Emergency Medical Services CORP
Form 10-Q
November 07, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2006

Or

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

For the transition period from to

Commission file numbers:

001-32701

333-127115

EMERGENCY MEDICAL SERVICES CORPORATION

EMERGENCY MEDICAL SERVICES L.P.

(Exact name of Registrants as Specified in their Charters)

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

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

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

Not applicable

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

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

Large accelerated filer o Accelerated filer o Non-accelerated filer x

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

Shares of class A common stock outstanding at November 1, 2006 9,262,853; shares of class B common stock outstanding at November 1, 2006 142,545; LP exchangeable units outstanding at November 1, 2006 32,107,500.

EMERGENCY MEDICAL SERVICES CORPORATION

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ON FORM 10-Q

FOR THE THREE AND NINE MONTHS ENDED

SEPTEMBER 30, 2006

EMERGENCY MEDICAL SERVICES CORPORATION

PART I. FINANCIAL INFORMATION

FOR THE THREE AND NINE MONTHS ENDED

SEPTEMBER 30, 2006

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

Emergency Medical Services Corporation

Statements of Operations and Comprehensive Income (Loss)

(unaudited)

(in thousands, except share and per share data)

	Consolidated three months ended September 30, 2006	Consolidated three months ended September 30, 2005	Consolidated nine months ended September 30, 2006	Consolidated eight months ended September 30, 2005	Predecessor combined one month ended January 31, 2005
Net revenue	$ 485,697	$ 456,245	$ 1,433,272	$ 1,187,653	$ 143,069
Compensation and benefits	333,406	319,292	990,380	822,595	103,191
Operating expenses	80,513	66,156	216,170	168,700	18,469
Insurance expense	12,111	21,048	54,222	60,382	7,768
Selling, general and administrative expenses	14,660	15,654	42,669	38,248	4,283
Depreciation and amortization expense	16,841	14,843	49,045	38,811	3,894
Restructuring charges	267		1,186		
Laidlaw compensation charges					14,440
Income (loss) from operations	27,899	19,252	79,600	58,917	(8,976)
Interest expense	(11,532)	(12,824)	(34,269)	(34,407)	(1,169)
Realized gain (loss) on investments	88	(34)	(437)	(40)	13
Interest and other income	532	91	1,664	189	(4)
Loss on early debt extinguishment	(184)		(377)		
Income (loss) before income taxes and equity in earnings of unconsolidated subsidiary	16,803	6,485	46,181	24,659	(10,136)
Income tax (expense) benefit	(6,540)	(3,479)	(17,956)	(10,657)	4,060
Income (loss) before equity in earnings of unconsolidated subsidiary	10,263	3,006	28,225	14,002	(6,076)
Equity in earnings of unconsolidated subsidiary	21		38		
Net income (loss)	10,284	3,006	28,263	14,002	(6,076)
Other comprehensive income (loss), net of tax:					
Unrealized holding gains (losses) during the period	1,568	(1,010)	1,109	(646)	321
Comprehensive income (loss)	$ 11,852	$ 1,996	$ 29,372	$ 13,356	$ (5,755)
Basic net income per common share	$ 0.25	$ 0.11	$ 0.68	$ 0.39	
Diluted net income per common share	$ 0.24	$ 0.11	$ 0.67	$ 0.38	
Average common shares outstanding, basic	41,502,978	33,319,242	41,499,172	33,171,280	
Average common shares outstanding, diluted	42,525,620	34,233,022	42,431,108	33,705,808	

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

Emergency Medical Services Corporation

Consolidated Balance Sheets

(in thousands, except share and per share data)

	Unaudited September 30, 2006	December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 22,464	$ 18,048
Insurance collateral	38,313	29,766
Trade and other accounts receivable, net	403,814	411,184
Parts and supplies inventory	18,581	18,449
Prepaids and other current assets	16,508	14,413
Current deferred tax assets	7,349	23,436
Total current assets	507,029	515,296
Non-current assets:		
Property, plant and equipment, net	143,654	138,037
Intangible assets, net	68,864	78,183
Non-current deferred tax assets	118,147	118,408
Insurance collateral	162,233	131,907
Goodwill	261,466	251,168
Other long-term assets	33,512	34,029
Total assets	$ 1,294,905	$ 1,267,028
Liabilities and Equity		
Current liabilities:		
Accounts payable	$ 62,513	$ 56,290
Accrued liabilities	213,335	214,481
Current portion of long-term debt	5,234	6,664
Total current liabilities	281,082	277,435
Long-term debt	476,218	495,520
Insurance reserves and other long-term liabilities	162,114	149,089
Total liabilities	919,414	922,044
Equity:		
Preferred stock ($0.01 par value; 20,000,000 shares authorized, none issued and outstanding)		
Class A common stock ($0.01 par value; 100,000,000 shares authorized, 9,262,853 issued and outstanding)	93	92
Class B common stock ($0.01 par value; 40,000,000 shares authorized, 142,545 issued and outstanding)	1	1
Class B special voting stock ($0.01 par value; 1 share authorized, issued and outstanding		
LP exchangeable units (32,107,500 shares issued and outstanding)	212,361	212,361
Additional paid-in capital	114,071	112,937
Retained earnings	48,330	20,067
Accumulated other comprehensive income (loss)	635	(474)
Total equity	375,491	344,984
Total liabilities and equity	$ 1,294,905	$ 1,267,028

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

Emergency Medical Services Corporation

Statements of Cash Flows

(unaudited)

(in thousands)

	Consolidated nine months ended September 30, 2006	Consolidated eight months ended September 30, 2005	Predecessor combined one month ended January 31, 2005
Cash Flows from Operating Activities			
Net income (loss)	$ 28,263	$ 14,002	$ (6,076)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	50,615	40,464	3,876
Gain on disposal of property, plant and equipment	(762)	(480)	(25)
Stock compensation expense	1,031	1,395	
Equity in earnings of unconsolidated subsidiary	(38)		
Loss on early debt extinguishment	377		
Non-cash Laidlaw allocated compensation expense			14,440
Deferred income taxes	17,368	2,462	(4,060)
Changes in operating assets/liabilities, net of acquisitions:			
Trade and other accounts receivable	4,793	4,801	(20,771)
Parts and supplies inventory	(132)	(261)	
Prepaids and other current assets	(2,076)	2,661	(6,194)
Accounts payable and accrued liabilities	13,804	18,628	12,358
Insurance accruals	10,351	17,003	1,772
Net cash provided by (used in) operating activities	123,594	100,675	(4,680)
Cash Flows from Investing Activities			
Purchases of property, plant and equipment	(43,297)	(34,947)	(3,914)
Proceeds from sale of property, plant and equipment	903	565	24
Acquisition of business, net of cash received	(11,587)		
Insurance collateral	(31,773)	(46,014)	12,534
Other investing activities	(1,860)	(464)	(1,828)
EMS LP purchase of AMR and EmCare		(828,775)	
Net cash (used in) provided by investing activities	(87,614)	(909,635)	6,816
Cash Flows from Financing Activities			
Borrowings under senior secured credit facility		350,000	
Proceeds from issuance of senior subordinated notes		250,000	
Borrowings under revolving credit facility		25,200	
Debt issue costs		(18,396)	
EMS LP issuance of partnership equity		222,655	
EMS LP partnership equity issuance costs		(1,726)	
Issuance of EMSC equity	104		
Payment of EMSC equity issuance costs	(2,408)		
Repayments of capital lease obligations and other debt	(25,389)	(25,922)	(2,021)
Increase (decrease) in bank overdrafts	(3,871)	997	1,942
Advances from Laidlaw			8,656
Increase in other non-current liabilities		1,634	55
Net cash (used in) provided by financing activities	(31,564)	804,442	8,632
Change in cash and cash equivalents	4,416	(4,518)	10,768
Cash and cash equivalents, beginning of period	18,048	14,631	3,863
Cash and cash equivalents, end of period	$ 22,464	$ 10,113	$ 14,631

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

Emergency Medical Services Corporation

Notes to Unaudited Financial Statements

(in thousands, except share and per share data)

1. General

Basis of Presentation of Financial Statements

The accompanying interim consolidated financial statements for Emergency Medical Services Corporation (EMSC or the Company) have been prepared in accordance with U. S. generally accepted accounting principles (GAAP) for interim reporting, and accordingly, do not include all of the disclosures required for annual financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included. All such adjustments are of a normal, recurring nature. Operating results for the three and nine month periods ended September 30, 2006 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2006. For further information, see the Company s consolidated financial statements, including the accounting policies and notes thereto, included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

The consolidated financial statements of EMSC include those of its direct subsidiary, Emergency Medical Services L.P. (EMS LP), a Delaware limited partnership. EMS LP acquired American Medical Response, Inc. and its subsidiaries (AMR) and EmCare Holdings Inc. and its subsidiaries (EmCare) from Laidlaw International, Inc. (Laidlaw) on February 10, 2005, with an effective transaction date after the close of business January 31, 2005. On December 21, 2005, the Company effected a reorganization and issued class A common stock in an initial public offering. For comparative purposes, the Company has included the consolidated results of operations and cash flows for the eight months ended September 30, 2005, subsequent to the effective date of the acquisition, and the combination of AMR and EmCare financial information for the one month ended January 31, 2005, prior to the effective date of the acquisition (Predecessor). The comparability of these periods has been affected by a number of factors, including the acquisition of AMR and EmCare, and by the initial public offering of EMSC in December 2005. Laidlaw fees allocated to the Predecessor companies for the one month ended January 31, 2005 have been included as a component of selling, general and administrative expenses and amount to $1,083. Costs incurred to replace the services previously performed by Laidlaw are included in the current period statements of operations.

The Company is party to a management agreement with a wholly-owned subsidiary of Onex Corporation, the Company s principal equityholder. In exchange for an annual management fee of $1.0 million, the Onex subsidiary provides the Company with corporate finance and strategic planning consulting services. For the three and nine months ended September 30, 2006, the Company expensed $250 and $750, respectively, in respect of this fee; and for the three and eight months ended September 30, 2005, the Company expensed $250 and $695, respectively, in respect of this fee.

Certain prior period amounts have been reclassified to conform to the current period presentation.

2. Summary of Significant Accounting Policies

Consolidation

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

Use of Estimates

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

Insurance

Insurance collateral is comprised principally of government and investment grade securities and cash deposits with third parties and supports the Company s insurance program and reserves. Certain of these investments, if sold or otherwise liquidated, would have to be replaced by other suitable financial assurances and are, therefore, considered restricted. Investment income/loss earned on these investments is reported as a component of insurance expense in the statements of operations.

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

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Emergency Medical Services Corporation

Notes to Unaudited Financial Statements

(in thousands, except share and per share data)

In those instances where the Company has obtained third-party insurance coverage, the Company generally retains liability for the first $1 to $2 million of a loss.

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

The Company s most recent actuarial valuation was completed in September 2006. As a result of this and previous actuarial valuations, the Company recorded reductions in its provisions for insurance liabilities of approximately $4.8 million and $9.8 million in the three and nine months ended September 30, 2006, respectively, related to its reserves for losses in prior years. During the three and nine months ended September 30, 2005, the Company recorded reductions in insurance liabilities of approximately $1.7 million and $3.7 million, respectively, as a result of an actuarial studies.

The long-term portion of insurance reserves amounted to $155.9 million and $144.1 million as of September 30, 2006 and December 31, 2005, respectively.

Trade and Other Accounts Receivable, net

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

Revenue Recognition

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

	Consolidated Three months ended September 30, 2006	**Three months ended September 30, 2005**	**Nine months ended September 30, 2006**	**Eight months ended September 30, 2005**	**Predecessor combined one month ended January 31, 2005**
Gross revenue	100 %	100 %	100 %	100 %	100 %
Provision for contractual discounts	41 %	40 %	42 %	40 %	40 %
Provision for estimated uncompensated care	20 %	20 %	20 %	19 %	19 %

Healthcare reimbursement is complex and may involve lengthy delays. Third-party payors are continuing their efforts to control expenditures for healthcare, including proposals to revise reimbursement policies. The Company has from time to time experienced delays in reimbursement from third-party payors. In addition, third-party payors may disallow, in whole or in part, claims for reimbursement based on determinations that certain amounts are not reimbursable under plan coverage, determinations of medical necessity, or the need for additional information. Laws and regulations governing the Medicare and Medicaid programs are very complex and subject to interpretation. 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 are adjusted in future periods, as adjustments become known.

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

Equity Structure

On December 21, 2005, the Company effected a reorganization and issued 8.1 million shares of class A common stock in an initial public offering. Pursuant to the reorganization, EMS LP, the former top-tier holding company of AMR and EmCare, became the consolidated subsidiary of EMSC, a newly formed corporation. To effect the reorganization, the holders

Emergency Medical Services Corporation

Notes to Unaudited Financial Statements

(in thousands, except share and per share data)

of the capital stock of the sole general partner of EMS LP contributed that capital stock to the Company in exchange for class B common stock; the general partner was merged into the Company and the Company became the sole general partner of EMS LP. Concurrently, the holders of class B units of EMS LP contributed their units to the Company in exchange for shares of the Company s class A common stock, and the holders of certain class A units of EMS LP contributed their units to the Company in exchange for shares of the Company s class B common stock.

The Company holds 22.7% 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.

Recent Accounting Pronouncements

In July 2006, the FASB issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, an interpretation of FASB Statement No. 109, effective for fiscal years beginning after December 15, 2006. 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. The adoption of FIN 48 is not expected to have a material impact on the Company s financial statements.

3. Acquisitions

During the nine months ended September 30, 2006, the Company acquired three entities for a total cost of $12.7 million, which was paid primarily in cash. On July 8, 2006, the Company acquired Air Ambulance Specialists, Inc. (AASI), a privately held fixed wing air ambulance company, with an effective date of July 1, 2006. AASI is based in Centennial, Colorado. The Company also purchased two local ambulance service providers. Silver Spring Ambulance Service, Inc. (Silver Spring), based primarily in the Washington D.C. market, was acquired in July 2006. Lifeline Medical Services, Inc. (Lifeline), based in the south Florida market, was acquired in June 2006. The Company is in the process of completing the purchase price allocation of these acquisitions and preliminarily has recorded $12.4 million of goodwill as of September 30, 2006.

4. Accrued Liabilities

Accrued liabilities were as follows at September 30, 2006 and December 31, 2005:

Emergency Medical Services Corporation

Notes to Unaudited Financial Statements

(in thousands, except share and per share data)

	September 30, 2006	December 31, 2005
Accrued wages and benefits	$ 65,615	$ 61,646
Accrued paid time-off	22,996	21,673
Current portion of self-insurance reserves	56,991	58,379
Accrued restructuring	1,808	1,732
Current portion of compliance and legal	4,700	14,244
Accrued billing and collection fees	4,866	4,176
Accrued profit sharing	18,023	10,260
Accrued interest	5,373	12,335
Other	32,963	30,036
Total accrued liabilities	$ 213,335	$ 214,481

5. Long-Term Debt

Long-term debt consisted of the following at September 30, 2006 and December 31, 2005:

	September 30, 2006	December 31, 2005
Senior subordinated notes due 2015 (10%)	$ 250,000	$ 250,000
Senior secured term loan due 2012 (7.3% at September 30, 2006)	227,048	248,250
Notes due at various dates from 2006 to 2022 with interest rates from 6% to 10%	1,912	856
Capital lease obligations due at various dates from 2006 to 2007 (see note 5)	2,492	3,078
	481,452	502,184
Less current portion	(5,234)	(6,664)
Total long-term debt	$ 476,218	$ 495,520

The Company made an unscheduled $9.4 million payment on the senior secured term loan during the third quarter of 2006 and wrote off $184 of unamortized debt issuance costs. The Company also made an unscheduled $10.0 million payment on the senior secured term loan during the second quarter of 2006 and wrote off $193 of unamortized debt issuance costs.

6. Commitments and Contingencies

Lease Commitments

The Company leases various facilities and equipment under operating lease agreements. In addition, the Company leases certain vehicles under capital leases. Assets under capital lease are capitalized using inherent interest rates at the inception of each lease. Capital leases are collateralized by the leased vehicles.

Services

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

Emergency Medical Services Corporation

Notes to Unaudited Financial Statements

(in thousands, except share and per share data)

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 from the U.S. Government 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 will be 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. Under the provisions of the purchase agreement for the acquisition of AMR, EMSC and Laidlaw shared responsibility for the settlement amount and certain of the costs associated with the CIA. The net difference in what was reserved as part of purchase accounting and what was ultimately paid in settlement of this matter was recorded as a reduction of goodwill.

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 an AMR 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. The Company disagrees with the OIG s finding and has filed an administrative appeal. If the Company is unsuccessful in the administrative appeal it may be required to make a substantial repayment, which could include fines and penalties.

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.

Other Legal Matters

EmCare is currently a defendant in a collective action lawsuit 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 United States District Court for the Eastern District of Texas. The plaintiffs are seeking to recover overtime pay for the hours they worked in excess of 40 in a workweek and reclassification as non-exempt employees. The Court has determined as a matter of law that the plaintiffs are entitled to overtime pay for hours they worked in excess of 40 in a work week, and will determine the amount of damages payable to plaintiffs at trial. Management believes the outcome of this lawsuit will not have a material adverse effect on the Company.

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

Emergency Medical Services Corporation

Notes to Unaudited Financial Statements

(in thousands, except share and per share data)

7. Restructuring Charges

As part of a plan to re-align certain west coast operations of AMR, the Company recorded a restructuring charge of $919 during the second quarter of 2006. Lease termination costs accounted for $52 and the remaining $867 related to one-time termination benefits. The plan is expected to be completed by December 2007.

The Company restructured certain billing office functions of AMR during the third quarter of 2006 and recorded a restructuring charge of $267, all of which related to one-time termination benefits. These payments are expected to be made by March 2007.

8. Equity Based Compensation

The Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004) *Share-Based Payment* (SFAS 123R) on January 1, 2006 using the prospective transition method. Prior to January 1, 2006, the Company recorded the expense of stock option awards over the period in which the options vest consistent with the provisions of SFAS No. 123 *Accounting for Stock Based Compensation.* The stock options are valued using the Black-Scholes valuation method on the date of grant.

Under the Company s Equity Option Plan, key employees were granted options that permit the individuals to purchase class A common shares and vest ratably generally over a period of four years. In addition, certain performance measures must be met for 50% of the options to become exercisable. Options with similar provisions were granted to non-employee directors. The Company recorded a compensation charge of $300 and $898 for the three months and nine months ended September 30, 2006, respectively, and $384 and $684 for the three months and eight months ended September 30, 2005, respectively.

For the three and eight months ended September 30, 2005, the Company recorded a charge, as a component of compensation and benefits expense, associated with partnership units and certain options to purchase partnership units issued to employees and officers of the Company which totaled $1.8 million.

In June 2006, the board of directors adopted an equity compensation program for non-employee directors of the Company, other than the Chair of the Compliance Committee (Directors Plan). Non-employee directors were granted 8,000 Restricted Stock Units (RSUs) on June 1, 2006, each RSU representing one share of the Company s class A common stock. Immediately following each annual stockholder meeting, each non-employee director will receive a grant of RSUs having a fair market value of $100 on the date of grant, based on the closing price of the Company s class A common stock on the business day immediately preceding the grant date. The Directors Plan allows directors to defer income from the grant of RSUs. The RSUs vest immediately prior to the election of directors at the next following annual stockholder meeting, and will be paid in shares of the Company s class A common stock (one share for each RSU). Each non-employee director (other than the Chair of the Compliance Committee) is also entitled to an annual cash retainer of $50 to be paid in four quarterly installments. The Directors Plan and RSU grants on June 1, 2006 are both subject to stockholder approval at the 2007 annual stockholder meeting. In connection with this Directors Plan, the Company expensed $100 and $133 for the three months and nine months ended September 30, 2006, respectively.

9. 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 three and eight months ended September 30, 2005 (there are no adjustments to net income for the three and nine months ended September 30, 2006 and the only dilutive instruments for these periods are unexercised options and RSUs):

Emergency Medical Services Corporation

Notes to Unaudited Financial Statements

(in thousands, except share and per share data)

	Three months ended September 30, 2005		Eight months ended September 30, 2005		
Basic earnings per common share computation					
Numerator:					
Net income	$	3,006	$	14,002	
Reduction (accretion) of put right	609		(1,213		)
Net income available to stockholders	$	3,615	$	12,789	
Denominator:					
Basic average shares outstanding Common stock and LP exchangeable units	33,319,242		33,171,280		
Basic earnings per common share	$	0.11	$	0.39	
Diluted earnings per common share computation					
Numerator:					
Net income	$	3,006	$	14,002	
Reduction (accretion) of put right	609		(1,213		)
Net income available to stockholders	$	3,615	$	12,789	
Denominator:					
Basic average shares outstanding	33,319,242		33,171,280		
Incremental shares from assumed exercise of stock options	913,780		534,528		
Diluted average common shares outstanding	34,233,022		33,705,808		
Diluted earnings per common share	$	0.11	$	0.38	

10. Segment Information

The Company is organized around two separately managed business units: healthcare transportation services and emergency management services, which have been identified as operating segments. The healthcare transportation services reportable segment focuses on providing a full range of medical transportation services from basic patient transit to the most advanced emergency care and pre-hospital assistance. The emergency management services reportable segment provides outsourced business services to hospitals primarily for emergency departments, urgent care centers and for certain inpatient departments. The Chief Executive Officer has been identified as the chief operating decision maker (CODM) for purposes of SFAS No. 131 *Disclosures about Segments of an Enterprise and Related Information* (SFAS 131), as he assesses the performance of the business units and decides how to allocate resources to the business units. Pre-tax income from continuing operations before interest, taxes and depreciation and amortization (EBITDA) is the measure of profit and loss that the CODM uses to assess performance and make decisions. The accounting policies for reported segments are the same as for the Company as a whole.

Emergency Medical Services Corporation

Notes to Unaudited Financial Statements

(in thousands, except share and per share data)

	Consolidated Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Eight months ended September 30, 2005	Predecessor combined one month ended January 31, 2005
Healthcare Transportation Services					
Revenue	$ 299,300	$ 291,910	$ 888,472	$ 761,712	$ 93,788
Segment EBITDA	24,317	22,665	71,920	67,813	1,074
Emergency Management Services					
Revenue	186,397	164,335	544,800	425,941	49,281
Segment EBITDA	20,423	11,430	56,725	29,915	(6,156)
Total					
Total revenue	485,697	456,245	1,433,272	1,187,653	143,069
Total EBITDA	44,740	34,095	128,645	97,728	(5,082)
Total capital expenditures	14,742	14,915	43,297	34,947	3,914
Reconciliation of EBITDA to Net Income					
EBITDA	$ 44,740	$ 34,095	$ 128,645	$ 97,728	$ (5,082)
Depreciation and amortization expense	(16,841)	(14,843)	(49,045)	(38,811)	(3,894)
Interest expense	(11,532)	(12,824)	(34,269)	(34,407)	(1,169)
Realized gain (loss) on investments	88	(34)	(437)	(40)	13
Interest and other income	532	91	1,664	189	(4)
Loss on early debt extinguishment	(184)		(377)		
Income tax expense	(6,540)	(3,479)	(17,956)	(10,657)	4,060
Equity in earnings of unconsolidated subsidiary	21		38		
Net income (loss)	$ 10,284	$ 3,006	$ 28,263	$ 14,002	$ (6,076)

11. Guarantors of Debt

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

Emergency Medical Services Corporation

Notes to Unaudited Financial Statements

(in thousands, except share and per share data)

Consolidating Statement of Operations

For the three months ended September 30, 2006

	EMSC	EMS LP	Issuer EMSC Management, Inc.	Issuer EmCare HoldCo, Inc.	Subsidiary Guarantors	Subsidiary Non-Guarantor	Eliminations/ Adjustments	Total
Net revenue	$	$	$	$	$ 485,697	$ 9,645	$ (9,645)	$ 485,697
Compensation and benefits					333,406			333,406
Operating expenses					80,513			80,513
Insurance expense					12,023	9,733	(9,645)	12,111
Selling, general and administrative expenses					14,660			14,660
Depreciation and amortization expense					16,841			16,841
Restructuring charge					267			267
Income from operations					27,987	(88)		27,899
Interest expense					(11,532)			(11,532)
Realized gain on investments						88		88
Interest and other income					532			532
Loss on early debt extinguishment					(184)			(184)
Income before income taxes					16,803			16,803
Income tax expense					(6,540)			(6,540)
Income before equity in earnings of unconsolidated subsidiaries					10,263			10,263
Equity in earnings of unconsolidated subsidiaries	10,284	10,284	2,372	7,912	21		(30,852)	21
Net income	$ 10,284	$ 10,284	$ 2,372	$ 7,912	$ 10,284	$	$ (30,852)	$ 10,284

Emergency Medical Services Corporation

Notes to Unaudited Financial Statements

(in thousands, except share and per share data)

Consolidating Statement of Operations

For the three months ended September 30, 2005

	EMSC	EMS LP	Issuer EMSC Management, Inc.	Issuer EmCare HoldCo, Inc.	Subsidiary Guarantors	Subsidiary Non-Guarantor	Eliminations/ Adjustments	Total
Net revenue	$	$	$	$	$ 456,245	$ 2,839	$ (2,839)	$ 456,245
Compensation and benefits					319,292			319,292
Operating expenses					66,156			66,156
Insurance expense					21,082	2,805	(2,839)	21,048
Selling, general and administrative expenses					15,654			15,654
Depreciation and amortization expense					14,843			14,843
Income from operations					19,218	34		19,252
Interest expense					(12,824)			(12,824)
Realized loss on investments						(34)		(34)
Interest and other income					91			91
Income before income taxes					6,485			6,485
Income tax expense					(3,479)			(3,479)
Income before equity in earnings of unconsolidated subsidiaries					3,006			3,006
Equity in earnings of unconsolidated subsidiaries		3,006	501	2,505			(6,012)	
Net income	$	$ 3,006	$ 501	$ 2,505	$ 3,006	$	$ (6,012)	$ 3,006

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Emergency Medical Services Corporation

Notes to Unaudited Financial Statements

(in thousands, except share and per share data)

Consolidating Statement of Operations

For the nine months ended September 30, 2006

	EMSC	EMS LP	Issuer EMSC Management, Inc.	Issuer EmCare HoldCo, Inc.	Subsidiary Guarantors	Subsidiary Non-Guarantor	Eliminations/ Adjustments	Total
Net revenue	$	$	$	$	$ 1,433,272	$ 28,950	$ (28,950)	$ 1,433,272
Compensation and benefits					990,380			990,380
Operating expenses					216,170			216,170
Insurance expense					54,659	28,513	(28,950)	54,222
Selling, general and administrative expenses					42,669			42,669
Depreciation and amortization expense					49,045			49,045
Restructuring charge					1,186			1,186
Income from operations					79,163	437		79,600
Interest expense					(34,269)			(34,269)
Realized loss on investments						(437)		(437)
Interest and other income					1,664			1,664
Loss on early debt extinguishment					(377)			(377)
Income before income taxes					46,181			46,181
Income tax expense					(17,956)			(17,956)
Income before equity in earnings of unconsolidated subsidiaries					28,225			28,225
Equity in earnings of unconsolidated subsidiaries	28,263	28,263	7,723	20,540	38		(84,789)	38
Net income	$ 28,263	$ 28,263	$ 7,723	$ 20,540	$ 28,263	$	$ (84,789)	$ 28,263

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Emergency Medical Services Corporation

Notes to Unaudited Financial Statements

(in thousands, except share and per share data)

Consolidating Statement of Operations

For the eight months ended September 30, 2005

	EMSC	EMS LP	Issuer EMSC Management, Inc.	Issuer EmCare HoldCo, Inc.	Subsidiary Guarantors	Subsidiary Non-Guarantor	Eliminations/ Adjustments	Total
Net revenue	$	$	$	$	$ 1,187,653	$ 25,264	$ (25,264)	$ 1,187,653
Compensation and benefits					822,595			822,595
Operating expenses					168,700			168,700
Insurance expense					60,422	25,224	(25,264)	60,382
Selling, general and administrative expenses					38,248			38,248
Depreciation and amortization expense					38,811			38,811
Income from operations					58,877	40		58,917
Interest expense					(34,407)			(34,407)
Realized loss on investments						(40)		(40)
Interest and other income				14	175			189
Income before income taxes				14	24,645			24,659
Income tax expense					(10,657)			(10,657)
Income before equity in earnings of unconsolidated subsidiaries				14	13,988			14,002
Equity in earnings of unconsolidated subsidiaries		14,002	6,793	7,195			(27,990)	
Net income	$	$ 14,002	$ 6,793	$ 7,209	$ 13,988	$	$ (27,990)	$ 14,002

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Emergency Medical Services Corporation

Notes to Unaudited Financial Statements

(in thousands, except share and per share data)

Consolidating Balance Sheet

As of September 30, 2006

	EMSC	EMS LP	Issuer EMSC Management, Inc.	Issuer EmCare HoldCo, Inc.	Subsidiary Guarantors	Subsidiary Non-Guarantor	Eliminations/ Adjustments	Total
Assets								
Current assets:								
Cash and cash equivalents	$	$	$	$	$ 22,411	$ 53	$	$ 22,464
Insurance collateral					24,207	14,106		38,313
Trade and other accounts receivable, net					402,819	995		403,814
Parts and supplies inventory					18,581			18,581
Other current assets					25,058	2,050	(10,600)	16,508
Current deferred tax assets					4,128	3,221		7,349
Current assets					497,204	20,425	(10,600)	507,029
Non-current assets:								
Property, plant, and equipment, net					143,654			143,654
Intercompany receivable		114,165	279,389	190,060			(583,614)	
Intangible assets, net					68,864			68,864
Non-current deferred tax assets					119,279	(1,132)		118,147
Insurance collateral					62,008	100,225		162,233
Goodwill					261,008	458		261,466
Other long-term assets			8,948	4,038	20,526			33,512
Investment and advances in subsidiaries	375,491	261,326	207,913	53,399	7,355		(905,484)	
Assets	$ 375,491	$ 375,491	$ 496,250	$ 247,497	$ 1,179,898	$ 119,976	$ (1,499,698)	$ 1,294,905
Liabilities and Equity								
Current liabilities:								
Accounts payable	$	$	$	$	$ 62,513	$	$	$ 62,513
Accrued liabilities			3,174	2,199	207,902	60		213,335
Current portion of long-term debt			1,656	744	2,834			5,234

Current liabilities			4,830	2,943	273,249	60		281,082
Long-term debt			283,507	191,141	1,570			476,218
Other long-term liabilities					60,153	112,561	(10,600)	162,114
Intercompany					583,614		(583,614)	
Liabilities			288,337	194,084	918,586	112,621	(594,214)	919,414
Equity:								
Class A common stock	93					30	(30)	93
Class B common stock	1							1
Partnership equity	212,361	326,526	189,394	22,945	212,361		(751,226)	212,361
Additional paid-in capital	114,071					6,690	(6,690)	114,071
Retained earnings	48,330	48,330	18,519	29,833	48,316		(144,998)	48,330
Comprehensive income (loss)	635	635		635	635	635	(2,540)	635
Equity	375,491	375,491	207,913	53,413	261,312	7,355	(905,484)	375,491
Liabilities and Equity	$ 375,491	$ 375,491	$ 496,250	$ 247,497	$ 1,179,898	$ 119,976	$ (1,499,698)	$ 1,294,905

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Emergency Medical Services Corporation

Notes to Unaudited Financial Statements

(in thousands, except share and per share data)

Consolidating Balance Sheet

As of December 31, 2005

	EMSC	EMS LP	Issuer EMSC Management, Inc.	Issuer EmCare HoldCo, Inc.	Subsidiary Guarantors	Subsidiary Non-Guarantor	Eliminations/ Adjustments	Total
Assets								
Current assets:								
Cash and cash equivalents	$	$	$	$	$ 18,001	$ 47	$	$ 18,048
Insurance collateral					16,092	13,674		29,766
Trade and other accounts receivable, net					408,675	2,529	(20)	411,184
Parts and supplies inventory					18,449			18,449
Other current assets					15,057	302	(946)	14,413
Current deferred tax assets					20,441	2,995		23,436
Current assets					496,715	19,547	(966)	515,296
Non-current assets:								
Property, plant, and equipment, net					138,037			138,037
Intercompany receivable	1,973	113,400	296,207	199,529	14,863		(625,972)	
Intangible assets, net					78,183			78,183
Non-current deferred tax assets					119,538	(1,130)		118,408
Insurance collateral					63,934	67,973		131,907
Goodwill					250,710	458		251,168
Other long-term assets	65		10,443	4,420	19,101			34,029
Investment and advances in subsidiaries	345,354	231,954	200,868	31,072	6,246		(815,494)	
Assets	$ 347,392	$ 345,354	$ 507,518	$ 235,021	$ 1,187,327	$ 86,848	$ (1,442,432)	$ 1,267,028
Liabilities and Equity								
Current liabilities:								
Accounts payable	$	$	$	$	$ 56,290	$	$	$ 56,290
Accrued liabilities	2,408		6,857	5,478	162,456	37,282		214,481
Current portion of long-term debt			2,415	1,085	3,164			6,664
Current liabilities	2,408		9,272	6,563	221,910	37,282		277,435
Long-term debt			297,378	197,372	770			495,520
Other long-term liabilities					106,735	43,320	(966)	149,089
Intercompany					625,972		(625,972)	
Liabilities	2,408		306,650	203,935	955,387	80,602	(626,938)	922,044
Equity:								
	92					30	(30)	92

Class A common stock								
Class B common stock	1							1
Partnership equity	212,361	325,761	190,073	22,288	212,361		(750,483)	212,361
Additional paid-in capital	112,937					6,690	(6,690)	112,937
Retained earnings	20,067	20,067	10,795	9,272	20,053		(60,187)	20,067
Comprehensive income (loss)	(474)	(474)		(474)	(474)	(474)	1,896	(474)
Equity	344,984	345,354	200,868	31,086	231,940	6,246	(815,494)	344,984
Liabilities and Equity	$ 347,392	$ 345,354	$ 507,518	$ 235,021	$ 1,187,327	$ 86,848	$ (1,442,432)	$ 1,267,028

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Emergency Medical Services Corporation

Notes to Unaudited Financial Statements

(in thousands, except share and per share data)

Condensed Consolidating Statement of Cash Flows

For the nine months ended September 30, 2006

	EMSC	EMS LP	Issuer EMSC Management, Inc.	Issuer EmCare HoldCo Inc.	Subsidiary Guarantors	Subsidiary Non-guarantors	Total
Cash Flows from Operating Activities							
Net cash provided by operating activities	$	$	$	$	$ 98,004	$ 25,590	$ 123,594
Cash Flows from Investing Activities							
Purchase of property, plant and equipment					(43,297)		(43,297)
Proceeds from sale of property, plant and equipment					903		903
Acquisition of business					(11,587)		(11,587)
Insurance collateral					(6,189)	(25,584)	(31,773)
Net change in deposits and other assets					(1,860)		(1,860)
Net cash used in investing activities					(62,030)	(25,584)	(87,614)
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					(25,389)		(25,389)
Net intercompany borrowings (payments)	2,304				(2,304)		
Decrease in bank overdrafts					(3,871)		(3,871)
Net cash used in financing activities					(31,564)		(31,564)
Increase in cash and cash equivalents					4,410	6	4,416
Cash and cash equivalents, beginning of period					18,001	47	18,048
Cash and cash equivalents, end of period	$	$	$	$	$ 22,411	$ 53	$ 22,464

Emergency Medical Services Corporation

Notes to Unaudited Financial Statements

(in thousands, except share and per share data)

Condensed Consolidating Statement of Cash Flows

For the eight months ended September 30, 2005

	EMSC	EMS LP	Issuer EMSC Management, Inc.	Issuer EmCare HoldCo Inc.	Subsidiary Guarantors	Subsidiary Non-guarantors	Total
Cash Flows from Operating Activities							
Net cash provided by operating activities	$	$	$	$ 14	$ 76,497	$ 24,164	$ 100,675
Cash Flows from Investing Activities							
EMS purchase of AMR and EmCare		(828,775)					(828,775)
Purchase of property, plant and equipment					(34,947)		(34,947)
Proceeds from sale of property, plant and equipment					565		565
Insurance collateral					(12,079)	(33,935)	(46,014)
Net change in deposits and other assets					(464)		(464)
Net cash used in investing activities		(828,775)			(46,925)	(33,935)	(909,635)
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
Issuance of partnership equity		222,655					222,655
EMS LP equity issuance costs		(1,726)					(1,726)
Financing costs			(12,693)	(5,703)			(18,396)
Repayments of capital lease obligations and other debt			(13,938)	(6,262)	(5,722)		(25,922)
Net intercompany borrowings (payments)		612,674	(404,757)	(181,861)	(26,056)		
Increase (decrease) in bank overdrafts					997		997
Increase (decrease) in other non-current liabilities					1,634		1,634
Net cash provided by (used in) financing activities		833,603		(14)	(29,147)		804,442
Increase in cash and cash equivalents		4,828			425	(9,771)	(4,518)
Cash and cash equivalents, beginning of period					4,778	9,853	14,631
Cash and cash equivalents, end of period	$	$ 4,828	$	$	$ 5,203	$ 82	$ 10,113

12. Subsequent Events

On November 2, 2006, the Company entered into an agreement to purchase all of the outstanding shares of capital stock of EHR Management Co., a Delaware corporation (EHR Management). EHR Management is the management company for Clinical Staffing Solutions, which provides hospitalist and specialty unit physician coverage in Pennsylvania and New Jersey. Upon consummation of the transaction, EHR Management would become a wholly-owned subsidiary of EmCare. The closing of the transaction is subject to various customary closing conditions, and is expected to occur on or prior to November 10, 2006.

The Company has also approved a restructuring plan to streamline the regional operations of AMR for the purposes of increasing efficiencies, improving customer service and producing cost savings. AMR s fifteen operating divisions will be reorganized into eight divisional offices located within existing operations. In connection with the restructuring, the Company will cease operations in the Detroit-Pontiac, Michigan area effective December 31, 2006.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS.

Forward-Looking Statements and Factors That May Affect Results

Certain statements and information herein may be deemed to be forward-looking statements within the meaning of the Federal Private Securities Litigation Reform Act of 1995. Forward-looking statements may include, but are not limited to, statements relating to our objectives, plans and strategies, and all statements (other than statements of historical facts) that address activities, events or developments that we intend, expect, project, believe or anticipate will or may occur in the future. Any forward-looking statements herein are made as of the date this Quarterly Report on Form 10-Q is filed with the Securities and Exchange Commission, and EMSC undertakes no duty to update or revise any such statements. Forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties. Important factors that could cause actual results, developments and business decisions to differ materially from forward-looking statements are described in EMSC s filings with the SEC from time to time, including in the section entitled Risk Factors in the Company s most recent Annual Report on Form 10-K and in subsequent Quarterly Reports on Form 10-Q. Among the factors that could cause future results to differ materially from those provided in this Quarterly Report on Form 10-Q are: the impact on our revenue of changes in transport volume, mix of insured and uninsured patients, and third party reimbursement rates and methods; the adequacy of our insurance coverage and insurance reserves; potential penalties or changes to our operations if we fail to comply with extensive and complex government regulation of our industry, both as it exists now and as it may change in the future; our ability to recruit and retain qualified physicians and other healthcare professionals, and enforce our non-compete agreements with our physicians; the loss of one or more members of our senior management team; the outcome of government investigations of certain of our business practices; our ability to generate cash flow to service our debt obligations and fund the cost of capital expenditures to maintain and upgrade our vehicle fleet and medical equipment; and the loss of existing contracts and the accuracy of our assessment of costs under new contracts.

All references to we , our , us or EMSC refer to Emergency Medical Services Corporation and its subsidiaries, including Emergency Medical Services L.P., or EMS LP. The Company s business is conducted primarily through two operating subsidiaries, American Medical Response, Inc., or AMR, and EmCare Holdings Inc, or EmCare.

This Report should be read in conjunction with the Company s consolidated financial statements and notes thereto included in our Annual Report on Form 10-K filed with the SEC on March 21, 2006.

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 ambulance transport services in the United States. EmCare is the leading provider of outsourced emergency department staffing and management services in the United States.

On February 10, 2005, an investor group led by Onex Partners LP and Onex Corporation, and including members of management, purchased AMR and EmCare from Laidlaw International, Inc.

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. For the nine months ended September 30, 2006, approximately 58% of AMR s net revenue was generated from emergency 9-1-1 ambulance transport services. Non-emergency ambulance transport services, including critical care transfer, wheelchair transports and other interfacility transports, or IFTs, accounted for 32% of AMR s net revenue for the same period, with the balance generated from fixed wing medical transportation services, Medicaid managed transportation services, and the provision of training, dispatch, stand-by events and other services to communities and public safety agencies.

EmCare

Over its 33 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.

Recent Developments

In July 2006, the FASB issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, an interpretation of FASB Statement No. 109, effective for fiscal years beginning after December 15, 2006. 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. The adoption of FIN 48 is not expected to have a material impact on our financial statements.

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.

In addition to continually monitoring our payor mix, we also analyze certain measures in each of our business segments.

AMR

Approximately 90% of AMR s net revenue for the nine months ended September 30, 2006, was transport revenue derived from the treatment and transportation of patients based on billings to third party payors and healthcare facilities. The balance of AMR s net revenue is derived from fixed wing medical transportation services, Medicaid managed transportation services and direct billings to communities and government agencies for the provision of training, dispatch center and other services. AMR s measures for net revenue include transports (segregated into ambulance and wheelchair transports and in certain analyses weighted) and net revenue per transport.

The change from period to period in the number of transports is influenced by increases in transports in existing markets from both new and existing facilities we serve for non-emergency transports, the effects of general community conditions for emergency transports and the impact of newly acquired businesses. The general community conditions may include (1) the timing, location and severity of 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 medical 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 (to measure compensation-related costs and the efficiency of our ambulance deployment), operating costs per transport, and accident and insurance claims.

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 have resulted in a reduction in the frequency, severity and development of claims. We continue to see positive trends in our claims costs but cannot provide assurance that these trends will continue.

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 nine months ended September 30, 2006, approximately 99% was derived from our hospital contracts for emergency department staffing, hospitalist and radiology services and other management services. Of this revenue, approximately 75% was generated from billings to third party payors for patient visits and approximately 25% was generated from billings to hospitals and affiliated physician groups for professional services. EmCare s key net revenue measures are patient visits, net revenue per patient visit, and number of contracts.

The change from period to period in the number of patient visits under our same facility 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 visits and professional liability costs.

We have developed extensive professional liability risk mitigation processes, including risk assessments on medical professionals and hospitals, extensive incident reporting and tracking processes, clinical fail-safe programs, training and education and other risk mitigation programs which we believe have resulted in a continued reduction in the frequency, severity and development of claims. We continue to see positive trends in our claims costs but cannot provide assurance that these trends will continue.

Depreciation expense relates primarily to charges for computer hardware and software and other technologies. Amortization expense relates primarily to intangibles recorded for customer relationships.

Factors Affecting Operating Results

Re-Capitalization Activities

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 will result in a corresponding decrease in our current and future interest costs.

Changes in Net New Contracts

Our operating results are affected directly by the number of net new contracts and related volumes we have in a period, reflecting the effects of both new contracts and contract expirations. We regularly bid for new 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. From time to time, we may elect not to seek extension or renewal of a contract, or may reduce certain services, if we determine that we cannot continue to provide such services 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.

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.

AMR s recent operating expenses have been adversely affected by increasing fuel costs. Fuel costs represented approximately 12.8% of AMR s operating expenses of $190.3 million in the nine months ended September 30, 2006, an increase of 4.9% over the same period in 2005. Further increases in fuel costs without mitigation through fee and subsidy increases would continue to adversely affect AMR s operating results.

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Results of Operations

Nine and Three Months Ended September 30, 2006 Compared to Nine and Three Months Ended September 30, 2005

The following tables present a comparison of financial data, from our unaudited consolidated statements of operations for the nine and three months ended September 30, 2006, and from our unaudited consolidated (eight months ended September 30, 2005) and our unaudited combined (one month ended January 31, 2005 Predecessor) statements of operations for the nine and three months ended September 30, 2005, for EMSC and our two operating segments. The nine months ended September 30, 2005, represents the combination of the financial information for AMR and EmCare for the one month ended January 31, 2005, prior to the effective date of the acquisition of AMR and EmCare, and the eight months ended September 30, 2005. The comparability of these periods has been affected by a number of factors including the acquisition of AMR and EmCare by EMS LP in February 2005 and by the initial public offering of EMSC in December 2005. Generally the results of operations of our segments are comparable except for certain capital costs such as interest and amortization and Laidlaw acquisition-related compensation charges.

Non-GAAP Measures

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

EBITDA is defined as operating income plus depreciation and amortization expense. EBITDA is commonly used by management and investors as a measure of leverage capacity, debt service ability and liquidity. EBITDA is not considered a measure of financial performance under U.S. generally accepted accounting principles, or GAAP, and the items excluded from EBITDA are significant components in understanding and assessing our financial performance. 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 EBITDA is not a measure determined in accordance with GAAP and is susceptible to varying calculations, EBITDA, as presented, may not be comparable to other similarly titled measures of other companies. The table sets forth a reconciliation of EBITDA to income from operations and net income.

Unaudited Results of Operations and as a Percentage of Net Revenue

(dollars in thousands)

EMSC

	Three months ended September 30, 2006	% of net revenue	Three months ended September 30, 2005	% of net revenue	Nine months ended September 30, 2006	% of net revenue	Nine months ended September 30, 2005	% of net revenue
Net revenue	$ 485,697	100.0 %	$ 456,245	100.0 %	$ 1,433,272	100.0 %	$ 1,330,722	100.0 %
Compensation and benefits	333,406	68.6	319,292	70.0	990,380	69.1	925,786	69.6
Operating expenses	80,513	16.6	66,156	14.5	216,170	15.1	187,169	14.1
Insurance expense	12,111	2.5	21,048	4.6	54,222	3.8	68,150	5.1
Selling, general and administrative expenses	14,660	3.0	15,654	3.4	42,669	3.0	42,531	3.2
Restructuring charges	267	0.1			1,186	0.1		
Laidlaw compensation charges							14,440	1.1
EBITDA	44,740	9.2	34,095	7.5	128,645	9.0	92,646	7.0
Depreciation and amortization expense	16,841	3.5	14,843	3.3	49,045	3.4	42,705	3.2
Income from operations	27,899	5.7	19,252	4.2	79,600	5.6	49,941	3.8
Interest expense	(11,532)	(2.4)	(12,824)	(2.8)	(34,269)	(2.4)	(35,576)	(2.7)
Realized (loss) gain on investments	88	0.0	(34)	(0.0)	(437)	(0.0)	(27)	(0.0)
Interest and other income	532	0.1	91	0.0	1,664	0.1	185	0.0
Loss on early debt extinguishment	(184)	(0.0)			(377)	(0.0)		
Income tax expense	(6,540)	(1.3)	(3,479)	(0.8)	(17,956)	(1.3)	(6,597)	(0.5)
Equity in earnings of unconsolidated subsidiary	21	0.0			38	0.0		
Net income	$ 10,284	2.1 %	$ 3,006	0.7 %	$ 28,263	2.0 %	$ 7,926	0.6 %

AMR

	Three months ended September 30, 2006	% of net revenue	Three months ended September 30, 2005	% of net revenue	Nine months ended September 30, 2006	% of net revenue	Nine months ended September 30, 2005	% of net revenue
Net revenue	$ 299,300	100.0 %	$ 291,910	100.0 %	$ 888,472	100.0 %	$ 855,500	100.0 %
Compensation and benefits	190,601	63.7	190,111	65.1	570,320	64.2	549,477	64.2
Operating expenses	71,132	23.8	58,752	20.1	190,259	21.4	166,247	19.4
Insurance expense	3,217	1.1	9,431	3.2	25,689	2.9	34,812	4.1
Selling, general and administrative expenses	9,766	3.3	10,951	3.8	29,098	3.3	30,219	3.5
Restructuring charges	267	0.1			1,186	0.1		
Laidlaw compensation charges							5,858	0.7
EBITDA	24,317	8.1	22,665	7.8	71,920	8.1	68,887	8.1
Depreciation and amortization	13,571	4.5	12,082	4.1	39,232	4.4	34,945	4.1
Income from operations	$ 10,746	3.6 %	$ 10,583	3.6 %	$ 32,688	3.7 %	$ 33,942	4.0 %

EmCare

	Three months ended September 30, 2006	% of net revenue	Three months ended September 30, 2005	% of net revenue	Nine months ended September 30, 2006	% of net revenue	Nine months ended September 30, 2005	% of net revenue
Net revenue	$ 186,397	100.0 %	$ 164,335	100.0 %	$ 544,800	100.0 %	$ 475,222	100.0 %
Compensation and benefits	142,805	76.6	129,181	78.6	420,060	77.1	376,309	79.2
Operating expenses	9,381	5.0	7,404	4.5	25,911	4.8	20,922	4.4
Insurance expense	8,894	4.8	11,617	7.1	28,533	5.2	33,338	7.0
Selling, general and administrative expenses	4,894	2.6	4,703	2.9	13,571	2.5	12,312	2.6
Laidlaw compensation charges							8,582	1.8
EBITDA	20,423	11.0	11,430	7.0	56,725	10.4	23,759	5.0
Depreciation and amortization	3,270	1.8	2,761	1.7	9,813	1.8	7,760	1.6
Income from operations	$ 17,153	9.2 %	$ 8,669	5.3 %	$ 46,912	8.6 %	$ 15,999	3.4 %

Three months ended September 30, 2006, compared to the three months ended September 30, 2005

Consolidated

Net revenue. For the three months ended September 30, 2006 we generated net revenue of $485.7 million, compared to net revenue of $456.2 million for the three months ended September 30, 2005, representing a 6.5% increase. The increase is attributable primarily to rate and volume increases on existing contracts and increased revenue from net new contracts at AMR and EmCare.

Depreciation and amortization expense. Depreciation and amortization expense for the three months ended September 30, 2006 was $16.8 million, or 3.5% of net revenue, compared to $14.8 million, or 3.3% of net revenue, for the three months ended September 30, 2005. The increase is attributable to the composition and timing of capital expenditures.

Income from operations. Income from operations was $27.9 million, or 5.7% of net revenue, for the three months ended September 30, 2006 compared to $19.3 million, or 4.2% of net revenue, for the same period in 2005. The increase is attributable primarily to the net impact of revenue growth during the quarter and continued improvement in insurance claims costs.

Interest expense. Interest expense for the three months ended September 30, 2006 was $11.5 million compared to $12.8 million for the same period in 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 $3.1 million for the three months ended September 30, 2006, compared to the same period in 2005, resulting primarily from increased operating income. Our effective tax rate for the period was 38.9%.

AMR

Net revenue. Net revenue for the three months ended September 30, 2006 was $299.3 million, an increase of $7.4 million, or 2.5%, from $291.9 million for the three months ended September 30, 2005. The increase in net revenue was due primarily to an increase in our net revenue per weighted transport of approximately 2.9% (4.6% excluding hurricane-related revenue recorded during the three months ended September 30, 2005). Net revenue per weighted transport increased 3.6% due to revenue from our recently acquired fixed wing air transportation services business and from our Medicaid managed transportation business in Texas. Net revenue per transport also increased approximately 1% due to rate increases in several markets partially offset by Medicare rate reductions and increases 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 25,900 emergent transports and approximately $10.0 million in net revenue during the three months ended September 30, 2006 compared with the same period last year. Excluding the impact of the Los Angeles County reduction, transport volume increased approximately 23,000 weighted transports, or 3.2%, compared with the same quarter last year.

Compensation and benefits. Compensation and benefits costs for the three months ended September 30, 2006 were $190.6 million, or 63.7% of net revenue, compared to $190.1 million, or 65.1% of net revenue, for the three months ended September 30, 2005. Ambulance unit hours decreased period over period by 1.3%, primarily due to the reduction in Los Angeles County volume, partially offset by ambulance transport volume growth in other areas, decreasing compensation costs by $1.3 million. Ambulance crew wages per ambulance unit hour increased by approximately 4.9%, or $5.1 million, principally from annual salary increases and increased overtime due to staffing shortages in certain markets. Benefits costs decreased by $1.6 million for the three months ended September 30, 2006, or 1.3% 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 three months ended September 30, 2006 were $71.1 million, or 23.8% of net revenue, compared to $58.8 million, or 20.1% of net revenue, for the three months ended September 30, 2005. Operating expenses per weighted transport increased 21.6% in the three months ended September 30, 2006 compared to the same period in 2005. The change is due primarily to additional operating expenses incurred under our Texas Medicaid managed transportation contract and our recently acquired fixed wing transportation services business, which totaled $9.6 million for the three months ended September 30, 2006. Fuel costs increased by $0.8 million and other operating costs, including medical supplies, occupancy and professional fees increased by $1.0 million.

Insurance expense. Insurance expense for the three months ended September 30, 2006 was $3.2 million, or 1.1% of net revenue, compared to $9.4 million, or 3.2% of net revenue, for the same period in 2005. The decrease is due to the continued improvement in current and prior year ultimate claims costs. As a result, a reduction of prior year insurance provisions of $4.8 million was recorded during the quarter, compared to a $1.7 million reduction recorded during the same period last year.

Selling, general and administrative expenses. Selling, general and administrative expense for the three months ended September 30, 2006 was $9.8 million, or 3.3% of net revenue, compared to $11.0 million, or 3.8% of net revenue, for the three months ended September 30, 2005. The decrease relates primarily to reductions in overall spending.

Restructuring charges. Restructuring charges of $0.3 million were recorded during the three months ended September 30, 2006, related to the re-alignment of certain billing offices.

Depreciation and amortization expense. Depreciation and amortization expense for the three months ended September 30, 2006 was $13.6 million, or 4.5% of net revenue, compared to $12.1 million, or 4.1% of net revenue, for the three months ended September 30, 2005. The increase as a percentage of net revenue is attributable to the composition and timing of capital expenditures.

EmCare

Net revenue. Net revenue for the three months ended September 30, 2006 was $186.4 million, an increase of $22.1 million, or 13.4%, from $164.3 million for the three months ended September 30, 2005. The increase was due primarily to an increase in patient visits from net new hospital contracts and net revenue increases in existing contracts. Following September 30, 2005, we added 20 net new contracts which accounted for a net revenue increase of $8.1 million for the three months ended September 30, 2006. Net revenue under our same facility contracts (contracts in existence for the entirety of both fiscal periods) increased $14.0 million in the three months ended September 30, 2006 due to a 8.0% increase in net revenue per patient visit and a 1.8% increase in patient visits.

Compensation and benefits. Compensation and benefits costs for the three months ended September 30, 2006 were $142.8 million, or 76.6% of net revenue, compared to $129.2 million, or 78.6% of net revenue, for the three months ended September 30, 2005. Increases are primarily from same facility provider compensation and benefits, which increased $7.0 million related to higher net patient revenue and a $6.0 million increase from net new contract additions.

Operating expenses. Operating expenses for the three months ended September 30, 2006 were $9.4 million, or 5.0% of net revenue, compared to $7.4 million, or 4.5% of net revenue, for the three months ended September 30, 2005. Operating expenses increased primarily due to additional off hours radiology coverage for new contracts and to professional fees related to Company initiatives.

Insurance expense. Professional liability insurance expense for the three months ended September 30, 2006 was $8.9 million, or 4.8% of net revenue, compared to $11.6 million, or 7.1% of net revenue, for the three months ended September 30, 2005. The decrease is due to continued improvement in ultimate claims costs.

Selling, general and administrative expenses. Selling, general and administrative expense for the three months ended September 30, 2006 was $4.9 million, or 2.6% of net revenue, compared to $4.7 million, or 2.9% of net revenue, for the three months ended September 30, 2005.

Depreciation and amortization expense. Depreciation and amortization expense for the three months ended September 30, 2006 was $3.3 million, or 1.8% of net revenue, compared to $2.8 million, or 1.7% of net revenue, for the three months ended September 30, 2005. The increase as a percentage of net revenue is attributable to depreciation expense related to EmCare s participation in Company-wide shared services initiatives.

Nine months ended September 30, 2006, compared to the nine months ended September 30, 2005

Consolidated

Net revenue. For the nine months ended September 30, 2006, we generated net revenue of $1,433.3 million, compared to net revenue of $1,330.7 million for the nine months ended September 30, 2005, representing a 7.7% increase. The increase is attributable primarily to rate and volume increases on existing contracts and increased revenue from net new contracts.

Depreciation and amortization expense. Depreciation and amortization expense for the nine months ended September 30, 2006 was $49.0 million, or 3.4% of net revenue, compared to $42.7 million, or 3.2% of net revenue, for the nine months ended September 30, 2005. The increase is attributable to additional amortization expense on the contract intangible assets we recorded in connection with the acquisition and the composition and timing of capital expenditures.

Income from operations. Income from operations was $79.6 million, or 5.6% of net revenue, for the nine months ended September 30, 2006 compared to $49.9 million, or 3.8% of net revenue, for the same period in 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 expense. Interest expense for the nine months ended September 30, 2006 was $34.3 million compared to $35.6 million for the same period in 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 $11.4 million for the nine months ended September 30, 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 the period was 38.9%.

AMR

Net revenue. Net revenue for the nine months ended September 30, 2006 was $888.5 million, an increase of $33.0 million, or 3.9%, from $855.5 million for the nine months ended September 30, 2005. The increase in net revenue was due primarily to an increase in our net revenue per weighted transport of approximately 3.6% (4.1% excluding hurricane-related revenue recorded during the three months ended September 30, 2005). Net revenue per weighted transport increased 1.3% due to revenue from our recently acquired fixed wing air transportation services business and from our Medicaid managed transportation business in Texas. Net revenue per transport also increased due to rate increases in several markets partially offset by Medicare rate reductions and 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 34,500 emergent transports and approximately $13.4 million in net revenue during the nine months ended September 30, 2006 compared with the same period last year. Excluding the impact of the Los Angeles County reduction, ambulance transport volume increased 2.0%, offset by a 5.2% decrease in wheelchair transports for planned reductions in certain markets, resulting in an increase of approximately 40,600 weighted transports compared with the same period last year.

Compensation and benefits. Compensation and benefits costs for the nine months ended September 30, 2006 were $570.3 million, or 64.2% of net revenue, compared to $549.5 million, or 64.2% of net revenue, for the nine months ended September 30, 2005. Ambulance unit hours increased period over period by 1.0%, primarily due contractual deployment changes, partially offset by the reduction in Los Angeles County volumes, increasing compensation costs by $3.2 million. Ambulance crew wages per ambulance unit hour increased by approximately 5.4%, or $16.4 million principally from annual salary increases and increased overtime due to staffing shortages in certain markets. Benefits costs increased by $0.9 million for the nine months ended September 30, 2006, but decreased 0.7% 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 nine months ended September 30, 2006 were $190.3 million, or 21.4% of net revenue, compared to $166.2 million, or 19.4% of net revenue, for the nine months ended September 30, 2005. Operating expenses per weighted transport increased 14.1% in the nine months ended September 30, 2006 compared to the same period in 2005. The change is due to additional operating expenses incurred with our Texas Medicaid managed transportation contract and our recently acquired fixed wing transportation services business, which amounted to $10.2 million for the nine months ended September 30, 2006. Fuel costs increased by $4.1 million and other operating costs, including medical supplies, occupancy and professional fees increased by $4.9 million.

Insurance expense. Insurance expense for the nine months ended September 30, 2006 was $25.7 million, or 2.9% of net revenue, compared to $34.8 million, or 4.1% of net revenue, for the same period in 2005. The decrease is due to the continued improvement in current and prior year ultimate claims costs. As a result, a reduction of prior year insurance provisions of $8.8 million was recorded during the nine months ended September 30, 2006, compared to a $4.2 million reduction recorded during the same period last year.

Selling, general and administrative expenses. Selling, general and administrative expense for the nine months ended September 30, 2006 was $29.1 million, or 3.3% of net revenue, compared to $30.2 million, or 3.5% of net revenue, for the nine months ended September 30, 2005. The decrease relates primarily to reductions in overall spending.

Restructuring charges. Restructuring charges of $1.2 million were recorded during the nine months ended September 30, 2006, related to the re-alignment of certain billing offices and to the re-alignment of certain west coast operations.

Laidlaw compensation charges. AMR did not incur Laidlaw compensation charges subsequent to the acquisition in February 2005. The nine months ended September 30, 2005 includes $5.9 million, or 0.7% of net revenue, for Laidlaw acquisition-related compensation charges incurred in January 2005.

Depreciation and amortization expense. Depreciation and amortization expense for the nine months ended September 30, 2006, was $39.2 million, or 4.4% of net revenue, compared to $34.9 million, or 4.1% of net revenue, for the nine months ended September 30, 2005. The increase as a percentage of net revenue is attributable to additional amortization expense related to the contract intangible asset we recorded in connection with the acquisition and the composition and timing of capital expenditures.

EmCare

Net revenue. Net revenue for the nine months ended September 30, 2006 was $544.8 million, an increase of $69.6 million, or 14.6%, from $475.2 million for the nine months ended September 30, 2005. The increase was due primarily to an increase in patient visits from net new hospital contracts and net revenue increases in existing contracts. Following September 30, 2005, we added 37 net new contracts which accounted for a net revenue increase of $28.7 million for the nine months ended September 30, 2006. Net revenue under our same facility contracts (contracts in existence for the entirety of both fiscal periods) increased $40.9 million in the nine months ended September 30, 2006 due to a 3.7% increase in patient visits and a 7.1% increase in net revenue per patient visit.

Compensation and benefits. Compensation and benefits costs for the nine months ended September 30, 2006 were $420.1 million, or 77.1% of net revenue, compared to $376.3 million, or 79.2% of net revenue, for the nine months ended September 30, 2005. Increases are primarily from same facility provider compensation and benefits, which increased $20.6 million as a result of increased patient volume and higher net patient revenue, and a $17.4 million increase from net new contract additions.

Operating expenses. Operating expenses for the nine months ended September 30, 2006 were $25.9 million, or 4.8% of net revenue, compared to $20.9 million, or 4.4% of net revenue, for the nine months ended September 30, 2005. Operating expenses increased due to additional off hours radiology coverage for new contracts and due to professional fees related to Company initiatives.

Insurance expense. Professional liability insurance expense for the nine months ended September 30, 2006 was $28.5 million, or 5.2% of net revenue, compared to $33.3 million, or 7.0% of net revenue, for the nine months ended September 30, 2005. The decrease is due to the continued improvement in current and prior year ultimate claims costs. As a result, a reduction of prior year insurance provisions of $1.4 million was recorded during the nine months ended September 30, 2006.

Selling, general and administrative expenses. Selling, general and administrative expense for the nine months ended September 30, 2006 was $13.6 million, or 2.5% of net revenue, compared to $12.3 million, or 2.6% of net revenue, for the nine months ended September 30, 2005.

Laidlaw compensation charges. EmCare did not incur Laidlaw compensation charges subsequent to the acquisition in February 2005. The nine months ended September 30, 2005 includes $8.6 million, or 1.8% of net revenue, for Laidlaw acquisition-related compensation charges incurred in January 2005.

Depreciation and amortization expense. Depreciation and amortization expense for the nine months ended September 30, 2006 was $9.8 million, or 1.8% of net revenue, compared to $7.8 million, or 1.6% of net revenue, for the nine months ended September 30, 2005. The increase as a percentage of net revenue is attributable to additional amortization expense from the contract intangible asset we recorded in connection with the acquisition, as well as depreciation expense related to EmCare s participation in Company-wide shared services initiatives.

Critical Accounting Policies

For a discussion of accounting policies that we consider critical to our business operations and the understanding of our results of operations that affect the more significant judgments and estimates used in the preparation of our unaudited condensed consolidated financial statements, please refer to Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies contained in our annual report on Form 10-K for the fiscal year ended December 31, 2005 and incorporated by reference herein. As of September 30, 2006, there were no significant changes in our critical accounting policies or estimation procedures.

Liquidity and Capital Resources

We believe our cash and cash equivalents of $22.5 million at September 30, 2006, cash provided by our operating activities, and amounts available under our senior secured credit facility will meet the liquidity requirements of our business through at least the next 12 months. We have available to us, upon compliance with customary conditions, $100.0 million under the revolving credit facility, less any letters of credit outstanding (which totaled $29.9 million at September 30, 2006). 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).

Our primary source of liquidity is cash flows 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.

Cash flow provided by (used in):	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Operating activities	$ 123,594	$ 95,995
Investing activities	(87,614)	(902,819)
Financing activities	$ (31,564)	$ 813,074

Cash Flow

Operating activities. Operating cash flows for the nine months ended September 30, 2006 were $123.6 million, compared to $96.0 million for the same nine month period last year. Operating cash flows were positively affected by increased net income, utilization of deferred tax assets, changes in accounts receivable and timing differences on insurance premium payments and interest payments. Changes in working capital contributed $16.3 million for the nine months ended September 30, 2006, which included a $4.8 million decrease in accounts receivable, and a $13.8 million increase in accounts payable and accrued liabilities. Working capital was also reduced in the 2006 period by a net payment of approximately $6.1 million pursuant to a settlement agreement with the Department of Justice. Working capital contributions to operating cash flow were $11.2 million for the nine months ended September 30, 2005 including an increase in accrued liabilities of $31.0 million, primarily due to an increase in accrued interest, offset in part by an increase in accounts receivable of $16.0 million.

Investing activities. Net cash used in investing activities was $87.6 million for the nine months ended September 30, 2006, compared to $902.8 million for the same period in 2005. The $815.2 million decrease is attributable principally to our net cash outflows of $828.8 million to purchase AMR and EmCare from Laidlaw in February 2005. Net cash used in investing activities during the nine months ended September 30, 2006 relates primarily to capital expenditures for the purchase of new vehicles, medical equipment and technology-related assets, which totaled $43.3 million, and a $31.8 million change in net investments to fund insurance-related obligations. Cash used to acquire businesses totaled $11.6 million for the nine months ended September 30, 2006.

Financing activities. For the nine months ended September 30, 2006, net cash used in financing activities was $31.6 million compared to net cash provided by financing activities of $813.1 million for the nine months ended September 30, 2005. The $844.7 million decrease is attributable principally to borrowings under our senior secured credit facility of $350.0 million, our issuance of $250.0 million principal amount of our senior subordinated notes, and equity proceeds of $222.7 million in connection with our acquisition of AMR and EmCare in the 2005 period. We made unscheduled payments of $10 million of the senior secured credit facility in May 2006 and $9.4 million in July 2006 and repaid outstanding borrowings of $20.2 million of the revolving credit facilities in the nine month period ended September 30, 2005.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary exposure to market risk consists of changes in interest rates on certain of our borrowings and changes in fuel prices. We have not entered into hedging transactions or used derivative instruments for speculative or trading purposes to mitigate related exposure.

As of September 30, 2006, we had $481.5 million of debt, of which $227.0 million was variable rate debt under our senior secured credit facility and the balance was fixed rate debt, including $250.0 million aggregate principal amount of our senior subordinated notes. Over the past twelve months, prime and LIBOR interest rates have increased by approximately 1.5% and 1.3%, respectively. Changes to these interest rates may continue to occur. Increases and decreases in interest rates affect our interest costs for our variable rate debt. For comparative purposes, for every 0.125% change in interest rates, our interest costs on our senior secured credit facility will change by approximately $0.3 million per year based on our outstanding indebtedness at September 30, 2006.

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ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain a system of disclosure controls and procedures (as defined in Rule 13a-14 and 15d-14 under the Securities Exchange Act of 1934 (the Exchange Act)) that are designed to ensure that information required to be disclosed in the reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or furnishes under the Exchange Act is accumulated and communicated to the issuer s management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on their evaluation of our disclosure controls and procedures conducted within 90 days of the date of filing this Report on Form 10-Q, our principal executive officer and our principal financial officer have concluded that, as of the date of their evaluation, our disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) promulgated under the Exchange Act) are effective.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during our fiscal quarter ended September 30, 2006 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

EMERGENCY MEDICAL SERVICES CORPORATION

PART II. OTHER INFORMATION

FOR THE THREE AND NINE MONTHS ENDED

SEPTEMBER 30, 2006

ITEM 1. LEGAL PROCEEDINGS

As referenced in our Annual Report on Form 10-K for the fiscal year ended December 31, 2005, during the first quarter of fiscal 2004 we were 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 our hospital and nursing home contracts in effect in Texas in periods prior to 2002 contained discounts in violation of the federal Anti-Kickback Statute. We negotiated a settlement with the government pursuant to which we paid $9 million and obtained a release from the U.S. Government of all claims related to such conduct alleged to have occurred in Texas in periods prior to 2002. In connection with the settlement, we entered into a Corporate Integrity Agreement (CIA) which will be effective for a period of five years beginning September 12, 2006. Pursuant to the CIA, we are 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. Under the provisions of our purchase agreement for the acquisition of AMR, we and Laidlaw shared responsibility for the settlement amount and certain of the costs associated with the CIA.

For additional information regarding legal proceedings, please refer to note 5, under the caption Commitments and Contingencies of the notes accompanying the consolidated financial statements included herein and to our Annual Report on Form 10-K filed with the SEC on March 21, 2006.

ITEM 1A. RISK FACTORS

Other than with respect to the risk factors below, there have been no material changes from the risk factors disclosed in the Risk Factors sections of the Company s Annual Report on Form 10-K for the year ended December 31, 2005 and in the Company s Quarterly Report for the quarter ended June 30, 2006.

If we fail to comply with the terms of our settlement agreements with the government, we could be subject to additional litigation or other governmental actions which could be harmful to our business.

In the last six years, we have entered into five settlement agreements with the United States government. In June 2002, one of our subsidiaries, AMR of Massachusetts, entered into a settlement agreement to resolve a number of allegations, including allegations related to billing and documentation practices. In February 2003, another subsidiary, AMR of South Dakota, entered into a settlement agreement to resolve allegations that it incorrectly billed for transports performed by other providers when an AMR paramedic accompanied the patient during transport, and that it billed for certain non-emergency transports using emergency codes. In July 2004, our subsidiary, American Medical Response West, entered into a settlement agreement in connection with billing matters related to emergency transports and specialized services. In August 2004, AMR entered into a settlement agreement on behalf of a subsidiary, Regional Emergency Services LP, or RES, to resolve allegations of violations of the False Claims Act by RES and a hospital system based on the absence of certificates of medical necessity and other non-compliant billing practices. In September 2006, AMR entered into a settlement agreement to resolve allegations that AMR subsidiaries provided discounts to healthcare facilities in Texas in periods prior to 2002 in violation of the federal Anti-Kickback Statute.

As part of the settlement AMR West entered into with the government, we entered into a Corporate Integrity Agreement, or CIA, which is still in effect. Pursuant to this CIA, we are required to establish and maintain a compliance program which includes, among other elements, the appointment of a compliance officer and committee, review by an independent review organization, and reporting of overpayments and other reportable events. In connection with the September 2006 settlement for AMR, we also became required to maintain a compliance program which includes the training of employees and contractual safeguards nationwide (including tracking of contractual arrangements in Texas.) AMR of Massachusetts entered into a CIA in connection with its June 2002 settlement, the term of which has expired.

We cannot assure you that the CIAs or the compliance program we initiated has prevented, or will prevent, any repetition of the conduct or allegations that were the subject of these settlement agreements, or that the government will not raise similar allegations in other jurisdictions or for other periods of time. If such allegations are raised, or if we fail to comply with the terms of the CIAs, we may be subject to fines and other contractual and regulatory remedies specified in the CIAs or by applicable laws, including exclusion from the Medicare program and other federal and state healthcare programs. Such actions could have a material adverse effect on the conduct of our business, our financial condition or our results of operations.

Our contracts with healthcare facilities and marketing practices are subject to the federal Anti-Kickback Statute, and we recently entered into a settlement for alleged violations of that statute.

We are subject to the federal Anti-Kickback Statute, which prohibits the knowing and willful offer, payment, solicitation or receipt of any form of remuneration in return for, or to induce, the referral of business or ordering of services paid for by Medicare or other federal programs. Remuneration potentially includes discounts and in-kind goods or services, as well as cash. Certain federal courts have held that the Anti-Kickback Statute can be violated if one purpose of a payment is to induce referrals. Violations of the Anti-Kickback Statute can result in imprisonment, civil or criminal fines or exclusion from Medicare and other governmental programs.

In 1999, the Office of Inspector General of the Department of Health and Human Services, or the OIG, issued an Advisory Opinion indicating that discounts provided to health facilities on the transports for which they are financially responsible potentially violate the Anti-Kickback Statute when the ambulance company also receives referrals of Medicare and other government-funded transports from the facility. The OIG has clarified that not all discounts violate the Anti-Kickback Statute, but that the statute may be violated if part of the purpose of the discount is to induce the referral of the transports paid for by Medicare or other federal programs, and the discount does not meet certain safe harbor conditions. In the Advisory Opinion and subsequent pronouncements, the OIG has provided guidance to ambulance companies to help them avoid unlawful discounts.

Like other ambulance companies, we have provided discounts to our healthcare facility customers (nursing home and hospital) in certain circumstances. We have attempted to comply with applicable law when such discounts are provided. However, the government alleged that certain of our hospital and nursing home contracts in effect in Texas in periods prior to 2002 contained discounts in violation of the federal Anti-Kickback Statute, and we entered into a settlement with the government to resolve these allegations and entered into a CIA.

There can be no assurance that other investigations or legal action related to our contracting practices will not be pursued against AMR in other jurisdictions or for different time frames. If we are found to have violated the Anti-Kickback Statute, we may be subject to civil or criminal penalties, including exclusion from the Medicare or Medicaid programs, or may be required to enter into settlement agreements with the government to avoid such sanctions. Typically, such settlement agreements require substantial payments to the government in exchange for the government to release its claims, and may also require us to enter into a CIA.

In addition to AMR s contracts with healthcare facilities, other marketing practices or transactions entered into by AMR and EmCare may implicate the Anti-Kickback Statute. Although we have attempted to structure our past and current marketing initiatives and business relationships to comply with the Anti-Kickback Statute, we cannot assure you that the OIG or other authorities will not find that our marketing practices and relationships violate the statute.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

In June 2006, our board of directors adopted an equity compensation program for non-employee directors, other than the Chair of the Compliance Committee, or the Directors Plan, in reliance upon the exemption provided by Section 4(2) of the Securities Act of 1933. Non-employee directors were granted 8,000 Restricted Stock Units, or RSUs, on June 1, 2006, each RSU representing one share of our class A common stock. Immediately following each annual stockholder meeting, each non-employee director will receive a grant of RSUs having a fair market value of $100,000 on the date of grant, based on the closing price of our 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. The RSUs vest immediately prior to the election of directors at the next following annual stockholder meeting, and will be paid in shares of our class A common stock (one share for each RSU). The Directors Plan and RSU grants on June 1, 2006 are both subject to stockholder approval at the 2007 annual stockholder meeting.

ITEM 6. EXHIBITS

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.*

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* Filed with this Report

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 7th day of November, 2006.

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

EXHIBIT INDEX

Exhibit No.		**Description**
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