided. In addition, multiple payors with different requirements can be involved with each claim.

Management utilizes sophisticated information systems and financial models to estimate the provisions for contractual allowances and uncompensated care. The estimate for contractual allowances is determined on a payor-specific basis and is predominantly based on prior collection experience, adjusted as needed for known changes in reimbursement rates and recent changes in payor mix and patient acuity factors. The estimate for uncompensated care is based principally on historical collection rates, write-off percentages and accounts receivable agings. These estimates are analyzed continually and updated by management by monitoring reimbursement rate trends from governmental and private insurance payors, recent trends in collections from self-pay patients, the ultimate cash collection patterns from all payors, accounts receivable aging trends, operating statistics and ratios, and the overall trends in accounts receivable write-offs.

Management also regularly analyzes the ultimate collectibility of accounts receivable after certain stages of the collection cycle using a look-back analysis to determine the amount of receivables subsequently collected. Retroactive adjustments, which increased revenue for 2007 and 2006, were 1.6% and 1.3% of consolidated net revenue, respectively.

The evaluation of these factors, as well as the interpretation of governmental regulations and private insurance contract provisions, involves complex, subjective judgments. As a result of the inherent complexity of these calculations, our actual revenues and net income, and our accounts receivable, could vary significantly from the amounts reported.

Income Taxes

The Company accounts for income taxes under SFAS No. 109 *Accounting for Income Taxes* ("SFAS 109"). Deferred income taxes reflect the impact of temporary differences between the reported amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws and regulations. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. A valuation allowance is provided for deferred tax assets when management concludes it is more likely than not that some portion of the deferred tax assets will not be recognized. The respective tax authorities, in the normal course, audit previous tax filings. It is not possible at this time to predict the final outcome of these audits or establish a reasonable estimate of possible additional taxes owing, if any.

In connection with the acquisition of AMR and EmCare, the Company made an Internal Revenue Code ("IRC") section 338(h)(10) election for EmCare which eliminated $67 million of deferred tax assets and stepped-up the tax basis of EmCare's assets to fair value. Differences between book and tax depreciation and amortization for these assets will create future deferred tax assets or liabilities.

In July 2006, the FASB issued Interpretation No. 48 *Accounting for Uncertainty in Income Taxes,* an interpretation of SFAS 109 ("FIN 48"). FIN 48 was adopted by the Company on January 1, 2007. FIN 48 creates a single model to address uncertainty in tax positions, prescribes the minimum recognition threshold, and provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 also has expanded disclosure requirements, which include a tabular rollforward of the beginning and ending aggregate unrecognized tax benefits, as well as specific detail related to tax uncertainties for which it is reasonably possible the amount of unrecognized tax benefit will significantly increase or decrease within twelve months. Upon adoption of FIN 48, the Company reclassified approximately $41 million to a long-term liability and increased current deferred tax assets.

Goodwill and Other Intangible Assets

Goodwill is not amortized and is required to be tested annually for impairment, or more frequently if changes in circumstances, such as an adverse change to our business environment, cause us to believe that goodwill may be impaired. Goodwill is allocated at the reporting unit level. If the fair value of the reporting unit falls below the book value of the reporting unit at an impairment assessment date, an impairment charge would be recorded.

Should our business environment or other factors change, our goodwill may become impaired and may result in material charges to our income statement.

Definite life intangible assets are subject to impairment reviews when evidence or triggering events suggest that an impairment may have occurred. Should such triggering events occur that cause us to review our definite life intangibles, management evaluates the carrying value in relation to the projection of future cash flows of the underlying assets. If deemed necessary, we would take a charge to earnings for the difference between the carrying value and the estimated fair value. Should factors affecting the value of our definite life intangibles change significantly, such as declining contract retention rates or reduced contractual cash flows, we may need to record an impairment charge in amounts that are significant to our financial statements.

Results of Operations

Basis of Presentation

The following tables present, for the periods indicated, consolidated or combined results of operations and amounts expressed as a percentage of net revenue. This information has been derived from: (1) our audited statements of operations for the years ended December 31, 2007 and 2006, and (2) the combination of our audited statement of operations for the eleven months ended December 31, 2005 and the unaudited combined statement of operations of the Predecessor for the one month ended January 31, 2005, and (3) our audited statement of operations for the eleven months ended December 31, 2005.

Consolidated and Combined (Predecessor) Results of Operations and as a Percentage of Net Revenue
(dollars in thousands)

	Year ended December 31, 2007	Year ended December 31, 2006	Predecessor/ Successor Year ended December 31, 2005 (unaudited)	Eleven months ended December 31, 2005
Net revenue	$ 2,106,993	$ 1,934,205	$ 1,798,554	$ 1,655,485
Compensation and benefits	1,455,970	1,333,648	1,249,246	1,146,055
Operating expenses	317,518	294,806	251,556	233,087
Insurance expense	66,308	74,258	94,757	86,814
Selling, general and administrative expenses	61,893	57,403	58,545	54,262
Depreciation and amortization expenses	70,483	66,005	58,015	54,121
Restructuring charges	2,242	6,369	1,781	1,781
Laidlaw fees and compensation charges[(1)]			14,440	
Segment income from operations	132,579	101,716	70,214	79,365
EMSC depreciation			22	22
Income from operations	132,579	101,716	70,192	79,343
Interest income from restricted assets	7,143	5,987	4,189	4,014
Interest expense	(46,948)	(45,605)	(48,982)	(47,813)
Realized gain (loss) on investments	245	(467)	(151)	(164)
Interest and other income	2,055	2,346	1,036	1,040
Loss on early debt extinguishment		(377)	(2,040)	(2,040)
Equity in earnings of unconsolidated subsidiary	848	432	59	59
Income tax expense	(36,104)	(24,961)	(10,312)	(14,372)
Net income	$ 59,818	$ 39,071	$ 13,991	$ 20,067

(1) Amounts include specifically allocated compensation costs and the Laidlaw fees and compensation charges allocated to AMR and Emcare by Laidlaw pursuant to a formula based upon each company's share of Laidlaw's consolidated revenue.

	Year ended December 31, 2007	Year ended December 31, 2006	Predecessor/ Successor Year ended December 31, 2005 (unaudited)	Eleven months ended December 31, 2005
Net revenue	100.0%	100.0%	100.0%	100.0%
Compensation and benefits	69.1	69.0	69.5	69.2
Operating expenses	15.1	15.2	14.0	14.1
Insurance expenses	3.1	3.8	5.3	5.2
Selling, general and administrative expenses	2.9	3.0	3.3	3.3

			Predecessor/ Successor	
Depreciation and amortization expenses	3.3	3.4	3.2	3.3
Restructuring charges	0.1	0.3	0.1	0.1
Laidlaw fees and compensation[(1)]			0.8	
Income from operations	6.3%	5.3%	3.9%	4.8%

(1) Amounts include specifically allocated compensation costs and the Laidlaw fees and compensation charges allocated to AMR and EmCare by Laidlaw pursuant to a formula based upon each company's share of Laidlaw's consolidated revenue.

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AMR

	Year ended December 31,				Predecessor/ Successor Year ended December 31,		Eleven months ended December 31,	
	2007	% of net revenue	2006	% of net revenue	2005	% of net revenue	2005	% of net revenue
					(unaudited)			
Net revenue	$ 1,219,212	100.0%	$ 1,189,447	100.0%	$ 1,153,513	100.0%	$ 1,059,725	100.0%
Compensation and benefits	772,677	63.4	759,517	63.9	741,695	64.3	678,673	64.0
Operating expenses	275,603	22.6	259,213	21.8	223,624	19.4	207,500	19.6
Insurance expense	36,513	3.0	36,192	3.0	47,899	4.2	43,455	4.1
Selling, general and administrative expenses	42,333	3.5	39,929	3.4	40,047	3.5	36,781	3.5
Depreciation and amortization expense	56,560	4.6	53,024	4.5	47,508	4.1	44,090	4.2
Restructuring charges	2,242	0.2	6,369	0.5	1,633	0.1	1,633	0.2
Laidlaw fees and compensation charges(1)					5,858	0.5		
Income from operations	$ 33,284	2.7%	$ 35,203	3.0%	$ 45,249	3.9%	$ 47,593	4.5%

(1) Amounts include specifically allocated compensation costs and the Laidlaw fees and compensation charges allocated to AMR by Laidlaw pursuant to a formula based upon AMR's share of Laidlaw's consolidated revenue.

EmCare

	Year ended December 31,				Predecessor/ Successor Year ended December 31,		Eleven months ended December 31,	
	2007	% of net revenue	2006	% of net revenue	2005	% of net revenue	2005	% of net revenue
					(unaudited)			
Net revenue	$ 887,781	100.0%	$ 744,758	100.0%	$ 645,041	100.0%	$ 595,760	100.0%
Compensation and benefits	683,293	77.0	574,131	77.1	507,551	78.7	467,382	78.5
Operating expenses	41,915	4.7	35,593	4.8	27,932	4.3	25,587	4.3
Insurance expense	29,795	3.4	38,066	5.1	46,858	7.3	43,359	7.3
Selling, general and administrative expenses	19,560	2.2	17,474	2.3	18,498	2.9	17,481	2.9
Depreciation and amortization expense	13,923	1.6	12,981	1.7	10,507	1.6	10,031	1.7
Restructuring charges					148	0.0	148	0.0
Laidlaw fees and compensation charges(1)					8,582	1.3		
Income from operations	$ 99,295	11.2%	$ 66,513	8.9%	$ 24,965	3.9%	$ 31,772	5.3%

(1) Amounts include specifically allocated compensation costs and the Laidlaw fees and compensation charges allocated to EmCare by Laidlaw pursuant to a formula based upon EmCare's share of Laidlaw's consolidated revenue.

Year ended December 31, 2007 compared to year ended December 31, 2006

Consolidated

Our results for the year ended December 31, 2007 reflect an increase in net revenue of $172.8 million and an increase in net income of $20.7 million compared to the year ended December 31, 2006. The increase in net income is attributable primarily to an increase of $30.9 million in operating income, offset by increases in income tax expense. Basic and diluted earnings per share were $1.44 and $1.39, respectively, for the year ended December 31, 2007. Basic and diluted earnings per share were $0.94 and $0.92, respectively, for the same period in 2006.

Net revenue

For the year ended December 31, 2007, we generated net revenue of $2,107.0 million compared to net revenue of $1,934.2 million for the year ended December 31, 2006, representing an increase of 8.9%. The increase is attributable primarily to increases in rates and volumes on existing contracts and increased volume from net new contracts and acquisitions.

Adjusted EBITDA

Adjusted EBITDA was $210.2 million, or 10.0% of net revenue, for the year ended December 31, 2007 compared to $173.7 million, or 9.0% of net revenue, for the same period in 2006. The increase is attributable primarily to the net impact of revenue growth during the period and continued improvement in insurance claims costs.

Depreciation and amortization expense

Depreciation and amortization expense for the year ended December 31, 2007 was $70.5 million, or 3.3% of net revenue, compared to $66.0 million, or 3.4% of net revenue, for the year ended December 31, 2006. The increase is attributable to higher depreciation expense related to growth in capital expenditures during 2006 and amortization expense recorded on additional contract intangible assets for acquisitions made since December 31, 2006.

Interest income from restricted assets

Interest income from restricted assets for the year ended December 31, 2007 was $7.1 million compared to $6.0 million for the same period in 2006. The increase is attributable primarily to additional insurance collateral assets maintained during the year.

Interest expense

Interest expense for the year ended December 31, 2007 was $46.9 million compared to $45.6 million for the same period in 2006. The increase is attributable primarily to borrowings on our revolving credit facility during the year ended December 31, 2007.

Income tax expense

Income tax expense increased by $11.1 million for the year ended December 31, 2007, compared to the same period in 2006, which resulted primarily from increased operating income. Our effective tax rate for the year ended December 31, 2007 was 38.0% compared with 39.2% for the same period in 2006.

AMR

Net revenue

Net revenue for the year ended December 31, 2007 was $1,219.2 million, an increase of $29.8 million, or 2.5%, from $1,189.4 million for the same period in 2006. The increase in net revenue was due primarily to an increase in our net revenue per weighted transport of approximately 2.7%, or $31.8 million and a decrease of 0.2%, or $2.0 million, in weighted transport volume. Revenue per weighted transport increased due primarily to revenue from our fixed wing air transportation services business acquired in July 2006, and from our Medicaid managed transportation business in Texas, a contract under which we began providing services in June 2006. Weighted transports decreased approximately 4,900 for the year ended December 31, 2007 compared to 2006. The change was primarily the result of the restructuring of certain of our operations in Los Angeles and the exit of our operations located in eastern Michigan, which accounted for a decrease of approximately 139,800 weighted transports. The decrease was partially offset by an increase in weighted transports of 72,295 from our acquisitions of Abbott Ambulance and MedicWest in 2007 and by an increase in transport volume in other markets of 2.1%.

Compensation and benefits

Compensation and benefit costs for the year ended December 31, 2007 were $772.7 million, or 63.4% of net revenue, compared to $759.5 million, or 63.9% of net revenue, for the year ended December 31, 2006. Ambulance crew wages per ambulance unit hour increased by approximately 2.2%, or $9.6 million, principally from annual wage rate increases. Ambulance unit hours decreased period over period by 1.0% or $4.5 million, due to the restructuring of certain of our operations in Los Angeles and the exit of our operations located in eastern Michigan, partially offset by increases from recent acquisitions and in our other markets. Non-crew wages increased $12.0 million, or 6.4% primarily from annual salary increases and additional compensation costs incurred under our fixed wing transportation services business, Medicaid management transportation contract and newly acquired companies. Benefit costs decreased by $1.8 million for the year ended December 31, 2007, compared to the same period in 2006, primarily due to reduced claims costs incurred under our self-insured health plans.

Operating expenses

Operating expenses for the year ended December 31, 2007 were $275.6 million, or 22.6% of net revenue, compared to $259.2 million, or 21.8% of net revenue, for the year ended December 31, 2006. Operating expenses per weighted transport increased 6.5% for the year ended December 31, 2007 compared to the same period in 2006. This change is due primarily to an additional $14.7 million of operating expenses incurred under our fixed wing transportation services business and our Texas Medicaid managed transportation contract and higher fuel costs.

Insurance expense

Insurance expense for the year ended December 31, 2007 was $36.5 million compared to $36.2 million in 2006, or 3.0% of net revenue in both years. Due to continued improvement in estimates of current and prior year ultimate claims costs, a reduction of prior year insurance provisions of $11.3 million was recorded for the year ended December 31, 2007 compared to a $13.0 million reduction for the same period in 2006.

Selling, general and administrative

Selling, general and administrative expense for the year ended December 31, 2007 was $42.3 million, or 3.5% of net revenue, compared to $39.9 million, or 3.4% of net revenue, for the year ended December 31, 2006. The change is primarily due to an increase in software licensing and maintenance fees.

Restructuring charges

Restructuring charges of $2.2 million were recorded during the year ended December 31, 2007, relating to the closure of one of our billing offices and restructuring of our operations in Los Angeles and Orange Counties in California. Restructuring charges of $6.4 million were recorded during the year ended December 31, 2006, relating to the re-alignment of regional, billing, and certain west coast operations, as well as due to our exit from our operations located in eastern Michigan.

Depreciation and amortization

Depreciation and amortization expense for the year ended December 31, 2007 was $56.6 million, or 4.6% of net revenue, compared to $53.0 million, or 4.5% of net revenue, for the same period in 2006. The increase is attributable primarily to higher depreciation expense related to growth in capital expenditures during 2006 and higher amortization expense due to acquisitions since December 31, 2006.

EmCare

Net revenue

Net revenue for the year ended December 31, 2007 was $887.8 million, an increase of $143.0 million, or 19.2%, from $744.8 million for the year ended December 31, 2006. Following December 31, 2005, we added 60 net new contracts which accounted for a net revenue increase of $72.5 million in 2007. Of the 60 net new contracts added since December 31, 2005, 43 were added in 2006 resulting in an increase in 2007 net revenue of $49.0 million. For the year ended December 31, 2007, EmCare added a net 17 new contracts, from starting 68 new contracts and terminating 51 contracts, resulting in an increase in net revenue of $23.4 million in 2007. Net revenue under our "same store" contracts (contracts in existence for the entirety of both years) increased $70.6 million, or 12.0%, for the year ended December 31, 2007 due to an 8.2% increase in net revenue per patient visit from rate increases from our third-party payors and from retroactive revenue adjustments of 1.8% recorded during 2007. For the year ended December 31, 2007, "same store" patient visits increased 2.0% compared to the same period in 2006.

Compensation and benefits

Compensation and benefits costs for the year ended December 31, 2007 were $683.3 million, or 77.0% of net revenue, compared to $574.1 million, or 77.1% of net revenue, for the same period in 2006. Provider compensation costs increased $57.3 million from net new contract additions. "Same store" provider compensation costs increased $39.6 million due to an 8.7% increase in provider compensation per patient visit primarily due to increases in net revenue per patient visit. The remaining variance is related primarily to higher expense for incentive compensation plans and increased variable salary costs due to growth in patient visits.

Operating expenses

Operating expenses for the year ended December 31, 2007 were $41.9 million, or 4.7% of net revenue, compared to $35.6 million, or 4.8% of net revenue, for the same period in 2006. The variance is primarily due to growth in patient visits from net new contracts and from additional off-hours radiology coverage of $3.2 million.

Insurance expense

Professional liability insurance expense for the year ended December 31, 2007 was $29.8 million, or 3.4% of net revenue, compared to $38.1 million, or 5.1% of net revenue, for the same period in 2006. The decrease is due to the continued improvement in our estimates for current and prior year ultimate claims costs. As a result, a reduction of prior year insurance provisions of $10.2 million was recorded during the year ended December 31, 2007. A reduction of $3.9 million was recorded for the year ended December 31, 2006.

Selling, general and administrative

Selling, general and administrative expense for the year ended December 31, 2007 was $19.6 million, or 2.2% of net revenue, compared to $17.5 million, or 2.3% of net revenue, for the same period in 2006.

Depreciation and amortization

Depreciation and amortization expense for the year ended December 31, 2007 was $13.9 million, or 1.6% of net revenue, compared to $13.0 million, or 1.7% of net revenue, for the same period in 2006.

Year ended December 31, 2006 compared to year ended December 31, 2005

Consolidated/Combined

Our results for the year ended December 31, 2006 reflect an increase in net revenue of $135.7 million and an increase in net income of $25.1 million from the year ended December 31, 2005. The increase in net income is attributable primarily to an increase of $33.3 million in income from operations partially offset by an increase in income tax expense. Basic and diluted earnings per share were $0.94 and $0.92, respectively, for the year ended December 31, 2006.

We completed our initial offering of class A common stock on December 21, 2005; when issued, public trading of our shares commenced on December 16, 2005.

Net revenue

For the year ended December 31, 2006 we generated net revenue of $1,934.2 million, compared to net revenue of $1,798.6 million for year ended December 31, 2005, representing an increase of 7.5%. The increase is attributable primarily to increases in rates and volumes on existing contracts and increased volume from net new contracts.

Depreciation and amortization expense

Depreciation and amortization expense for the year ended December 31, 2006 was $66.0 million, or 3.4% of net revenue, compared to $58.0 million, or 3.2% of net revenue, for the year ended December 31, 2005. The change is attributable to amortization expense on the contract intangible assets recorded in connection with the acquisition of AMR and EmCare, increasing capital expenditures and changes in the composition and timing of capital expenditures.

Income from operations

Income from operations was $101.7 million, or 5.3% of net revenue, for the year ended December 31, 2006 compared to $70.2 million, or 3.9% of net revenue, for the year ended December 31, 2005. The increase is attributable primarily to the elimination of Laidlaw acquisition-related compensation charges, continued improvement in insurance claims costs and the net impact of revenue growth during the period.

Interest income from restricted assets

Interest income from restricted assets for the year ended December 31, 2006 was $6.0 million compared to $4.2 million for the same period in 2005. The increase is attributable primarily to additional insurance collateral assets maintained during the year.

Interest expense

Interest expense for the year ended December 31, 2006 was $45.6 million compared to $49.0 million for the year ended December 31, 2005. The decrease relates to the repayment of approximately $99.1 million of our senior secured credit facility in December 2005 following our initial public offering and unscheduled repayments of $10.0 million and $9.4 million in May 2006 and July 2006, respectively, offset by rising interest rates.

Income tax expense

Income tax expense increased by $14.6 million for the year ended December 31, 2006, compared to the same period in 2005, resulting primarily from increased operating income. The one month ended January 31, 2005 included one-time acquisition-related Laidlaw compensation charges which resulted in an operating loss for the month and an associated income tax benefit. Our effective tax rate for 2006 was 39.2%.

AMR

Net revenue

Net revenue for the year ended December 31, 2006 was $1,189.4 million, an increase of $35.9 million, or 3.1%, from $1,153.5 million for the same period in 2005. The increase in net revenue was due primarily to an increase in our net revenue per weighted transport of approximately 3.1% (4.1% excluding the net decrease in hurricane-related revenue). Net revenue per weighted transport increased 1.7% due to revenue from our recently acquired fixed wing air transportation services business and from our Medicaid managed transportation business in Texas. During 2006, AMR was awarded a contract with the Texas Department of Transportation to provide management of non-emergency transportation services for Medicaid clients in four geographical areas. Net revenue per transport also increased due to rate increases in several markets partially offset by Medicare rate reductions and an increase in our self-pay transport mix in certain markets. The loss of a portion of AMR's 9-1-1 contract with Los Angeles County resulted in a reduction of approximately 60,100 emergency transports and approximately $23.2 million in net revenue during the year ended December 31, 2006 compared with the same period last year. Excluding the impact of the Los Angeles County reduction, ambulance transport volume increased 2.2%, offset by a 2.0% decrease in wheelchair transports for planned reductions in certain markets, resulting in an increase of approximately 59,900 weighted transports compared with the same period last year.

Compensation and benefits

Compensation and benefits costs for the year ended December 31, 2006 were $759.5 million, or 63.9% of net revenue, compared to $741.7 million, or 64.3% of net revenue, for the year ended December 31, 2005. Ambulance unit hours increased period over period by 0.5%, primarily due to contractual deployment changes, partially offset by the reduction in Los Angeles County volumes and the associated decrease in ambulance unit hours, increasing compensation costs by $1.9 million. Ambulance crew wages per ambulance unit hour increased by approximately 4.4%, or $18.1 million principally from annual salary increases and increased overtime due to staffing shortages in certain markets. Wheelchair crew wages decreased by $1.0 million during the period due to reduced volumes and associated unit hours. Benefits costs increased by $0.2 million for the year ended December 31, 2006, but decreased 0.5% as a percentage of salaries compared to the same period last year primarily due to reduced claims costs incurred under our self-insured health plans.

Operating expenses

Operating expenses for the year ended December 31, 2006 were $259.2 million, or 21.8% of net revenue, compared to $223.6 million, or 19.4% of net revenue, for the year ended December 31, 2005. Operating expenses per weighted transport increased 15.9% in the year ended December 31, 2006 compared to the same period in 2005. This change is due to additional operating expenses incurred under our Texas Medicaid managed transportation contract and our recently acquired fixed wing transportation services business, which amounted to $19.8 million for the year ended December 31, 2006. In addition, external provider costs, such as dispatch and first responder fees and provider costs incurred under our Kaiser contract, increased by $4.6 million or 9.2%, which were partially offset by additional revenue. Fuel costs increased by $3.8 million and other operating costs, including medical supplies, occupancy and professional fees increased by $7.4 million.

Insurance expense

Insurance expense for the year ended December 31, 2006 was $36.2 million, or 3.0% of net revenue, compared to $47.9 million, or 4.2% of net revenue, for the same period in 2005. The decrease is due to the continued improvement in our estimated current and prior year ultimate claims costs. As a result, a reduction of prior year insurance provisions of $13.0 million was recorded during the year ended December 31, 2006, compared to a $7.3 million reduction recorded during the same period last year.

Selling, general and administrative

Selling, general and administrative expense for the year ended December 31, 2006 was $39.9 million, or 3.4% of net revenue, compared to $40.0 million, or 3.5% of net revenue, for the year ended December 31, 2005. The decrease relates primarily to our ability to better leverage support costs across our operations.

Restructuring charges

Restructuring charges of $6.4 million were recorded during the year ended December 31, 2006, related to the re-alignment of regional, billing and certain west coast operations, as well as due to the exit from our operations located in eastern Michigan. AMR incurred restructuring charges during the year ended December 31, 2005 of $1.6 million related to the consolidation of two operating regions and the combination of the AMR and EmCare corporate overhead departments.

Laidlaw fees and compensation charges

AMR did not incur Laidlaw compensation charges subsequent to the acquisition in February 2005. Results for the year ended December 31, 2005 include $5.9 million, or 0.5% of net revenue, for Laidlaw acquisition-related compensation charges incurred in January 2005.

Depreciation and amortization

Depreciation and amortization expense for the year ended December 31, 2006 was $53.0 million, or 4.5% of net revenue, compared to $47.5 million, or 4.1% of net revenue, for the same period in 2005. The increase is attributable to additional amortization expense related to the contract intangible asset we recorded in connection with the acquisition of AMR and an increase in depreciation expense related to increased capital expenditures and changes in the composition and timing of capital expenditures.

EmCare

Net revenue

Net revenue for the year ended December 31, 2006 was $744.8 million, an increase of $99.7 million, or 15.5%, from $645.0 million in 2005. The increase was due primarily to an increase in patient visits from net new hospital contracts and net revenue increases in existing contracts. During the two years ended December 31, 2006, we added 69 net new contracts, which accounted for a net revenue increase of $41.9 million for the year ended December 31, 2006. Of the 69 net new contracts added since December 31, 2004, 26 were added in 2005 resulting in an increase in 2006 net revenue of $17.0 million. Net new contracts added in 2006 totaled 43 and increased 2006 net revenue by $24.9 million. Of the 43 net new contracts added in 2006, 20 were from our acquisition of CSS in November 2006 with related net revenue totaling $1.6 million. Net revenue under our same store contracts increased $57.8 million in the year ended December 31, 2006 due to a 4.5% increase in patient visits and a 6.9% increase in net revenue per patient visit.

Compensation and benefits

Compensation and benefits costs for the year ended December 31, 2006 were $574.1 million, or 77.1% of net revenue, compared to $507.6 million, or 78.7% of net revenue, for the same period in 2005. Provider compensation and benefits costs increased $25.6 million from net new contract additions. Same store provider compensation and benefits costs increased $30.7 million due to a 4.5% increase in patient visits and a 4.8% increase in provider compensation per patient visit. The remaining variance is due to higher variable compensation costs for our billing function due to the increase in patient visits and higher payments on profitability-based incentive compensation plans for non-clinical employees.

Operating expenses

Operating expenses for the year ended December 31, 2006 were $35.6 million, or 4.8% of net revenue, compared to $27.9 million, or 4.3% of net revenue, for the same period in 2005. Operating expenses increased primarily due to the addition of net new contracts, increased patient visits at same store contracts, additional off hours radiology coverage for new contracts and increased professional fees related to various Company initiatives.

Insurance expense

Professional liability insurance expense for the year ended December 31, 2006 was $38.1 million, or 5.1% of net revenue, compared to $46.9 million, or 7.3% of net revenue, for the year ended December 31, 2005. The decrease is due to the continued improvement in our estimated current and prior year ultimate claims costs. As a result, a reduction of prior year insurance provisions of $3.9 million was recorded during the year ended December 31, 2006.

Selling, general and administrative

Selling, general and administrative expense for the year ended December 31, 2006 was $17.5 million, or 2.3% of net revenue, compared to $18.5 million, or 2.9% of net revenue, for the year ended December 31, 2005. The decrease relates primarily to our ability to better leverage support costs across our operations.

Laidlaw fees and compensation charges

EmCare did not incur Laidlaw compensation charges subsequent to the acquisition in February 2005. Results for the year ended December 31, 2005 include $8.6 million, or 1.3% of net revenue, for Laidlaw acquisition-related compensation charges incurred in January 2005.

Depreciation and amortization

Depreciation and amortization expense for the year ended December 31, 2006 was $13.0 million, or 1.7% of net revenue, compared to $10.5 million, or 1.6% of net revenue, for the year ended December 31, 2005. The increase as a percentage of net revenue is attributable to additional amortization expense from the contract intangible we recorded in connection with the acquisition of EmCare, as well as depreciation expense related to EmCare's participation in Company-wide shared services initiatives.

Liquidity and Capital Resources

Our primary source of liquidity is cash flow provided by our operating activities. We can also use our revolving senior secured credit facility, described below, to supplement cash flows provided by our operating activities if we decide to do so for strategic or operating reasons. Our liquidity needs are primarily to service long-term debt and to fund working capital requirements, capital expenditures related to the acquisition of vehicles and medical equipment, technology-related assets and insurance-related deposits. See the discussion in Item 1A, "Risk Factors" for circumstances that could affect our sources of liquidity.

We have available to us, upon compliance with customary conditions, $100.0 million under the revolving credit facility, less any letters of credit outstanding. Outstanding letters of credit at December 31, 2007 were $29.6 million. Further, we have a conditional right under our senior secured credit facility to request new or existing lenders to provide up to an additional $100.0 million of term debt (in $20.0 million increments).

Cash Flow

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

	Year ended December 31,		Predecessor/ Successor	
	2007	2006	Year ended December 31, 2005	Eleven months ended December 31, 2005
			(unaudited)	
Net cash provided (used) by:				
Operating activities	$ 97,818	$ 165,742	$ 105,283	$ 109,963
Investing activities	(100,226)	(113,127)	(902,813)	(909,629)
Financing activities	$ (8,014)	$ (31,327)	$ 811,715	$ 803,083

Operating Activities

Net cash provided by operating activities was $97.8 million for the year ended December 31, 2007 compared to $165.7 million for the same period in 2006. Operating cash flows were affected primarily by changes in net income, accounts receivable and accounts payable and accrued liabilities. Increases in accounts receivable decreased operating cash flows by $75.0 million for the year ended December 31, 2007 compared to $4.7 million for the same period in 2006. The 2006 period was impacted positively by the collection of hurricane-related and income tax receivables recorded in 2005. The 2007 period was impacted by increases in accounts receivable at our EmCare segment primarily related to a significant increase in net revenue of $143.0 million. Our AMR segment was impacted negatively in the 2007 period primarily due to the implementation of a new billing system in several markets and by our acquisition of MedicWest, in which we did not purchase the existing accounts receivable balances. We expect these to be temporary delays in our collection process and to have no material effect on our financial condition or results of operations. The changes in accounts payable and accrued liabilities are primarily attributable to the timing of payroll related payments.

For the years ended December 31, 2006 and 2005, we generated cash flows from operating activities of $165.7 million and $105.3 million, respectively. Operating cash flows were positively affected by increased net income, utilization of deferred tax assets, and timing differences on insurance premium and employee compensation payments. For the year ended December 31, 2006, we had net income of $39.1 million, compared to $14.0 million for the year ended December 31, 2005. Changes in working capital contributed $24.9 million for the year ended December 31, 2006, which included a $4.7 million decrease in accounts receivable, and a $30.7 million increase in accounts payable and accrued liabilities. Working capital uses in operating cash flow were $20.3 million for the year ended December 31, 2005, including an increase in accounts receivable of $57.4 million, primarily related to hurricane revenue and income tax refunds, offset in part by increases in accrued liabilities of $36.3 million.

Certain government programs, including Medicare and Medicaid programs, require notice or re-enrollment when certain ownership changes occur. In certain jurisdictions such changes require pre- or post-notification to governmental licensing and certification agencies, agencies with which we have contracts. If the payor requires us to complete the re-enrollment process prior to submitting reimbursement requests, we may be delayed in payment, receive refund requests or be subject to recoupment for services we provide in the interim.

Investing Activities

Net cash used in investing activities was $100.2 million for the year ended December 31, 2007 compared to $113.1 million for the same period in 2006. The decrease relates primarily to acquisitions of businesses of $75.6 million during the year ended December 31, 2007 compared with acquisitions of businesses of $23.6 million during the same period in 2006. The increase in acquisitions was offset partially by a $39.2 million reduction in net insurance collateral funding and a $21.5 million reduction in net capital expenditures.

Net cash used in investing activities was $113.1 million for the year ended December 31, 2006, compared to $902.8 million for the year ended December 31, 2005. The $789.7 million decrease was attributable principally to our net cash outflow of $828.8 million to fund the acquisition of AMR and EmCare. We also had net cash outflows to fund our insurance related programs of $28.4 million in fiscal 2006 and $27.4 million for the year ended December 31, 2005. Capital expenditures were $60.4 million in fiscal 2006 and $52.8 million for the year ended December 31, 2005. Cash outflows to fund acquisitions of businesses were $23.6 million in 2006.

Financing Activities

For the year ended December 31, 2007, net cash used in financing activities was $8.0 million compared to $31.3 million for the same period in 2006. The variance related primarily to unscheduled payments of approximately $19.4 million on our senior secured credit facility in 2006. Included in net cash used in financing activities for the year ended December 31, 2007, are borrowings and repayments under our revolving credit facility. At December 31, 2007, there were no amounts outstanding under our revolving credit facility.

For the year ended December 31, 2006, net cash used in financing activities was $31.3 million, compared to net cash provided by financing activities of $811.7 million for the year ended December 31, 2006. The decrease in net cash provided by financing activities relates primarily to borrowings under our senior secured credit facility and our issuance of senior subordinated notes in 2005. For the year ended December 31, 2005, net cash used in financing activities included financing costs of $18.3 million and repayments of debt, including capital lease and senior secured credit facility obligations totaling $134.4 million. Repayments of debt in the year ended December 31, 2006 were $27.1 million and included early repayments of $19.4 million.

Debt Facilities

The acquisition of AMR and EmCare resulted in a significant increase in the level of our outstanding debt. We have a $450.0 million senior secured credit facility bearing interest at variable rates at specified margins above either the agent bank's alternate base rate or its LIBOR rate. The senior secured credit facility consists of a $100.0 million, six-year revolving credit facility and a $350.0 million, seven-year term loan. We borrowed the full amount of the term loan, and $20.2 million under the revolving credit facility, on February 10, 2005 to fund the acquisition of AMR and EmCare and pay related fees and expenses. On February 10, 2005, we also issued $250.0 million principal amount of 10% senior subordinated notes due 2015. We used the net proceeds of this notes issuance to fund the acquisition.

In December 2005, we used a significant portion of the proceeds from our initial public offering of common stock to prepay $99.1 million of the term loan. We did not incur a prepayment penalty or any similar charges in connection with this prepayment. This amount is not available for future borrowings. We prepaid $19.4 million of the term loan in 2006.

Our $350.0 million term loan initially carried interest at the alternate base rate, plus a margin of 1.75%, or the LIBOR rate, plus a margin of 2.75%. We refinanced this term loan on March 29, 2005 for a term loan with identical terms except that the margins were reduced by 0.25%. The term loan is subject to quarterly amortization of principal (in quarterly installments), with 1% of the aggregate principal payable in each of the first six years, with the remaining balance due in the final year. Our $100.0 million revolving credit facility initially bears interest at the alternate base rate, plus a margin of 1.75%, or the LIBOR rate, plus a margin of 2.75%. We had no outstanding borrowings under the revolving credit facility at December 31, 2007 and 2006. Under the terms of our senior secured credit facility, our letters of credit outstanding reduce our available borrowings under the revolving credit facility. At December 31, 2007, our outstanding letters of credit totaled $29.6 million, including $16.8 million to support our self-insurance program and $12.8 million, primarily related to secure our performance under certain 911 emergency response contracts, and our availability under the revolving credit facility was $70.4 million.

All amounts borrowed under our senior secured credit facility are collateralized by, among other things:

- substantially all present and future shares of the capital stock of AMR HoldCo, Inc., and EmCare HoldCo, Inc., our wholly-owned subsidiaries which are the co-borrowers, and each of their present and future domestic subsidiaries and 65% of the capital stock of controlled foreign corporations;
- substantially all present and future intercompany debt of the co-borrowers and each guarantor; and
- substantially all of the present and future property and assets, real and personal, of the co-borrowers and each guarantor.

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The agreements governing our senior secured credit facility contains customary affirmative and negative covenants, including, among other things, restrictions on indebtedness, liens, mergers and consolidations, sales of assets, loans, acquisitions, joint ventures, restricted payments, transactions with affiliates, dividends and other payment restrictions affecting subsidiaries, a change in control of the company and other matters customarily restricted in such agreements. The agreement governing our senior secured credit facility also contains financial covenants, including a maximum total leverage ratio (4.50 to 1.00 as of December 31, 2007), maximum senior leverage ratio (2.50 to 1.00 as of December 31, 2007), a minimum fixed charge coverage ratio (1.10 to 1.00 as of December 31, 2007) and a maximum capital expenditure amount ($65 million as of December 31, 2007). The financial covenant ratios are based on adjusted EBITDA, which is the amount of our income (loss) from operations before depreciation and amortization expenses and other specifically identified exclusions. These ratios are to be calculated each quarter based on the financial data for the four fiscal quarters then ending. Each financial covenant ratio and capital expenditure amount adjusts over time as set forth in our senior secured credit facility. Our failure to meet any of these financial covenants could be an event of default under our senior secured credit facility.

On March 7, 2007, we entered into Waiver and Amendment No. 2, or the Second Amendment, to our senior secured credit facility. The Second Amendment increased the threshold consideration requiring us to provide financial information to the lenders prior to an acquisition, eliminated the annual and aggregate maximum amounts we are permitted to spend on acquisitions, and extended our deadlines to provide lenders with financial forecasts of EMS LP and its subsidiaries for the immediately following fiscal year. In addition, the Second Amendment waived any potential technical non-compliance with the senior secured credit facility arising from a name change related to AMR HoldCo, Inc.

The calculated ratios and amounts for the fiscal year ended December 31, 2007 were as follows (dollars in thousands):

Total Leverage Ratio:		2.27
Consolidated Indebtedness/	$	482,883
Adjusted LTM EBITDA(1)	$	213,176
Senior Leverage Ratio:		1.09
Senior Indebtedness/	$	232,883
Adjusted LTM EBITDA(1)	$	213,176
Fixed Charge Coverage Ratio:		3.11
Fixed Charge Numerator(2)	$	174,841
Fixed Charge Denominator(3)	$	56,216
Capital Expenditures:	$	37,976

(1) "Adjusted LTM EBITDA" is calculated as set forth in our senior secured credit facility: our consolidated Adjusted EBITDA for the four fiscal quarters ended December 31, 2007, adding back all management fees, and other specifically identified exclusions.

(2) The numerator for the fixed charge ratio is calculated as set forth in our senior secured credit facility: Adjusted EBITDA, less capital expenditures, for the four fiscal quarters ended December 31, 2007.

(3) The denominator for the fixed charge ratio is calculated as set forth in our senior secured credit facility: the sum of our consolidated interest expense, cash income taxes and principal amount of all scheduled amortization payments on all Indebtedness (as defined), including pro forma annual principal payments on our senior secured credit facility, for the four fiscal quarters ended December 31, 2007.

The indenture governing our senior subordinated notes contains a number of covenants that, among other things, restrict our ability and the ability of our subsidiaries, subject to certain exceptions, to sell assets, incur additional debt or issue preferred stock, repay other debt, pay dividends and distributions or repurchase our capital stock, create liens on assets, make investments, loans or advances, make certain acquisitions, engage in mergers or consolidations and engage in certain transactions with affiliates. We do not expect to be in violation of our debt covenants in 2008.

Off-Balance Sheet Arrangements

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Accordingly, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

Tabular Disclosure of Contractual Obligations and other Commitments

The following table reflects a summary of obligations and commitments outstanding as of December 31, 2007, including our borrowings under our senior secured credit facility and our senior subordinated notes.

	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	Total
			(in thousands)		
Contractual obligations (Payments Due by Period):					
Long-term debt[1]	$ 260	$ 1,262	$ 210	$ 561	$ 2,293
Senior secured credit facility[2]	2,305	4,610	217,252		224,167
Capital lease obligations	2,499	4,510			7,009
Senior subordinated notes				250,000	250,000
Interest on debt[3]	35,500	77,054	68,145	52,778	233,477
Operating lease obligations	28,307	40,734	29,243	28,233	126,517
Other contractual obligations[4]	16,054	11,499	4,815	4,884	37,252
Subtotal	84,925	139,669	319,665	336,456	880,715
Other commitments(Amount of Commitment Expiration Per Period):					
Guarantees of surety bonds				35,829	35,829
Letters of credit[5]				29,599	29,599
Subtotal				65,428	65,428
Total obligations and commitments	$ 84,925	$ 139,669	$ 319,665	$ 401,884	$ 946,143

(1) Excludes capital lease obligations.

(2) Excludes interest on our senior secured credit facility and senior subordinated notes.

(3) Interest on our floating rate debt was calculated for all years using the effective rate as of December 31, 2007 of 7.15%. See the discussion in Item 7A, "Quantitative and Qualitative Disclosures of Market Risk", for situations that could result in changes to interest costs on our variable interest rate debt.

(4)

Includes Onex management fees, dispatch fees and responder fees, and other purchase obligations of goods and services.

(5) Evergreen renewals are deemed to have expiration dates in excess of 5 years.

We have one capital lease relating to approximately 450 ambulances. The term of the lease extends to March 2010.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of December 31, 2007, we had $476.5 million of outstanding debt, excluding capital leases, of which $24.2 million was variable rate debt under our senior secured credit facility and the balance was fixed rate debt, including the $250 million aggregate principal amount of our senior subordinated notes and $200 million under our senior secured credit facility. An increase or decrease in interest rates will not materially affect our interest costs.

We monitor the risk from changing interest rates and evaluate ways to mitigate possible exposures, as appropriate, using derivative and hedging instruments. Our use of derivative instruments is limited to highly effective fixed interest rate swap agreements used to manage well-defined interest rate risk exposures. At December 31, 2007, we were party to one interest rate swap agreement. The swap agreement is with major financial institutions and is for a notional amount of $200 million of our variable rate debt. This swap agreement effectively converts $200 million of variable rate debt to fixed rate debt with an effective rate of 4.3%. The Company continues to make interest payments based on the variable rate associated with the debt (based on LIBOR which had an average rate of 3.81% at December 31, 2007) and periodically settles with its counterparties for the difference between the rate paid and the fixed rate. The remaining term of this swap agreement is two years from December 2007.

We reduced the outstanding balance of our variable rate debt in fiscal 2006 through two unscheduled prepayments of the outstanding balance totaling $19.4 million.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See index to financial information on page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) of the Securities Exchange Act of 1934, as amended, management carried out an evaluation under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures that were in effect as of the end of the period covered by this report. Our Chief Executive Officer and Chief Financial Officer each concluded that our disclosure controls and procedures are effective at a reasonable assurance level as of December 31, 2007, the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal controls over financial reporting during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal controls over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, the Company conducted an assessment of the effectiveness of its internal control over financial reporting as of December 31, 2007. The assessment was based on criteria established in the framework *Internal Control Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that our internal control over financial reporting was effective as of December 31, 2007.

The effectiveness of our internal control over financial reporting as of December 31, 2007, has been audited by Ernst & Young LLP, an independent registered public accounting firm. Their report appears with the Consolidated Financial Statements included in Part II, Item 8 of this Form 10-K.

ITEM 9B. OTHER INFORMATION

On February 26, 2008, EMSC, in its capacity as General Partner of EMS LP, entered into the Second Amended and Restated Agreement of Limited Partnership of EMS LP, or the Amended LP Agreement. The Amended LP Agreement provides that EMSC will act with respect to EMS LP through a Board of Directors, or the Partnership Board, consisting of one to three directors, who will be elected by EMSC to serve at EMSC's pleasure until the director or directors' resignation or removal. EMSC has elected William A. Sanger to serve as the sole director on the Partnership Board, and EMSC has no plans to elect additional directors to serve on the Partnership Board at this time. EMSC adopted the Amended LP Agreement in order to meet structural requirements under its 2007 Employee Stock Purchase Plan, and EMSC does not anticipate any practical changes to the governance structure of EMS LP.

Also on February 26, 2008, Amendment No. 2 to the Equityholders' Agreement, or the Equityholders' Agreement, dated February 10, 2005, among EMS LP, Onex Partners, LP, the equityholders signatory thereto and future signatories, became effective. The amendment provides that the restrictions in the Equityholders' Agreement on employees and affiliated physicians, or the Affiliate Investors, against selling class A common stock of EMSC received by the Affiliate Investors in exchange for their EMS LP partnership units, or the EMS LP Units, apply solely to EMS LP Units held prior to EMSC's initial public offering in December 2005, and not to EMS LP Units underlying options held by the Affiliate Investors prior to EMSC's initial public offering.

PART III.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Incorporated by reference to the Company's Proxy Statement for its Annual Stockholders Meeting to be filed with the Securities and Exchange Commission within 120 days after December 31, 2007.

ITEM 11. EXECUTIVE COMPENSATION

Incorporated by reference to the Company's Proxy Statement for its Annual Stockholders Meeting to be filed with the Securities and Exchange Commission within 120 days after December 31, 2007.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Incorporated by reference to the Company's Proxy Statement for its Annual Stockholders Meeting to be filed with the Securities and Exchange Commission within 120 days after December 31, 2007.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Incorporated by reference to the Company's Proxy Statement for its Annual Stockholders Meeting to be filed with the Securities and Exchange Commission within 120 days after December 31, 2007.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Incorporated by reference to the Company's Proxy Statement for its Annual Stockholders Meeting to be filed with the Securities and Exchange Commission within 120 days after December 31, 2007.

PART IV.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Financial Statement Schedules

The Consolidated and Combined Financial Statements and Notes thereto filed as part of Form 10-K can be found in Item 8,"Financial Statements and Supplementary Data", of this Annual Report.

Exhibits

The list of exhibits required by Item 601 of Regulation S-K and filed as part of this Annual Report on Form 10-K is as follows:

Exhibit No.	Description
2.1	Stock Purchase Agreement, dated as of December 6, 2004, by and among Laidlaw International, Inc., Laidlaw Medical Holdings, Inc. and Emergency Medical Services Corporation (incorporated by reference to Exhibit 2.1 of the Company's Registration Statement on Form S-1 filed August 2, 2005).
2.2	Amendment to Stock Purchase Agreement, dated February 10, 2005, by and among Laidlaw International, Inc., Laidlaw Medical Holdings, Inc. and Emergency Medical Services Corporation (incorporated by reference to Exhibit 2.2 of the Company's Registration Statement on Form S-1 filed August 2, 2005).
2.3	Stock Purchase Agreement, dated as of December 6, 2004, by and among Laidlaw International, Inc., Laidlaw Medical Holdings, Inc. and Emergency Medical Services Corporation (incorporated by reference to Exhibit 2.3 of the Company's Registration Statement on Form S-1 filed August 2, 2005).
2.4	Amendment to Stock Purchase Agreement, dated as of February 10, 2005, by and among Laidlaw International, Inc., Laidlaw Medical Holdings, Inc. and Emergency Medical Services Corporation (incorporated by reference to Exhibit 2.4 of the Company's Registration Statement on Form S-1 filed August 2, 2005).
2.5	Letter, dated March 25, 2005, to AMR HoldCo, Inc. from Laidlaw Medical Holdings, Inc. (incorporated by reference to Exhibit 2.5of the Company's Registration Statement on Form S-1 filed August 2, 2005).
3.1	Amended and Restated Certificate of Incorporation of Emergency Medical Services Corporation (incorporated by reference to Exhibit 3.1 of the Company's Annual Report on Form 10-K for the eleven months ended December 31, 2005).
3.2	Amended and Restated By-Laws of Emergency Medical Services Corporation (incorporated by reference to Exhibit 3.2 of the Company's Annual Report on Form 10-K for the eleven months ended December 31, 2005).
3.3	Certificate of Formation of Emergency Medical Services L.P. (incorporated by reference to Exhibit 3.3 of the Company's Registration Statement on Form S-1 filed August 2, 2005).
3.4	Second Amended and Restated Agreement of Limited Partnership of Emergency Medical Services L.P., by and among Emergency Medical Services Corporation and the persons listed on Schedule A thereto.*

4.1	Form of Class A Common Stock Certificate (incorporated by reference to Exhibit 4.1 of the Company's Amendment No. 5 to Registration Statement on Form S-1 filed December 6, 2005).
4.2	Form of Class B Common Stock Certificate (incorporated by reference to Exhibit 4.2 of the Company's Amendment No. 5 to Registration Statement on Form S-1 filed December 6, 2005).
4.3	Investor Equityholders Agreement, dated February 10, 2005, by and among Emergency Medical Services L.P., Onex Partners LP and the equityholders listed on the signature pages thereto (incorporated by reference to Exhibit 4.3 of the Company's Registration Statement on Form S-1 filed August 2, 2005).
4.4	Equityholders Agreement, dated as of February 10, 2005, by and among Emergency Medical Services L.P., Onex Partners LP and the equityholders listed on the signature pages thereto (incorporated by reference to Exhibit 4.4 of the Company's Amendment No. 1 to Registration Statement on Form S-1 filed September 14, 2005).
4.4.1	Amendment No. 2 to the Equityholders Agreement, dated as of February 26, 2008, by and among Emergency Medical Services L.P., Onex Partners LP and the equityholders listed on the signature page thereto.*
4.5	Registration Agreement, dated February 10, 2005, by and among Emergency Medical Services L.P. and the persons listed on Schedule A thereto and amendment thereto (incorporated by reference to Exhibit 4.5 of the Company's Amendment No. 1 to Registration Statement on Form S-1 filed September 14, 2005).
4.6	Indenture, dated February 10, 2005, by and among AMR HoldCo, Inc., EmCare HoldCo, Inc., the guarantors named therein and U.S. Bank Trust National Association, as trustee (incorporated by reference to Exhibit 4.6 of the Company's Registration Statement on Form S-1 filed August 2, 2005).
4.7	Supplemental Indenture, dated April 15, 2005, by and among AMR Brockton L.L.C., AMR HoldCo, Inc., EmCare HoldCo, Inc., the guarantors named therein and U.S. Bank Trust National Association, as trustee (incorporated by reference to Exhibit 4.7 of the Company's Registration Statement on Form S-1filed August 2, 2005).
4.8	Supplemental Indenture No. 2, effective as of September 30, 2005, by and among Global Medical Response, Inc., AMR HoldCo, Inc., EmCare HoldCo, Inc., the guarantors named therein and U.S. Bank Trust National Association, as trustee (incorporated by reference to Exhibit 4.8 of the Company's Amendment No. 3 to Registration Statement on Form S-1 filed November 14, 2005).
4.9	Supplemental Indenture No. 3, effective as of February 23, 2006, by and among Emergency Medical Services Corporation, AMR HoldCo, Inc., EmCare HoldCo, Inc., the guarantors named therein and U.S. Bank Trust National Association, as trustee (incorporated by reference to Exhibit 4.8 of the Company's Amendment No. 3 to Registration Statement on Form S-1 filed November 14, 2005).
4.10	Supplemental Indenture No. 4, effective as of August 7, 2006, among the Issuers named therein, the Guarantors named therein and U.S. Bank Trust National Association, as trustee (incorporated by reference to Exhibit 4.10 of the Company's Annual Report on Form 10-K filed on March 8, 2007).

4.11	Supplemental Indenture No. 5, effective as of August 7, 2006, among Air Ambulance Specialists, Inc., a Colorado corporation and successor by merger to Eagle Acquisition Subsidiary, Inc., the Issuers named therein, the other Guarantors named therein and U.S. Bank Trust National Association, as trustee (incorporated by reference to Exhibit 4.11 of the Company's Annual Report on Form 10-K filed on March 8, 2007).
4.12	Supplemental Indenture No. 6, effective as of November 28, 2006, among Electrolyte Acquisition Subsidiary, Inc., the Issuers named therein, the other Guarantors named therein and U.S. Bank Trust National Association, as trustee (incorporated by reference to Exhibit 4.12 of the Company's Annual Report on Form 10-K filed on March 8, 2007).
4.13	Registration Rights Agreement, dated as of February 10, 2005, by and among AMR HoldCo, Inc., EmCare HoldCo, Inc., the guarantors named therein, Banc of America Securities LLC and J.P. Morgan Securities Inc.(incorporated by reference to Exhibit 4.9 of the Company's Registration Statement on Form S-1 filed August 2, 2005).
4.14	Voting and Exchange Trust Agreement, dated as of December 20, 2005, among Emergency Medical Services Corporation, Emergency Medical Services L.P. and Onex Corporation(incorporated by reference to Exhibit 4.11 of the Company's Annual Report on Form 10-K for the eleven months ended December 31, 2005).
4.15	Form of Indemnification Agreement (incorporated by reference to Exhibit 4.11 of the Company's Amendment No. 4 to Registration Statement on Form S-1 filed December 5, 2005).
4.16	Form of 10% Senior Subordinated Note due 2015 (included in Exhibit 4.6).
4.17	Notification of Guarantee, dated as of February 10, 2005, executed by the guarantors identified therein (incorporated by reference to Exhibit 4.12 of the Company's Registration Statement on Form S-4 filed October 11, 2005).
9.1	Voting and Exchange Trust Agreement, dated as of December 20, 2005, among Emergency Medical Services Corporation, Emergency Medical Services L.P. and Onex Corporation (included in Exhibit 4.11 and incorporated by reference to Exhibit 9.1 of the Company's Annual Report on Form 10-K for the eleven months ended December 31, 2005).
10.1	Employment Agreement, dated December 6, 2004, between William A. Sanger and Emergency Medical Services Corporation (incorporated by reference to Exhibit 10.1 of the Company's Registration Statement on Form S-1 filed August 2, 2005).
10.2	Employment Agreement, dated as of February 10, 2005, between Don S. Harvey and Emergency Medical Services L.P., and assignment to Emergency Medical Services Corporation (incorporated by reference to Exhibit 10.2 of the Company's Registration Statement on Form S-1 filed August 2, 2005).
10.3	Employment Agreement, dated as of February 10, 2005, between Randel G. Owen and Emergency Medical Services L.P., and assignment to Emergency Medical Services Corporation (incorporated by reference to Exhibit 10.3 of the Company's Registration Statement on Form S-1 filed August 2, 2005).
10.4	Employment Agreement, dated as of February 10, 2005, between Todd Zimmerman and Emergency Medical Services L.P., and assignment to Emergency Medical Services Corporation (incorporated by reference to Exhibit 10.4 of the Company's Registration Statement on Form S-1 filed August 2, 2005).

10.5	Employment Agreement, dated as of April 19, 2005, by and between Emergency Medical Services L.P. and Dighton Packard, M.D., and assignment to Emergency Medical Services Corporation (incorporated by reference to Exhibit 10.5 of the Company's Registration Statement on Form S-1 filed August 2, 2005).
10.6	Emergency Medical Services L.P. Equity Option Plan (incorporated by reference to Exhibit 10.6 of the Company's Registration Statement on Form S-1 filed August 2,2005).**
10.7	Emergency Medical Services L.P. Equity Purchase Plan (incorporated by reference to Exhibit 10.7 of the Company's Registration Statement on Form S-1 filed August 2,2005).**
10.8	Management Agreement, dated February 10, 2005, by and among Onex Partners Manager LP, AMR HoldCo, Inc., and EmCare HoldCo, Inc. (incorporated by reference to Exhibit 10.8 of the Company's Registration Statement on Form S-1 filed August 2, 2005).
10.9	Purchase Agreement, dated January 27, 2005, among AMR HoldCo, Inc.), EmCare HoldCo, Inc., the Registrant, the guarantors party thereto, Banc of America LLC Securities and J.P. Morgan Securities Inc. (incorporated by reference to Exhibit 10.9 of the Company's Registration Statement on Form S-1 filed August 2, 2005).
10.10	Credit Agreement, dated as of February 10, 2005, among AMR HoldCo, Inc., EmCare HoldCo, Inc., Emergency Medical Services L.P., the guarantors party thereto, Bank of America, N.A. and the other lenders party thereto(incorporated by reference to Exhibit 10.10 of the Company's Registration Statement on Form S-1 filed August 2, 2005).
10.11.1	Amendment No. 1, dated March 29, 2005, among AMR HoldCo, Inc., EmCare HoldCo, Emergency Medical Services L.P., the guarantors and the lenders party thereto, to the Credit Agreement dated as of February 10, 2005, among AMR HoldCo, Inc., EmCare HoldCo, Inc., Emergency Medical Services L.P., the guarantors party thereto, Bank of America, N.A. and the other lenders party thereto (incorporated by reference to Exhibit 10.11 of the Company's Registration Statement on Form S-1 filed August 2, 2005).
10.11.2	Waiver and Amendment No. 2, dated March 7, 2007, among AMR HoldCo, Inc., EmCare HoldCo, Inc., Emergency Medical Services L.P., and the guarantors and lenders party thereto, to the Credit Agreement, dated as of February 10, 2005 (incorporated by reference to Exhibit 10.11.2 of the Company's Annual Report on Form 10-K filed on March 8, 2007).
10.12	Security Agreement, dated as of February 10, 2005, made by AMR HoldCo, Inc., EmCare HoldCo., Inc., the guarantors party thereto, in favor of Bank of America, N.A. (incorporated by reference to Exhibit 10.12 of the Company's Registration Statement on Form S-1 filed August 2, 2005).
10.13	Assignment, dated as of December 20, 2005, by and among Emergency Medical Services Corporation, AMR HoldCo, Inc. and ClaimCo L.P. (incorporated by reference to Exhibit 10.13 of the Company's Annual Report on Form 10-K for the eleven months ended December 31, 2005).
10.14.1	Form of Employee Equity Option Agreement (incorporated by reference to Exhibit 10.14.1of the Company's Annual Report on Form 10-K for the eleven months ended December 31, 2005).
10.14.2	Form of Director Equity Option Agreement (incorporated by reference to Exhibit 10.14.2 of the Company's Annual Report on Form 10-K for the eleven months ended December 31, 2005).

10.15	EMSC Non-Employee Director Compensation Program (incorporated by reference to Annex A of the Company's Proxy Statement for its Annual Stockholders Meeting filed with the Securities and Exchange Commission on April 16, 2007).**
10.16	2007 Long-Term Incentive Plan (incorporated by reference to Annex B to the Company's Proxy Statement for its Annual Stockholders Meeting filed with the Securities and Exchange Commission on April 16, 2007).
10.17	2007 Employee Stock Purchase Plan (incorporated by reference to Annex C to the Company's Proxy Statement for its Annual Stockholders Meeting filed with the Securities and Exchange Commission on April 16, 2007).
14.1	Code of Ethics (incorporated by reference to Exhibit 14.1 of the Company's Annual Report on Form 10-K for the eleven months ended December 31, 2005).
21.1	Subsidiaries of Emergency Medical Services L.P. and Emergency Medical Services Corporation.*
23.1	Consent of Independent Registered Public Accounting Firm.*
31.1	Certification of the Chief Executive Officer of Emergency Medical Services Corporation pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of the Chief Executive Officer of Emergency Medical Services Corporation, as general partner of Emergency Medical Services L.P. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.3	Certification of the Chief Financial Officer of Emergency Medical Services Corporation pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.4	Certification of the Chief Financial Officer of Emergency Medical Services Corporation, as general partner of Emergency Medical Services L.P. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification of the Chief Executive Officer and the Chief Financial Officer of Emergency Medical Services Corporation pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
32.2	Certification of the Chief Executive Officer and the Chief Financial Officer of Emergency Medical Services Corporation, as general partner of Emergency Medical Services L.P. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

* Filed with this Report

** Identifies each management compensation plan or arrangement

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrants have duly caused this report to be signed on their behalf by the undersigned, thereunto duly authorized, on the 26th day of February, 2008.

EMERGENCY MEDICAL SERVICES CORPORATION
(registrant)

By: /s/ WILLIAM A. SANGER

William A. Sanger
Chairman and Chief Executive Officer

EMERGENCY MEDICAL SERVICES L.P.
(registrant)

By: Emergency Medical Services Corporation,
its General Partner

By: /s/ WILLIAM A. SANGER

William A. Sanger
Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrants and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ WILLIAM A. SANGER **William A. Sanger**	Chairman, Chief Executive Officer and Director (Principal Executive Officer)	February 26, 2008
/s/ RANDEL G. OWEN **Randel G. Owen**	Chief Financial Officer (Principal Financial and Accounting Officer)	February 26, 2008
/s/ ROBERT M. LE BLANC **Robert M. Le Blanc**	Director	February 26, 2008
/s/ STEVEN B. EPSTEIN **Steven B. Epstein**	Director	February 26, 2008
/s/ PAUL B. IANNINI, M.D. **Paul B. Iannini, M.D.**	Director	February 26, 2008

/s/ JAMES T. KELLY	Director	February 26, 2008
James T. Kelly		
/s/ MICHAEL L. SMITH	Director	February 26, 2008
Michael L. Smith		

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Exhibit Index

Exhibit No.	Description
2.1	Stock Purchase Agreement, dated as of December 6, 2004, by and among Laidlaw International, Inc., Laidlaw Medical Holdings, Inc. and Emergency Medical Services Corporation (incorporated by reference to Exhibit 2.1 of the Company's Registration Statement on Form S-1 filed August 2, 2005).
2.2	Amendment to Stock Purchase Agreement, dated February 10, 2005, by and among Laidlaw International, Inc., Laidlaw Medical Holdings, Inc. and Emergency Medical Services Corporation (incorporated by reference to Exhibit 2.2 of the Company's Registration Statement on Form S-1 filed August 2, 2005).
2.3	Stock Purchase Agreement, dated as of December 6, 2004, by and among Laidlaw International, Inc., Laidlaw Medical Holdings, Inc. and Emergency Medical Services Corporation (incorporated by reference to Exhibit 2.3 of the Company's Registration Statement on Form S-1 filed August 2, 2005).
2.4	Amendment to Stock Purchase Agreement, dated as of February 10, 2005, by and among Laidlaw International, Inc., Laidlaw Medical Holdings, Inc. and Emergency Medical Services Corporation (incorporated by reference to Exhibit 2.4 of the Company's Registration Statement on Form S-1 filed August 2, 2005).
2.5	Letter, dated March 25, 2005, to AMR HoldCo, Inc. from Laidlaw Medical Holdings, Inc. (incorporated by reference to Exhibit 2.5 of the Company's Registration Statement on Form S-1 filed August 2, 2005).
3.1	Amended and Restated Certificate of Incorporation of Emergency Medical Services Corporation (incorporated by reference to Exhibit 3.1 of the Company's Annual Report on Form 10-K for the eleven months ended December 31, 2005).
3.2	Amended and Restated By-Laws of Emergency Medical Services Corporation (incorporated by reference to Exhibit 3.2 of the Company's Annual Report on Form 10-K for the eleven months ended December 31, 2005).
3.3	Certificate of Formation of Emergency Medical Services L.P. (incorporated by reference to Exhibit 3.3 of the Company's Registration Statement on Form S-1 filed August 2, 2005).
3.4	Second Amended and Restated Agreement of Limited Partnership of Emergency Medical Services L.P., by and among Emergency Medical Services Corporation and the persons listed on Schedule A thereto.*
4.1	Form of Class A Common Stock Certificate (incorporated by reference to Exhibit 4.1 of the Company's Amendment No. 5 to Registration Statement on Form S-1 filed December 6, 2005).
4.2	Form of Class B Common Stock Certificate (incorporated by reference to Exhibit 4.2 of the Company's Amendment No. 5 to Registration Statement on Form S-1 filed December 6, 2005).
4.3	Investor Equityholders Agreement, dated February 10, 2005, by and among Emergency Medical Services L.P., Onex Partners LP and the equityholders listed on the signature pages thereto (incorporated by reference to Exhibit 4.3 of the Company's Registration Statement on Form S-1 filed August 2, 2005).

4.4	Equityholders Agreement, dated as of February 10, 2005, by and among Emergency Medical Services L.P., Onex Partners LP and the equityholders listed on the signature pages thereto (incorporated by reference to Exhibit 4.4 of the Company's Amendment No. 1 to Registration Statement on Form S-1 filed September 14, 2005).
4.4.1	Amendment No. 2 to the Equityholders Agreement, dated as of February 26, 2008, by and among Emergency Medical Services L.P., Onex Partners LP and the equityholders listed on the signature page thereto.*
4.5	Registration Agreement, dated February 10, 2005, by and among Emergency Medical Services L.P. and the persons listed on Schedule A thereto and amendment thereto (incorporated by reference to Exhibit 4.5 of the Company's Amendment No. 1 to Registration Statement on Form S-1 filed September 14, 2005).
4.6	Indenture, dated February 10, 2005, by and among AMR HoldCo, Inc., EmCare HoldCo, Inc., the guarantors named therein and U.S. Bank Trust National Association, as trustee (incorporated by reference to Exhibit 4.6 of the Company's Registration Statement on Form S-1filed August 2, 2005).
4.7	Supplemental Indenture, dated April 15, 2005, by and among AMR Brockton L.L.C., AMR HoldCo, Inc., EmCare HoldCo, Inc., the guarantors named therein and U.S. Bank Trust National Association, as trustee (incorporated by reference to Exhibit 4.7 of the Company's Registration Statement on Form S-1 filed August 2, 2005).
4.8	Supplemental Indenture No. 2, effective as of September 30, 2005, by and among Global Medical Response, Inc., AMR HoldCo, Inc., EmCare HoldCo, Inc., the guarantors named therein and U.S. Bank Trust National Association, as trustee (incorporated by reference to Exhibit 4.8 of the Company's Amendment No. 3 to Registration Statement on Form S-1 filed November 14, 2005).
4.9	Supplemental Indenture No. 3, effective as of February 23, 2006, by and among Emergency Medical Services Corporation, AMR HoldCo, Inc., EmCare HoldCo, Inc., the guarantors named therein and U.S. Bank Trust National Association, as trustee (incorporated by reference to Exhibit 4.8 of the Company's Amendment No. 3 to Registration Statement on Form S-1 filed November 14, 2005).
4.10	Supplemental Indenture No. 4, effective as of August 7, 2006, among the Issuers named therein, the Guarantors named therein and U.S. Bank Trust National Association, as trustee (incorporated by reference to Exhibit 4.10 of the Company's Annual Report on Form 10-K filed on March 8, 2007).
4.11	Supplemental Indenture No. 5, effective as of August 7, 2006, among Air Ambulance Specialists, Inc., a Colorado corporation and successor by merger to Eagle Acquisition Subsidiary, Inc., the Issuers named therein, the other Guarantors named therein and U.S. Bank Trust National Association, as trustee (incorporated by reference to Exhibit 4.11 of the Company's Annual Report on Form 10-K filed on March 8, 2007).
4.12	Supplemental Indenture No. 6, effective as of November 28, 2006, among Electrolyte Acquisition Subsidiary, Inc., the Issuers named therein, the other Guarantors named therein and U.S. Bank Trust National Association, as trustee (incorporated by reference to Exhibit 4.12 of the Company's Annual Report on Form 10-K filed on March 8, 2007).

4.13	Registration Rights Agreement, dated as of February 10, 2005, by and among AMR HoldCo, Inc., EmCare HoldCo, Inc., the guarantors named therein, Banc of America Securities LLC and J.P. Morgan Securities Inc. (incorporated by reference to Exhibit 4.9 of the Company's Registration Statement on Form S-1 filed August 2, 2005).
4.14	Voting and Exchange Trust Agreement, dated as of December 20, 2005, among Emergency Medical Services Corporation, Emergency Medical Services L.P. and Onex Corporation (incorporated by reference to Exhibit 4.11 of the Company's Annual Report on Form 10-K for the eleven months ended December 31, 2005).
4.15	Form of Indemnification Agreement (incorporated by reference to Exhibit 4.11 of the Company's Amendment No. 4 to Registration Statement on Form S-1 filed December 5, 2005).
4.16	Form of 10% Senior Subordinated Note due 2015 (included in Exhibit 4.6).
4.17	Notification of Guarantee, dated as of February 10, 2005, executed by the guarantors identified therein (incorporated by reference to Exhibit 4.12 of the Company's Registration Statement on Form S-4 filed October 11, 2005).
9.1	Voting and Exchange Trust Agreement, dated as of December 20, 2005, among Emergency Medical Services Corporation, Emergency Medical Services L.P. and Onex Corporation (included in Exhibit 4.11 and incorporated by reference to Exhibit 9.1 of the Company's Annual Report on Form 10-K for the eleven months ended December 31, 2005).
10.1	Employment Agreement, dated December 6, 2004, between William A. Sanger and Emergency Medical Services Corporation (incorporated by reference to Exhibit 10.1 of the Company's Registration Statement on Form S-1 filed August 2, 2005).
10.2	Employment Agreement, dated as of February 10, 2005, between Don S. Harvey and Emergency Medical Services L.P., and assignment to Emergency Medical Services Corporation (incorporated by reference to Exhibit 10.2 of the Company's Registration Statement on Form S-1 filed August 2, 2005).
10.3	Employment Agreement, dated as of February 10, 2005, between Randel G. Owen and Emergency Medical Services L.P., and assignment to Emergency Medical Services Corporation (incorporated by reference to Exhibit 10.3 of the Company's Registration Statement on Form S-1 filed August 2, 2005).
10.4	Employment Agreement, dated as of February 10, 2005, between Todd Zimmerman and Emergency Medical Services L.P., and assignment to Emergency Medical Services Corporation (incorporated by reference to Exhibit 10.4 of the Company's Registration Statement on Form S-1 filed August 2, 2005).
10.5	Employment Agreement, dated as of April 19, 2005, by and between Emergency Medical Services L.P. and Dighton Packard, M.D., and assignment to Emergency Medical Services Corporation (incorporated by reference to Exhibit 10.5 of the Company's Registration Statement on Form S-1 filed August 2, 2005).
10.6	Emergency Medical Services L.P. Equity Option Plan (incorporated by reference to Exhibit 10.6 of the Company's Registration Statement on Form S-1 filed August 2, 2005).**
10.7	Emergency Medical Services L.P. Equity Purchase Plan (incorporated by reference to Exhibit 10.7 of the Company's Registration Statement on Form S-1 filed August 2, 2005).**

10.8	Management Agreement, dated February 10, 2005, by and among Onex Partners Manager LP, AMR HoldCo, Inc., Inc. and EmCare HoldCo, Inc. (incorporated by reference to Exhibit 10.8 of the Company's Registration Statement on Form S-1 filed August 2, 2005).
10.9	Purchase Agreement, dated January 27, 2005, among AMR HoldCo, Inc., EmCare HoldCo, Inc., the Registrant, the guarantors party thereto, Banc of America LLC Securities and J.P. Morgan Securities Inc. (incorporated by reference to Exhibit 10.9 of the Company's Registration Statement on Form S-1 filed August 2, 2005).
10.10	Credit Agreement, dated as of February 10, 2005, among AMR HoldCo, Inc., EmCare HoldCo, Inc., Emergency Medical Services L.P., the guarantors party thereto, Bank of America, N.A. and the other lenders party thereto (incorporated by reference to Exhibit 10.10 of the Company's Registration Statement on Form S-1 filed August 2, 2005).
10.11.1	Amendment No. 1, dated March 29, 2005, among AMR HoldCo, Inc., EmCare HoldCo, Emergency Medical Services L.P., the guarantors and the lenders party thereto, to the Credit Agreement dated as of February 10, 2005, among AMR HoldCo, Inc., EmCare HoldCo, Inc., Emergency Medical Services L.P., the guarantors party thereto, Bank of America, N.A. and the other lenders party thereto (incorporated by reference to Exhibit 10.11 of the Company's Registration Statement on Form S-1 filed August 2, 2005).
10.11.2	Waiver and Amendment No. 2, dated March 7, 2007, among AMR HoldCo, Inc., EmCare HoldCo, Inc., Emergency Medical Services L.P., and the guarantors and lenders party thereto, to the Credit Agreement, dated as of February 10, 2005 (incorporated by reference to Exhibit 10.11.2 of the Company's Annual Report on Form 10-K filed on March 8, 2007).
10.12	Security Agreement, dated as of February 10, 2005, made by AMR HoldCo, Inc., EmCare HoldCo., Inc., the guarantors party thereto, in favor of Bank of America, N.A.(incorporated by reference to Exhibit 10.12 of the Company's Registration Statement on Form S-1 filed August 2, 2005).
10.13	Assignment, dated as of December 20, 2005, by and among Emergency Medical Services Corporation, AMR HoldCo, Inc. and ClaimCo L.P.(incorporated by reference to Exhibit 10.13 of the Company's Annual Report on Form 10-K for the eleven months ended December 31, 2005).
10.14.1	Form of Employee Equity Option Agreement (incorporated by reference to Exhibit 10.14.1 of the Company's Annual Report on Form 10-K for the eleven months ended December 31, 2005).
10.14.2	Form of Director Equity Option Agreement (incorporated by reference to Exhibit 10.14.2 of the Company's Annual Report on Form 10-K for the eleven months ended December 31, 2005).
10.15	EMSC Non-Employee Director Compensation Program (incorporated by reference to Annex A of the Company's Proxy Statement for its Annual Stockholders Meeting filed with the Securities and Exchange Commission on April 16, 2007).**
10.16	2007 Long-Term Incentive Plan (incorporated by reference to Annex B to the Company's Proxy Statement for its Annual Stockholders Meeting filed with the Securities and Exchange Commission on April 16, 2007).

10.17	2007 Employee Stock Purchase Plan (incorporated by reference to Annex C to the Company's Proxy Statement for its Annual Stockholders Meeting filed with the Securities and Exchange Commission on April 16, 2007).
14.1	Code of Ethics (incorporated by reference to Exhibit 14.1 of the Company's Annual Report on Form 10-K for the eleven months ended December 31, 2005).
21.1	Subsidiaries of Emergency Medical Services L.P. and Emergency Medical Services Corporation.*
23.1	Consent of Independent Registered Public Accounting Firm.*
31.1	Certification of the Chief Executive Officer of Emergency Medical Services Corporation pursuant to Section 302of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of the Chief Executive Officer of Emergency Medical Services Corporation, as general partner of Emergency Medical Services L.P. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.3	Certification of the Chief Financial Officer of Emergency Medical Services Corporation pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.4	Certification of the Chief Financial Officer of Emergency Medical Services Corporation, as general partner of Emergency Medical Services L.P. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification of the Chief Executive Officer and the Chief Financial Officer of Emergency Medical Services Corporation pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
32.2	Certification of the Chief Executive Officer and the Chief Financial Officer of Emergency Medical Services Corporation, as general partner of Emergency Medical Services L.P. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

*
Filed with this Report

**
Identifies each management compensation plan or arrangement

Index to Financial Statements

Emergency Medical Services Corporation

Report of Ernst & Young LLP, Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Emergency Medical Services Corporation

We have audited the accompanying consolidated balance sheets of Emergency Medical Services Corporation as of December 31, 2007 and 2006, and the related consolidated statements of operations and comprehensive income, changes in equity, and cash flows for the two years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Emergency Medical Services Corporation at December 31, 2007 and 2006, and the consolidated results of its operations and its cash flows for the two years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Notes 2 and 6, effective January 1, 2007, the Company has changed its method of accounting for uncertain income tax positions.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Emergency Medical Services Corporation's internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 15, 2008 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Denver, Colorado
February 15, 2008

Report of Ernst & Young LLP, Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Emergency Medical Services Corporation

We have audited Emergency Medical Services Corporation's internal control over financial reporting as of December 31, 2007 based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Emergency Medical Services Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Emergency Medical Services Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Emergency Medical Services Corporation as of December 31, 2007 and 2006, and the related consolidated statements of operations and comprehensive income (loss), changes in equity, and cash flows for the two years then ended and our report dated February 15, 2008 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Denver, Colorado
February 15, 2008

Report of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm

To the Stockholders of
Emergency Medical Services Corporation:

In our opinion, the accompanying consolidated statements of operations and comprehensive income, of changes in equity and of cash flows for the eleven-month period ended December 31, 2005, present fairly, in all material respects, the results of operations and cash flows of Emergency Medical Services Corporation and its subsidiaries in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Denver, Colorado
February 23, 2006, except for Note 1 with respect to
the reclassification of interest income, as to
which the date is January 29, 2008.

Emergency Medical Services Corporation

Consolidated Balance Sheets

(in thousands, except share and per share amounts)

	December 31, 2007	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	$ 28,914	$ 39,336
Insurance collateral	37,776	29,724
Trade and other accounts receivable, net	495,348	416,450
Parts and supplies inventory	20,010	18,089
Prepaids and other current assets	11,715	16,417
Current deferred tax assets	76,997	12,473
Total current assets	670,760	532,489
Non-current assets:		
Property, plant and equipment, net	143,342	147,162
Intangible assets, net	81,717	66,789
Non-current deferred tax assets	94,961	103,370
Insurance collateral	146,638	163,300
Goodwill	313,124	272,328
Other long-term assets	29,021	32,779
Total assets	$ 1,479,563	$ 1,318,217
Liabilities and Equity		
Current liabilities:		
Accounts payable	$ 64,855	$ 65,172
Accrued liabilities	237,319	231,631
Current portion of long-term debt	4,717	4,159
Total current liabilities	306,891	300,962
Long-term debt	478,166	475,616
Insurance reserves and other long-term liabilities	245,010	155,599
Total liabilities	1,030,067	932,177
Equity:		
Preferred stock ($0.01 par value; 20,000,000 shares authorized, 0 issued and outstanding)		
Class A common stock ($0.01 par value; 100,000,000 shares authorized, 9,320,347 and 9,262,853 issued and outstanding in 2007 and 2006, respectively)	93	93
Class B common stock ($0.01 par value; 40,000,000 shares authorized, 142,545 issued and outstanding in 2007 and 2006)	1	1
Class B special voting stock ($0.01 par value; 1 share authorized, issued and outstanding in 2007 and 2006)		
LP exchangeable units (32,107,500 units issued and outstanding in 2007 and 2006)	212,361	212,361
Additional paid-in capital	117,079	114,471
Retained earnings	118,956	59,138

	December 31,	
Accumulated other comprehensive income (loss)	1,006	(24)
Total equity	449,496	386,040
Total liabilities and equity	$ 1,479,563	$ 1,318,217

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

Emergency Medical Services Corporation

Consolidated Statements of Operations and Comprehensive Income

(in thousands, except share and per share amounts)

	Year ended December 31, 2007	Year ended December 31, 2006	Eleven months ended December 31, 2005
Net revenue	$ 2,106,993	$ 1,934,205	1,655,485
Compensation and benefits	1,455,970	1,333,648	1,146,055
Operating expenses	317,518	294,806	233,087
Insurance expense	66,308	74,258	86,814
Selling, general and administrative expenses	61,893	57,403	54,262
Depreciation and amortization expense	70,483	66,005	54,143
Restructuring charges	2,242	6,369	1,781
Income from operations	132,579	101,716	79,343
Interest income from restricted assets	7,143	5,987	4,014
Interest expense	(46,948)	(45,605)	(47,813)
Realized gain (loss) on investments	245	(467)	(164)
Interest and other income	2,055	2,346	1,040
Loss on early debt extinguishment		(377)	(2,040)
Income before income taxes and equity in earnings of unconsolidated subsidiary	95,074	63,600	34,380
Income tax expense	(36,104)	(24,961)	(14,372)
Income before equity in earnings of unconsolidated subsidiary	58,970	38,639	20,008
Equity in earnings of unconsolidated subsidiary	848	432	59
Net income	59,818	39,071	20,067
Other comprehensive income, net of tax:			
Unrealized holding gains (losses) during the period	2,262	450	(474)
Unrealized losses on derivative financial instruments	(1,232)		
Comprehensive income	$ 60,848	$ 39,521	19,593
Basic net income per common share	$ 1.44	$ 0.94	$ 0.56
Diluted net income per common share	$ 1.39	$ 0.92	$ 0.55
Average common shares outstanding, basic	41,551,207	41,502,632	33,621,542
Average common shares outstanding, diluted	43,146,881	42,528,885	34,282,176

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

Emergency Medical Services Corporation

Consolidated Statements of Changes in Equity

(in thousands, except share and per share amounts)

	Shares/Units			
	Class A Common Stock	**Class B Common Stock**	**Class B Special Voting Stock**	**LP Exchangeable Units**
Balances February 1, 2005				
Partnership units issued on transaction date, net of issuance costs of $1,726				33,090,795
Partnership units issued during the period, net of issuance costs of $193				306,450
Exchange of certain partnership units for common stock	1,147,200	142,545	1	(1,289,745)
Issuance of class A common stock in initial public offering, net of issuance costs of $11,525	8,100,000			
Equity-based compensation				
Net income				
Unrealized holding losses				
Balances December 31, 2005	9,247,200	142,545	1	32,107,500
Exercise of options	15,653			
Equity-based compensation				
Net income				
Unrealized holding gains				
Balances December 31, 2006	9,262,853	142,545	1	32,107,500
Exercise of options	57,494			
Equity-based compensation				
Net income				
Unrealized holding gains				
Balances December 31, 2007	9,320,347	142,545	1	32,107,500

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

Emergency Medical Services Corporation

Consolidated Statements of Changes in Equity (Continued)

(in thousands, except share and per share amounts)

	Class A Common Stock	Class B Common Stock	LP Exchangeable Units	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balances February 1, 2005	$	$	$	$	$	$	$
Partnership units issued on transaction date, net of issuance costs of $1,726			218,879				218,879
Partnership units issued during the period, net of issuance costs of $193			1,857				1,857
Exchange of certain partnership units for common stock	11	1	(8,375)	8,363			
Issuance of class A common stock in initial public offering, net of issuance costs of $11,525	81			101,794			101,875
Equity-based compensation				2,780			2,780
Net income					20,067		20,067
Unrealized holding losses						(474)	(474)
Balances December 31, 2005	92	1	212,361	112,937	20,067	(474)	344,984
Exercise of options	1			103			104
Equity-based compensation				1,431			1,431
Net income					39,071		39,071
Unrealized holding gains						450	450
Balances December 31, 2006	93	1	212,361	114,471	59,138	(24)	386,040
Exercise of options				383			383
Equity-based compensation				2,225			2,225
Net income					59,818		59,818
Unrealized holding gains						2,262	2,262
Net change in fair value of interest rate swap agreement						(1,232)	(1,232)
Balances December 31, 2007	$ 93	$ 1	$ 212,361	$ 117,079	$ 118,956	$ 1,006	$ 449,496

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

Emergency Medical Services Corporation

Consolidated Statements of Cash Flows

(in thousands)

	Year ended December 31, 2007	Year ended December 31, 2006	Eleven months ended December 31, 2005
Cash Flows from Operating Activities			
Net income	$ 59,818	$ 39,071	$ 20,067
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	72,556	68,104	56,227
Gain on disposal of property, plant and equipment	(2)	(787)	(553)
Equity-based compensation expense	1,727	1,431	2,780
Loss on restricted investments			164
Loss on early debt extinguishment		377	2,040
Equity in earnings of unconsolidated subsidiary	(848)	(432)	(59)
Dividends received	416		
Deferred income taxes	33,274	24,646	14,270
Changes in operating assets/liabilities, net of acquisitions:			
Trade and other accounts receivable	(74,991)	(4,740)	(36,617)
Parts and supplies inventory	(1,285)	360	50
Prepaids and other current assets	4,975	(1,418)	6,900
Accounts payable and accrued liabilities	5,184	30,716	23,975
Insurance accruals	(3,006)	8,414	20,719
Net cash provided by operating activities	97,818	165,742	109,963
Cash Flows from Investing Activities			
Purchases of property, plant and equipment	(38,335)	(60,415)	(48,933)
Proceeds from sale of property, plant and equipment	359	902	708
Acquisitions of businesses, net of cash received	(75,648)	(23,555)	
Decrease (increase) in insurance collateral	10,872	(28,363)	(39,941)
Other investing activities	2,526	(1,696)	7,312
EMS LP purchase of AMR and EmCare			(828,775)
Net cash used in investing activities	(100,226)	(113,127)	(909,629)
Cash Flows from Financing Activities			
EMSC issuance of class A common stock	383	104	113,400
EMSC equity issuance costs		(2,408)	(9,329)
Repayments of capital lease obligations and other debt	(76,033)	(27,066)	(132,345)
(Decrease) increase in bank overdrafts	(2,664)	(1,957)	3,751
Borrowings under senior secured credit facility			350,000
Proceeds from issuance of senior subordinated notes			250,000
Borrowings under revolving credit facility	70,300		25,200
Debt issue costs			(18,330)
EMS LP issuance of partnership equity			222,655
EMS LP partnership equity issuance costs			(1,919)
Net cash (used in) provided by financing activities	(8,014)	(31,327)	803,083
Change in cash and cash equivalents	(10,422)	21,288	3,417
Cash and cash equivalents, beginning of period	39,336	18,048	14,631

	Year ended December 31, 2007	Year ended December 31, 2006	Eleven months ended December 31, 2005
Cash and cash equivalents, end of period	$ 28,914	$ 39,336	$ 18,048
Cash paid for interest	$ 46,278	$ 46,130	$ 33,307
Cash paid (refunds received) for taxes	$ 2,132	$ (15,235)	$ 15,550
Non-cash activities			
Equipment purchased through existing capital lease	$ 8,038	$	$

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

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Emergency Medical Services Corporation

Notes to Consolidated Financial Statements

(dollars in thousands, except for share and per share amounts)

1. General

Basis of Presentation of Financial Statements

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") to reflect the consolidated financial position, results of operations and cash flows of Emergency Medical Services Corporation ("EMSC" or the "Company"). The consolidated financial statements of EMSC include those of its direct subsidiary, Emergency Medical Services, L.P. ("EMS LP"), a Delaware limited partnership (see note 2 "Summary of Significant Accounting Policies Equity Structure"). EMS LP acquired American Medical Response, Inc. and its subsidiaries ("AMR") and EmCare Holdings Inc. and its subsidiaries ("EmCare") on February 10, 2005 with an effective transaction date after the close of business January 31, 2005. On December 21, 2005, the Company effected a reorganization and issued class A common stock in an initial public offering (see note 13 "Equity").

The Company operates in two segments, AMR in the healthcare transportation service business and EmCare in the emergency management service business. AMR operates in 37 states, providing a full range of medical transportation services from basic patient transit to the most advanced emergency care and pre-hospital assistance. In addition, AMR operates emergency (911) call and response services for large and small communities all across the United States, offers medical staff for large entertainment venues like stadiums and arenas, and provides telephone triage, transportation dispatch and demand management services. EmCare provides outsourced business services to hospitals primarily for emergency departments, related urgent care centers and for certain inpatient departments with 395 contracts in 40 states. EmCare recruits physicians, gathers their credentials, arranges contracts for their services, assists in monitoring their performance and arranges their scheduling. In addition, EmCare assists clients in such operational areas as staff coordination, quality assurance, departmental accreditation, billing, record-keeping, third-party payment programs, and other administrative services.

During the year ended December 31, 2007, the Company reclassified income earned on insurance related assets as Interest Income from Restricted Assets in the accompanying consolidated statements of operations and comprehensive income; such income was previously reported as a component of insurance expense. Previous amounts have been reclassified to conform to the current year presentation.

2. Summary of Significant Accounting Policies

Consolidation

The consolidated financial statements include EMSC, its subsidiary EMS LP, and EMS LP's subsidiaries, AMR and EmCare. All significant intercompany transactions and balances have been eliminated.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions relating to the reporting of results of operations, financial condition and related disclosure of contingent assets and liabilities at the date of the financial statements including, but not limited to, estimates and assumptions for accounts receivable and insurance related reserves. Actual results may differ from those estimates under different assumptions or conditions.

Emergency Medical Services Corporation

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except for share and per share amounts)

2. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Cash and cash equivalents are composed of highly liquid investments with a maturity of three months or less at acquisition, and are recorded at market value.

At December 31, 2007 and 2006, bank overdrafts of $21.1 million and $23.8 million, respectively, were included in accounts payable in the accompanying balance sheets.

Insurance Collateral

Insurance collateral is principally comprised 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.

Trade and Other Accounts Receivable, net

The Company determines its allowances based on payor reimbursement schedules, historical collections and write-off experience and other economic data. 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 following table presents accounts receivable, net and accounts receivable allowances by segment:

	December 31,	
	2007	2006
Accounts receivable, net		
EMS	$ 162	$
AMR	295,510	264,898
EmCare	199,676	151,552
Total	$ 495,348	$ 416,450
Accounts receivable allowances		
AMR		
Allowance for contractual discounts	$ 216,397	$ 159,367
Allowance for uncompensated care	172,140	146,305
Total	$ 388,537	$ 305,672
EmCare		
Allowance for contractual discounts	$ 616,341	$ 540,033
Allowance for uncompensated care	259,780	223,227
Total	$ 876,121	$ 763,260

The increase in the allowances and provisions for contractual discounts and uncompensated care is primarily a result of increases in the Company's gross fee-for-service rate schedules. These gross fee schedules, including any changes to existing fee schedules, generally are negotiated with various

Emergency Medical Services Corporation

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except for share and per share amounts)

2. Summary of Significant Accounting Policies (Continued)

contracting entities, including municipalities and facilities. Fee schedule increases are billed for all revenue sources and to all payors under that specific contract; however, reimbursement in the case of certain state and federal payors, including Medicare and Medicaid, will not change as a result of the change in gross fee schedules. In certain cases, this results in a higher level of contractual and uncompensated care provisions and allowances, requiring a higher percentage of contractual discount and uncompensated care provisions compared to gross charges.

Parts and Supplies Inventory

Parts and supplies inventory is valued at cost, determined on a first-in, first-out basis. Durable medical supplies, including stretchers, oximeters and other miscellaneous items, are capitalized as inventory and expensed as used.

Property, Plant and Equipment, net

Property, plant and equipment were reflected at their estimated fair value as of February 1, 2005. Additions to property, plant and equipment subsequent to this date are recorded at cost. Maintenance and repairs that do not extend the useful life of the property are charged to expense as incurred. Gains and losses from dispositions of property, plant and equipment are recorded in the period incurred. Depreciation of property, plant and equipment is provided substantially on a straight-line basis over their estimated useful lives, which are as follows:

Buildings	35 to 40 years
Leasehold improvements	Shorter of expected life or life of lease
Vehicles	5 to 7 years
Computer hardware and software	3 to 5 years
Other	3 to 10 years

Goodwill

SFAS 142 requires the Company to compare the fair value of the reporting unit to its carrying amount on an annual basis to determine if there is potential goodwill impairment. If the fair value of the reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the fair value of the goodwill within the reporting unit is less than its carrying value.

The Company uses an independent valuation group to assist in the determination of the fair value of its operating units. The independent valuation group uses a present value technique, corroborated by market multiples when available and as appropriate, for each of the reporting units. EMSC's annual goodwill impairment assessment is performed during the third quarter each year. No impairment indicators were noted in completing the Company's annual impairment assessment.

Impairment of Long-lived Assets other than Goodwill and Other Definite Lived Intangibles

Long-lived assets other than goodwill and other definite lived intangibles are assessed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Important factors which could trigger impairment review include significant

Emergency Medical Services Corporation

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except for share and per share amounts)

2. Summary of Significant Accounting Policies (Continued)

underperformance relative to historical or projected future operating results, significant changes in the use of the acquired assets or the strategy for the overall business, and significant negative industry or economic trends. If indicators of impairment are present, management evaluates the carrying value of long-lived assets other than goodwill and other definite lived intangibles in relation to the projection of future undiscounted cash flows of the underlying business. Projected cash flows are based on historical results adjusted to reflect management's best estimate of future market and operating conditions, which may differ from actual cash flows. There were no indicators of impairment in 2007, 2006 or 2005.

Contract Value

The Company's contracts and customer relationships, recorded initially at their estimated fair value, represent the amortized value of such assets held by the Company. These assets are amortized on a straight-line basis over the average length of the contracts and expected contract renewal period, and range from 3 to 10 years depending on the type of contract and customer relationship.

Radio Frequencies

The radio frequency licenses total $0.6 million at December 31, 2007 and 2006. These assets are considered to be indefinite lived intangible assets and as such are not amortized, but are reviewed for impairment on an annual basis.

Trade Names

The trade names value was $0.7 million at December 31, 2007. These assets are considered to be indefinite lived intangible assets and as such are not amortized, but are reviewed for impairment on an annual basis.

Claims Liability and Professional Liability Reserves

EMSC is self-insured up to certain limits for costs associated with workers compensation claims, automobile, professional liability claims and general business liabilities. Reserves are established for estimates of the loss that will ultimately be incurred on claims that have been reported but not paid and claims that have been incurred but not reported. These reserves are based upon valuations that are prepared by independent actuaries. The actuarial valuations consider a number of factors, including historical claim payment patterns and changes in case reserves, the assumed rate of increase in healthcare costs and property damage repairs. Historical experience and recent trends in the historical experience are the most significant factors in the determination of these reserves. Management believes the use of actuarial methods to account for these reserves provides a consistent and effective way to measure these subjective accruals. However, given the magnitude of the claims involved and the length of time until the ultimate cost is known, the use of any estimation technique in this area is inherently sensitive. Accordingly, recorded reserves could differ from ultimate costs related to these claims due to changes in accident reporting, claims payment and settlement practices or claims reserve practices, as well as differences between assumed and future cost increases. Accrued unpaid claims and expenses that are expected to be paid within the next twelve months are classified as current liabilities. All other accrued unpaid claims and expenses are classified as non-current liabilities.

Emergency Medical Services Corporation

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except for share and per share amounts)

2. Summary of Significant Accounting Policies (Continued)

Equity Structure

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

In the EMS LP partnership agreement, the Company has agreed to maintain the economic equivalency of the LP exchangeable units and the class B common stock, and the holders of the LP exchangeable units have no general voting rights. The LP exchangeable units, when considered with the class B special voting stock, have the same rights, privileges and characteristics of the Company's class B common stock. The LP exchangeable units are intended to be economically equivalent to the class B common stock of the Company in that the LP exchangeable units carry the right to vote (by virtue of the class B special voting stock) with the holders of class B common stock as if 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.

Derivatives and Hedging Activities

All derivative instruments are recorded on the balance sheet at fair value. The Company currently uses interest rate swaps to manage risks associated with interest rate volatility. All hedging instruments that qualify for hedge accounting are designated and effective as hedges, in accordance with GAAP. If the underlying hedged transaction ceases to exist, all changes in fair value of the related derivatives that have not been settled are recognized in current earnings. Instruments that do not qualify for hedge accounting and the ineffective portion of hedges are marked to market with changes recognized in current earnings. The Company does not hold or issue derivative financial instruments for trading purposes and is not a party to leveraged derivatives.

EmCare Contractual Arrangements

EmCare structures its contractual arrangements for emergency department management services in various ways. In most states, a wholly-owned subsidiary of EmCare ("EmCare Subsidiary") contracts with hospitals to provide emergency department management services. The EmCare Subsidiary enters into an agreement ("PA Management Agreement") with a professional association or professional corporation ("PA"), whereby the EmCare Subsidiary provides the PA with management services and the PA agrees to provide physician services for the hospital contract. The PA employs physicians directly or subcontracts with another entity for the physician services. In certain states, the PA contracts directly with the hospital, but provides physician services and obtains management services in the same manner as described above. In all arrangements, decisions regarding patient care are made exclusively by the physicians. In consideration for these services, the EmCare Subsidiary receives a monthly fee that may

Emergency Medical Services Corporation

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except for share and per share amounts)

2. Summary of Significant Accounting Policies (Continued)

be adjusted from time to time to reflect industry practice, business conditions, and actual expenses for administrative costs and uncollectible accounts. In most states, these fees approximate the excess of the PA's revenues over its expenses.

Each PA is wholly-owned by a physician who enters into a Stock Transfer and Option Agreement with EmCare. This agreement gives EmCare the right to replace the physician owner with another physician in accordance with the terms of the agreement.

EmCare has determined that these management contracts met the requirements of Emerging Issues Task Force 97-2 *Application of FASB Statement No. 94 and APB Opinion No. 16 to Physician Practice Entities*, for consolidation. Upon adoption of FIN 46(R), *Consolidation of Variable Interest Entities,* the Company also concluded that these management contracts resulted in a variable interest in the PAs and that the Company is the primary beneficiary. Accordingly, the consolidated financial statements of EmCare and these financial statements include the accounts of EmCare and its subsidiaries and the PAs. The financial statements of the PAs are consolidated with EmCare and its subsidiaries because EmCare has ultimate control over the assets and business operations of the PAs as described above. Notwithstanding the lack of technical majority ownership, consolidation of the PAs is necessary to present fairly the financial position and results of operations of EmCare because of the existence of a control relationship by means other than record ownership of the PAs' voting stock. Control of a PA by EmCare is perpetual and other than temporary because EmCare may replace the physician owner of the PA at any time and thereby continue EmCare's relationship with the PA.

Financial Instruments and Concentration of Credit Risk

The Company's cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, other than current portion of self-insurance estimates, long-term debt and long-term liabilities, other than self-insurance estimates, constitute financial instruments. Based on management's estimates, the carrying value of these financial instruments approximates their fair value as of December 31, 2007 and 2006. Concentration of credit risks in accounts receivable is limited, due to the large number of customers comprising EMSC's customer base throughout the United States. A significant component of the Company's revenue is derived from Medicare and Medicaid. Given that these are government programs, the credit risk for these customers is considered low. The Company performs ongoing credit evaluations of its other customers, but does not require collateral to support customer accounts receivable. The Company establishes an allowance for uncompensated care based on the credit risk applicable to particular customers, historical trends and other relevant information. For each of the periods presented, the Company derived approximately 29% of its net revenue from Medicare and Medicaid, 66% from insurance providers and contracted payors, and 5% directly from patients.

The Company 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 December 31, 2007 was approximately $265 million with a carrying value of $250 million.

Emergency Medical Services Corporation

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except for share and per share amounts)

2. Summary of Significant Accounting Policies (Continued)

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 by segment, as a percentage of gross revenue and gross revenue less contractual discount provisions as indicated, are as follows:

	Year ended December 31, 2007	Year ended December 31, 2006	Eleven months ended December 31, 2005
AMR			
Gross revenue	100.0%	100.0%	100.0%
Provision for contractual discounts	39.4%	38.3%	36.5%
Provision for uncompensated care	15.2%	14.1%	13.7%
After contractual discount provisions	25.0%	22.8%	21.6%
EmCare			
Gross revenue	100.0%	100.0%	100.0%
Provision for contractual discounts	49.3%	47.1%	49.4%
Provision for uncompensated care	20.8%	23.5%	19.9%
After contractual discount provisions	41.1%	44.5%	39.4%
Total			
Gross revenue	100.0%	100.0%	100.0%
Provision for contractual discounts	44.6%	42.8%	42.7%
Provision for uncompensated care	18.2%	18.8%	16.7%
After contractual discount provisions	32.8%	32.9%	29.2%

Healthcare payment 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 payment from third-party payors. In addition, third-party payors may disallow, in whole or in part, claims for payment based on determinations that certain amounts are not reimbursable under plan coverage, determinations of medical necessity, or the need for additional information.

Laws and regulations governing the Medicare and Medicaid programs are very complex and subject to interpretation. As a result, there is a reasonable possibility that recorded estimates will change materially in the short-term. Retroactive adjustments may change the amounts realized from third-party payors and are considered in the recognition of revenue on an estimated basis in the period the related services are rendered. Such amounts, including adjustments between contractual discount and uncompensated care provisions, are adjusted in future periods, as adjustments become known. The retroactive adjustments, which increased revenue recorded in 2007 and 2006, was 1.6% and 1.3%, respectively, of consolidated net revenue.

Subsidies and fees in connection with community contracts at AMR are recognized ratably over the service period the payment covers.

Emergency Medical Services Corporation

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except for share and per share amounts)

2. Summary of Significant Accounting Policies (Continued)

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.

Income Taxes

The Company accounts for income taxes under SFAS No. 109 *Accounting for Income Taxes* ("SFAS 109"). Deferred income taxes reflect the impact of temporary differences between the reported amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws and regulations. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. A valuation allowance is provided for deferred tax assets when management concludes it is more likely than not that some portion of the deferred tax assets will not be recognized. The respective tax authorities, in the normal course, audit previous tax filings. It is not possible at this time to predict the final outcome of these audits or establish a reasonable estimate of possible additional taxes owing, if any.

In connection with the acquisition of AMR and EmCare, the Company made an Internal Revenue Code ("IRC") section 338(h)(10) election for EmCare which eliminated $67 million of deferred tax assets and stepped-up the tax basis of EmCare's assets to fair value. Differences between book and tax depreciation and amortization for these assets will create future deferred tax assets or liabilities.

In July 2006, the FASB issued Interpretation No. 48 *Accounting for Uncertainty in Income Taxes,* an interpretation of SFAS 109 ("FIN 48"). FIN 48 was adopted by the Company on January 1, 2007. FIN 48 creates a single model to address uncertainty in tax positions, prescribes the minimum recognition threshold, and provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 also has expanded disclosure requirements, which include a tabular rollforward of the beginning and ending aggregate unrecognized tax benefits, as well as specific detail related to tax uncertainties for which it is reasonably possible the amount of unrecognized tax benefit will significantly increase or decrease within twelve months. Upon adoption of FIN 48, the Company reclassified approximately $41 million to a long-term liability and increased current deferred tax assets (see note 6 "Income Taxes").

Net Income Per Common Share

The consolidated financial statements include "basic" and "diluted" per share information. Basic per share information is calculated by dividing net income available to stockholders by the weighted average number of shares outstanding. Diluted per share information is calculated by also considering the impact of potential common stock on both net income and the weighted average number of shares outstanding. The weighted average number of shares used in the basic earnings per share computation was 41.6 million and 41.5 million for the years ended December 31, 2007 and 2006, respectively, and 33.6 million for the eleven months ended December 31, 2005. The only difference in the computation of basic and diluted earnings per share is the inclusion of 1.6 million, 1.0 million and 0.7 million potential common shares for the periods ended December 31, 2007, 2006 and 2005, respectively.

Emergency Medical Services Corporation

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except for share and per share amounts)

2. Summary of Significant Accounting Policies (Continued)

Stock Options

The Company records the expense of stock option awards over the period in which the options vest, consistent with the provisions of SFAS No. 123(R) *Accounting for Stock-Based Compensation* ("SFAS 123R"). The stock options are valued using the Black-Scholes valuation method on the date of grant. Prior to January 1, 2006, the Company recorded equity-based compensation in accordance with the provisions of SFAS No. 123 *Accounting for Stock-Based Compensation*.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157 *Fair Value Measurement* ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value and expands disclosures about assets and liabilities measured at fair value. The Company will be required to adopt SFAS 157 in the first quarter of fiscal 2008. For certain nonfinancial assets and nonfinancial liabilities, the effective date has been deferred for one year. Management currently is evaluating the requirements of SFAS 157 and has not yet determined the impact it will have on the Company's financial statements.

In February 2007, the FASB issued SFAS No. 159 *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159"), which permits entities to choose to measure many financial instruments and certain other items at fair value. The Company will have the option to adopt SFAS 159 in the first quarter of fiscal 2008. Management currently is evaluating the requirements of SFAS 159 and has not yet determined the impact it will have on the Company's financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007) *Business Combinations* ("SFAS 141(R)"), which replaces FASB Statement No. 141. SFAS 141(R) establishes requirements for how an acquirer in a business combination recognizes and measures the assets acquired, liabilities assumed and any noncontrolling interests. The provisions of SFAS 141(R) are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008.

In December 2007, the FASB issued SFAS No. 160 *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* ("SFAS 160"). SFAS 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008.

3. Acquisitions

In July 2007, the Company acquired MedicWest Ambulance based in North Las Vegas, Nevada and Abbott Ambulance, Inc. based in St. Louis, Missouri, together with certain of their respective affiliates. In September 2007, the Company acquired certain ground ambulance assets from subsidiaries of Lifeguard Transportation Service, Inc. in Dallas, Texas and Atlanta, Georgia. The total cost for acquisitions completed during 2007 was $75.6 million and was paid primarily in cash. These acquisitions expanded AMR's presence in existing markets and allowed it to enter a new market in the St. Louis area. The Company has substantially completed the purchase price allocation for these acquisitions and has preliminarily recorded $42.1 million of goodwill as of December 31, 2007.

Emergency Medical Services Corporation

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except for share and per share amounts)

3. Acquisitions (Continued)

During the year ended December 31, 2006, the Company acquired four entities for a total cost of $24.7 million, which was paid primarily in cash. On July 8, 2006, the Company acquired Air Ambulance Specialists, Inc., a privately held fixed wing air ambulance company, with an effective date of July 1, 2006. AASI is based in Centennial, Colorado. On November 13, 2006, the Company acquired Clinical Staffing Solutions, a Philadelphia-based hospitalist business. The Company also purchased two local ambulance service providers. Silver Spring Ambulance Service, Inc., providing services in the Washington D.C. market, was acquired in July 2006. Lifeline Medical Services, Inc., providing services in the south Florida market, was acquired in June 2006.

4. Property, Plant and Equipment, net

Property, plant and equipment, net consisted of the following at December 31:

	2007	2006
Land	$ 2,586	$ 2,079
Building and leasehold improvements	23,839	19,997
Vehicles	120,673	105,788
Computer hardware and software	69,077	48,792
Communication and medical equipment and other	66,206	66,216
	282,381	242,872
Less: accumulated depreciation and amortization	(139,039)	(95,710)
Property, plant and equipment, net	$ 143,342	$ 147,162

Vehicles include certain vehicles held under capital leases with a net book value of $6.8 million and $2.1 million at December 31, 2007 and 2006, respectively. Accumulated depreciation and amortization at December 31, 2007 and 2006 includes $1.8 million and $9.7 million, respectively, relating to such vehicles. Depreciation expense, which includes amortization of assets under capital leases, was $55.4 million and $53.1 million for the years ended December 31, 2007 and 2006, respectively, and $42.5 million for the eleven months ended December 31, 2005.

Emergency Medical Services Corporation

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except for share and per share amounts)

5. Intangible Assets, net

Intangible assets, net consisted of the following at December 31:

	2007		2006	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets				
Contract value	$ 118,590	$ (39,186)	$ 90,175	$ (24,330)
Covenant not to compete	1,363	(351)	493	(150)
Total	$ 119,953	$ (39,537)	$ 90,668	$ (24,480)
Unamortized intangible assets				
Trade names	700			
Radio frequencies	601		601	
Total	$ 121,254	$ (39,537)	$ 91,269	$ (24,480)

Amortization expense of intangible assets was $15.1 million and $12.8 million for the years ended December 31, 2007 and 2006, respectively, and $11.7 million for the eleven months ended December 31, 2005. Estimated annual amortization over each of the next five years is expected to be:

2008	$ 16,790
2009	14,893
2010	14,298
2011	14,082
2012	9,832

Emergency Medical Services Corporation

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except for share and per share amounts)

6. Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred taxes were as follows at December 31:

	2007	2006
Current deferred tax assets (liabilities):		
Accounts receivable	$ 55,057	$ (5,562)
Accrued liabilities	20,675	17,312
Credit carryforwards	1,265	723
Net current deferred tax assets	76,997	12,473
Long-term deferred tax assets (liabilities):		
Intangible assets	(24,221)	(7,005)
Insurance and other long-term liabilities	37,106	30,982
Excess of tax over book depreciation	(4,275)	(4,783)
Interest carryforwards	51,078	65,497
Net operating loss carryforwards	35,273	18,679
Net long-term deferred tax assets	94,961	103,370
Net deferred tax assets	$ 171,958	$ 115,843

The Company has significant net deferred tax assets resulting from net operating loss ("NOL") and interest deduction carryforwards and other deductible temporary differences that will reduce taxable income in future periods. SFAS 109 requires that a valuation allowance be established when it is "more likely than not" that all, or a portion, of net deferred tax assets will not be realized. A review of all available positive and negative evidence needs to be considered, including expected reversals of significant deductible temporary differences, a company's recent financial performance, the market environment in which a company operates, tax planning strategies and the length of NOL carryforward periods. Furthermore, the weight given to the potential effect of negative and positive evidence should be commensurate with the extent to which it can be objectively verified. The Company's evaluation of such evidence shows that no valuation allowance is needed.

The Company operates in multiple taxing jurisdictions and in the normal course of business is examined by federal and state tax authorities. In association with this the Company has established reserves for income taxes in accordance with SFAS No. 5 *Accounting for Contingencies* ("SFAS 5"). Beginning in the first quarter of 2007, this reserve was accounted for under FIN 48. The Company will periodically assess the amount of such reserves and adjust the reserve balances as necessary. EMSC does not expect the final resolution of tax examinations to have a material impact on the Company's financial results.

The Company has interest carryovers of $132.2 million at December 31, 2007 limited by IRC Section 163(j) without expiration, and federal net operating loss carryforwards of $91.3 million which expire in the years 2017 to 2027. All NOL carryforwards are subject to AMR's annual IRC Section 382 limitation of $1.3 million. However, AMR has a net unrealized built-in gain ("NUBIG") and future recognition of some of these built-in gains will enable AMR to utilize its NOLs in excess of the annual limitation. AMR recognized additional NOLs of $53.9 million related to an issue that was settled in

Emergency Medical Services Corporation

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except for share and per share amounts)

6. Income Taxes (Continued)

AMR's August 31, 2002 and August 31, 2003 audits that closed in 2007. The closure of the audit along with refinement of AMR's net unrecognized built-in gain computation allowed AMR to recognize this additional asset.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Balance at January 1, 2007	$	40,934
Additions based on tax positions related to the current year		
Additions for tax positions of prior years		51,637
Reductions for tax positions of prior years		
Reductions for tax positions due to lapse of statute of limitations		
Settlements		
Balance at December 31, 2007	$	92,571

In accordance with the Company's accounting policy, EMSC recognized accrued interest and penalties related to unrecognized tax benefits as a component of tax expense, which is consistent with the recognition of these items in prior reporting periods. The Company recognized $10.1 million and $8.3 million for the payment of interest and penalties for the years ended December 31, 2007 and 2006, respectively.

It is reasonably possible that a reduction of up to $93 million of unrecognized tax benefits may occur as a result of possible audit settlements and/or tax filings made by the Company within the next twelve months.

The amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate was $0.2 million on December 31, 2007 and 2006.

The components of income tax expense were as follows:

	Year ended December 31, 2007	Year ended December 31, 2006	Eleven months ended December 31, 2005
Current tax expense			
State	$ 625	$	$
Federal	27	479	102
Total	652	479	102
Deferred tax expense			
State	3,830	1,970	1,134
Federal	31,622	22,512	13,136
Total	35,452	24,482	14,270
Total tax expense			
State	4,455	1,970	1,134
Federal	31,649	22,991	13,238

	Year ended December 31, 2007	Year ended December 31, 2006	Eleven months ended December 31, 2005
Total	$ 36,104	$ 24,961	$ 14,372

Emergency Medical Services Corporation

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except for share and per share amounts)

6. Income Taxes (Continued)

A reconciliation of the provision for income taxes at the federal statutory rate compared to the Company's effective tax rate is as follows:

	Year ended December 31, 2007	Year ended December 31, 2006	Eleven months ended December 31, 2005
Income tax expense at the statutory rate	$ 33,571	$ 22,412	$ 12,033
Increase in income taxes resulting from:			
State taxes, net of federal	2,787	1,971	1,182
Other	(254)	578	1,157
Provision for income taxes	$ 36,104	$ 24,961	$ 14,372

7. Accrued Liabilities

Accrued liabilities were as follows at December 31:

	2007	2006
Accrued wages and benefits	$ 79,781	$ 71,578
Accrued paid time-off	24,687	22,816
Current portion of self-insurance reserve	59,821	57,596
Accrued restructuring	600	5,738
Current portion of compliance and legal	2,245	4,910
Accrued billing and collection fees	5,046	5,085
Accrued profit sharing	23,661	19,695
Accrued interest	10,407	11,810
Other	31,071	32,403
Total accrued liabilities	$ 237,319	$ 231,631

8. Debt

On February 10, 2005, the Company issued $250.0 million of senior subordinated unsecured notes and entered into a $450.0 million Senior Secured Credit Facility ("Credit Facility") agreement.

The senior subordinated notes have a fixed interest rate of 10%, payable semi-annually and mature in February 2015. The senior subordinated notes are general unsecured obligations of the issuers, AMR HoldCo, Inc. and EmCare HoldCo, Inc., and are guaranteed by EMSC, EMS LP and each of EMSC's domestic subsidiaries. AMR and its subsidiaries are wholly-owned subsidiaries of AMR HoldCo, Inc. and EmCare and its subsidiaries are wholly-owned subsidiaries of EmCare HoldCo, Inc.

The Credit Facility consists of a $350.0 million senior secured term loan and a $100.0 million Senior Secured Revolving Credit Facility commitment, ("Revolving Facility"), each collateralized by a pledge of 100% of the capital stock of the Company and its direct and indirect domestic subsidiaries, 65% of the capital stock of any direct foreign subsidiaries and an interest in substantially all tangible

Emergency Medical Services Corporation

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except for share and per share amounts)

8. Debt (Continued)

and intangible assets of EMS LP and its subsidiaries. The term loan matures in February 2012 and requires quarterly principal payments of $0.6 million. The Revolving Facility was established to fund the Company's working capital and letter of credit needs and requires principal and interest to be paid at maturity in February 2011. The Revolving Facility is also subject to an annual commitment fee of 0.5% on unutilized commitments. Under the terms of the agreement, the Company may select between various interest rate arrangements based on LIBOR or the Prime Rate plus additional basis points ranging from 1% to 2%, determined by reference to a leverage ratio. At December 31, 2007, net of letters of credit outstanding of $29.6 million, the maximum available under the Revolving Facility was $70.4 million. There were no borrowings under the Revolving Facility at December 31, 2007 and 2006.

The Credit Facility agreement contains various customary operating and financial covenants. The more restrictive of these covenants limit the Company and its subsidiaries' ability to create liens on assets; make certain investments, loans, guarantees or advances; incur additional indebtedness or issue capital stock; engage in mergers, acquisitions or consolidations; dispose of assets; pay dividends, repurchase equity interest or make other restricted payments; change the business conducted by the Company; engage in transactions with affiliates; and repay certain indebtedness, including the senior unsecured notes, or amend or otherwise modify agreements governing the subordinated indebtedness. The financial maintenance covenants establish a maximum leverage ratio, a maximum senior leverage ratio, a minimum fixed charge coverage ratio and an annual capital expenditure limit. The Company is in compliance with its debt covenants as of December 31, 2007.

The Company paid approximately $18.3 million in debt issuance costs that are being amortized using the effective interest method. In connection with the initial public offering discussed in note 13 "Equity," the Company used net proceeds from the offering to pay down a portion of the Credit Facility and wrote off $2.0 million of unamortized debt issuance costs. The Company made unscheduled payments on the Credit Facility totaling $19.4 million during the year ended December 31, 2006 and wrote off $0.4 million of unamortized debt issuance costs.

Long-term debt and capital lease obligations consisted of the following at December 31:

	2007	2006
Senior subordinated notes due 2015	$ 250,000	$ 250,000
Senior secured term loan due 2012 (7.15% at December 31,2007)	224,167	226,472
Notes due at various dates from 2008 to 2022 with interest rates from 6% to 10%	2,292	1,856
Capital lease obligations due 2010	6,424	1,447
	482,883	479,775
Less current portion	(4,717)	(4,159)
Total long-term debt	$ 478,166	$ 475,616

Emergency Medical Services Corporation

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except for share and per share amounts)

8. Debt (Continued)

The aggregate amount of minimum payments required on long-term debt and capital lease obligations (see note 14 "Commitments and Contingencies") in each of the years indicated is as follows:

Year ending December 31,	
2008	$ 4,717
2009	5,580
2010	4,563
2011	163,257
2012	54,205
Thereafter	250,561
	$ 482,883

9. 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. Interest rate swap agreements are not entered into for trading purposes.

At December 31, 2007, the Company was party to one interest rate swap agreement. The swap agreement is with major financial institutions and amounts to $200 million of notional principal amount. This swap agreement effectively converts $200 million of variable rate debt to fixed rate debt with an effective rate of 4.3%. The Company continues to make interest payments based on the variable rate associated with the debt (based on LIBOR which had an average rate of 3.81% at December 31, 2007) and periodically settles with its counterparties for the difference between the rate paid and the fixed rate. The remaining term of this swap agreement is two years. In fiscal 2007, the Company recorded a net change in the fair value of the fixed interest rate swap agreement in the amount of $2.0 million as a component of other comprehensive income. The net additional interest payments made or received under this swap agreement is recognized in interest expense. Over the next twelve months, the Company expects to reclassify $0.4 million of deferred gain from accumulated other comprehensive loss to interest expense as related interest payments that are being hedged are recognized.

Emergency Medical Services Corporation

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except for share and per share amounts)

10. Restructuring Charges

			2006 Plans			2007 Plans			
	2002 Plan Lease	2005 Plan Severance	Severance	Lease	Total	Severance	Lease	Total	Total
February 1, 2005	$ 746								$ 746
Adjustment	287								287
Incurred		$ 1,494							1,494
Paid	(567)	(228)							(795)
December 31, 2005	466	1,266							1,732
Incurred			$ 5,618	$ 751	$ 6,369				6,369
Paid	(286)	(1,266)	(811)		(811)				(2,363)
December 31, 2006	180		4,807	751	5,558				5,738
Incurred						$ 2,029	$ 213	$ 2,242	2,242
Paid	(104)		(4,807)	(349)	(5,156)	(1,924)	(196)	(2,120)	(7,380)
December 31, 2007	$ 76	$	$	$ 402	$ 402	$ 105	$ 17	$ 122	$ 600

The activity in the accrued restructuring balance is as follows:

During fiscal year 2002, in an effort to eliminate the differences in size among regions, AMR was re-aligned into four geographic regions. The operating units within the five original regions were shifted to create the new structure and the administrative offices of the former South region and one billing center were closed. A National Products and Services function was also closed as part of this restructuring plan. The functions previously performed by these groups were distributed to the remaining regions and the corporate office. The lease commitment associated with this plan is expected to be completed by December 2008.

As part of a plan to merge the national support functions of AMR and EmCare, EMSC recorded a restructuring charge of $0.6 million for severance costs in the fourth quarter of fiscal 2005. In addition to this EMSC restructuring, in 2005 AMR was re-aligned from three into two geographic regions and a resulting severance charge of $0.9 million was recorded. The final severance payments under the restructuring plan were paid in 2006.

As part of a plan to re-align the operations and billing function of AMR and to exit the East Michigan market, the Company recorded a restructuring charge of $6.4 million during 2006. Lease termination costs accounted for $0.8 million and the remaining $5.6 million related to one-time termination benefits. Lease termination costs are expected to be completed by December 2015.

The Company restructured certain billing functions of AMR and operations in the Los Angeles, California market during the first quarter of 2007 and recorded a restructuring charge of $2.2 million. This restructuring charge included $0.2 million in lease termination and exit costs and $2.0 million related to termination benefits. These costs are expected to be paid by the end of December 2008.

11. Retirement Plans and Employee Benefits

The Company maintains three 401(k) plans (the "EMSC Plans") for its employees and employees of certain subsidiaries who meet the eligibility requirements set forth in the EMSC Plans. Employees

Emergency Medical Services Corporation

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except for share and per share amounts)

11. Retirement Plans and Employee Benefits (Continued)

may contribute a maximum of 40% of their compensation up to a maximum of $15,500. Generally, 50% of the contribution is matched by the Company up to a maximum of 3% to 6% of the employee's salary per year, depending on the plan. EMSC's contributions to the EMSC Plans were $11.3 million and $10.4 million for the years ended December 31, 2007 and 2006, respectively, and $8.7 million for the eleven months ended December 31, 2005. Contributions are included in compensation and benefits on the accompanying statements of operations.

EmCare established the EmCare Holdings Inc. 401(k) Savings Plan (the "EmCare Plan") in 1994 to provide retirement benefits to its physician employees. Employees may elect to participate in the EmCare Plan at the beginning of each calendar quarter and may contribute 1% to 25% of their annual compensation on a tax-deferred basis subject to limits established by the Internal Revenue Service. EmCare contributes 50% of the first 6% of base compensation that a participant contributes to the EmCare Plan during any calendar year. EmCare contributed $0.8 million and $0.3 million during the years ended December 31, 2007 and 2006, respectively, and $0.3 million during the eleven months ended December 31, 2005.

12. Equity Based Compensation

Equity Option Plan

Under the Company's Equity Option Plan approved in February 2005, key employees were granted options to purchase partnership units of EMS LP. In accordance with the terms of the Equity Option Plan, the terms of these options were adjusted to reflect the Company's initial public offering and reorganization (see note 13 "Equity") in the fourth quarter of 2005. The options permit employees to purchase class A common shares at an exercise price of between $6.67 and $16.00 per share and vest ratably generally over a period of 4 years and have a maximum 10-year term. In addition, certain performance measures must be met for 50% of the options to become exercisable. The Company recorded a compensation charge of $1.1 million and $1.2 million for the years ended December 31, 2007 and 2006, respectively, and $1.0 million for the eleven months ended December 31, 2005 associated with the grant of these options. No future grants of options will be made under this plan.

The Black-Scholes option pricing model was used to estimate fair values as of the date of grant using 0% volatility (because the options were granted by EMS LP as a private company), risk free rates ranging from 3.53% to 3.88%, 0% dividend yield and terms of 4 and 5 years. The weighted average fair value of options granted during the eleven months ended December 31, 2005 was $1.40.

Emergency Medical Services Corporation

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except for share and per share amounts)

12. Equity Based Compensation (Continued)

The following table summarizes the status of options under the Equity Option Plan, as well as options granted to certain directors (with similar terms) as of December 31, 2007:

	Class A Shares	Weighted Average Exercise Price
Outstanding at beginning of year	3,357,907	$ 6.77
Granted at fair value		
Exercised	(57,494)	6.67
Expired or forfeited	(47,817)	6.67
Outstanding at end of year	3,252,596	$ 6.78
Exercisable at end of year	874,378	$ 6.77

The range of exercise prices of the outstanding exercisable options are as follows at December 31, 2007:

Weighted Average Exercise Price	Number of Exercisable Shares	Number of Outstanding Shares	Weighted Average Remaining Life in Years
$ 6.67	865,003	3,215,096	7.11
$ 16.00	9,375	37,500	7.95

The Company recorded a charge totaling $1.8 million associated with partnership units sold and certain options to purchase equity issued to employees and officers of the Company. This non-cash expense was recorded as a component of compensation and benefits on the accompanying statement of operations for the eleven months ended December 31, 2005.

Directors' Plan

The Directors' Plan, approved by stockholders in May 2007, is available to non-employee directors of the Company other than the Chair of the Compliance Committee. Under this plan, eligible directors are granted Restricted Stock Units ("RSUs") immediately following each annual stockholder meeting with each RSU representing one share of the Company's class A common stock. Each grant of RSUs has a fair market value of $0.1 million 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 Directors' 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 2,705 and 8,000 RSUs per director in 2007 and 2006, respectively, and expensed $0.4 million and $0.2 million for the years ended December 31, 2007 and 2006, respectively.

Long-Term Incentive Plan

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

Emergency Medical Services Corporation

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except for share and per share amounts)

12. Equity Based Compensation (Continued)

During 2007, members of the Board of Directors of the Company granted, in the aggregate, 30,000 shares of restricted class A common stock pursuant to the Plan, which shares vest ratably over a period of three to four years. In addition, certain performance measures must be met for 50% of these shares to become exercisable. In connection with these grants, the Company expensed $0.1 million for the year ended December 31, 2007.

The Company also granted options to key employees during 2007 under the Plan. The options permit employees to purchase shares of class A common stock at exercise prices ranging from $30.37 to $39.89 per share and vest ratably over a period of 4 years and have a maximum term of ten years. In addition, certain performance measures must be met for 50% of the options to become exercisable. In connection with these grants the Company recorded a compensation charge of $0.1 million for the year ended December 31, 2007.

The Black-Scholes option pricing model was used to estimate fair values as of the date of grant using 43% to 46% volatility based on EMSC's historical stock price, risk free rates ranging from 4.07% to 5.16%, 0% dividend yield and a term of 5 years. The weighted average fair value of options granted during 2007 was $15.30.

The following table summarizes the status of restricted stock and options under the Plan as of December 31, 2007:

		Options Summary	
	Restricted Stock	Class A Shares	Weighted Average Exercise Price
Outstanding at beginning of year			$
Granted	30,000	95,000	33.93
Exercised			
Expired or forfeited			
Outstanding at end of year	30,000	95,000	$ 33.93
Exercisable at end of year			$

13. Equity

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.

Emergency Medical Services Corporation

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except for share and per share amounts)

13. Equity (Continued)

Preferred Stock

The Company's board of directors may, without further action by stockholders, from time to time direct the issuance of up to 20 million shares of preferred stock in series and may, at the time of issuance, determine the rights, preferences and limitations of each series.

Class A and Class B Common Stock and Class B Special Voting Stock

General

The Company's class A common stock and class B common stock is identical in all respects, except with respect to voting and except that each share of class B common stock is convertible into one share of class A common stock at the option of the holder. The class B common stock will be converted automatically into class A common stock upon a transfer thereof to any person other than certain currently affiliated persons and their affiliates. The class A and class B common stock are referred to as "common stock".

Subject to preferences that may apply to shares of preferred stock outstanding at the time, holders of the Company's outstanding common stock are entitled to any dividend declared by the board of directors out of funds legally available for this purpose. Upon the Company's liquidation, dissolution or winding up, the holders of the class A and class B common stock are entitled to receive pro rata the Company's assets available for distribution, after payment of all liabilities and subject to the rights of any outstanding preferred stock and of the holders of the LP exchangeable units to receive distributions of assets equivalent to, on a per share/per unit basis, the distributions to the holders of the class A and class B common stock.

The Company's one share of class B special voting stock is not entitled to any rights or privileges except for the voting rights described below, and except that it is entitled to a distribution equal to its $0.01 par value upon the Company's liquidation, dissolution or winding up.

The class B units of EMS LP had no voting rights and transfer of the units was restricted. Prior to a qualified public offering, if the employment of a holder of class B units was terminated because of death, disability or by the Company without cause, the holder had the right to either retain his class B units, or to "put" his class B units to the Company and require the Company to purchase his class B units. The Company had the right to "call" the class B units and require the holder to sell his/her class B units to the Company. The Company's "call" right was also exercisable upon a holder's termination for cause. At June 30, 2005 and September 30, 2005, the Company recorded the repurchase price associated with the put right of $1.8 million and $1.2 million, respectively (see note 17 "Net Income per Common Share"). These put and call rights expired upon the completion of the Company's public offering in the fourth quarter of 2005.

Voting Rights

Generally, on all matters on which the holders of common stock are entitled to vote, the holders of the class A common stock, the class B common stock and the class B special voting stock vote together as a single class. On all matters with respect to which the holders of the Company's common stock are entitled to vote, each outstanding share of class A common stock is entitled to one vote, each

Emergency Medical Services Corporation

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except for share and per share amounts)

13. Equity (Continued)

outstanding share of class B common stock is entitled to ten votes and the one share of class B special voting stock is entitled to a number of votes equal to the number of votes that could be cast if all of the then outstanding LP exchangeable units were exchanged for class B common stock. If the Minimum Hold Condition is no longer satisfied, the number of votes per share of class B common stock will be reduced automatically to one vote per share. The Minimum Hold Condition is satisfied so long as the aggregate of the numbers of outstanding shares of class B common stock and LP exchangeable units is at least 10% of the total number of shares of common stock and LP exchangeable units outstanding.

In addition, holders of class A common stock, on the one hand, and the class B common stock and class B special voting stock, on the other, are entitled to vote as a separate class on approval of (i) any alteration, repeal or amendment of the Company's certificate of incorporation which would adversely affect the powers, preferences or rights of the holders of class A common stock or the class B common stock and class B special voting stock, as the case may be, and (ii) any merger or consolidation of the Company with any other entity if, as a result, (x) shares of class A common stock would be converted into or exchanged for, or receive, any consideration that differs from that applicable to the shares of class B common stock as a result of such merger or consolidation, other than a difference limited to preserving the relative voting power of the holders of the class A common stock, the class B common stock and the class B special voting stock or (y) in the case of the class B common stock and class B special voting stock only, the class B special voting stock would not remain outstanding.

In respect of any matter as to which the holders of the class A common stock are entitled to a class vote, holders have one vote per share, and the affirmative vote of the holders of a majority of the shares of class A common stock outstanding is required for approval. In respect of any matter as to which the holders of the class B common stock and class B special voting stock are entitled to a class vote, holders of class B common stock have one vote per share and the holder of the class B special voting stock will have one vote for each LP exchangeable unit outstanding, and the affirmative vote of the holders of a majority of the votes entitled to be cast is required for approval.

LP Exchangeable Units

The LP exchangeable units are issued by EMS LP. Each LP exchangeable unit is exchangeable at any time into one share of class B common stock at the option of the holder and is substantially equivalent economically to a share of class B common stock. The holders of the LP exchangeable units have the right to receive distributions, on a per unit basis, in amounts (or property in the case of non-cash dividends), which are the same as, or economically equivalent to, and which are payable at the same time as, dividends declared on the class B common stock (or dividends that would be required to be declared if class B common stock were outstanding). These holders also have the right to vote, through the trustee holder of the class B special voting stock, at all stockholder meetings at which holders of the class B common stock or class B special voting stock are entitled to vote, and the right to participate on a pro rata basis with the class B common stock in the distribution of assets of the Company, upon specified events relating to the voluntary or involuntary liquidation, dissolution, winding up or other distribution of the assets, through the mandatory exchange of LP exchangeable units for shares of class B common stock. The LP exchangeable units have been included as common stock equivalents in the basic and diluted earnings per share calculations.

Emergency Medical Services Corporation

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except for share and per share amounts)

14. Commitments and Contingencies

Lease Commitments

The Company leases various facilities and equipment under operating lease agreements. Rental expense incurred under these leases was $38.6 million, $43.4 million and $31.1 million for the years ended December 31, 2007 and 2006 and for the eleven months ended December 31, 2005, respectively.

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

Future commitments under non-cancelable capital and operating leases for vehicle, premises, equipment and other recurring commitments are as follows:

	Capital Leases	Operating Leases & Other
Year ending December 31,		
2008	$ 2,499	$ 44,361
2009	2,499	30,266
2010	2,011	21,968
2011		19,733
2012		14,325
Thereafter		33,116
	7,009	$ 163,769
Less imputed interest	(641)	
Total capital lease obligations	6,368	
Less current portion	(2,499)	
Long-term capital lease obligations	$ 3,869	

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

Emergency Medical Services Corporation

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except for share and per share amounts)

14. Commitments and Contingencies (Continued)

agencies. Other than the investigations described below, management believes that the outcome of any of these investigations would not have a material adverse effect on the Company.

Like other ambulance companies, AMR has provided discounts to its healthcare facility customers (nursing homes and hospitals) in certain circumstances. The Company has attempted to comply with applicable law where such discounts are provided. During the first quarter of fiscal 2004, the Company was advised by the U.S. Department of Justice ("DOJ") that it was investigating certain business practices at AMR. The specific practices at issue were (1) whether ambulance transports involving Medicare eligible patients complied with the "medical necessity" requirement imposed by Medicare regulations, (2) whether patient signatures, when required, were properly obtained from Medicare eligible patients, and (3) whether discounts in violation of the federal Anti-Kickback Statute were provided by AMR in exchange for referrals involving Medicare eligible patients. In connection with the third issue, the government alleged that certain of AMR's hospital and nursing home contracts in effect in Texas in periods prior to 2002 contained discounts in violation of the federal Anti-Kickback Statute. The Company negotiated a settlement with the government pursuant to which the Company paid $9 million and obtained a release of all claims related to such conduct alleged to have occurred in Texas in periods prior to 2002. In connection with the settlement, AMR entered into a Corporate Integrity Agreement ("CIA") which is effective for a period of five years beginning September 12, 2006. Pursuant to the CIA, AMR is required to maintain a compliance program which includes, among other elements, the appointment of a compliance officer and committee; training of employees nationwide; contractual safeguards nationwide, including tracking of contractual arrangements in Texas; review by an independent review organization and reporting of certain reportable events

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 yet been determined. At this time, AMR does not believe that any incorrect billings are material in amount.

On April 17, 2006, the Office of Inspector General for the United States Department of Health and Human Services, or OIG, finalized its draft report requesting that the Company's Massachusetts subsidiary reimburse the Medicare program for approximately $1.8 million in alleged overpayments from Medicare for services performed between July 1, 2002 and December 31, 2002. The OIG claims that these payments were made for services that did not meet Medicare medical necessity and reimbursement requirements. On December 10, 2006, AMR paid the $1.8 million in alleged overpayments. However, the Company disagrees with the OIG's finding and has filed an administrative appeal. If AMR is successful in the administrative appeal the Company may be entitled to repayment of all or part of the $1.8 million.

Letters of Credit

At December 31, 2007 and 2006, the Company had $29.6 million and $29.9 million, respectively, in outstanding letters of credit.

Emergency Medical Services Corporation

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except for share and per share amounts)

14. Commitments and Contingencies (Continued)

Other Legal Matters

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

AMR and the City of Stockton, California are parties to litigation regarding the terms and enforceability of a memorandum of understanding and a related joint venture agreement between the parties to present a joint bid in response to a request for proposals to provide emergency ambulance services in the County of San Joaquin, California. The parties were unable to agree on the final terms of a joint bid. AMR was awarded the San Joaquin contract. While the Company is unable at this time to estimate the amount of potential damages, it believes that Stockton may claim as damages a portion of the Company's profit on the contract or the profit Stockton might have realized had the joint venture proceeded. Management believes the outcome of this lawsuit will not have a material adverse effect on the Company.

In December 2006, AMR received a subpoena from the DOJ. The subpoena requested copies of documents for the period from January 2000 through the present. The subpoena required AMR to produce a broad range of documents relating to the operations of certain AMR affiliates in New York. The Company is in the process of producing documents in response to the subpoena.

15. Transactions with Onex

The Company is party to a management agreement with a wholly-owned subsidiary of Onex Corporation, its 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. This fee, which has been included as a component of selling, general and administrative expenses on the accompanying statement of operations, amounted to $1.0 million for the years ended December 31, 2007 and 2006 and $0.9 million for the eleven months ended December 31, 2005.

16. Insurance

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 (medical malpractice) programs for EmCare. In those instances where the Company has obtained third-party insurance coverage, the Company normally retains liability for the first $1 to $2 million of the loss. Insurance reserves cover known claims and incidents within the level of Company retention that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from activities through December 31, 2007.

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 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

Emergency Medical Services Corporation

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except for share and per share amounts)

16. Insurance (Continued)

assumed rate of inflation in health care costs and property damage repairs. Claims, other than general liability claims, are discounted at a rate commensurate with the interest rate on monetary assets that essentially are risk free and have a maturity comparable to the underlying liabilities, currently 4%. General liability claims are not discounted.

The Company's most recent actuarial valuation was completed in December 2007. As a result of this and previous actuarial valuations, the Company recorded reductions in its provisions for insurance liabilities of approximately $21.5 million in fiscal 2007 and $16.9 million in fiscal 2006 related to reserves for losses in prior years. During the eleven months ended December 31, 2005, the Company recorded reductions in insurance liabilities of approximately $7.3 million related to reserves for losses in prior years.

Provisions for insurance expense included in the statements of operations include annual provisions determined in consultation with third-party actuaries and premiums paid to third-party insurers.

The table below summarizes the non-health and welfare insurance reserves included in the accompanying balance sheets:

	Accrued Liabilities	Insurance Reserves and Other Long-term Liabilities	Total Liabilities
December 31, 2007			
Automobile	$ 8,210	$ 8,999	$ 17,209
Workers compensation	15,937	29,656	45,593
General/Professional liability	35,674	106,089	141,763
	$ 59,821	$ 144,744	$ 204,565
December 31, 2006			
Automobile	$ 7,671	$ 9,642	$ 17,313
Workers compensation	14,751	29,728	44,479
General/Professional liability	35,174	110,605	145,779
	$ 57,596	$ 149,975	$ 207,571

Certain insurance programs also require the Company to maintain deposits with third-party insurers or with trustees to cover future claims costs. These deposits are included as insurance collateral in the accompanying balance sheets. Investments supporting insurance programs are comprised principally of government securities and investment grade securities. These investments are designated as available-for-sale and reported at fair value. Investment income/loss earned on these

Emergency Medical Services Corporation

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except for share and per share amounts)

16. Insurance (Continued)

investments is reported as interest income from restricted assets in the statements of operations. The following table summarizes these deposits and restricted investments:

	2007	2006
Restricted cash and cash equivalents	$ 2,298	$ 3,321
Restricted marketable securities	5,522	1,504
Other short-term insurance collateral	29,956	24,899
Insurance collateral short-term	$ 37,776	$ 29,724
Restricted long-term investments	$ 99,846	$ 95,307
Other long-term insurance collateral	46,792	67,993
Insurance collateral long-term	$ 146,638	$ 163,300

17. Net Income Per Common Share

The calculation of basic net income per common share and diluted net income per common share is presented below for the years ended December 31, 2007 and 2006 and the eleven months ended December 31, 2005 (in thousands except for share and per share amounts):

	2007	2006	2005
Basic earnings per common share computation			
Numerator:			
Net income	$ 59,818	$ 39,071	$ 20,067
Accretion of put right (see note 13 "Equity")			(1,213)
Net income available to stockholders	59,818	39,071	18,854
Denominator:			
Basic average shares outstanding			
Common stock and LP exchangeable units	41,551,207	41,502,632	33,621,542
Basic earnings per common share	$ 1.44	$ 0.94	$ 0.56
Diluted earnings per share computation			
Numerator:			
Net income	$ 59,818	$ 39,071	$ 20,067
Accretion of put right			(1,213)
Net income available to stockholders	59,818	39,071	18,854
Denominator:			
Basic average shares outstanding	41,551,207	41,502,632	33,621,542

	2007	2006	2005
Incremental shares from assumed exercise of stock options and RSUs	1,595,674	1,026,253	660,634
Diluted average common shares outstanding	43,146,881	42,528,885	34,282,176
Diluted earnings per common share	$ 1.39	$ 0.92	$ 0.55

Emergency Medical Services Corporation

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except for share and per share amounts)

17. Net Income Per Common Share (Continued)

The 2007 period excluded 35,500 potential common shares and the 2005 period excluded 37,500 potential common shares from the calculation of diluted earnings per share because they were antidilutive.

18. Segment Information

The Company is organized around two separately managed business units: healthcare transportation services and emergency management services, which have been identified as operating segments. The healthcare transportation services reportable segment focuses on providing a full range of medical transportation services from basic patient transit to the most advanced emergency care and pre-hospital assistance. The emergency management services reportable segment provides outsourced business services to hospitals primarily for emergency departments, urgent care centers and for certain inpatient departments. The Chief Executive Officer has been identified as the chief operating decision maker (CODM) for purposes of SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information,* 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, loss on early debt extinguishment, interest and other income, realized gain (loss) 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. Pre-tax income from continuing operations represents net revenue less direct operating expenses incurred within the

Emergency Medical Services Corporation

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except for share and per share amounts)

18. Segment Information (Continued)

operating segments. The accounting policies for reported segments are the same as for the Company as a whole (see note 2 "Summary of Significant Accounting Policies").

	Year ended December 31, 2007	Year ended December 31, 2006	Eleven months ended December 31, 2005
Healthcare Transportation Services			
Revenue	$ 1,219,212	$ 1,189,447	$ 1,059,725
Income from operations	33,284	35,203	47,593
Adjusted EBITDA	92,725	90,671	93,404
Goodwill	150,765	130,268	128,222
Intangible assets, net	51,379	31,066	35,489
Total identifiable assets	870,845	817,715	807,874
Capital expenditures	$ 32,847	$ 44,006	$ 44,992
Emergency Management Services			
Revenue	$ 887,781	$ 744,758	$ 595,760
Income from operations	99,295	66,513	31,772
Adjusted EBITDA	117,480	83,037	44,096
Goodwill	162,359	142,060	122,946
Intangible assets, net	30,338	35,723	42,694
Total identifiable assets	558,272	446,590	443,435
Capital expenditures	$ 751	$ 4,933	$ 2,465
Segment Totals			
Revenue	$ 2,106,993	$ 1,934,205	$ 1,655,485
Income from operations	132,579	101,716	79,365
Adjusted EBITDA	210,205	173,708	137,500
Goodwill	313,124	272,328	251,168
Intangible assets, net	81,717	66,789	78,183
Total identifiable assets	1,429,117	1,264,305	1,251,309
Capital expenditures	$ 33,598	$ 48,939	$ 47,457

Emergency Medical Services Corporation

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except for share and per share amounts)

18. Segment Information (Continued)

A reconciliation of Adjusted EBITDA to net income for each year is as follows:

	Year ended December 31, 2007	Year ended December 31, 2006	Eleven months ended December 31, 2005
Adjusted EBITDA	$ 210,205	$ 173,708	$ 137,500
Depreciation and amortization expense	(70,483)	(66,005)	(54,143)
Interest expense	(46,948)	(45,605)	(47,813)
Realized gain (loss) on investments	245	(467)	(164)
Interest and other income	2,055	2,346	1,040
Loss on early debt extinguishment		(377)	(2,040)
Income tax expense	(36,104)	(24,961)	(14,372)
Equity in earnings of unconsolidated subsidiary	848	432	59
Net income	$ 59,818	$ 39,071	$ 20,067

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

	Year ended December 31, 2007	Year ended December 31, 2006	Eleven months ended December 31, 2005
Adjusted EBITDA	$ 210,205	$ 173,708	$ 137,500
Interest paid	(44,874)	(43,506)	(45,642)
Change in accounts receivable	(74,991)	(4,740)	(36,617)
Change in other operating assets/liabilities	5,868	38,072	51,644
Equity based compensation	1,727	1,431	2,780
Other	(117)	777	298
Cash flows provided by operating activities	$ 97,818	$ 165,742	$ 109,963

A reconciliation of segment assets as of December 31, 2007 and 2006 to total assets and segment capital expenditures to total capital expenditures is as follows:

	2007	2006
Segment total identifiable assets	$ 1,429,117	$ 1,264,305
Corporate cash	32,330	35,598
Other corporate assets	18,116	18,314
Total identifiable assets	$ 1,479,563	$ 1,318,217

Emergency Medical Services Corporation

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except for share and per share amounts)

18. Segment Information (Continued)

Other corporate assets principally consist of property, plant and equipment, and other assets.

	Year ended December 31, 2007	Year ended December 31, 2006	Eleven months ended December 31, 2005
Segment total capital expenditures	$ 33,598	$ 48,939	$ 47,457
Corporate capital expenditures	4,737	11,476	1,476
Total capital expenditures	$ 38,335	$ 60,415	$ 48,933

19. Quarterly Financial Information (unaudited)

Selected unaudited quarterly financial data for the years ended December 31, 2007 and 2006 is as follows (in millions, except per share amounts):

2007	**1st Qtr.**	**2nd Qtr.**	**3rd Qtr.**	**4th Qtr.**
Revenue	$ 523.3	$ 516.7	$ 529.8	$ 537.2
Operating income	35.8	33.2	33.3	30.3
Net income	16.6	15.1	14.7	13.4
Basic earnings per share	0.40	0.36	0.35	0.32
Diluted earnings per share	$ 0.39	$ 0.35	$ 0.34	$ 0.31

2006	**1st Qtr.**	**2nd Qtr.**	**3rd Qtr.**	**4th Qtr.**
Revenue	$ 469.1	$ 478.5	$ 485.7	$ 500.9
Operating income	21.7	27.3	26.3	26.4
Net income	7.3	10.7	10.3	10.8
Basic earnings per share	0.17	0.26	0.25	0.26
Diluted earnings per share	$ 0.17	$ 0.25	$ 0.24	$ 0.25

Emergency Medical Services Corporation

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except for share and per share amounts)

20. Valuation and Qualifying Accounts

	Allowance for Contractual Discounts	Allowance for Uncompensated Care	Total Accounts Receivable Allowances
Balance at February 1, 2005	$ 314,863	$ 681,304	$ 996,167
Additions	1,752,254	684,614	2,436,868
Reductions	(1,596,915)	(1,029,144)	(2,626,059)
Balance at December 31, 2005	470,202	336,774	806,976
Additions	2,126,111	950,639	3,076,750
Reductions	(1,896,913)	(917,881)	(2,814,794)
Balance at December 31, 2006	699,400	369,532	1,068,932
Additions	2,524,339	1,027,732	3,552,071
Reductions	(2,391,001)	(965,344)	(3,356,345)
Balance at December 31, 2007	$ 832,738	$ 431,920	$ 1,264,658

Additions to the Company's valuation and qualifying accounts are primarily related to income statement provisions and balances added from acquisitions. Reductions to these accounts are primarily related to write-off activity.

21. Guarantors of Debt

EMS LP financed the acquisition of AMR and EmCare, described in note 1 "General Basis of Presentation", in part by issuing $250.0 million principal amount of senior subordinated notes and borrowing $370.2 million under the Credit Facility. Its wholly-owned subsidiaries, AMR HoldCo, Inc. and EmCare HoldCo, Inc., are the issuers of the senior subordinated notes and the borrowers under the 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 Credit Facility include a full, unconditional and joint and several guarantee by all of EMSC, EMS LP and EMSC's domestic subsidiaries. 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 Credit Facility 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:

Emergency Medical Services Corporation

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except for share and per share amounts)

21. Guarantors of Debt (Continued)

Consolidating Balance Sheet
As of December 31, 2007

	EMSC	EMS LP	Issuer AMR HoldCo, Inc.	Issuer EmCare HoldCo, Inc.	Subsidiary Guarantors	Subsidiary Non-Guarantor	Eliminations/ Adjustments	Total
Assets								
Current assets:								
Cash and cash equivalents	$	$	$	$	$ 24,987	$ 3,927	$	$ 28,914
Insurance collateral					24,498	13,278		37,776
Trade and other accounts receivable, net					494,376	972		495,348
Parts and supplies inventory					20,010			20,010
Other current assets					11,709	6		11,715
Current deferred tax assets					73,834	3,163		76,997
Current assets					649,414	21,346		670,760
Non-current assets:								
Property, plant, and equipment, net					143,342			143,342
Intercompany receivable	3,773	113,400	281,598	192,635			(591,406)	
Intangible assets, net					81,717			81,717
Non-current deferred tax assets					94,092	869		94,961
Insurance collateral					49,200	102,280	(4,842)	146,638
Goodwill					312,666	458		313,124
Other long-term assets			7,124	3,231	18,666			29,021
Investment and advances in subsidiaries	445,723	332,323	212,555	119,754	3,458		(1,113,813)	
Assets	$ 449,496	$ 445,723	$ 501,277	$ 315,620	$ 1,352,555	$ 124,953	$ (1,710,061)	$ 1,479,563
Liabilities and Equity								
Current liabilities:								
Accounts payable	$	$	$	$	$ 64,746	$ 109	$	$ 64,855
Accrued liabilities			5,547	4,860	196,565	30,347		237,319
Current portion of long-term debt			1,656	744	2,317			4,717
Current liabilities			7,203	5,604	263,628	30,456		306,891
Long-term debt			281,519	190,248	6,399			478,166
Other long-term liabilities					158,813	91,039	(4,842)	245,010
Intercompany					591,406		(591,406)	
Liabilities			288,722	195,852	1,020,246	121,495	(596,248)	1,030,067
Equity:								
Class A common stock	93					30	(30)	93

	EMSC	EMS LP	Issuer AMR HoldCo, Inc.	Issuer EmCare HoldCo, Inc.	Subsidiary Guarantors	Subsidiary Non-Guarantor	Eliminations/ Adjustments	Total
Class B common stock	1							1
Partnership equity	212,361	325,761	189,394	22,967	212,361		(750,483)	212,361
Additional paid-in capital	117,079					6,690	(6,690)	117,079
Retained earnings	118,956	118,956	23,783	95,173	118,942	(5,500)	(351,354)	118,956
Comprehensive income (loss)	1,006	1,006	(622)	1,628	1,006	2,238	(5,256)	1,006
Equity	449,496	445,723	212,555	119,768	332,309	3,458	(1,113,813)	449,496
Liabilities and Equity	$ 449,496	$ 445,723	$ 501,277	$ 315,620	$ 1,352,555	$ 124,953	$ (1,710,061)	$ 1,479,563

Emergency Medical Services Corporation

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except for share and per share amounts)

21. Guarantors of Debt (Continued)

Consolidating Balance Sheet
As of December 31, 2006

	EMSC	EMS LP	Issuer AMR HoldCo, Inc.	Issuer EmCare HoldCo, Inc.	Subsidiary Guarantors	Subsidiary Non-Guarantor	Eliminations/ Adjustments	Total
Assets								
Current assets:								
Cash and cash equivalents	$	$	$	$	$ 39,329	$ 7	$	$ 39,336
Insurance collateral					24,912	4,812		29,724
Trade and other accounts receivable, net					415,290	1,160		416,450
Parts and supplies inventory					18,089			18,089
Other current assets					16,972	394	(949)	16,417
Current deferred tax assets					9,310	3,163		12,473
Current assets					523,902	9,536	(949)	532,489
Non-current assets:								
Property, plant, and equipment, net					147,162			147,162
Intercompany receivable	400	114,165	282,691	193,177			(590,433)	
Intangible assets, net					66,789			66,789
Non-current deferred tax assets					104,501	(1,131)		103,370
Insurance collateral					59,599	103,701		163,300
Goodwill					271,870	458		272,328
Other long-term assets			8,590	3,838	20,351			32,779
Investment and advances in subsidiaries	385,640	271,475	206,969	64,492	6,696		(935,272)	
Assets	$ 386,040	$ 385,640	$ 498,250	$ 261,507	$ 1,200,870	$ 112,564	$ (1,526,654)	$ 1,318,217
Liabilities and Equity								
Current liabilities:								
Accounts payable	$	$	$	$	$ 65,172	$	$	$ 65,172
Accrued liabilities			6,515	5,295	192,501	27,320		231,631
Current portion of long-term debt			1,656	744	1,759			4,159
Current liabilities			8,171	6,039	259,432	27,320		300,962
Long-term debt			283,110	190,962	1,544			475,616
Other long-term liabilities					78,000	78,548	(949)	155,599
Intercompany					590,433		(590,433)	
Liabilities			291,281	197,001	929,409	105,868	(591,382)	932,177

	EMSC	EMS LP	Issuer AMR HoldCo, Inc.	Issuer EmCare HoldCo, Inc.	Subsidiary Guarantors	Subsidiary Non-Guarantor	Eliminations/ Adjustments	Total
Equity:								
Class A common stock	93					30	(30)	93
Class B common stock	1							1
Partnership equity	212,361	326,526	189,394	22,967	212,361		(751,248)	212,361
Additional paid-in capital	114,471					6,690	(6,690)	114,471
Retained earnings	59,138	59,138	17,575	41,563	59,124		(177,400)	59,138
Comprehensive income (loss)	(24)	(24)		(24)	(24)	(24)	96	(24)
Equity	386,040	385,640	206,969	64,506	271,461	6,696	(935,272)	386,040
Liabilities and Equity	$ 386,040	$ 385,640	$ 498,250	$ 261,507	$ 1,200,870	$ 112,564	$ (1,526,654)	$ 1,318,217

Emergency Medical Services Corporation

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except for share and per share amounts)

21. Guarantors of Debt (Continued)

Consolidating Statement of Operations
For the year ended December 31, 2007

	EMSC	EMS LP	Issuer AMR HoldCo, Inc.	Issuer EmCare HoldCo, Inc.	Subsidiary Guarantors	Subsidiary Non-Guarantor	Eliminations/ Adjustments	Total
Net revenue	$	$	$	$	$ 2,106,993	$ 36,778	$ (36,778)	$ 2,106,993
Compensation and benefits					1,455,970			1,455,970
Operating expenses					317,518			317,518
Insurance expense					61,801	41,285	(36,778)	66,308
Selling, general and administrative expenses					61,893			61,893
Depreciation and amortization expense					70,483			70,483
Restructuring charge					2,242			2,242
Income from operations					137,086	(4,507)		132,579
Interest income from restricted assets					2,881	4,262		7,143
Interest expense					(46,948)			(46,948)
Realized gain on investments						245		245
Interest and other income					2,055			2,055
Income before income taxes					95,074			95,074
Income tax expense					(36,104)			(36,104)
Income before equity in earnings of unconsolidated subsidiaries					58,970			58,970
Equity in earnings of unconsolidated subsidiaries	59,818	59,818	6,209	53,609	848		(179,454)	848
Net income	$ 59,818	$ 59,818	$ 6,209	$ 53,609	$ 59,818	$	$ (179,454)	$ 59,818

Emergency Medical Services Corporation

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except for share and per share amounts)

21. Guarantors of Debt (Continued)

Consolidating Statement of Operations
For the year ended December 31, 2006

	EMSC	EMS LP	Issuer AMR HoldCo, Inc.	Issuer EmCare HoldCo, Inc.	Subsidiary Guarantors	Subsidiary Non-Guarantor	Eliminations/ Adjustments	Total
Net revenue	$	$	$	$	$ 1,934,205	$ 38,446	$ (38,446)	$ 1,934,205
Compensation and benefits					1,333,648			1,333,648
Operating expenses					294,806			294,806
Insurance expense					71,182	41,522	(38,446)	74,258
Selling, general and administrative expenses					57,403			57,403
Depreciation and amortization expense					66,005			66,005
Restructuring charge					6,369			6,369
Income from operations					104,792	(3,076)		101,716
Interest income from restricted assets					2,444	3,543		5,987
Interest expense					(45,605)			(45,605)
Realized loss on investments						(467)		(467)
Interest and other income					2,346			2,346
Loss on early debt extinguishment					(377)			(377)
Income before income taxes					63,600			63,600
Income tax expense					(24,961)			(24,961)
Income before equity in earnings of unconsolidated subsidiaries					38,639			38,639
Equity in earnings of unconsolidated subsidiaries	39,071	39,071	6,781	32,290	432		(117,213)	432
Net income	$ 39,071	$ 39,071	$ 6,781	$ 32,290	$ 39,071	$	$ (117,213)	$ 39,071

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Emergency Medical Services Corporation

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except for share and per share amounts)

21. Guarantors of Debt (Continued)

Consolidating Statement of Operations
For the eleven months ended December 31, 2005

	EMSC	EMS LP	Issuer AMR HoldCo, Inc.	Issuer EmCare HoldCo, Inc.	Subsidiary Guarantors	Subsidiary Non-Guarantor	Eliminations/ Adjustments	Total
Net revenue	$	$	$	$	$ 1,655,485	$ 34,539	$ (34,539)	$ 1,655,485
Compensation and benefits					1,146,055			1,146,055
Operating expenses					233,087			233,087
Insurance expense					84,685	36,668	(34,539)	86,814
Selling, general and administrative expenses					54,262			54,262
Depreciation and amortization expense					54,143			54,143
Restructuring charge					1,781			1,781
Income from operations					81,472	(2,129)		79,343
Interest income from restricted assets					1,721	2,293		4,014
Interest expense					(47,813)			(47,813)
Realized loss on investments						(164)		(164)
Interest and other income				14	1,026			1,040
Loss on early debt extinguishment					(2,040)			(2,040)
Income before income taxes				14	34,366			34,380
Income tax expense					(14,372)			(14,372)
Income before equity in earnings of unconsolidated subsidiaries				14	19,994			20,008
Equity in earnings of unconsolidated subsidiary	20,067	20,067	10,795	9,258	59		(60,187)	59
Net income	$ 20,067	$ 20,067	$ 10,795	$ 9,272	$ 20,053	$	$ (60,187)	$ 20,067

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Emergency Medical Services Corporation

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except for share and per share amounts)

21. Guarantors of Debt (Continued)

Condensed Consolidating Statement of Cash Flows
For the year ended December 31, 2007

	EMSC	EMS LP	Issuer AMR HoldCo, Inc.	Issuer EmCare HoldCo, Inc.	Subsidiary Guarantors	Subsidiary Non-Guarantor	Total
Cash Flows from Operating Activities							
Net cash provided by operating activities	$	$	$	$	$ 91,563	$ 6,255	$ 97,818
Cash Flows from Investing Activities							
Purchase of property, plant and equipment					(38,335)		(38,335)
Proceeds from sale of property, plant and equipment					359		359
Acquisition of businesses, net of cash received					(75,648)		(75,648)
Insurance collateral					13,207	(2,335)	10,872
Net change in deposits and other assets					2,526		2,526
Net cash used in investing activities					(97,891)	(2,335)	(100,226)
Cash Flows from Financing Activities							
Issuance of EMSC equity	383						383
Borrowings					70,300		70,300
Repayments of capital lease obligations and other debt					(76,033)		(76,033)
Net intercompany borrowings (payments)	(383)				383		
Increase in bank overdrafts					(2,664)		(2,664)
Net cash used in financing activities					(8,014)		(8,014)
Increase in cash and cash equivalents					(14,342)	3,920	(10,422)
Cash and cash equivalents, beginning of period					39,329	7	39,336
Cash and cash equivalents, end of period	$	$	$	$	$ 24,987	$ 3,927	$ 28,914

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Emergency Medical Services Corporation

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except for share and per share amounts)

21. Guarantors of Debt (Continued)

Condensed Consolidating Statement of Cash Flows
For the year ended December 31, 2006

	EMSC	EMS LP	Issuer AMR HoldCo, Inc.	Issuer EmCare HoldCo, Inc.	Subsidiary Guarantors	Subsidiary Non-Guarantor	Total
Cash Flows from Operating Activities							
Net cash provided by operating activities	$	$	$	$	$ 145,255	$ 20,487	$ 165,742
Cash Flows from Investing Activities							
Purchase of property, plant and equipment					(60,415)		(60,415)
Proceeds from sale of property, plant and equipment					902		902
Acquisitions of businesses, net of cash acquired					(23,555)		(23,555)
Insurance collateral					(7,836)	(20,527)	(28,363)
Net change in deposits and other assets					(1,696)		(1,696)
Net cash used in investing activities					(92,600)	(20,527)	(113,127)
Cash Flows from Financing Activities							
Issuance of EMSC equity	104						104
EMSC equity issuance costs	(2,408)						(2,408)
Repayments of capital lease obligations and other debt					(27,066)		(27,066)
Net intercompany borrowings(payments)	2,304				(2,304)		
Decrease in bank overdrafts					(1,957)		(1,957)
Net cash used in financing activities					(31,327)		(31,327)
Increase in cash and cash equivalents					21,328	(40)	21,288
Cash and cash equivalents, beginning of period					18,001	47	18,048
Cash and cash equivalents, end of period	$	$	$	$	$ 39,329	$ 7	$ 39,336

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Emergency Medical Services Corporation

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands, except for share and per share amounts)

21. Guarantors of Debt (Continued)

Condensed Consolidating Statement of Cash Flows
For the eleven months ended December 31, 2005

	EMSC	EMS LP	Issuer AMR HoldCo, Inc.	Issuer EmCare HoldCo, Inc.	Subsidiary Guarantors	Subsidiary Non-Guarantor	Total
Cash Flows from Operating Activities							
Net cash provided by operating activities	$	$	$	$ 14	$ 91,599	$ 18,350	$ 109,963
Cash Flows from Investing Activities							
EMS purchase of AMR and EmCare		(828,775)					(828,775)
Purchase of property, plant and equipment					(48,933)		(48,933)
Proceeds from sale of property, plant and equipment					708		708
Purchase of restricted cash and investments						(64,128)	(64,128)
Proceeds from sale and maturity of restricted investments						35,972	35,972
Net change in deposits and other assets					(4,473)		(4,473)
Net cash used in investing activities		(828,775)			(52,698)	(28,156)	(909,629)
Cash Flows from Financing Activities							
Borrowings under new senior secured credit facility			241,500	108,500			350,000
Proceeds from issuance of senior subordinated notes			172,500	77,500			250,000
Borrowings under new revolving credit facility			17,388	7,812			25,200
Debt issue costs			(12,648)	(5,682)			(18,330)
EMS LP issuance of partnership equity		222,655					222,655
EMS LP partnership equity issuance costs		(1,919)					(1,919)
EMSC issuance of class A common stock	113,400						113,400
EMSC equity issuance costs	(9,329)						(9,329)
Repayments of capital lease obligations and other debt			(87,596)	(39,354)	(5,395)		(132,345)
Repayments of revolving credit facility							
Net investment and advances (distributions)	(104,071)	608,039	(331,144)	(148,790)	(24,034)		
Increase (decrease) in bank overdrafts					3,751		3,751
Increase (decrease) in other on-current liabilities							
Net cash provided by(used in) financing activities		828,775		(14)	(25,678)		803,083
Increase in cash and cash equivalents					13,223	(9,806)	3,417
					4,778	9,853	14,631

	EMSC	EMS LP	Issuer AMR HoldCo, Inc.	Issuer EmCare HoldCo, Inc.	Subsidiary Guarantors	Subsidiary Non-Guarantor	Total
Cash and cash equivalents, beginning of period							
Cash and cash equivalents, end of period	$	$	$	$	$ 18,001	$ 47	$ 18,048

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