

IMPACT OF SOX ON THE HEALTH CARE INDUSTRY
Adverse Section 404 Reports
For Companies with Years Ended in 2006
As of July, 2007

The following is a copy of the eight adverse reports that were issued from companies in the Health Care industry with years ended in 2006. These were all of the accelerated filers in the Health Care industry with adverse Sarbanes-Oxley Section 404 management self assessments. This information was gathered using the online research tool called Audit Analytics an Ives Group, Inc company.

The following is a summary of the **material internal control weaknesses** reported in the eight adverse Section 404 Self Assessments:

Internal Controls - Accounting documentation, policy and/or procedures	8
Internal Controls - Material and/or numerous auditor /YE adjustments	5
Internal Controls - Restatement or nonreliance of company filings	3
Internal Controls - Accounting personnel resources, competency/training	2
Internal Controls - Information technology, software, security & access issues	2
Internal Controls - Restatement of previous 404 disclosures	2
Internal Controls - Ethical or compliance issues with personnel	1
Internal Controls - Journal entry control issues	1
Internal Controls - SAB 108 adjustments noted	1
Internal Controls - Segregations of duties/ design of controls (personnel)	1
Internal Controls - Untimely or inadequate account reconciliations	1

The following is a summary of the **material accounting weaknesses** reported in the eight adverse Section 404 Self Assessments. Section 404 is not just about internal control issues, but also about misapplication of financial accounting and reporting issues:

Accounting - Tax expense/benefit/deferral/other (FAS 109) issues	3
Accounting - Acquisition, merger, disposal or reorganization issues	2
Accounting - Inventory, vendor and cost of sales issues	2
Accounting - Lease, leasehold & FAS 13 (98) (subcategory) issues	2
Accounting - PPE, intangible or fixed asset (value/diminution) issues	2
Accounting - Revenue recognition issues	2
Accounting - Accounts/loans receivable, investments & cash issues	1
Accounting - Consolidation, (Fin46r/Off BS) & foreign curr transl issues	1
Accounting - Deferred, stock-based or executive comp issues	1
Accounting - Expense recording (payroll, SG&A) issues	1
Accounting - Fin Stmt, footnote, US GAAP, segment disclosure issues	1
Accounting - Foreign, related party, affiliated and/or subsid issues	1
Accounting - Lease, FAS 5, legal, contingency & commit issues	1
Accounting - Liabilities, payables, reserves and accrual est failures	1



ALLIED HEALTHCARE INTERNATIONAL INC

10-K 2006 Management - Internal Control Assessment

Report of Management on Internal Control over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting for the company. Under the rules of the Securities and Exchange Commission, "internal control over financial reporting procedures" is defined as a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes maintaining records, that in reasonable detail, accurately and fairly reflect our transactions and our dispositions of assets; providing reasonable assurance that transactions are recorded as necessary for preparation of our financial statements in accordance with accounting principles generally accepted in the United States of America; providing reasonable assurance that receipts and expenditures of company assets are made only in accordance with management authorization; and providing reasonable assurance regarding the prevention or the timely detection of the unauthorized acquisition, use or disposition of company assets that could have a material effect on our financial statements. Because of its inherent limitations, internal control over financial reporting may not provide absolute assurance that a misstatement of our financial statements would be prevented or detected. Management conducted an evaluation of the effectiveness of our internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control — Integrated Framework. Based on this evaluation, management concluded that the company's internal control over financial reporting was ineffective as of September 30, 2006 because of the material weakness in the control of oxygen cylinders in the Allied Respiratory Limited business. A material weakness, as defined under standards established by the Public Company Accounting Oversight Board's Auditing Standard No.2, is a control deficiency or combination of control deficiencies that result in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. In February 2006 the company was awarded two contracts to supply oxygen, using a mix of concentrators and clinical grade oxygen cylinders directly to patients homes, instead of the supply of oxygen in cylinders to pharmacies. In the legacy business we used some 80,000 cylinders to provide oxygen to pharmacies. They in turn distributed the oxygen to patient's homes. The cylinders were not bar coded and the information systems to record the location of the cylinders were inadequate. Now that we have reorganized our Allied Respiratory Limited business to the new form of supply, substituting the use of cylinders only for concentrators and cylinders, we are writing off 42,000 cylinders with a book value of \$5.4 million. Most of these cylinders are still in the field and it is uneconomic to collect them for scrap value. However, it is apparent to management that the manual records were inadequate to enable us to recover these assets should it be economic to do so. Accordingly, based on the specific criteria established in Internal Control Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission, management determined that these control deficiencies constitute a material weakness.

PEDIATRIC SERVICES OF AMERICA INC

10-K/A 2006 Management - Internal Control Assessment

MANAGEMENT'S ANNUAL REPORT ON

INTERNAL CONTROL OVER FINANCIAL REPORTING (As Revised)

Management of Pediatric Services of America, Inc. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

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

Management assessed the effectiveness of the Company's internal control over financial reporting as of September 30, 2006. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework.

As originally filed on December 12, 2006 management concluded that our internal controls over financial reporting were effective as of September 30, 2006. In connection with the restatement of the Company's consolidated financial statements as discussed in Note 2 to the consolidated financial statements, we have determined that the material weakness described below existed at September 30, 2006. Accordingly, we have revised our annual report on internal control over financial reporting. A material weakness is a control deficiency, or a combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. As of September 30, 2006 management determined that:

- The Company's review and approval controls over the accounting for income taxes, including the determination and reporting of deferred income tax assets and liabilities and related



income tax provision were insufficient. Specifically, the Company did not have adequate review procedures of the work performed by its tax advisors to enable the Company to properly consider and apply generally accepted accounting principles for taxes, and ensure that the rationale for certain tax positions was adequately documented and appropriately communicated. Additionally, the Company did not maintain effective controls to review and monitor the accuracy of its classification of its deferred tax assets and liabilities and the accuracy of the components of the income tax provision calculations and the related deferred income taxes and income tax provision. As a result, the Company concluded that its previously reported income tax provision and noncurrent deferred income taxes had been misstated. These control deficiencies resulted in the restatement of the annual and quarterly consolidated financial statements for 2006. These control deficiencies also resulted in the restatement of the annual consolidated financial statements as of September 30, 2005 and 2006.

The Company's independent registered public accounting firm has issued an attestation report on management's assessment of the Company's internal control over financial reporting, which report appears herein.

SUN HEALTHCARE GROUP INC

10-K 2006 Management - Internal Control Assessment

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting defined in Rule 13a-15(f) under the Exchange Act as a process designed by, or under the supervision of, our CEO and CFO and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation and presentation. Therefore, even those systems determined to be effective may not prevent or detect all misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of internal control over financial reporting as of December 31, 2006, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in InternalControl - Integrated Framework. As part of this assessment, management evaluated the controls over the accounting procedures for rent escalation clauses contained in certain of our lease agreements. We use these procedures, among others, to determine the accounting treatment for determining facility rent expense. Notwithstanding previous assumptions that we believed were appropriate to rely upon and despite good faith efforts in determining appropriate accounting policies, we concluded that our previously established lease accounting policies were not correctly applied and our facility rent expense and deferred rent were misstated. Accordingly, we recognized a cumulative effect adjustment to retained earnings of \$5.1 million as of January 1, 2006, for understatements of facility rent expense that arose beginning in 2002 and recorded an additional \$2.5 million of facility rent expense in 2006 to appropriately reflect rent escalator clauses in certain of our lease agreements. As a result of these misstatements, management,

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including our CEO and CFO, has determined that this control deficiency constituted a "material weakness" as defined in the Public Company Accounting Oversight Board (PCAOB) Auditing Standard No. 2, "An Audit of Internal Control Over Financial Reporting Performed in Conjunction with an Audit of Financial Statements." Because of this material weakness, management has concluded that internal control over financial reporting was not effective as of December 31, 2006.

Management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2006 has been audited by Ernst & Young LLP, the independent registered public accounting firm who also audited our consolidated financial statements. Ernst & Young's attestation report on management's assessment of internal control over financial reporting is included in this Annual Report as part of our financial statements.

Changes to Internal Control over Financial Reporting

Management has reevaluated its lease accounting policies and procedures. As part of our review, we have enhanced the review process over new and/or modified lease agreements and the related accounting treatment by ensuring that future lease transactions are subject to a more thorough and detailed review. Management believes that these new policies have remediated the material weakness in our internal controls over financial reporting that existed as of December 31, 2006, and that these internal controls are effective.

LCA VISION INC

[10-K/A](#) 2006 Management - Internal Control Assessment

REPORT OF MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING (as restated) We, the management of LCA-Vision Inc., are responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the Securities Exchange Act Rules 13a-15(f) and 15d-15(f), and for the preparation and integrity of the consolidated financial statements and the information contained in this Annual Report. We prepared the accompanying consolidated financial statements in accordance with U. S. generally accepted accounting principles. In addition to selecting appropriate accounting principles, we are responsible for the way information is presented and its reliability. To report financial results we must often make estimates based on currently available information and judgments of current conditions and circumstances. We assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2006. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework. A material weakness is a control deficiency, or combination of control deficiencies, that result in more than a remote likelihood that a material misstatement of annual or interim financial statements will not be prevented or detected. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. As of December 31, 2006, we did not maintain effective internal controls over the Company's accounting for deferred revenues associated with separately priced extended warranties. This control deficiency resulted in an amendment of our Annual Report on Form 10-K for the year ended December 31, 2006, in order to restate the consolidated financial statements for 2006, 2005 and 2004, and each of the quarters in 2006 and 2005. Accordingly, management has concluded that this control deficiency

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constitutes a material weakness. In the Report of Management on Internal Control Over Financial Reporting included in our original Annual Report on Form 10-K for the year ended December 31, 2006, we concluded that we maintained effective internal control over financial reporting as of December 31, 2006. Solely as a result of the material weakness described above, we have revised our earlier assessment and have now concluded that our internal control over financial reporting was not effective as of December 31, 2006, based on the criteria set forth by COSO in Internal Control — Integrated Framework. Our revised assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2006 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their attestation report which is included herein. /s/ Steven C. Straus
Steven C. Straus /s/ Alan H. Buckey
Alan H. Buckey
Chief Executive Officer (Principal Executive Officer) Executive Vice President/Finance, Chief Financial Officer (Principal Financial and Accounting Officer)

LINCARE HOLDINGS INC

10-K 2006 Management - Internal Control Assessment

Management's Annual Report on Internal Control Over Financial Reporting

Lincare's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). The Company's internal control system was designed to provide reasonable assurance to management and the board of directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the underlying policies or procedures may deteriorate. Under the supervision and with the participation of management, including Lincare's Chief Executive Officer and Chief Financial Officer, Lincare conducted an evaluation of the effectiveness of its internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") as of December 31, 2006.

In conducting Lincare's evaluation of the effectiveness of its internal control over financial reporting, Lincare has excluded a business acquired from Pediatric Services of America, Inc. in November, 2006. This acquisition constituted approximately 2.0% of total assets as of December 31, 2006 and less than 1.0% of total revenues and net earnings for the year then ended.

Based on Lincare's evaluation under the framework in Internal Control – Integrated Framework, management concluded that the Company did not maintain effective internal control over financial reporting as of December 31, 2006 as a result of a material weakness in internal control over financial reporting as described below. A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

As of December 31, 2006, management concluded that the controls related to the Company's review and application of new accounting standards and pronouncements were not effective. Specifically, the Company did not have sufficient accounting personnel with adequate technical expertise to appropriately evaluate the application of new accounting standards. As a result, upon the adoption of SEC Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements, the Company did not timely or fully identify all departures from U.S. generally accepted accounting principles to determine if these departures could cause a material misstatement to the Company's consolidated financial statements. This control deficiency resulted in material misstatements in the Company's preliminary 2006 consolidated financial statements. In addition, this control deficiency resulted in more than a remote likelihood that a material misstatement of the annual or interim financial statements would not have been prevented or detected. Accordingly, management concluded that this control deficiency constitutes a material weakness.

The Company's independent registered public accounting firm has audited management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, as stated in their report which appears in this Form 10-K under the heading, "Report of Independent Registered Public Accounting Firm."

HEALTHSOUTH CORP

10-K 2006 Management - Internal Control Assessment

Management's Report on Internal Control Over Financial Reporting

Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles ("GAAP"). Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and the board of directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on its financial statements. Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act.

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

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006. In making this assessment, management used the criteria set forth in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the

“COSO framework”).

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

In connection with management’s assessment of the company’s internal control over financial reporting described above, management has identified that as of December 31, 2006, we did not maintain effective controls over the accounting for income taxes, including the accurate determination and reporting of income taxes receivable and payable, deferred income tax assets and liabilities and the related income tax provision. Specifically, the company did not maintain effective controls to review and monitor the accuracy of the components of the income tax provision calculations and related deferred income taxes and income taxes payable, and to monitor the differences between the income tax basis and the financial reporting basis of assets and liabilities to effectively reconcile the deferred income tax balances. This control deficiency resulted in audit adjustments to the 2006 consolidated financial statements and could result in a misstatement in the aforementioned accounts that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected. Accordingly, our management has determined that this control deficiency constitutes a material weakness.

Because of this material weakness, management has concluded that the company did not maintain effective internal control over financial reporting as of December 31, 2006, based on the criteria in the COSO framework.

Management’s assessment of the effectiveness of the company’s internal control over financial reporting as of December 31, 2006, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

RURAL/METRO CORP /DE/

10-K/A 2006 Management - Internal Control Assessment

Management’s Report on Internal Control Over Financial Reporting (Restated)

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of June 30, 2006. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control – Integrated Framework (the “COSO”).

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. As of June 30, 2006, the Company did



not maintain effective controls over the classification of certain durable medical supply items within inventory. Specifically, the Company did not have effective review procedures to detect that certain durable medical supply items were improperly included in inventory. This control deficiency resulted in the restatement of the Company's fiscal 2006, 2005 and 2004 annual consolidated financial statements, the interim consolidated financial statements for each of the quarters within the fiscal years in 2006 and 2005, and the interim consolidated financial statements for the quarter ended September 30, 2006. Additionally, this control deficiency could result in a material misstatement of our inventory and operating expenses that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected. Accordingly, management has determined that this control deficiency constitutes a material weakness.

In Management's Report on Internal Control Over Financial Reporting included in the Company's Original Filing, management previously concluded that the Company maintained effective internal control over financial reporting as of June 30, 2006. However, in connection with the restatement discussed in the Explanatory Note to this Form 10-K/A and in Note 3 of the footnotes to the consolidated financial statements, management has subsequently determined that the material weakness described above existed as of June 30, 2006. As a result, management has concluded that the Company did not maintain effective internal control over financial reporting as of June 30, 2006 based on criteria established in Internal Control – Integrated Framework issued by the COSO. Accordingly, Management's Report on Internal Control Over Financial Reporting has been restated.

Our management's assessment of the effectiveness of our internal control over financial reporting as of June 30, 2006 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears in Part II, Item 8 of this report.

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