

Envision Healthcare Holdings, Inc.
Form 10-Q
May 13, 2014
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended March 31, 2014

Or

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

For the transition period from _____ to _____

Commission file numbers:

Envision Healthcare Holdings, Inc.: 001-36048

Envision Healthcare Corporation: 001-32701

ENVISION HEALTHCARE HOLDINGS, INC.
ENVISION HEALTHCARE CORPORATION

(Exact name of registrants as specified in their charters)

Delaware Delaware (State or other jurisdiction of incorporation or organization)	Envision Healthcare Holdings, Inc. Envision Healthcare Corporation (IRS Employer Identification Numbers)	45-0832318 20-3738384
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.

Envision Healthcare Holdings, Inc. Yes No

Envision Healthcare Corporation Yes No

Edgar Filing: Envision Healthcare Holdings, Inc. - Form 10-Q

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

Envision Healthcare Holdings, Inc. Yes No

Envision Healthcare Corporation Yes No

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

Envision Healthcare Holdings, Inc.

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

Envision Healthcare Corporation

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange act).

Envision Healthcare Holdings, Inc. Yes No

Envision Healthcare Corporation Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date:

Envision Healthcare Holdings, Inc.

At May 1, 2014, the registrant had 181,131,273 shares of common stock, par value \$0.01 per share, outstanding.

Envision Healthcare Corporation

The registrant is a privately held corporation, and its common stock is not publicly traded. At May 1, 2014, the registrant had 1,000 shares of common stock, par value \$0.01 per share, outstanding. All of Envision Healthcare Corporation's outstanding stock was held at such date by Envision Healthcare Intermediate Corporation, its sole stockholder.

Table of Contents

INDEX

<u>Part I. Financial Information</u>		4
<u>Item 1.</u>	<u>Financial Statements (unaudited):</u>	4
	<u>Envision Healthcare Holdings, Inc.</u>	
	<u>Consolidated Statements of Operations and Comprehensive Income for the three months ended March 31, 2014 and 2013</u>	4
	<u>Consolidated Balance Sheets as of March 31, 2014 and December 31, 2013</u>	5
	<u>Consolidated Statements of Cash Flows for the three months ended March 31, 2014 and 2013</u>	6
	<u>Envision Healthcare Corporation</u>	
	<u>Consolidated Statements of Operations and Comprehensive Income for the three months ended March 31, 2014 and 2013</u>	7
	<u>Consolidated Balance Sheets as of March 31, 2014 and December 31, 2013</u>	8
	<u>Consolidated Statements of Cash Flows for the three months ended March 31, 2014 and 2013</u>	9
	<u>Notes to Unaudited Consolidated Financial Statements</u>	10
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	35
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	49
<u>Item 4.</u>	<u>Controls and Procedures</u>	49
<u>Part II. Other Information</u>		50
<u>Item 1.</u>	<u>Legal Proceedings</u>	50
<u>Item 1A.</u>	<u>Risk Factors</u>	50
<u>Item 6.</u>	<u>Exhibits</u>	50
<u>Signatures</u>		51

Table of Contents

EXPLANATORY NOTE

This Form 10-Q is a combined quarterly report being filed separately by two registrants: Envision Healthcare Holdings, Inc. and Envision Healthcare Corporation. Unless the context indicates otherwise, any reference in this report to Holding refers to Envision Healthcare Holdings, Inc., any reference to Corporation refers to Envision Healthcare Corporation, the indirect, wholly-owned subsidiary of Holding, and any references to EVHC, the Company, we, our, or us refer to Envision Healthcare Holdings, Inc. and its direct and indirect subsidiaries, including Corporation. Our business is conducted primarily through two operating subsidiaries, EmCare Holdings, Inc. (EmCare) and American Medical Response, Inc. (AMR). Each registrant hereto is filing on its own behalf all of the information contained in this quarterly report that relates to such registrant. Each registrant hereto is not filing any information that does not relate to such registrant, and therefore makes no representation as to any such information.

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****ENVISION HEALTHCARE HOLDINGS, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME****(in thousands, except share and per share amounts, unaudited)**

	Quarter ended	
	March 31,	
	2014	2013
Revenue, net of contractual discounts	\$ 1,858,494	\$ 1,605,248
Provision for uncompensated care	(844,283)	(716,924)
Net revenue	1,014,211	888,324
Compensation and benefits	743,661	641,789
Operating expenses	114,635	100,450
Insurance expense	30,981	25,833
Selling, general and administrative expenses	19,375	21,998
Depreciation and amortization expense	36,432	34,755
Restructuring charges	809	637
Income from operations	68,318	62,862
Interest income from restricted assets	86	366
Interest expense	(30,049)	(51,752)
Realized gains on investments	606	13
Other expense, net	(808)	(12,721)
Loss on early debt extinguishment		(122)
Income (loss) before income taxes and equity in earnings of unconsolidated subsidiary	38,153	(1,354)
Income tax expense	(16,675)	(2,568)
Income (loss) before equity in earnings of unconsolidated subsidiary	21,478	(3,922)
Equity in earnings of unconsolidated subsidiary	47	75
Net income (loss)	21,525	(3,847)
Less: Net loss attributable to noncontrolling interest	3,300	
Net income (loss) attributable to Envision Healthcare Holdings, Inc.	\$ 24,825	\$ (3,847)
Basic net income (loss) per share attributable to Envision Healthcare Holdings, Inc.	\$ 0.14	\$ (0.03)
Diluted net income (loss) per share attributable to Envision Healthcare Holdings, Inc.	\$ 0.13	\$ (0.03)
Average common shares outstanding, basic	180,782,025	130,696,421
Average common shares outstanding, diluted	189,391,612	130,696,421
Comprehensive income:		
Net income (loss)	\$ 21,525	\$ (3,847)
Other comprehensive loss, net of tax:		
Unrealized holding losses during the period	(337)	(436)
Unrealized gains (losses) on derivative financial instruments	51	(298)
Total other comprehensive loss, net of tax	(286)	(734)
Comprehensive income (loss)	21,239	(4,581)
Less: Comprehensive loss attributable to noncontrolling interest	3,300	

Edgar Filing: Envision Healthcare Holdings, Inc. - Form 10-Q

Comprehensive income (loss) attributable to Envision Healthcare Holdings, Inc.	\$	24,539	\$	(4,581)
--	----	--------	----	---------

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

Table of Contents**ENVISION HEALTHCARE HOLDINGS, INC.****CONSOLIDATED BALANCE SHEETS****(in thousands, except share and per share amounts)**

	March 31, 2014 (Unaudited)	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 190,996	\$ 204,712
Insurance collateral	19,442	29,619
Trade and other accounts receivable, net	840,940	801,146
Parts and supplies inventory	23,736	23,376
Prepays and other current assets	26,661	23,430
Total current assets	1,101,775	1,082,283
Non-current assets:		
Property, plant and equipment, net	190,935	194,715
Intangible assets, net	516,530	513,698
Insurance collateral	1,127	12,716
Goodwill	2,444,156	2,435,670
Other long-term assets	60,007	60,935
Total assets	\$ 4,314,530	\$ 4,300,017
Liabilities and Equity		
Current liabilities:		
Accounts payable	\$ 51,301	\$ 52,588
Accrued liabilities	371,570	350,936
Current deferred tax liabilities	35,639	35,487
Current portion of long-term debt	12,011	12,318
Total current liabilities	470,521	451,329
Long-term debt	1,892,272	1,895,381
Long-term deferred tax liabilities	151,225	151,130
Insurance reserves	151,792	175,427
Other long-term liabilities	16,721	16,997
Total liabilities	2,682,531	2,690,264
Commitments and contingencies		
Equity:		
Common stock (\$0.01 par value; 2,000,000,000 shares authorized, 181,131,273 and 180,382,885 issued and outstanding as of March 31, 2014 and December 31, 2013, respectively)	1,804	1,804
Preferred stock (\$0.01 par value; 200,000,000 shares authorized, none issued and outstanding as of March 31, 2014 and December 31, 2013)		
Treasury stock at cost	(1,347)	(1,347)
Additional paid-in capital	1,577,521	1,576,764
Retained earnings	43,166	18,341
Accumulated other comprehensive loss	(1,125)	(839)
Total Envision Healthcare Holdings, Inc. equity	1,620,019	1,594,723
Noncontrolling interest	11,980	15,030
Total equity	1,631,999	1,609,753
Total liabilities and equity	\$ 4,314,530	\$ 4,300,017

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

Table of Contents

ENVISION HEALTHCARE HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands, unaudited)

	Quarter ended March 31,	
	2014	2013
Cash Flows from Operating Activities		
Net income (loss)	\$ 21,525	\$ (3,847)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	39,667	39,428
(Gain) loss on disposal of property, plant and equipment	(1,981)	39
Equity-based compensation expense	1,062	1,062
Excess tax benefits from equity-based compensation	(14,790)	(8)
Loss on early debt extinguishment		122
Equity in earnings of unconsolidated subsidiary	(47)	(75)
Dividends received	430	556
Deferred income taxes	928	(740)
Changes in operating assets/liabilities, net of acquisitions:		
Trade and other accounts receivable	(35,429)	(41,212)
Parts and supplies inventory	(327)	(50)
Prepays and other current assets	(3,468)	(3,627)
Accounts payable and accrued liabilities	34,183	19,212
Insurance accruals	(11,533)	(4,218)
Net cash provided by operating activities	30,220	6,642
Cash Flows from Investing Activities		
Purchases of available-for-sale securities	(2,458)	(159)
Sales and maturities of available-for-sale securities	8,160	448
Purchases of property, plant and equipment	(10,714)	(10,493)
Proceeds from sale of property, plant and equipment	2,156	197
Acquisition of businesses, net of cash received	(35,791)	(1,423)
Net change in insurance collateral	1,200	7,362
Other investing activities	(2,526)	(702)
Net cash used in investing activities	(39,973)	(4,770)
Cash Flows from Financing Activities		
Issuance of common stock		691
Borrowings under the Term Loan		150,000
Borrowings under the ABL Facility		56,940
Repayments of the Term Loan	(3,343)	(3,343)
Repayments of the ABL Facility		(181,940)
Dividend paid		(67)
Debt issue costs		(4,415)
Excess tax benefits from equity-based compensation	14,790	8
Shares repurchased for tax withholdings	(14,430)	
Proceeds from noncontrolling interest	250	
Net change in bank overdrafts		2,883
Other financing activities	(1,230)	(329)
Net cash (used in) provided by financing activities	(3,963)	20,428
Change in cash and cash equivalents	(13,716)	22,300
Cash and cash equivalents, beginning of period	204,712	57,832
Cash and cash equivalents, end of period	\$ 190,996	\$ 80,132

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

Table of Contents

ENVISION HEALTHCARE CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(in thousands, unaudited)

	Quarter ended March 31,	
	2014	2013
Revenue, net of contractual discounts	\$ 1,858,494	\$ 1,605,248
Provision for uncompensated care	(844,283)	(716,924)
Net revenue	1,014,211	888,324
Compensation and benefits	743,661	641,789
Operating expenses	114,635	100,383
Insurance expense	30,981	25,833
Selling, general and administrative expenses	19,375	21,998
Depreciation and amortization expense	36,432	34,755
Restructuring charges	809	637
Income from operations	68,318	62,929
Interest income from restricted assets	86	366
Interest expense	(30,049)	(40,290)
Realized gains on investments	606	13
Other income (expense), net	334	(12,721)
Loss on early debt extinguishment		(122)
Income before income taxes and equity in earnings of unconsolidated subsidiary	39,295	10,175
Income tax expense	(17,055)	(7,134)
Income before equity in earnings of unconsolidated subsidiary	22,240	3,041
Equity in earnings of unconsolidated subsidiary	47	75
Net income	22,287	3,116
Less: Net loss attributable to noncontrolling interest	3,300	
Net income attributable to Envision Healthcare Corporation	\$ 25,587	\$ 3,116
Comprehensive income:		
Net income	\$ 22,287	\$ 3,116
Other comprehensive loss, net of tax:		
Unrealized holding losses during the period	(337)	(436)
Unrealized gains (losses) on derivative financial instruments	51	(298)
Total other comprehensive loss, net of tax	(286)	(734)
Comprehensive income	22,001	2,382
Less: Comprehensive loss attributable to noncontrolling interest	3,300	
Comprehensive income attributable to Envision Healthcare Corporation	\$ 25,301	\$ 2,382

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

Table of Contents

ENVISION HEALTHCARE CORPORATION

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

	March 31, 2014 (Unaudited)	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 109,274	\$ 122,990
Insurance collateral	19,442	29,619
Trade and other accounts receivable, net	840,940	801,146
Parts and supplies inventory	23,736	23,376
Prepays and other current assets	28,956	23,925
Total current assets	1,022,348	1,001,056
Non-current assets:		
Property, plant and equipment, net	190,935	194,715
Intangible assets, net	516,530	513,698
Insurance collateral	1,127	12,716
Goodwill	2,444,156	2,435,670
Other long-term assets	60,007	60,935
Total assets	\$ 4,235,103	\$ 4,218,790
Liabilities and Equity		
Current liabilities:		
Accounts payable	\$ 51,185	\$ 52,472
Accrued liabilities	379,879	357,979
Current deferred tax liabilities	55,951	55,799
Current portion of long-term debt	12,011	12,318
Total current liabilities	499,026	478,568
Long-term debt	1,892,272	1,895,381
Long-term deferred tax liabilities	151,353	151,258
Insurance reserves	151,792	175,427
Other long-term liabilities	16,721	16,997
Total liabilities	2,711,164	2,717,631
Commitment and contingencies		
Equity:		
Common stock (\$0.01 par value; 1,000 shares authorized, issued, and outstanding at March 31, 2014 and December 31, 2013)		
Treasury stock at cost	(1,347)	(1,347)
Additional paid-in capital	1,404,737	1,404,208
Retained earnings	109,694	84,107
Accumulated other comprehensive loss	(1,125)	(839)
Total Envision Healthcare Corporation equity	1,511,959	1,486,129
Noncontrolling interest	11,980	15,030
Total equity	1,523,939	1,501,159
Total liabilities and equity	\$ 4,235,103	\$ 4,218,790

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

Table of Contents

ENVISION HEALTHCARE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands, unaudited)

	Quarter ended March 31,	
	2014	2013
Cash Flows from Operating Activities		
Net income	\$ 22,287	\$ 3,116
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	39,667	38,372
(Gain) loss on disposal of property, plant and equipment	(1,981)	39
Equity-based compensation expense	1,062	1,062
Excess tax benefits from equity-based compensation	(14,790)	(8)
Loss on early debt extinguishment		122
Equity in earnings of unconsolidated subsidiary	(47)	(75)
Dividends received	430	556
Deferred income taxes	928	(740)
Changes in operating assets/liabilities, net of acquisitions:		
Trade and other accounts receivable	(35,429)	(41,351)
Parts and supplies inventory	(327)	(50)
Prepays and other current assets	(5,268)	(2,548)
Accounts payable and accrued liabilities	35,221	12,294
Insurance accruals	(11,533)	(4,218)
Net cash provided by operating activities	30,220	6,571
Cash Flows from Investing Activities		
Purchases of marketable investment securities	(2,458)	(159)
Sales and maturities of marketable investment securities	8,160	448
Purchases of property, plant and equipment	(10,714)	(10,493)
Proceeds from sale of property, plant and equipment	2,156	197
Acquisition of businesses, net of cash received	(35,791)	(1,423)
Net change in insurance collateral	1,200	7,362
Other investing activities	(2,526)	(702)
Net cash used in investing activities	(39,973)	(4,770)
Cash Flows from Financing Activities		
Issuance of common stock		691
Borrowings under the Term Loan		150,000
Borrowings under the ABL Facility		56,940
Repayments of the Term Loan	(3,343)	(3,343)
Repayments of the ABL Facility		(181,940)
Debt issue costs		(4,411)
Excess tax benefits from equity-based compensation	14,790	8
Shares repurchased for tax withholdings	(14,430)	
Proceeds from noncontrolling interest	250	
Net change in bank overdrafts		2,883
Other financing activities	(1,230)	(329)
Net cash (used in) provided by financing activities	(3,963)	20,499
Change in cash and cash equivalents	(13,716)	22,300
Cash and cash equivalents, beginning of period	122,990	57,551
Cash and cash equivalents, end of period	\$ 109,274	\$ 79,851

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

Table of Contents

ENVISION HEALTHCARE HOLDINGS, INC.

ENVISION HEALTHCARE CORPORATION

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. General

Basis of Presentation of Financial Statements

Envision Healthcare Holdings, Inc. (Holding) indirectly owns all of the outstanding common stock of Envision Healthcare Corporation (Corporation). In June 2013, CDRT Holding Corporation s name was changed to Envision Healthcare Holdings, Inc. and Emergency Medical Services Corporation s name was changed to Envision Healthcare Corporation.

The accompanying interim consolidated financial statements for Holding and Corporation 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, the consolidated financial statements of Holding and Corporation (together the Company or EVHC) include all normal recurring adjustments necessary for a fair presentation of the periods presented. Operating results for interim periods are not necessarily indicative of the results that may be expected for the full year ending December 31, 2014. For further information on Holding s and Corporation s significant accounting policies and other information, see Holding s and Corporation s consolidated financial statements, including the accounting policies and notes thereto for the year ended December 31, 2013, which includes all disclosures required by GAAP, included in Holding s and Corporation s Annual Report on Form 10-K for the year ended December 31, 2013.

On July 29, 2013, Holding effected a 9.3 for 1.0 stock split of Holding s common stock, resulting in 132,082,885 shares of common stock issued, not including 504,197 treasury shares. The accompanying consolidated financial statements give retroactive effect to the stock split for all periods presented.

On August 13, 2013, Holding s registration statement (the Registration Statement) for an initial public offering of its common stock, par value \$0.01 per share (Common Stock) was declared effective. On February 5, 2014, Holding registered the offering and sale of 31,625,000 shares of Common Stock (including shares sold pursuant to the underwriters option to purchase additional shares) by certain stockholders of Holding at a public offering price of \$30.50 per share. See Note 2 for further information on Holding s public offerings and its equity.

The Company s business is conducted primarily through two operating subsidiaries, EmCare Holdings, Inc. (EmCare), its facility-based physician services segment, and American Medical Response, Inc. (AMR), its medical transportation services segment.

2. Summary of Significant Accounting Policies

Consolidation

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

Use of Estimates

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

Insurance Collateral

Insurance collateral is comprised of investments in U.S. Treasuries and marketable equity and debt securities held by the Company's captive insurance subsidiary that support 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. These investments are designated as available-for-sale and reported at fair value with the related temporary

Table of Contents

unrealized gains and losses reported as a separate component of accumulated other comprehensive income, net of deferred income tax. Declines in the fair value of a marketable investment security which are determined to be other-than-temporary are recognized in the statements of operations, thus establishing a new cost basis for such investment. Investment income earned on these investments is reported as interest income from restricted assets in the statements of operations.

Realized gains and losses are determined based on an average cost basis.

Additionally, insurance collateral is comprised of cash deposits with third parties. Insurance collateral also includes a receivable from insurers of \$1.8 million and \$1.3 million as of March 31, 2014 and December 31, 2013, respectively, for liabilities in excess of the Company's self-insured retention.

Trade and Other Accounts Receivable, net

The Company estimates its allowances based on payor reimbursement schedules, historical collections and write-off experience and other economic data. The Company's billing systems do not provide contractual allowances or uncompensated care reserves on outstanding patient accounts. The allowance for uncompensated care is related principally to receivables recorded for self-pay patients and is not recorded on specific accounts due to the volume and variability of individual patient receivable collections. While the billing systems do not specifically record the allowance for doubtful accounts to individual accounts owed or specific payor classifications, the portion of the allowance for uncompensated care associated with fee for service charges as of December 31, 2013 was equal to approximately 87% and 89% of outstanding self-pay receivables for EmCare and AMR, respectively, consistent with the Company's collection history. Account balances are charged off against the uncompensated care allowance when it is probable the receivable will not be recovered and to the contractual allowance when payment is received. The Company's accounts receivable and allowances as of March 31, 2014 and December 31, 2013 were as follows (in thousands):

	March 31, 2014	December 31, 2013
Gross trade accounts receivable	\$ 4,153,929	\$ 3,841,672
Allowance for contractual discounts	(2,193,183)	(2,002,704)
Allowance for uncompensated care	(1,121,079)	(1,038,833)
Net trade accounts receivable	839,667	800,135
Other receivables, net	1,273	1,011
Net accounts receivable	\$ 840,940	\$ 801,146

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

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

AMR contractual allowances are determined primarily on payor reimbursement schedules that are included and regularly updated in the billing systems, and by historical collection experience. The billing systems calculate the difference between payor specific gross billings and contractually agreed to, or governmentally driven, reimbursement rates. The allowance for uncompensated care at AMR is related principally to receivables recorded for self-pay patients. AMR's allowances on self-pay accounts receivable are estimated on claim level, historical write-off experience.

Business Combinations

Assets and liabilities of an acquired business are recorded at their fair values at the date of acquisition. The excess of the acquisition consideration over the estimated fair values is recorded as goodwill. All acquisition costs are expensed as incurred. While the Company uses its best estimates and assumptions as a part of the acquisition consideration allocation process to accurately value assets acquired and liabilities assumed at the acquisition date, the estimates are inherently uncertain and subject to refinement. As a result, during the measurement period the Company may record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. Upon the conclusion of the measurement period any subsequent adjustments are recorded as expense.

Table of Contents

Insurance Reserves

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 liability programs for both EmCare and AMR. In those instances where the Company has obtained third-party insurance coverage, the Company normally retains liability for the first \$1 to \$3 million of the loss. Insurance reserves cover known claims and incidents within the level of Company retention that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from activities through the balance sheet date.

The Company establishes reserves for claims based upon an assessment of actual claims and claims incurred but not reported. The reserves are established based on quarterly consultation with third-party independent actuaries using actuarial principles and assumptions that consider a number of factors, including historical claim payment patterns and legal costs, and changes in case reserves and the assumed rate of inflation in healthcare costs and property damage repairs. Claims, other than general liability claims, are discounted at a rate of 1.5%. General liability claims are not discounted.

The Company's most recent actuarial valuation was completed in March 2014. As a result of this and previous actuarial valuations, the Company recorded increases in its provisions for insurance liabilities of \$5.2 million during the three month period ended March 31, 2014 compared to decreases of \$1.2 million for three month period ended March 31, 2013, related to reserves for losses in prior years.

The long-term portion of insurance reserves was \$151.8 million and \$175.4 million as of March 31, 2014 and December 31, 2013, respectively.

Equity Structure and Public Offerings ***Holding***

On August 13, 2013, Holding's Registration Statement was declared effective by the Securities and Exchange Commission (the "SEC") for an initial public offering of its Common Stock. Holding registered the offering and sale of 42,000,000 shares of Common Stock and an additional 6,300,000 shares of Common Stock sold to the underwriters pursuant to their option to purchase additional shares at a price of \$23 per share. On August 19, 2013, Holding completed the offering of 48,300,000 shares of Common Stock, at a price of \$23 per share, for an aggregate offering price of \$1,110.9 million, and the offering terminated. At the closing, Holding received net proceeds of approximately \$1,025.9 million, after deducting the underwriters' discounts and commissions paid and offering expenses of approximately \$85.0 million, including a \$20.0 million payment to Clayton, Dubilier & Rice, LLC ("CD&R") in connection with the termination of a consulting agreement with Holding and Corporation ("Consulting Agreement") which was recorded in the third quarter of 2013 to selling, general and administrative expenses in the statements of operations, see Note 13.

Net proceeds from the initial public offering were used to (i) redeem in full Holding's Senior PIK Toggle Notes due 2017 for a total of \$479.6 million, which included a call premium pursuant to the indenture governing the Senior PIK Toggle Notes due 2017 and all accrued but unpaid interest, (ii) pay CD&R the fee of \$20.0 million to terminate the Consulting Agreement, (iii) pay \$16.5 million to repay all outstanding revolving credit facility borrowings, and (iv) redeem \$332.5 million of aggregate principal amount of Corporation's senior unsecured notes due 2019 and all accrued but unpaid interest. The remaining proceeds were used for general corporate purposes which included, among other things, repayment of indebtedness and acquisitions.

On February 5, 2014, Holding registered the offering and sale of 27,500,000 shares of Common Stock by certain stockholders of Holding and an additional 4,125,000 shares of Common Stock, which were sold by investment funds sponsored by, or affiliated with, CD&R (the CD&R Affiliates) to the underwriters pursuant to their option to purchase additional shares at \$30.50 per share less the underwriting discount. The CD&R Affiliates, certain executive officers and directors of Holding and certain non-executives were the selling stockholders in the offering. Holding did not receive any of the proceeds from the sale of the shares being sold by the selling stockholders, including any shares sold pursuant to any exercise of the underwriters' option to purchase additional shares.

Financial Instruments and Concentration of Credit Risk

The Company's cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, insurance collateral, other than current portion of self-insurance estimates, long-term debt and long-term liabilities, other than self-insurance estimates, constitute financial instruments. Based on management's estimates, the carrying value of cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximates fair value as of March 31, 2014 and December 31, 2013. Concentration of credit risks in accounts receivable is limited, due to the large number of customers comprising the Company's

Table of Contents

customer base throughout the United States. A significant component of the Company's revenue is derived from Medicare and Medicaid. Given that these are government programs, the credit risk for these customers is considered low. The Company performs ongoing credit evaluations of its other customers, but does not require collateral to support customer accounts receivable. The Company establishes an allowance for uncompensated care based on the credit risk applicable to particular customers, historical trends and other relevant information. For the three months ended March 31, 2014 and 2013, the Company derived approximately 27% and 28%, respectively, of its revenue from Medicare and Medicaid, 70% and 68%, respectively, from insurance providers and contracted payors, and 3% and 4%, respectively, directly from patients.

The Company estimates the fair value of its fixed rate senior notes based on quoted market prices (Level 1). The estimated fair value of the senior notes as of March 31, 2014 was approximately \$650.7 million with a carrying value of \$607.8 million. The Company's captive insurance subsidiary holds \$9.8 million of the senior notes as of March 31, 2014 which has been excluded from the carrying value stated above.

Fair Value Measurement

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

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

Level 1 Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. The Company does not adjust the quoted price for these assets or liabilities, which include investments held in connection with the Company's captive insurance program.

Level 2 Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Balances in this category include fixed income mortgage backed securities, corporate bonds, and derivatives.

Level 3 Pricing inputs are unobservable as of the reporting date and reflect the Company's own assumptions about the fair value of the asset or liability. Balances in this category include the Company's estimate, using a combination of internal and external fair value analyses, of contingent consideration for acquisitions described in Note 4.

The following table summarizes the valuation of the Company's financial instruments by the above fair value hierarchy levels as of March 31, 2014 and December 31, 2013 (in thousands):

Edgar Filing: Envision Healthcare Holdings, Inc. - Form 10-Q

Description	March 31, 2014			Total
	Level 1	Level 2	Level 3	
Assets:				
Available-for-sale securities (insurance collateral)	\$ 7,016	\$ 515	\$	\$ 7,531
Fuel hedge		401		401
Liabilities:				
Contingent consideration			1,734	1,734
Interest rate swap		2,735		2,735

Description	December 31, 2013			Total
	Level 1	Level 2	Level 3	
Assets:				
Available-for-sale securities (insurance collateral)	\$ 12,710	\$ 517	\$	\$ 13,227
Fuel hedge		672		672
Liabilities:				
Contingent consideration			7,734	7,734
Interest rate swap		3,135		3,135

The contingent consideration balance classified as a Level 3 liability has decreased by \$6.0 million since December 31, 2013 primarily due to payments made.

Table of Contents

During the three months ended March 31, 2014 and 2013, we had no transfers in and out of Level 1 and Level 2 fair value measurements.

Revenue Recognition

Revenue is recognized at the time of service and is recorded net of provisions for contractual discounts and estimated uncompensated care. Fee-for-service revenue represents billings for services provided to patients, for which the Company receives payment from the patient or their third-party payor. Provisions for contractual discounts are related to differences between gross charges and specific payor, including governmental, reimbursement schedules. Provisions for estimated uncompensated care, or bad debt expense, are related principally to the number of self-pay patients treated in the period and are based primarily on historical collection experience to reduce revenues net of contractual discounts to the estimated amounts the Company expects to collect. Subsidy and fee revenue primarily represent hospital subsidies and fees at EmCare and fees for stand-by, special event and community subsidies at AMR.

The majority of the patients the Company treats are for the provision of emergency care in the pre-hospital and hospital settings. Due to federal government regulations governing the provision of such care, the Company is obligated to provide emergency care regardless of the patient's ability to pay or whether or not the patient has insurance or other third-party coverage for the costs of the services rendered. While the Company attempts to obtain all relevant billing information at the time the patient is within our care, there are numerous patient encounters where such information is not available. In such cases, the Company's billing operations will initially classify these patients as self-pay, with the applicable estimated allowance for uncompensated care, while they pursue collection of the account. Over the course of the first 30 to 60 days after these self-pay patients have been treated, the billing staff may identify the appropriate insurance or other third-party payor and re-assign the account from a self-pay payor classification to the appropriate payor. Depending on the final payor determination, the allowances for uncompensated care and contractual discounts will be adjusted accordingly. For accounts that remain classified as self-pay, the billing protocols and systems will generate bills and notifications generally for 90 to 120 days. If no collection or additional information is received from the patient, the account is written-off and sent to a collection agency. The Company's revenue recognition models, which are reviewed and updated on a monthly basis, consider these events in determining the collectability of accounts receivable.

Net revenue for the three month periods ended March 31, 2014 and 2013 consisted of the following (in thousands):

	Quarter ended	
	March 31,	
	2014	2013
Fee-for-service revenue, net of contractals:		
Medicare	\$ 250,312	\$ 233,874
Medicaid	55,817	51,214
Commercial insurance and managed care	645,183	560,191
Self-pay	724,507	629,256
Sub-total	1,675,819	1,474,535
Subsidies and fees	182,675	130,713
Revenue, net of contractals	1,858,494	1,605,248
Provision for uncompensated care	(844,283)	(716,924)
Net revenue	\$ 1,014,211	\$ 888,324

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

Edgar Filing: Envision Healthcare Holdings, Inc. - Form 10-Q

from third-party payors. In addition, third-party payors may disallow, in whole or in part, claims for payment based on determinations that certain amounts are not reimbursable under plan coverage, determinations of medical necessity, or the need for additional information. Laws and regulations governing the Medicare and Medicaid programs are very complex and subject to interpretation. Revenue is recognized on an estimated basis in the period in which related services are rendered. As a result, there is a reasonable possibility that recorded estimates will change materially in the short-term. Such amounts, including adjustments between provisions for contractual discounts and uncompensated care, are adjusted in future periods, as adjustments become known. These adjustments in the aggregate increased the contractual discount and uncompensated care provisions (decreased net revenue) by approximately \$1.1 million for the three months ended March 31, 2014 and decreased the contractual discount and uncompensated provisions (increased net revenue) by approximately \$2.1 million for the three months ended March 31, 2013.

Table of Contents

The Company 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 care regardless of their ability to pay. Services to these patients are not considered to be charity care and provisions for uncompensated care for these services are estimated accordingly.

3. Basic and Diluted Net Income (Loss) Per Share

Holding presents both basic earnings per share (EPS) and diluted EPS. Basic EPS excludes potential dilution and is computed by dividing Net income (loss) attributable to Envision Healthcare Holdings, Inc. by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if stock awards were exercised. The potential dilution from stock awards was computed using the treasury stock method based on the average market value of Holding's common stock. The following table presents EPS amounts for all periods and the basic and diluted weighted-average shares outstanding used in the calculation (in thousands, except share and per share amounts).

	Quarter ended	
	March 31,	
	2014	2013
Net income (loss) attributable to Envision Healthcare Holdings, Inc.	\$ 24,825	\$ (3,847)
Weighted-average common shares outstanding common stock:		
Basic	180,782,025	130,696,421
Dilutive impact of stock awards outstanding	8,609,587	
Diluted	189,391,612	130,696,421
Earnings per share common stock:		
Basic net income (loss) per share attributable to Envision Healthcare Holdings, Inc.	\$ 0.14	\$ (0.03)
Diluted net income (loss) per share attributable to Envision Healthcare Holdings, Inc.	\$ 0.13	\$ (0.03)

Holding had a net loss for the three months ended March 31, 2013, therefore, the effect of stock awards to purchase common stock of 3,930,872 is excluded from the computations of diluted loss per share since the effect is anti-dilutive. As of March 31, 2014 and 2013, there were no stock awards of common stock outstanding excluded from the weighted-average common shares outstanding above.

4. Acquisitions2014 Acquisitions

The Company completed the acquisitions of Life Line Ambulance Service, Inc., an emergency medical transportation service provider with operations in Arizona, on February 6, 2014 and MedStat EMS, Inc., an emergency and non-emergency medical ground transportation service provider with operations in Mississippi, on March 7, 2014 for total aggregate purchase consideration of approximately \$36.2 million paid in cash.

The Company has accounted for these acquisitions using the acquisition method of accounting, whereby the total purchase price was allocated to the acquired identifiable net assets based on assessments of their respective fair values, and the excess of the purchase price over the fair values of these identifiable net assets was allocated to goodwill. The total purchase price for these acquisitions was allocated to goodwill of \$15.9 million, \$9.9 million of which is tax deductible goodwill, other acquired intangible assets of \$15.0 million, and net current assets of \$5.3 million, which are subject to adjustment based upon the completion of purchase price allocations.

2013 Acquisitions

During the year ended December 31, 2013, indirect, wholly-owned subsidiaries of the Company completed the acquisitions of CMORx, LLC and Loya Medical Services, PLLC, which provide clinical management software, each of T.M.S. Management Group, Inc. and Transportation Management Services of Brevard, Inc., two related corporations that leverage the provision of non-emergency medical transportation services by third-party transportation service providers, Jackson Emergency Consultants, which provides facility based physician staffing in northern Florida, and other smaller acquisitions for a combined purchase price of \$34.2 million paid in cash.

Table of Contents

The Company has accounted for these acquisitions using the acquisition method of accounting, whereby the total purchase price was allocated to the acquired identifiable net assets based on assessments of their respective fair values, and the excess of the purchase price over the fair values of these identifiable net assets was allocated to goodwill. During the first quarter of 2014, the Company made purchase price allocation adjustments including a reclassification from goodwill to intangible assets of \$7.4 million. The total purchase price for these acquisitions was allocated to goodwill of \$18.8 million, all of which is tax deductible goodwill, other acquired intangible assets of \$16.9 million, and net current liabilities of \$1.5 million, which are subject to adjustment based upon the completion of purchase price allocations.

5. Insurance Collateral

Insurance collateral consisted of the following as of March 31, 2014 and December 31, 2013 (in thousands):

	March 31, 2014	December 31, 2013
Available-for-sale securities:		
U.S. Treasuries	\$ 2,113	\$ 2,100
Corporate bonds / Fixed income	3,346	6,372
Corporate equity	2,072	4,755
Total available-for-sale securities	7,531	13,227
Insurance receivable	1,796	1,300
Cash deposits and other	11,242	27,808
Total insurance collateral	\$ 20,569	\$ 42,335

Amortized cost basis and aggregate fair value of the Company's available-for-sale securities as of March 31, 2014 and December 31, 2013 were as follows (in thousands):

Description	March 31, 2014				Fair Value
	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses		
U.S. Treasuries	\$ 2,077	\$ 37	\$ (1)	\$	2,113
Corporate bonds / Fixed income	3,316	31	(1)		3,346
Corporate equity	2,095	15	(38)		2,072
Total available-for-sale securities	\$ 7,488	\$ 83	\$ (40)	\$	7,531

Description	December 31, 2013				Fair Value
	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses		
U.S. Treasuries	\$ 2,063	\$ 37	\$	\$	2,100
Corporate bonds / Fixed income	6,385	26	(39)		6,372
Corporate equity	4,399	500	(144)		4,755
Total available-for-sale securities	\$ 12,847	\$ 563	\$ (183)	\$	13,227

Edgar Filing: Envision Healthcare Holdings, Inc. - Form 10-Q

As of March 31, 2014, available-for-sale securities included U.S. Treasuries and corporate bonds / fixed income securities of \$0.9 million with contractual maturities within one year, \$3.3 million with contractual maturities extending longer than one year through five years and \$1.3 million with contractual maturities extending longer than five years through and including ten years. Actual maturities may differ from contractual maturities as a result of the Company's ability to sell these securities prior to maturity.

Table of Contents

The Company's temporarily impaired investment securities available-for-sale as of March 31, 2014 and December 31, 2013 were as follows (in thousands):

	March 31, 2014		December 31, 2013	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasuries:				
Less than 12 months	\$ 133	\$ (1)	\$ 132	\$ (1)
12 months or more				
Corporate bonds / Fixed income:				
Less than 12 months	853	(1)	2,768	(18)
12 months or more			2,178	(20)
Corporate equity:				
Less than 12 months	1,104	(38)		
12 months or more			2,553	(144)
Total	\$ 2,090	\$ (40)	\$ 7,631	\$ (183)

The Company realized net gains of \$0.6 million and \$13 thousand on the sale and maturities of available-for-sale securities for the three months ended March 31, 2014 and 2013, respectively.

6. Accrued Liabilities

Accrued liabilities were as follows as of March 31, 2014 and December 31, 2013 (in thousands):

	March 31, 2014	December 31, 2013
Accrued wages and benefits	\$ 173,823	\$ 161,398
Accrued paid time-off	29,367	25,713
Current portion of self-insurance reserves	71,499	73,738
Accrued restructuring	4,972	5,682
Current portion of compliance and legal	3,558	2,000
Accrued billing and collection fees	2,929	2,954
Accrued incentive compensation	23,083	19,570
Accrued interest	17,921	6,898
Accrued income taxes	7,982	7,043
Other	44,745	52,983
Total accrued liabilities - Corporation	\$ 379,879	\$ 357,979
Accrued income taxes - adjustment for Holding	(8,309)	(7,043)
Total accrued liabilities - Holding	\$ 371,570	\$ 350,936

7. Long-Term Debt

Senior Unsecured Notes due 2019

On May 25, 2011, Corporation issued \$950 million of senior unsecured notes due 2019 (2019 Notes). During the second quarter of 2012, Corporation's captive insurance subsidiary purchased \$15.0 million of the 2019 Notes through an open market transaction and currently holds \$9.8 million of the 2019 Notes subsequent to the partial redemption of the 2019 Notes on December 30, 2013.

On December 30, 2013, Corporation redeemed \$332.5 million in aggregate principal amount of the 2019 Notes of which \$5.2 million was held by the Company's captive insurance subsidiary at a redemption price of 108.125%, plus accrued and unpaid interest of \$2.2 million. During the fourth quarter of 2013, Corporation recorded a loss on early debt extinguishment of \$38.7 million related to premiums and unamortized debt issuance costs from the redemption of the 2019 Notes.

The 2019 Notes have a fixed interest rate of 8.125%, payable semi-annually with the principal due at maturity in 2019. The 2019 Notes are general unsecured obligations of Corporation and are guaranteed by each of Corporation's domestic subsidiaries,

Table of Contents

except for any of Corporation's subsidiaries subject to regulation as an insurance company, including Corporation's captive insurance subsidiary.

The Company may redeem the 2019 Notes, in whole or in part, at any time prior to June 1, 2014, at a price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date, plus the applicable make-whole premium. The Company may redeem the 2019 Notes, in whole or in part, at any time (i) on and after June 1, 2014 and prior to June 1, 2015, at a price equal to 106.094% of the principal amount of the 2019 Notes, (ii) on or after June 1, 2015 and prior to June 1, 2016, at a price equal to 104.063% of the principal amount of the 2019 Notes, (iii) on or after June 1, 2016 and prior to June 1, 2017, at a price equal to 102.031% of the principal amount of the 2019 Notes, and (iv) on or after June 1, 2017, at a price equal to 100.000% of the principal amount of the 2019 Notes, in each case, plus accrued and unpaid interest, if any, to the redemption date. In addition, at any time prior to June 1, 2014, the Company may redeem up to 35% of the aggregate principal amount of the 2019 Notes with the proceeds of certain equity offerings at a redemption price of 108.125%, plus accrued and unpaid interest, which it exercised on December 30, 2013 by redeeming \$332.5 million in principal amount.

The indenture governing the 2019 Notes contains covenants that, among other things, limit Corporation's ability and the ability of its restricted subsidiaries to: incur more indebtedness or issue certain preferred shares; pay dividends, redeem stock or make other distributions; make investments; create restrictions on the ability of its restricted subsidiaries to pay dividends to Corporation or make other intercompany transfers; create liens; transfer or sell assets; merge or consolidate; enter into certain transactions with affiliates; and designate subsidiaries as unrestricted subsidiaries. Upon the occurrence of certain events constituting a change of control, Corporation is required to make an offer to repurchase all of the 2019 Notes (unless otherwise redeemed) at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any to the repurchase date. If Corporation sells assets under certain circumstances, it must use the proceeds to make an offer to purchase the 2019 Notes at a price equal to 100% of their principal amount, plus accrued and unpaid interest, if any, to the date of purchase.

Senior Secured Credit Facilities

On May 25, 2011, Corporation entered into \$1.8 billion of senior secured credit facilities (Senior Secured Credit Facilities) that consisted of a \$1.44 billion senior secured term loan facility due 2018 (the Term Loan Facility) and a \$350 million asset-backed revolving credit facility due 2016 (the ABL Facility). The Senior Secured Credit Facilities are secured by substantially all of the assets of corporation.

Term Loan Facility

Prior to February 7, 2013, loans under the Term Loan Facility bore interest at Corporation's election at a rate equal to (i) the highest of (x) the rate for deposits in U.S. dollars in the London interbank market (adjusted for maximum reserves) for the applicable interest period (Term Loan LIBOR) and (y) 1.50%, plus, in each case, 3.75%, or (ii) the base rate, which will be the highest of (w) the corporate base rate established by the administrative agent from time to time, (x) 0.50% in excess of the overnight federal funds rate, (y) the one-month Term Loan LIBOR (adjusted for maximum reserves) plus 1.00% per annum and (x) 2.50%, plus, in each case, 2.75%.

On February 7, 2013, Corporation, the borrower under the Term Loan Facility, entered into a First Amendment (the Term Loan Amendment) to the credit agreement governing the Term Loan Facility (as amended, the Term Loan Credit Agreement). Under the Term Loan Amendment, Corporation incurred an additional \$150 million in incremental borrowings under the Term Loan Facility, the proceeds of which were used to pay down the ABL Facility. In addition, the rate at which the loans under the Term Loan Credit Agreement bear interest was amended to equal

Edgar Filing: Envision Healthcare Holdings, Inc. - Form 10-Q

(i) the higher of (x) LIBOR and (y) 1.00%, plus, in each case, 3.00% (with a step-down to 2.75% in the event that Corporation meets a consolidated first lien net leverage ratio of 2.50:1.00), or (ii) the alternate base rate, which will be the highest of (w) the corporate base rate established by the administrative agent from time to time, (x) 0.50% in excess of the overnight federal funds rate, (y) the one-month LIBOR (adjusted for maximum reserves) plus 1.00% and (z) 2.00%, plus, in each case, 2.00% (with a step-down to 1.75% in the event that Corporation meets a consolidated first lien net leverage ratio of 2.50:1.00). Corporation recorded a loss on early debt extinguishment of \$0.1 million related to unamortized debt issuance costs as a result of this modification.

The credit agreement governing the Term Loan Facility contains customary representations and warranties and customary affirmative and negative covenants. The negative covenants are limited to the following: limitations on the incurrence of debt, liens, fundamental changes, restrictions on subsidiary distributions, transactions with affiliates, further negative pledge, asset sales, restricted payments, investments and acquisitions, repayment of certain junior debt (including the senior notes) or amendments of junior debt documents related thereto and line of business. The negative covenants are subject to the customary exceptions.

Table of Contents

ABL Facility

Prior to February 27, 2013, loans under the ABL Facility bore interest at Corporation's election at a rate equal to (i) the rate for deposits in U.S. dollars in the London interbank market (adjusted for maximum reserves) for the applicable interest period (ABL LIBOR), plus an applicable margin that ranges from 2.25% to 2.75% based on the average available loan commitments, or (ii) the base rate, which is the highest of (x) the corporate base rate established by the administrative agent from time to time, (y) the overnight federal funds rate plus 0.5% and (z) the one-month ABL LIBOR plus 1.0% per annum, plus, in each case, an applicable margin that ranges from 1.25% to 1.75% based on the average available loan commitments.

On February 27, 2013, Corporation entered into a First Amendment to the credit agreement governing the ABL Facility (as amended, the ABL Credit Agreement), under which Corporation increased its commitments under the ABL Facility to \$450 million and extended the term to 2018. In addition, the rate at which the loans under the ABL Credit Agreement bear interest was amended to equal (i) LIBOR plus, (x) 2.00% in the event that average daily excess availability is less than or equal to 33% of availability, (y) 1.75% in the event that average daily excess availability is greater than 33% but less than or equal to 66% of availability and (z) 1.50% in the event that average daily excess availability is greater than 66% of availability, or (ii) the alternate base rate, which will be the highest of (x) the corporate base rate established by the administrative agent from time to time, (y) 0.50% in excess of the overnight federal funds rate and (z) the one-month LIBOR (adjusted for maximum reserves) plus 1.00% plus, in each case, (A) 1.00% in the event that average daily excess availability is less than or equal to 33% of availability, (B) 0.75% in the event that average daily excess availability is greater than 33% but less than or equal to 66% of availability and (C) 0.50% in the event that average daily excess availability is greater than 66% of availability.

The ABL Facility bears a commitment fee that ranges from 0.500% to 0.375%, payable quarterly in arrears, based on the utilization of the ABL Facility. The ABL Facility also bears customary letter of credit fees.

As of March 31, 2014, letters of credit outstanding which impact the available credit under the ABL Facility were \$132.5 million and the maximum available under the ABL Facility was \$317.5 million.

The credit agreement governing the ABL Facility contains customary representations and warranties and customary affirmative and negative covenants. The negative covenants are limited to the following: limitations on indebtedness, dividends and distributions, investments, acquisitions, prepayments or redemptions of junior indebtedness, amendments of junior indebtedness, transactions with affiliates, asset sales, mergers, consolidations and sales of all or substantially all assets, liens, negative pledge clauses, changes in fiscal periods, changes in line of business and hedging transactions. The negative covenants are subject to the customary exceptions and also permit the payment of dividends and distributions, investments, permitted acquisitions and payments or redemptions of junior indebtedness upon satisfaction of a payment condition. The payment condition is deemed satisfied upon 30-day average excess availability exceeding agreed upon thresholds and, in certain cases, the absence of specified events of default and compliance with a fixed charge coverage ratio of 1.0 to 1.0.

In the first quarter of 2013, Corporation recorded \$5.0 million of debt issuance expense related to the Term Loan Amendment and ABL Amendment.

Senior PIK Toggle Notes

On October 1, 2012, Holding issued \$450 million of Senior PIK Toggle Notes due 2017 (the PIK Notes) and used the proceeds from the offering to pay an extraordinary dividend to its stockholders, pay debt issuance costs and make certain payments to members of management with rollover options in Holding. Cash interest accrues on these notes at a rate of 9.25% payable semi-annually on April 1 and October 1 commencing on April 1, 2013. PIK interest accrues on these notes at a rate of 10.0%. The Holding PIK Notes are Holding s senior unsecured indebtedness and are not guaranteed by any of its subsidiaries.

On August 30, 2013, Holding redeemed all of the PIK Notes at a redemption price equal to 102.75% of the aggregate principal amount of the PIK Notes, plus accrued and unpaid interest of \$17.2 million. During the third quarter of 2013, Holding recorded a loss on early debt extinguishment of \$29.5 million related to premiums and unamortized debt issuance costs from the redemption of the PIK Notes.

Table of Contents

Long-term debt and capital leases consisted of the following as of March 31, 2014 and December 31, 2013 (in thousands):

	March 31,	December 31,
	2014	2013
Senior unsecured notes due 2019	\$ 607,750	\$ 607,750
Senior secured term loan due 2018 (4.00% at March 31, 2014 and December 31, 2013)	1,299,603	1,302,945
Discount on senior secured term loan	(3,951)	(4,217)
ABL Facility		
Notes due at various dates from 2014 to 2022 with interest rates from 6% to 10%	511	852
Capital lease obligations due at various dates from 2014 to 2018	370	369
Total	1,904,283	1,907,699
Less current portion	(12,011)	(12,318)
Total long-term debt	\$ 1,892,272	\$ 1,895,381

8. Derivative Instruments and Hedging Activities

The Company manages its exposure to changes in fuel prices and interest rates and, from time to time, uses highly effective derivative instruments to manage well-defined risk exposures. The Company monitors its positions and the credit ratings of its counterparties and does not anticipate non-performance by the counterparties. The Company does not use derivative instruments for speculative purposes.

At March 31, 2014, the Company was party to a series of fuel hedge transactions with a major financial institution under one master agreement. Each of the transactions effectively fixes the cost of diesel fuel at prices ranging from \$3.63 to \$3.82 per gallon. The Company purchases the diesel fuel at the market rate and periodically settles with its counterparty for the difference between the national average price for the period published by the Department of Energy and the agreed upon fixed price. The transactions fix the price for a total of 1.9 million gallons, which represents approximately 25.2% of the Company's total estimated usage during the periods hedged, through December 2014. The Company recorded, as a component of other comprehensive income before applicable tax impacts, an asset associated with the fair value of the fuel hedge in the amount of \$0.4 million and \$0.7 million as of March 31, 2014 and December 31, 2013, respectively. Over the next 12 months, the Company expects to reclassify \$0.4 million of deferred gain from accumulated other comprehensive income as the related fuel hedge transactions mature. Settlement of hedge agreements are included in operating expenses and resulted in net receipts from the counterparty of \$0.2 million and \$0.2 million for the three months ended March 31, 2014 and 2013, respectively.

In October 2011, the Company entered into interest rate swap agreements which mature on August 31, 2015. The swap agreements are with major financial institutions and effectively convert a total of \$400 million in variable rate debt to fixed rate debt with an effective rate of 4.49%. The Company will continue to make interest payments based on the variable rate associated with the debt (based on LIBOR, but not less than 1.0%) and will periodically settle with its counterparties for the difference between the rate paid and the fixed rate. The Company recorded, as a component of other comprehensive income before applicable tax impacts, a liability associated with the fair value of the interest rate swap in the amount of \$2.7 million and \$3.1 million as of March 31, 2014 and December 31, 2013, respectively. Over the next 12 months, the Company expects to reclassify \$2.1 million of deferred loss from accumulated other comprehensive income to interest expense as the related interest rate swap transactions mature. Settlement of interest rate swap agreements are included in interest expense and resulted in net payments to the counterparties of \$0.5 million and \$0.5 million for the three months ended March 31, 2014 and 2013, respectively.

9. Changes in Accumulated Other Comprehensive Income by Component

The following table summarizes the changes in the Company's accumulated other comprehensive income by component as of March 31, 2014 and December 31, 2013. All amounts are after tax.

Table of Contents

	Fuel hedge	Interest rate swap	Unrealized holding gains on available-for-sale securities	Total
Balance as of January 1, 2013	\$ 1,057	\$ (2,861)	\$ 1,591	(213)
Other comprehensive income before reclassifications	(396)	(336)	(598)	(1,330)
Amounts reclassified from accumulated other comprehensive income	(241)	1,239	(294)	704
Net current-period other comprehensive income	(637)	903	(892)	(626)
Balance as of December 31, 2013	\$ 420	\$ (1,958)	\$ 699	\$ (839)
Other comprehensive income before reclassifications	(86)	(59)	41	(104)
Amounts reclassified from accumulated other comprehensive income	(113)	309	(378)	(182)
Net current-period other comprehensive income	(199)	250	(337)	(286)
Balance as of March 31, 2014	\$ 221	\$ (1,708)	\$ 362	\$ (1,125)

The following table shows the line item on the Consolidated Statements of Operations affected by reclassifications out of accumulated other comprehensive income.

Details about AOCI components	Amount reclassified from AOCI		Statements of Operations
	2014	Quarter ended March 31, 2013	
Gains and losses on cash flow hedges			
Fuel hedge	\$ 181	180	Operating expenses
Interest rate swap	(496)	(491)	Interest expense
	(315)	(311)	Total before tax
	119	117	Tax benefit (expense)
	\$ (196)	\$ (194)	Net of tax
Unrealized holding gains on available-for-sale securities	\$ 606	13	Realized gains (losses) on investments
	606	13	Total before tax
	(228)	(5)	Tax expense
	\$ 378	\$ 8	Net of tax

10. Restructuring Charges

The Company recorded a restructuring charge of \$0.8 million and \$0.6 million for the three months ended March 31, 2014 and 2013, respectively, related to continuing efforts to re-align AMR's operations and the reorganization of EmCare's geographic regions. Payments currently under this plan are expected to be complete by March 2015.

AMR EmCare Corporation

Edgar Filing: Envision Healthcare Holdings, Inc. - Form 10-Q

**Lease &
Other Contract
Termination**

	Costs	Severance	Severance (in thousands)	Severance	Total
Balance as of January 1, 2013	\$ 8,122	\$ 3,015	\$ 773	\$ 408	\$ 12,318
Incurred	1,876	2,890	913	20	5,699
Paid	(6,989)	(3,765)	(1,204)	(377)	(12,335)
Balance as of December 31, 2013	\$ 3,009	\$ 2,140	\$ 482	\$ 51	\$ 5,682
Incurred	738	(26)	97		809
Paid	(582)	(657)	(234)	(46)	(1,519)
Balance as of March 31, 2014	\$ 3,165	\$ 1,457	\$ 345	\$ 5	\$ 4,972

Table of Contents

11. Equity Based Compensation

Upon completion of Holding's initial public offering, the previous stock compensation plan (Stock Compensation Plan) terminated and the Envision Healthcare Holdings, Inc. 2013 Omnibus Incentive Plan (Omnibus Incentive Plan) was adopted pursuant to which options and awards with respect to a total of 16,708,289 shares of Common Stock are available for grant. As of March 31, 2014, a total of 16,607,028 shares remained available for grant under the Omnibus Incentive Plan. Awards under the Omnibus Incentive Plan include both performance and non-performance based awards. As of March 31, 2014, no grants of performance based awards under the Omnibus Incentive Plan had been made. Options are granted with exercise prices equal to the fair value of Holding's common stock at the date of grant. No participant may be granted in any calendar year awards covering more than 2.5 million shares of Common Stock or 1.5 million performance awards up to a maximum dollar value of \$5.0 million. Non-performance based awards vest ratably over five years. Performance based awards vest upon achievement of certain company-wide objectives. All options have 10 year terms.

Awards previously granted under the Stock Compensation Plan were unaffected by the termination of the Stock Compensation Plan; however no future grants will be made under the Stock Compensation Plan.

A compensation charge of \$1.1 million was recorded for shares vested for each of the three months ended March 31, 2014 and 2013.

12. Commitments and Contingencies

Lease Commitments

The Company leases various facilities and equipment under operating lease agreements. Rental expense incurred under these leases was \$11.3 million and \$11.1 million for the three months ended March 31, 2014 and 2013, respectively.

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

Services

The Company is subject to the Medicare and Medicaid fraud and abuse laws which prohibit, among other things, any false claims, or any bribe, kickback or rebate in return for the referral of Medicare and Medicaid patients. Violation of these prohibitions may result in civil and criminal penalties and exclusion from participation in the Medicare and Medicaid programs. Management has implemented policies and procedures that management believes will assure that the Company is in substantial compliance with these laws and regulations but there can be no assurance the Company will not be found to have violated certain of these laws and regulations. From time to time, the Company receives requests for

Edgar Filing: Envision Healthcare Holdings, Inc. - Form 10-Q

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 agencies in audits or investigations. The Company is cooperating with the government agencies conducting these investigations and is providing requested information to the government agencies. Other than the proceedings described below, management believes that the outcome of any of these investigations would not have a material adverse effect on the Company.

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 (i) whether ambulance transports involving Medicare eligible patients complied with the medical necessity requirement imposed by Medicare regulations, (ii) whether patient signatures, when required, were properly obtained from Medicare eligible patients, and (iii) whether discounts in violation of the federal Anti-Kickback Statute were provided by AMR in exchange for referrals involving Medicare eligible patients. In connection with the third issue, the government alleged that certain of AMR 's hospital and nursing home contracts in effect in Texas in periods prior to 2002 contained discounts in violation of the federal Anti-Kickback Statute. The Company negotiated a settlement with the government pursuant to which the Company paid \$9 million and obtained a release of all claims related to such conduct alleged to have occurred in Texas in periods prior to 2002. In connection with the settlement, AMR entered into a Corporate Integrity Agreement (CIA) which was effective for a period of five years beginning September 12, 2006, and which was released in February 2012.

Table of Contents

In December 2006, AMR received a subpoena from the DOJ. The subpoena requested copies of documents for the period from January 2000 through the present. The subpoena required AMR to produce a broad range of documents relating to the operations of certain AMR affiliates in New York. The Company produced documents responsive to the subpoena. The government identified claims for reimbursement that the government believes lack support for the level billed, and invited the Company to respond to the identified areas of concern. The Company reviewed the information provided by the government and provided its response. On May 20, 2011, AMR entered into a settlement agreement with the DOJ and a CIA with the Office of Inspector General of the Department of Health and Human Services (OIG) in connection with this matter. Under the terms of the settlement, AMR paid \$2.7 million to the federal government. In connection with the settlement, the Company entered into a CIA with a five- year period beginning May 20, 2011. Pursuant to this CIA, the Company is required to maintain a compliance program, which includes, among other elements, the appointment of a compliance officer and committee, training of employees nationwide, safeguards for its billing operations as they relate to services provided in New York, including specific training for operations and billing personnel providing services in New York, review by an independent review organization and reporting of certain reportable events. The Company entered into the settlement in order to avoid the uncertainties of litigation, and has not admitted any wrongdoing. In May 2013, a subsidiary of the Company entered into an agreement to divest substantially all the assets underlying AMR's services in New York, although the obligations of the Company's compliance program will remain in effect following the expected divestiture. The divestiture was completed on July 1, 2013.

In July 2011, AMR received a subpoena from the Civil Division of the U.S. Attorney's Office for the Central District of California (USAO) seeking certain documents concerning AMR's provision of ambulance services within the City of Riverside, California. The USAO indicated that it, together with the OIG, was investigating whether AMR violated the federal False Claims Act and/or the federal Anti-Kickback Statute in connection with AMR's provision of ambulance transport services within the City of Riverside. The California Attorney General's Office conducted a parallel state investigation for possible violations of the California False Claims Act. In December 2012, AMR was notified that both investigations were concluded and that the agencies had closed the matter. There were no findings made against AMR, and the closure of the matter did not require any payments from AMR.

Letters of Credit

As of March 31, 2014 and December 31, 2013, the Company had \$132.5 million in outstanding letters of credit.

Other Legal Matters

Four different lawsuits purporting to be class actions have been filed against AMR and certain subsidiaries in California alleging violations of California wage and hour laws. On April 16, 2008, Laura Barton commencing a suit in the Superior Court for the State of California, County of Alameda; on July 8, 2008, Vaughn Banta filed suit in the Superior Court of the State of California, County of Los Angeles; on January 22, 2009, Laura Karapetian filed suit in the Superior Court of the State of California, County of Los Angeles, and on March 11, 2010, Melanie Aguilar filed suit in Superior Court of the State of California, County of Los Angeles. The Banta, Aguilar and Karapetian cases have been coordinated in the Superior Court for the State of California, County of Los Angeles, and the Aguilar and Karapetian cases have subsequently been consolidated into a single action. Plaintiffs allege principally that the AMR entities failed to pay overtime wages pursuant to California law, and failed to provide required meal breaks, rest breaks or pay premium compensation for missed breaks. Plaintiffs are seeking to certify the classes and are seeking lost wages, penalties, attorneys' fees and other sanctions permitted under California law for violations of wage hour laws. At the present time, the courts have not certified classes in any of these cases. In a hearing on February 25, 2014 in the Banta and Aguilar/Karapetian cases, the court indicated that it intends to certify classes on some issues, and deny certification on some issues, but is has not signed an order to such effect. The Company is unable at this time to estimate the amount of potential damages, if any in any of these actions.

Edgar Filing: Envision Healthcare Holdings, Inc. - Form 10-Q

Merion Capital, L.P. (Merion), a former stockholder of Corporation, filed an action in the Delaware Court of Chancery on June 20, 2011 seeking to exercise its right to appraisal of its holdings in Corporation prior to the merger of Corporation with a wholly-owned subsidiary of Holding (the Merger) on May 25, 2011. During the first quarter of 2013, the Company expensed \$8.4 million of legal settlement costs and \$1.9 million of interest. On April 15, 2013, the Company paid \$52.1 million in a settlement of Merion 's appraisal action, in which Merion agreed to release its claims against the Company.

On August 7, 2012, EmCare received a subpoena from the OIG requesting copies of documents for the period from January 1, 2007 through the present that appears to primarily be focused on EmCare 's contracts for services at hospitals that are affiliated with Health Management Associates, Inc. (HMA). The Company has been cooperating with the government during its investigation and, as such, continues to gather responsive documents. During the months of December 2013 and January 2014, several lawsuits filed by whistleblowers on behalf of the federal and certain state governments against HMA have been unsealed;

Table of Contents

the Company is a named defendant in two of these lawsuits. Although the federal government intervened in these lawsuits in connection with certain of the allegations against HMA, the federal government has not, at this time, disclosed whether it will intervene in these matters as they relate to the Company. The Company continues to engage in meaningful dialogue with the relevant government representatives and, at this time, the Company is unable to determine the potential impact, if any, that will result from this investigation.

On February 5, 2013, Air Ambulance Specialists, Inc. received a subpoena from the Federal Aviation Administration seeking certain information from the Company relating to its operations as an indirect air carrier and its relationships with Part 135 direct air carriers. The Company responded to the subpoena in February 2013. The Federal Aviation Administration has made no further inquiries of the Company and the Company believes this matter is closed.

On February 14, 2013, EmCare received a subpoena from the OIG requesting documents and other information relating to EmCare's relationship with Community Health Services, Inc. (CHS). The Company is cooperating with the government during its investigation, has provided responsive documents, and is engaged in a meaningful dialogue with the relevant government representatives regarding additional requests. At this time, the Company is unable to determine the potential impact, if any, that will result from these investigations.

In November 2013, AMR received a subpoena from the New Hampshire Department of Insurance directed to American Medical Response of Massachusetts, Inc. The subpoena requested documents relating to ambulance services provided to approximately 150 patients residing in the state of New Hampshire who had been involved in motor vehicle accidents and who were ultimately transported by AMR. In addition, the subpoena requested information relating to any agreements for reimbursement between AMR and Progressive Insurance. The Company is cooperating with the Department during its investigation and, as such, is in the process of gathering responsive documents, formulating a response to the subpoena, and is seeking to engage in a meaningful dialogue with the relevant New Hampshire Department of Insurance and Attorney General's Office representatives. At this time, the Company is unable to determine the potential impact, if any, that will result from this investigation.

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

13. Related Party Transactions

CD&R Affiliates

Stockholders Agreement

In connection with Holding's initial public offering, Holding entered into a stockholders agreement (Stockholders Agreement) with CD&R Affiliates. Under the Stockholders Agreement, CD&R Affiliates were granted the right to designate for nomination for election a number of CD&R-designated directors equal to: (i) at least a majority of the total number of directors comprising the board of directors at such time as long as the CD&R Affiliates own at least 50% of the outstanding shares of Common Stock, (ii) at least 40% of the total number of directors

Edgar Filing: Envision Healthcare Holdings, Inc. - Form 10-Q

comprising the board of directors at such time as long as the CD&R Affiliates own at least 40% but less than 50% of the outstanding shares of Common Stock, (iii) at least 30% of the total number of directors comprising the board of directors at such time as long as the CD&R Affiliates own at least 30% but less than 40% of the outstanding shares of Common Stock, (iv) at least 20% of the total number of directors comprising the board of directors at such time as long as the CD&R Affiliates own at least 40% but less than 50% of the outstanding shares of Common Stock, and (v) at least 5% of the total number of directors comprising the board of directors at such time as long as the CD&R Affiliates own at least 5% but less than 20% of the outstanding shares of Common Stock. Additionally, a CD&R-designated director will serve as the Chairman of the board of directors as long as the CD&R Affiliates own at least 30% of the outstanding shares of Common Stock.

Consulting Agreement

Holding and Corporation were party to the Consulting Agreement with CD&R dated May 25, 2011, pursuant to which CD&R provided the Company and its subsidiaries with financial, investment banking, management, advisory and other services in exchange for an annual fee of \$5.0 million. The Company expensed \$1.3 million for the three months ended March 31, 2013 in respect of this fee.

Table of Contents

During the third quarter of 2013, the Company made a \$20.0 million payment to CD&R with proceeds received from the initial public offering of Common Stock of Holding to terminate the Consulting Agreement.

Registration Rights Agreement

In connection with the closing of the Merger, Holding entered into a registration rights agreement (*Registration Rights Agreement*) with the CD&R Affiliates which grants the CD&R Affiliates specified demand and piggyback registration rights with respect to Holding 's Common Stock. Under the Registration Rights Agreement, if Holding registers Common Stock under the Securities Act, holders of the Common Stock, including CD&R Affiliates, have the right to require Holding 's to use reasonable best efforts to include in Holding 's registration statement shares of Common Stock held by them, subject to certain limitations and at the expense of Holding.

Indemnification Agreements

In connection with the closing of the Merger, Holding and Corporation entered into separate indemnification agreements with CD&R and CD&R Affiliates (the *CD&R Entities*). Under the indemnification agreement with the CD&R Entities, Holding and Corporation, subject to certain limitations, jointly and severally agreed to indemnify the CD&R Entities and certain of their affiliates against certain liabilities arising out of performance of the Consulting Agreement and certain other claims and liabilities.

Other

On November 25, 2008, the Company entered into a corporate account agreement with The Hertz Corporation pursuant to which it agreed to spend a minimum total amount of \$460,000 per year for the rental of cars from Hertz and its subsidiaries and licensees. For each of the three months ended March 31, 2014 and 2013, we spent less than \$1.0 million under this contract. The agreement had an initial one-year term, and renews automatically until terminated by either party. Investment funds associated with CD&R had been affiliated with Hertz Global Holdings.

Transactions between Holding and Corporation

On April 1, 2013, Corporation declared and paid a dividend to Holding in the amount of \$20.8 million. These funds were used by Holding to pay interest due on Holding 's PIK Notes.

During the third and fourth quarters of 2013, Holding made a \$489.3 million contribution to Corporation with proceeds received from the initial public offering of Common Stock of Holding to pay off debt and for other general corporate purposes.

Other Transactions

In connection with the closing of the Merger, Holding and Corporation entered into separate indemnification agreements with each of Richard J. Schnall, Ronald A. Williams, William A. Sanger, and Kenneth A. Giuriceo as the directors of Holding and Corporation. Under the indemnification agreements with the directors of Holding and Corporation, Holding and Corporation, subject to certain limitations, jointly and severally agreed to indemnify the directors against certain liabilities arising out of service as a director.

The executive employment agreements include indemnification provisions whereby the Company agrees to indemnify each of these individuals against claims arising out of events or occurrences related to that individual's service as the Company's agent or the agent of any of its subsidiaries to the fullest extent legally permitted.

In connection with Holding's initial public offering, the Company entered into new indemnification agreements with each of its directors. On November 11, 2013, the Company entered into an indemnification agreement with Mark V. Mactas. Under these agreements, the Company agrees to indemnify each of these individuals against claims arising out of events or occurrences related to that individual's service as the Company's agent or the agent of any of its subsidiaries to the fullest extent legally permitted.

14. Variable Interest Entities

GAAP requires the assets, liabilities, noncontrolling interests and activities of Variable Interest Entities (VIEs) to be consolidated if an entity's interest in the VIE has specific characteristics including: voting rights not proportional to ownership

Table of Contents

and the right to receive a majority of expected income or absorb a majority of expected losses. In addition, the entity exposed to the majority of the risks and rewards associated with the VIE is deemed its primary beneficiary and must consolidate the entity.

EmCare entered into an agreement in 2011 with an indirect wholly-owned subsidiary of HCA Holdings Inc. to form an entity which would provide physician services to various healthcare facilities (HCA-EmCare JV). HCA-EmCare JV began providing services to healthcare facilities during the first quarter of 2012 and meets the definition of a VIE. The Company determined that, although EmCare only holds 50% voting control, EmCare is the primary beneficiary and must consolidate this VIE because:

- EmCare provides management services to HCA-EmCare JV including recruiting, credentialing, scheduling, billing, payroll, accounting and other various administrative services and therefore substantially all of HCA-EmCare JV s activities involve EmCare; and
- as payment for management services, EmCare is entitled to receive a base management fee from HCA-EmCare JV as well as a bonus management fee.

The following is a summary of the HCA-EmCare JV assets and liabilities as of March 31, 2014 and December 31, 2013, which are included in the Company s consolidated financial statements (in thousands).

	March 31, 2014	December 31, 2013
Current assets	\$ 116,200	\$ 88,479
Current liabilities	28,148	22,005

15. Segment Information

The Company is organized around two separately managed business units: facility- based physician services and medical transportation services, which have been identified as operating segments. The facility-based physician services reportable segment provides physician services to hospitals primarily for emergency department, anesthesiology, hospitalist/inpatient, radiology, teleradiology and surgery services. It also offers physician-led care management solutions outside the hospital. The medical 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 Chief Executive Officer has been identified as the chief operating decision maker (CODM) as he assesses the performance of the business units and decides how to allocate resources to the business units.

Net income (loss) before equity in earnings of unconsolidated subsidiary, income taxes, loss on early debt extinguishment, other income (expense), net, realized gains (losses) on investments, interest expense, equity-based compensation expense, related party management fees, restructuring charges, and depreciation and amortization expense (Adjusted EBITDA) is the measure of profit and loss that the CODM uses to assess performance, measure liquidity and make decisions. Adjusted EBITDA is not considered a measure of financial performance under GAAP and the items excluded from Adjusted EBITDA are significant components in understanding and assessing the Company s financial performance. Adjusted EBITDA should not be considered in isolation or as an alternative to such GAAP measures as net income, cash flows

Edgar Filing: Envision Healthcare Holdings, Inc. - Form 10-Q

provided by or used in operating, investing or financing activities or other financial statement data presented in the Company's financial statements as an indicator of financial performance or liquidity. Since Adjusted EBITDA is not a measure determined to be in accordance with GAAP and is susceptible to varying calculations, Adjusted EBITDA, as presented, may not be comparable to other similarly titled measures of other companies. Pre-tax income from continuing operations represents net revenue less direct operating expenses incurred within the operating segments. The accounting policies for reported segments are the same as for the Company as a whole (see Note 2).

The Company's operating segment results were as follows (in thousands):

Table of Contents

	Quarter ended March 31,	
	2014	2013
Facility-Based Physician Services		
Net revenue	\$ 644,566	\$ 554,936
Income from operations	51,235	47,892
Segment Adjusted EBITDA	71,374	66,160
Medical Transportation Services		
Net revenue	\$ 369,645	\$ 333,388
Income from operations	17,083	15,037
Segment Adjusted EBITDA	38,633	34,839
Segment Totals		
Net revenue	\$ 1,014,211	\$ 888,324
Income from operations	68,318	62,929
Segment Adjusted EBITDA	110,007	100,999

A reconciliation of Segment Adjusted EBITDA to net income (loss) is as follows (in thousands):

	Quarter ended March 31,	
	2014	2013
Adjusted EBITDA Holding	\$ 110,007	\$ 100,932
Other operating income		67
Segment Adjusted EBITDA / Adjusted EBITDA Corporation	110,007	100,999
Depreciation and amortization expense	(36,432)	(34,755)
Restructuring charges	(809)	(637)
Interest income from restricted assets	(86)	(366)
Equity-based compensation expense	(1,062)	(1,062)
Related party management fees		(1,250)
Net loss attributable to noncontrolling interest	(3,300)	
Income from operations	68,318	62,929
Interest income from restricted assets	86	366
Interest expense	(30,049)	(40,290)
Realized gains on investments	606	13
Other income (expense), net	334	(12,721)
Loss on early debt extinguishment		(122)
Income tax expense	(17,055)	(7,134)
Equity in earnings of unconsolidated subsidiary	47	75
Net income Corporation	\$ 22,287	\$ 3,116
Adjustments for Holding:		
Other operating income		(67)
Interest expense		(11,462)
Other expense, net	(1,142)	
Income tax benefit	380	4,566
Net income (loss) Holding	\$ 21,525	\$ (3,847)

Table of Contents

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

	Quarter ended March 31,	
	2014	2013
Adjusted EBITDA Holding	\$ 110,007	\$ 100,932
Other operating income		67
Segment Adjusted EBITDA / Adjusted EBITDA Corporation	110,007	100,999
Related party management fees		(1,250)
Restructuring charges	(809)	(637)
Interest expense (less deferred loan fee amortization)	(26,812)	(36,636)
Change in accounts receivable	(35,429)	(41,351)
Change in other operating assets/liabilities	18,093	5,478
Excess tax benefits from equity-based compensation	(14,790)	(8)
Other income (expense), net	334	(12,721)
Income tax expense, net of change in deferred taxes	(16,127)	(7,874)
Net loss attributable to noncontrolling interest	(3,300)	
Other	(947)	571
Cash flows provided by operating activities Corporation	\$ 30,220	\$ 6,571
Adjustments for Holding:		
Other operating income		(67)
Interest expense (less deferred loan fee amortization)		(10,406)
Change in accounts receivable		139
Change in other operating assets/liabilities	762	5,839
Other (expense) income, net	(1,142)	
Income tax benefit, net of change in deferred taxes	380	4,566
Cash flows provided by operating activities Holding	\$ 30,220	\$ 6,642

16. Guarantors of Debt

Corporation is the issuer of the 2019 Notes and the borrower under the Senior Secured Credit Facilities. The 2019 Notes and the Senior Secured Credit Facilities are guaranteed by each of Corporation's domestic subsidiaries, except for any subsidiaries subject to regulation as an insurance company, including Corporation's captive insurance subsidiary. All of the operating income and cash flow of Corporation is generated by EmCare, AMR and their subsidiaries. As a result, funds necessary to meet the debt service obligations under the 2019 Notes and the Senior Secured Credit Facilities are provided by the distributions or advances from the subsidiary companies, EmCare and AMR. Investments in subsidiary operating companies are accounted for on the equity method. Accordingly, entries necessary to consolidate Corporation and all of its subsidiaries are reflected in the Eliminations/Adjustments column. Separate complete financial statements of Corporation and subsidiary guarantors would not provide additional material information that would be useful in assessing the financial composition of Corporation or the subsidiary guarantors.

Corporation's payment obligations under the 2019 Notes are jointly and severally guaranteed on a senior unsecured basis by the guarantors. Each of the guarantors is wholly owned, directly or indirectly, by Corporation, and all guarantees are full and unconditional. A guarantor will be released from its obligations under its guarantee under certain customary circumstances, including (i) the sale or disposition of the guarantor, (ii) the release of the guarantor from all of its obligations under all guarantees related to any indebtedness of Corporation, (iii) the merger or consolidation of the guarantor as specified in the indenture governing the 2019 Notes, (iv) the guarantor becomes an unrestricted subsidiary, (v) the defeasance of Corporation's obligations under the indenture governing the 2019 Notes or (vi) the payment in full of the principal amount

of the 2019 Notes.

The condensed consolidating financial statements for Corporation, the guarantors and the non-guarantors were as follows (in thousands):

Table of Contents**Consolidating Statements of Operations**

	Quarter ended March 31, 2014				
	Corporation	Subsidiary Guarantors	Subsidiary Non-Guarantor	Eliminations / Adjustments	Total
Net revenue	\$	\$ 1,013,733	\$ 18,994	\$ (18,516)	\$ 1,014,211
Compensation and benefits		743,493	168		743,661
Operating expenses		114,628	7		114,635
Insurance expense		30,962	18,535	(18,516)	30,981
Selling, general and administrative expenses		19,318	57		19,375
Depreciation and amortization expense		36,427	5		36,432
Restructuring charges		809			809
Income from operations		68,096	222		68,318
Interest (loss) income from restricted assets		(1,267)	1,353		86
Interest expense		(30,049)			(30,049)
Realized gains on investments		228	378		606
Other income (expense), net		376	(42)		334
Income before taxes and equity in earnings of unconsolidated subsidiary		37,384	1,911		39,295
Income tax expense		(17,051)	(4)		(17,055)
Income before equity in earnings of unconsolidated subsidiary		20,333	1,907		22,240
Equity in earnings of unconsolidated subsidiary	25,587		47	(25,587)	47
Net income	25,587	20,333	1,954	(25,587)	22,287
Less: Net loss attributable to noncontrolling interest		3,300			3,300
Net income attributable to Corporation	\$ 25,587	\$ 23,633	\$ 1,954	\$ (25,587)	\$ 25,587

Table of Contents

Quarter ended March 31, 2013

	Corporation	Subsidiary Guarantors	Subsidiary Non-Guarantor	Eliminations / Adjustments	Total
Net revenue	\$	\$ 887,846	\$ 18,399	\$ (17,921)	\$ 888,324
Compensation and benefits		641,625	164		641,789
Operating expenses		100,377	6		100,383
Insurance expense		23,909	19,845	(17,921)	25,833
Selling, general and administrative expenses		21,994	4		21,998
Depreciation and amortization expense		34,750	5		34,755
Restructuring charges		637			637
Income (loss) from operations		64,554	(1,625)		62,929
Interest (loss) income from restricted assets		(1,492)	1,858		366
Interest expense		(40,290)			(40,290)
Realized (losses) gains on investments		(45)	58		13
Other expense, net		(12,701)	(20)		(12,721)
Loss on early debt extinguishment		(122)			(122)
Income before taxes and equity in earnings of unconsolidated subsidiary		9,904	271		10,175
Income tax expense		(7,130)	(4)		(7,134)
Income before equity in earnings of unconsolidated subsidiary		2,774	267		3,041
Equity in earnings of unconsolidated subsidiary	3,116		75	(3,116)	75
Net income	3,116	2,774	342	(3,116)	3,116
Less: Net loss attributable to noncontrolling interest					
Net income attributable to Corporation	\$ 3,116	\$ 2,774	\$ 342	\$ (3,116)	\$ 3,116

Table of Contents**Consolidating Balance Sheet**

As of March 31, 2014

	Corporation	Subsidiary Guarantors	Subsidiary Non-Guarantor	Eliminations / Adjustments	Total
Assets					
Current assets:					
Cash and cash equivalents	\$	\$ 52,298	\$ 66,726	\$ (9,750)	\$ 109,274
Insurance collateral		4,245	33,161	(17,964)	19,442
Trade and other accounts receivable, net		838,796	7,483	(5,339)	840,940
Parts and supplies inventory		23,729	7		23,736
Prepays and other current assets		28,008	948		28,956
Current deferred tax assets			3,277	(3,277)	
Total current assets		947,076	111,602	(36,330)	1,022,348
Property, plant, and equipment, net		190,935			190,935
Intercompany receivable	1,925,392		58,490	(1,983,882)	
Intangible assets, net		516,530			516,530
Long-term deferred tax assets			1,995	(1,995)	
Insurance collateral		93,640	1,127	(93,640)	1,127
Goodwill		2,447,012		(2,856)	2,444,156
Other long-term assets	48,833		1,461	9,713	60,007
Investment and advances in subsidiaries	1,477,581	3,553		(1,481,134)	
Total assets	\$ 3,451,806	\$ 4,198,746	\$ 174,675	\$ (3,590,124)	\$ 4,235,103
Liabilities and Equity					
Current liabilities:					
Accounts payable	\$	\$ 51,102	\$ 83	\$	\$ 51,185
Accrued liabilities	26,961	316,635	39,528	(3,245)	379,879
Current deferred tax liabilities		59,228		(3,277)	55,951
Current portion of long-term debt	11,871	140			12,011
Total current liabilities	38,832	427,105	39,611	(6,522)	499,026
Long-term debt	1,901,015	1,007		(9,750)	1,892,272
Long-term deferred tax liabilities		155,343		(3,990)	151,353
Insurance reserves		125,127	131,511	(104,846)	151,792
Other long-term liabilities		16,721			16,721
Intercompany payable		1,983,882		(1,983,882)	
Total liabilities	1,939,847	2,709,185	171,122	(2,108,990)	2,711,164
Equity:					
Common stock			30	(30)	
Treasury stock	(1,347)				(1,347)
Additional paid-in capital	1,404,737	1,372,563		(1,372,563)	1,404,737
Retained earnings	109,694	106,374	3,292	(109,666)	109,694
Accumulated other comprehensive loss	(1,125)	(1,356)	231	1,125	(1,125)
Total Corporation equity	1,511,959	1,477,581	3,553	(1,481,134)	1,511,959
Noncontrolling interest		11,980			11,980
Total equity	1,511,959	1,489,561	3,553	(1,481,134)	1,523,939
Total liabilities and equity	\$ 3,451,806	\$ 4,198,746	\$ 174,675	\$ (3,590,124)	\$ 4,235,103

Table of Contents**Consolidating Balance Sheet**

As of December 31, 2013

	Corporation	Subsidiary Guarantors	Subsidiary Non- Guarantor	Eliminations/ Adjustments	Total
Assets					
Current assets:					
Cash and cash equivalents	\$	\$ 65,516	\$ 67,224	\$ (9,750)	\$ 122,990
Insurance collateral		11,960	53,587	(35,928)	29,619
Trade and other accounts receivable, net		799,021	3,561	(1,436)	801,146
Parts and supplies inventory		23,367	9		23,376
Prepays and other current assets		23,692	233		23,925
Current deferred tax assets			3,515	(3,515)	
Total current assets		923,556	128,129	(50,629)	1,001,056
Property, plant, and equipment, net		194,715			194,715
Intercompany receivable	1,914,158		2,370	(1,916,528)	
Intangible assets, net		513,698			513,698
Long-term deferred tax assets			3,125	(3,125)	
Insurance collateral		82,766	12,716	(82,766)	12,716
Goodwill		2,438,526	125	(2,981)	2,435,670
Other long-term assets	51,803		1,845	7,287	60,935
Investment and advances in subsidiaries	1,450,081	4,199	4,617	(1,458,897)	
Total assets	\$ 3,416,042	\$ 4,157,460	\$ 152,927	\$ (3,507,639)	\$ 4,218,790
Liabilities and Equity					
Current liabilities:					
Accounts payable	\$	\$ 52,354	\$ 118	\$	\$ 52,472
Accrued liabilities	13,683	352,816	14,940	(23,460)	357,979
Current deferred tax liabilities		39,002		16,797	55,799
Current portion of long-term debt	11,872	446			12,318
Total current liabilities	25,555	444,618	15,058	(6,663)	478,568
Long-term debt	1,904,358	773		(9,750)	1,895,381
Long-term deferred tax liabilities		156,378		(5,120)	151,258
Insurance reserves		157,055	133,670	(115,298)	175,427
Other long-term liabilities		16,997			16,997
Intercompany payable		1,916,528		(1,916,528)	
Total liabilities	1,929,913	2,692,349	148,728	(2,053,359)	2,717,631
Equity:					
Common stock			30	(30)	
Treasury stock	(1,347)				(1,347)
Additional paid-in capital	1,404,208	1,366,151		(1,366,151)	1,404,208
Retained earnings	84,107	85,524	3,414	(88,938)	84,107
Accumulated other comprehensive loss	(839)	(1,594)	755	839	(839)
Total Corporation equity	1,486,129	1,450,081	4,199	(1,454,280)	1,486,129
Noncontrolling interest		15,030			15,030
Total equity	1,486,129	1,465,111	4,199	(1,454,280)	1,501,159
Total liabilities and equity	\$ 3,416,042	\$ 4,157,460	\$ 152,927	\$ (3,507,639)	\$ 4,218,790

Table of Contents**Condensed Consolidating Statement of Cash Flows**

	Quarter ended March 31, 2014			
	Corporation	Subsidiary Guarantors	Subsidiary Non-guarantors	Total
Cash Flows from Operating Activities				
Net cash provided by operating activities	\$	\$ 62,815	\$ (32,595)	\$ 30,220
Cash Flows from Investing Activities				
Purchases of available-for-sale securities			(2,458)	(2,458)
Sales and maturities of available-for-sale securities			8,160	8,160
Purchase of property, plant and equipment		(10,714)		(10,714)
Proceeds from sale of property, plant and equipment		2,156		2,156
Acquisition of businesses, net of cash received		(35,791)		(35,791)
Net change in insurance collateral		(12,710)	13,910	1,200
Other investing activities		(2,526)		(2,526)
Net cash (used in) provided by investing activities		(59,585)	19,612	(39,973)
Cash Flows from Financing Activities				
Issuance of common stock				
Borrowings under the Term Loan				
Borrowings under the ABL Facility				
Repayments of the Term Loan	(3,343)			(3,343)
Repayments of the ABL Facility				
Debt issue costs				
Excess tax benefits from equity-based compensation		14,790		14,790
Shares repurchased for tax withholdings		(14,430)		(14,430)
Proceeds from noncontrolling interest		250		250
Net change in bank overdrafts				
Other financing activities		(1,230)		(1,230)
Net intercompany borrowings (payments)	3,343	(15,828)	12,485	
Net cash (used in) provided by financing activities		(16,448)	12,485	(3,963)
Change in cash and cash equivalents		(13,218)	(498)	(13,716)
Cash and cash equivalents, beginning of period		65,516	57,474	122,990
Cash and cash equivalents, end of period	\$	\$ 52,298	\$ 56,976	\$ 109,274

Table of Contents

	Quarter ended March 31, 2013			Total	
	Corporation	Subsidiary Guarantors	Subsidiary Non-guarantors		
Cash Flows from Operating Activities					
Net cash provided by operating activities	\$	\$	16,531	\$ (9,960)	\$ 6,571
Cash Flows from Investing Activities					
Purchases of available-for-sale securities				(159)	(159)
Sales and maturities of available-for-sale securities				448	448
Purchase of property, plant and equipment			(10,493)		(10,493)
Proceeds from sale of property, plant and equipment			197		197
Acquisition of businesses, net of cash received			(1,423)		(1,423)
Net change in insurance collateral			(3,841)	11,203	7,362
Other investing activities			(702)		(702)
Net cash (used in) provided by investing activities			(16,262)	11,492	(4,770)
Cash Flows from Financing Activities					
Issuance of common stock	691				691
Borrowings under the Term Loan	150,000				150,000
Borrowings under the ABL Facility	56,940				56,940
Repayments of the Term Loan	(3,343)				(3,343)
Repayments of the ABL Facility	(181,940)				(181,940)
Debt issue costs	(4,411)				(4,411)
Excess tax benefits from equity-based compensation			8		8
Shares repurchased for tax withholdings					
Net change in bank overdrafts			2,883		2,883
Other financing activities	(329)				(329)
Net intercompany borrowings (payments)	(17,608)	12,510		5,098	
Net cash (used in) provided by financing activities		15,401	5,098		20,499
Change in cash and cash equivalents		15,670	6,630		22,300
Cash and cash equivalents, beginning of period		6,925	50,626		57,551
Cash and cash equivalents, end of period	\$	\$	22,595	\$ 57,256	\$ 79,851

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION 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 SEC, and we undertake 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 this Form 10-Q and in our other filings with the SEC, including the risks described in Item 1A Risk Factors of Part I of our Form 10-K.

Among the factors that could cause future results to differ materially from those provided in this Quarterly Report on Form 10-Q are: decreases in our revenue and profit margin under our fee-for-service contracts due to changes in volume, payor mix and third party reimbursement rates, including from political discord in the federal budgeting process; the loss of existing contracts; failure to accurately assess costs under new contracts; difficulties in our ability to recruit and retain qualified physicians and other healthcare professionals, and enforce our non-compete agreements with our physicians; failure to implement some or all of our business strategies, including our efforts to grow our Evolution Health business and cross-sell our services; lawsuits for which we are not fully reserved; the adequacy of our insurance coverage and insurance reserves; our ability to successfully integrate strategic acquisitions; the high level of competition in the markets we serve; the cost of capital expenditures to maintain and upgrade our vehicle fleet and medical equipment; the loss of one or more members of our senior management team; our ability to maintain or implement complex information systems; disruptions in disaster recovery systems or management continuity planning; our ability to adequately protect our intellectual property and other proprietary rights or to defend against intellectual property infringement claims; challenges by tax authorities on our treatment of certain physicians as independent contractors; the impact of labor union representation; the impact of fluctuations in results due to our national contract with the Federal Emergency Management Agency (FEMA); potential penalties or changes to our operations if we fail to comply with extensive and complex government regulation of our industry; the impact of changes in the healthcare industry, including changes due to healthcare reform; our ability to timely enroll our providers in the Medicare program; our ability to restructure our operations to comply with future changes in government regulation; the outcome of government investigations of certain of our business practices; our ability to comply with the terms of our settlement agreements with the government; our ability to generate cash flow to service our substantial debt obligations; the significant influence of the CD&R Affiliates over us; and risks related to other factors discussed in this Quarterly Report on Form 10-Q.

Words such as anticipates, believes, continues, estimates, expects, goal, objectives, intends, may, opportunity, plans, potential, long-term, projections, assumptions, projects, guidance, forecasts, outlook, target, trends, should, could, would, will intended to identify such forward-looking statements. We qualify any forward-looking statements entirely by these cautionary factors.

Healthcare Reform

As currently enacted the Patient Protection and Affordable Care Act (the PPACA) changes how health care services are delivered and reimbursed, and increases access to health insurance benefits to the uninsured and underinsured population in the United States. On June 28, 2012, the U.S. Supreme Court upheld the constitutionality of the individual mandate provisions of the PPACA, but struck down the provisions that would have allowed the Department of Health and Human Services (HHS) to penalize states that do not implement Medicaid expansion

Edgar Filing: Envision Healthcare Holdings, Inc. - Form 10-Q

provisions through the loss of existing federal Medicaid funding. It is unclear how many states will decline to implement the Medicaid expansion. While the PPACA will increase the likelihood that more people in the U.S. will have access to health insurance benefits, we cannot quantify or predict with any certainty the likely impact of the PPACA on our business model, financial condition or results of operations.

Table of Contents***Company Overview***

We are a leading provider of physician-led, outsourced medical services in the United States with more than 20,000 affiliated clinicians. We market our services on a stand-alone, multi-service and integrated basis, primarily under our EmCare Holdings, Inc. (EmCare) and American Medical Response, Inc. (AMR) brands. EmCare is a leading provider of integrated facility- based physician services, including emergency, anesthesiology, hospitalist/inpatient care, radiology, tele-radiology and surgery. EmCare also offers physician-led care management solutions outside the hospital. AMR is a leading provider and manager of community based medical transportation services, including emergency 911 , non-emergency, managed transportation, fixed-wing ambulance and disaster response.

Holding indirectly owns all of the outstanding common stock of Corporation.

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 collectability 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 represents 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 without corresponding increases in payor reimbursement.

The table below summarizes our approximate payor mix as a percentage of both net revenue and total transports and patient encounters for the three months ended March 31, 2014 and 2013. In determining the net revenue payor mix, we use cash collections in the period as an approximation of net revenue recorded. As illustrated below, commercial insurance and managed care has consistently represented our largest payor group based on net revenue, comprising 53% of cash collections in 2014. Separately, given the emergency nature of many of our services, self-pay (primarily uninsured patients) has represented approximately 17% of our total patient volume, but only 3% - 4% of our total cash collections. EmCare's emergency department (ED) volume is approximately 19.3% self-pay and AMR's ambulance volume is approximately 17.6% self-pay. The decrease in self-pay as a percentage of total revenue over the past three years has been due to additional EmCare service lines with lower self-pay, including our post-acute care services.

	Percentage of Net Revenue		Percentage of Total Volume	
	Quarter ended		Quarter ended	
	2014	2013	2014	2013
Medicare	21.6%	23.0%	26.1%	26.4%

Edgar Filing: Envision Healthcare Holdings, Inc. - Form 10-Q

Medicaid	4.9	5.1	9.9	10.3
Commercial insurance and managed care	52.9	52.9	46.7	46.0
Self-pay	3.4	4.3	17.3	17.3
Fees/other	7.1	5.2		
Subsidies	10.1	9.5		
Total	100.0%	100.0%	100.0%	100.0%

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

EmCare

Of EmCare's net revenue for the three months ended March 31, 2014, approximately 72.0% was derived from our hospital contracts for emergency department staffing, 10% from contracts related to anesthesiology services, 9% from our hospitalist/inpatient services, 4% from our post-acute care services, 2% from our radiology/teleradiology services, 1% from our surgery services, and 2% from other hospital management services. Approximately 83% of EmCare's net revenue was generated from billings to third party payors and patients for patient encounters and approximately 17% was generated from billings to hospitals and affiliated physician groups for professional services. EmCare's key net revenue measures are:

Table of Contents

- *Patient encounters.* We utilize patient encounters to evaluate net revenue and as the basis by which we measure certain costs of the business. We segregate patient encounters into four main categories—ED visits, hospitalist encounters, radiology reads, and anesthesiology cases—due to the differences in reimbursement rates for and associated costs of providing the various services. As a result of these differences, in certain analyses we weight our patient encounter numbers according to category in an effort to better measure net revenue and costs. In calculating weighted patient encounters, each radiology read and anesthesiology case is not counted as a full patient encounter as we apply a discount factor to reflect differences in reimbursement rates for and associated costs of providing such services.
- *Number of contracts.* This reflects the number of contractual relationships we have for outsourced ED staffing, anesthesiology, hospitalist/inpatient, radiology, tele-radiology, surgery and other hospital management services. We analyze the change in our number of contracts from period to period based on net new contracts, which is the difference between total new contracts and contracts that have terminated.
- *Revenue per patient encounter.* This reflects the expected net revenue for each patient encounter based on gross billings less all estimated provisions for contractual discounts and uncompensated care. Net revenue per patient encounter also includes net revenue from billings to third party payors and hospitals.

The change from period to period in the number of patient encounters under our same store contracts is influenced by general community conditions as well as hospital-specific elements, many of which are beyond our direct control. The general community conditions include: (i) the timing, location and severity of influenza, allergens and other annually recurring viruses and (ii) 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 hour of coverage.* Provider compensation per hour of coverage includes all compensation and benefit costs for all professional providers, including physicians, physician assistants and nurse practitioners, during each patient encounter. Providers include all full-time, part-time and independently contracted providers. Analyzing provider compensation per hour of coverage enables us to monitor our most significant cost in performing services under our contracts.
- *Professional liability costs.* These costs include provisions for estimated losses for actual claims, and claims likely to be incurred in the period, based on our past loss experience and actuarial analysis provided by a third party, as well as actual direct costs, including investigation and defense costs, claims payments, and other costs related to provider professional liability.

EmCare's business is not as capital intensive as AMR's and EmCare's depreciation expense relates primarily to charges for usage of computer hardware and software, and other technologies. Amortization expense relates primarily to intangibles recorded for customer relationships.

AMR

Approximately 83% of AMR's net revenue for the three months ended March 31, 2014 was transport revenue derived from the treatment and transportation of patients, including fixed-wing air ambulance services, based on billings to third party payors, healthcare facilities and patients. The balance of AMR's net revenue is derived from direct billings to communities and government agencies, including FEMA, for the provision of training, dispatch center and other services. AMR's measures for transport net revenue include:

- *Transports.* We utilize transport data, including the number and types of transports, to evaluate net revenue and as the basis by which we measure certain costs of the business. We segregate transports into two main categories: ambulance transports (including emergency, as well as non-emergency, critical care and other interfacility transports) and wheelchair transports due to the differences in reimbursement and the associated costs of providing ambulance and wheelchair transports. As a result of these differences, in certain analyses we weight our transport numbers according to category in an effort to better measure net revenue and costs. In calculating weighted transports, each wheelchair transport is not counted as a full transport, as we apply a discount factor to reflect differences in reimbursement rates for and associated costs of providing such services.
- *Net revenue per transport.* Net revenue per transport reflects the expected net revenue for each transport based on gross billings less provisions for contractual discounts and estimated uncompensated care. In order to better understand the

Table of Contents

trends across service lines and in our transport rates, we analyze our net revenue per transport based on weighted transports to reflect the differences in our transportation mix.

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

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

- *Unit hours and cost per unit hour.* Our measurement of a unit hour is based on a fully staffed ambulance or wheelchair van for one operating hour. We use unit hours and cost per unit hour to measure compensation-related costs and the efficiency of our deployed resources. We monitor unit hours and cost per unit hour on a combined basis, as well as on a segregated basis between ambulance and wheelchair transports.
- *Operating costs per transport.* Operating costs per transport is comprised of certain direct operating costs, including vehicle operating costs, medical supplies and other transport-related costs, but excluding compensation-related costs. Monitoring operating costs per transport allows us to better evaluate cost trends and operating practices of our regional and local management teams.
- *Accident and insurance claims.* We monitor the number and magnitude of all accident and insurance claims in order to measure the effectiveness of our risk management programs. Depending on the type of claim (workers compensation, auto, general or professional liability), we monitor our performance by utilizing various bases of measurement, such as net revenue, miles driven, number of vehicles operated, compensation dollars, and number of transports.

We have focused our risk mitigation efforts on employee training for proper patient handling techniques, development of clinical and medical equipment protocols, driving safety, implementation of equipment to reduce lifting injuries and other risk mitigation processes.

AMR's business requires various investments in long-term assets and depreciation expense relates primarily to charges for usage of these assets, including vehicles, computer hardware and software, medical equipment, and other technologies. Amortization expense relates primarily to intangibles recorded for customer relationships.

Factors Affecting Operating Results

Rate Changes by Government Sponsored Programs

In February 2002, the Centers for Medicare and Medicaid Services (CMS) issued the Medicare Ambulance Fee Schedule Final Rule (Ambulance Fee Schedule) that revised Medicare policy on the coverage of ambulance transport services, effective April 1, 2002. The Ambulance Fee Schedule was the result of a mandate under the Balanced Budget Act of 1997 (BBA) to establish a national fee schedule for payment of ambulance transport services that would control increases in expenditures under Part B of the Medicare program, establish definitions for ambulance transport services that link payments to the type of services furnished, consider appropriate regional and operational differences and consider adjustments to account for inflation, among other provisions. The Ambulance Fee Schedule provided for a five-year phase-in of a national fee schedule, beginning April 1, 2002. While a reduced fee schedule was scheduled to go into effect in 2014, Congress extended updates preventing any reductions in payment rates for the three months ended March 31, 2014 which has been extended until April 1, 2015.

Although we have been able to substantially mitigate the phased-in reductions of the BBA through additional fee and subsidy increases, we may not be able to continue to do so.

Medicare law requires CMS to adjust the Physician Fee Schedule payment rates annually based on a formula which includes an application of the Sustainable Growth Rate (the SGR) that was adopted in the BBA. This formula has yielded negative updates every year beginning in 2002, although CMS was able to take administrative steps to avoid a reduction in 2003 and Congress took a series of legislative actions to prevent reductions each year from 2004 through 2013. Legislative action by Congress in December 2013 resulted in a delay of the Physician Fee Schedule SGR cuts until April 1, 2014. In the first quarter of 2014, Congress passed a bill to avoid reductions in Medicare payments to physicians due to the Physician Fee Schedule SGR until April 1, 2015.

Table of Contents

This same bill extended the ambulance fee schedule add-on payments until April 1, 2015 as well.

On August 2, 2011, the Budget Control Act of 2011 (Public Law 112-25) (the Budget Control Act) was enacted. Under the Budget Control Act, a Joint Select Committee on Deficit Reduction (the Joint Committee) was established to develop recommendations to reduce the deficit, over 10 years, by \$1.2 trillion to \$1.5 trillion, and was required to report its recommendations to Congress by November 23, 2011. Under the Budget Control Act, Congress was then required to consider the Joint Committee's recommendations by December 23, 2011. If the Joint Committee failed to refer agreed upon legislation to Congress or did not meet the required savings threshold set out in the Budget Control Act, a sequestration process would be put into effect, government-wide, to reduce Federal outlays by the proposed amount. Because the Joint Committee failed to report the requisite recommendations for deficit reduction, the sequestration process was set to automatically start, impacting Medicare and certain other government programs beginning in January 2013. Congress passed the American Taxpayer Relief Act, signed into law on January 2, 2013, delaying the start of sequestration until March 1, 2013. In order to provide its contractors and providers sufficient lead time to implement the cuts in Medicare, CMS delayed implementation of Medicare cuts until April 1, 2013. As there has been no further Congressional action with respect to the sequestration, reimbursements were cut by 2% for Medicare providers, including physicians and ambulance providers, starting April 1, 2013, and cuts are scheduled annually through 2021. A subsequent round of budget sequestration cuts took effect in January 2014 further reducing Medicare provider reimbursements by another 2% for 2014. The Continuing Appropriations Resolution 2014 (Public Law 113-67), enacted December 26, 2013, extends the annual budget sequestration cuts to Medicare provider payments for an additional two years through 2023.

On November 1, 2012, CMS released the final regulation which implements Section 1202 of the Patient and Affordable Care Act. This section increases Medicaid payments for specified primary care services in both the fee for service and managed care settings to Medicare levels for certain primary care physicians in 2013 and 2014. This resulted in an increase to our net revenue of approximately \$7.3 million and less than \$1.0 million for the three months ended March 31, 2014 and 2013, respectively.

Changes in Net New Contracts

Our operating results are affected directly by the number of net new contracts we have in a period, reflecting the effects of both new contracts and contract expirations. We regularly bid for new contracts, frequently in a formal competitive bidding process that often requires written responses to a request for proposal (RFP), and, in any fiscal period, certain of our contracts will expire. We may elect not to seek extension or renewal of a contract if we determine that we cannot do so on favorable terms. With respect to expiring contracts we would like to renew, we may be required to seek renewal through an RFP, and we may not be successful in retaining any such contracts, or retaining them on terms that are as favorable as present terms.

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. Fuel expense represented 12.2% and 13.3% of AMR's operating expenses for the three months ended March 31, 2014 and 2013, respectively. 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.

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 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 Holding's and Corporation's Annual Report on Form 10-K for the year ended December 31, 2013. As of March 31, 2014, there were no significant changes in our critical accounting policies or estimation procedures.

Results of Operations

Quarter ended March 31, 2014 Compared to the Quarter ended March 31, 2013

The following tables present a comparison of financial data from our unaudited consolidated statements of operations for the three months ended March 31, 2014 and 2013 for the Company and our two operating segments.

Table of Contents**Non-GAAP Measures**

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

The following tables set forth a reconciliation of Adjusted EBITDA to net income (loss) and cash flows provided by operating activities:

Consolidated Results of Operations and as a Percentage of Net Revenue

(dollars in thousands, unaudited)

ENVISION HEALTHCARE HOLDINGS, INC.

	2014		Quarter ended March 31, % of net revenue		2013		% of net revenue	
Net revenue	\$	1,014,211	100%	\$	888,324	100%		
Compensation and benefits		743,661	73.3		641,789	72.2		
Operating expenses		114,635	11.3		100,450	11.3		
Insurance expense		30,981	3.1		25,833	2.9		
Selling, general and administrative expenses		19,375	1.9		21,998	2.5		
Equity-based compensation expense		(1,062)	(0.1)		(1,062)	(0.1)		
Related party management fees					(1,250)	(0.1)		
Interest income from restricted assets		(86)	(0.0)		(366)	(0.0)		
Net loss attributable to noncontrolling interest		(3,300)	(0.3)					
Adjusted EBITDA		110,007	10.8		100,932	11.4		
Equity-based compensation expense		(1,062)	(0.1)		(1,062)	(0.1)		
Related party management fees					(1,250)	(0.1)		
Depreciation and amortization expense		(36,432)	(3.6)		(34,755)	(3.9)		
Restructuring charges		(809)	(0.0)		(637)	(0.1)		
Interest expense		(30,049)	(3.0)		(51,752)	(5.8)		
Realized gains on investments		606	0.0		13	0.0		
Other expense, net		(808)	(0.0)		(12,721)	(1.4)		
Loss on early debt extinguishment					(122)	(0.0)		

Edgar Filing: Envision Healthcare Holdings, Inc. - Form 10-Q

Income tax expense	(16,675)	(1.7)	(2,568)	(0.3)
Equity in earnings of unconsolidated subsidiary	47	0.0	75	0.0
Net loss attributable to noncontrolling interest	(3,300)	(0.3)		
Net income (loss)	\$ 21,525	2.1%	\$ (3,847)	(0.4)%

Table of Contents**Consolidated Results of Operations and as a Percentage of Net Revenue**

(dollars in thousands, unaudited)

ENVISION HEALTHCARE CORPORATION

	2014		Quarter ended March 31, % of net revenue		2013		% of net revenue	
Net revenue	\$	1,014,211	100%	\$	888,324	100%		
Compensation and benefits		743,661	73.3		641,789	72.2		
Operating expenses		114,635	11.3		100,383	11.3		
Insurance expense		30,981	3.1		25,833	2.9		
Selling, general and administrative expenses		19,375	1.9		21,998	2.5		
Equity-based compensation expense		(1,062)	(0.1)		(1,062)	(0.1)		
Related party management fees					(1,250)	(0.1)		
Interest income from restricted assets		(86)	(0.0)		(366)	(0.0)		
Net loss attributable to noncontrolling interest		(3,300)	(0.3)					
Adjusted EBITDA		110,007	10.8		100,999	11.4		
Equity-based compensation expense		(1,062)	(0.1)		(1,062)	(0.1)		
Related party management fees					(1,250)	(0.1)		
Depreciation and amortization expense		(36,432)	(3.6)		(34,755)	(3.9)		
Restructuring charges		(809)	(0.0)		(637)	(0.1)		
Interest expense		(30,049)	(3.0)		(40,290)	(4.5)		
Realized gains on investments		606	0.0		13	0.0		
Other income (expense), net		334	0.0		(12,721)	(1.4)		
Loss on early debt extinguishment					(122)	(0.0)		
Income tax expense		(17,055)	(1.7)		(7,134)	(0.8)		
Equity in earnings of unconsolidated subsidiary		47	0.0		75	0.0		
Net loss attributable to noncontrolling interest		(3,300)	(0.3)					
Net income (loss)	\$	22,287	2.1%	\$	3,116	0.4%		

Table of Contents**Reconciliation of Adjusted EBITDA to Cash Flows Provided by Operating Activities**

(dollars in thousands, unaudited)

	Quarter ended March 31,	
	2014	2013
Adjusted EBITDA Holding	\$ 110,007	\$ 100,932
Other operating income		67
Segment Adjusted EBITDA / Adjusted EBITDA Corporation	110,007	100,999
Related party management fees		(1,250)
Restructuring charges	(809)	(637)
Interest expense (less deferred loan fee amortization)	(26,812)	(36,636)
Change in accounts receivable	(35,429)	(41,351)
Change in other operating assets/liabilities	18,093	5,478
Excess tax benefits from equity-based compensation	(14,790)	(8)
Other income (expense), net	334	(12,721)
Income tax expense, net of change in deferred taxes	(16,127)	(7,874)
Net loss attributable to noncontrolling interest	(3,300)	
Other	(947)	571
Cash flows provided by operating activities Corporation	\$ 30,220	\$ 6,571
Adjustments for Holding:		
Other operating income		(67)
Interest expense (less deferred loan fee amortization)		(10,406)
Change in accounts receivable		139
Change in other operating assets/liabilities	762	5,839
Other (expense) income, net	(1,142)	
Income tax benefit, net of change in deferred taxes	380	4,566
Cash flows provided by operating activities Holding	\$ 30,220	\$ 6,642

Segment Results of Operations and as a Percentage of Net Revenue

(dollars in thousands, unaudited)

EmCare

	Quarter ended March 31,			
	2014	% of net revenue	2013	% of net revenue
Net revenue	\$ 644,566	100%	\$ 554,936	100.0%
Compensation and benefits	525,085	81.4	439,384	79.2
Operating expenses	23,636	3.7	22,983	4.1
Insurance expense	16,967	2.6	16,920	3.0
Selling, general and administrative expenses	11,257	1.7	10,738	1.9
Interest expense (income) from restricted assets	25	0.0	(255)	(0.0)
Equity-based compensation expense	(478)	(0.0)	(457)	(0.1)
Related party management fees			(537)	(0.1)
Net loss attributable to noncontrolling interest	(3,300)	(0.5)		

Edgar Filing: Envision Healthcare Holdings, Inc. - Form 10-Q

Adjusted EBITDA	71,374	11.1	66,160	11.9%
Depreciation and amortization expenses	(16,281)	(2.5)	(16,771)	(3.0)
Restructuring charges	(105)	(0.0)	(248)	(0.0)
Interest expense (income) from restricted assets	25	0.0	(255)	(0.0)
Equity-based compensation expense	(478)	(0.1)	(457)	(0.1)
Related party management fees			(537)	(0.1)
Net loss attributable to noncontrolling interest	(3,300)	(0.5)		
Income from operations	\$ 51,235	8.0%	\$ 47,892	8.6%

Table of Contents**Segment Results of Operations and as a Percentage of Net Revenue**

(dollars in thousands, unaudited)

AMR

		Quarter ended March 31,		
		% of net		% of net
	2014	revenue	2013	revenue
Net revenue	\$ 369,645	100%	\$ 333,388	100.0%
Compensation and benefits	218,576	59.1	202,405	60.7
Operating expenses	90,999	24.6	77,400	23.2
Insurance expense	14,014	3.8	8,913	2.7
Selling, general and administrative expenses	8,118	2.2	11,260	3.4
Interest income from restricted assets	(111)	(0.0)	(111)	(0.0)
Equity-based compensation expense	(584)	(0.2)	(605)	(0.2)
Related party management fees			(713)	(0.2)
Adjusted EBITDA	38,633	10.5	34,839	10.4
Depreciation and amortization expenses	(20,151)	(5.5)	(17,984)	(5.4)
Restructuring charges	(704)	(0.2)	(389)	(0.1)
Interest income from restricted assets	(111)	(0.0)	(111)	(0.0)
Equity-based compensation expense	(584)	(0.2)	(605)	(0.2)
Related party management fees			(713)	(0.2)
Income from operations	\$ 17,083	4.6%	\$ 15,037	4.5%

Quarter ended March 31, 2014 compared to the quarter ended March 31, 2013**Consolidated Holding**

Our results for the three months ended March 31, 2014 reflect an increase in net revenue of \$125.9 million and an increase in net income of \$25.4 million compared to the three months ended March 31, 2013. The increase in net income is attributable primarily to the decrease in interest expense from the redemption of the 2019 Notes in December of 2013, the redemption of the PIK Notes in August of 2013, and the re-pricing of the Term Loan Facility and ABL Facility in February of 2013 and the decrease in expenses related to the dissenting shareholder lawsuit that was settled in 2013.

Net revenue. For the three months ended March 31, 2014, we generated net revenue of \$1,014.2 million compared to \$888.3 million for the three months ended March 31, 2013, representing an increase of 14.2%. The increase is attributable primarily to increases in rates and volumes on existing contracts combined with increased volume from net new contracts and acquisitions, partially offset by the impact of markets exited.

Adjusted EBITDA. For the three months ended March 31, 2014, Adjusted EBITDA was \$110.0 million, or 10.8% of net revenue, compared to \$100.9 million, or 11.4% of net revenue for the three months ended March 31, 2013.

Restructuring charges. For the three months ended March 31, 2014, restructuring charges were \$0.8 million, related to continuing efforts to re-align AMR and EmCare operations, compared to \$0.6 million for the three months ended March 31, 2013.

Interest expense. For the three months ended March 31, 2014, interest expense was \$30.0 million compared to \$51.8 million for the three months ended March 31, 2013. The decrease was due to the redemption of the 2019 Notes on December 30, 2013, the redemption of the PIK Notes on August 30, 2013, and the re-pricing of the Term Loan Facility and ABL Facility in February 2013.

Other expense, net. For the three months ended March 31, 2014, other expense, net was \$0.8 million of expense compared to \$12.7 million of expense for the three months ended March 31, 2013. We recorded \$8.4 million of expense during the three months ended March 31, 2013 related to a settlement with a prior shareholder regarding its appraisal action over its holdings in Corporation prior to the merger of Corporation with a wholly-owned subsidiary of Holding (the Merger) on May 25, 2011.

Income tax expense. For the three months ended March 31, 2014, income tax expense was \$16.7 million compared to \$2.6 million for the three months ended March 31, 2013. Our effective tax rate was 43.7% and (189.7)% for the three months ended March 31, 2014 and 2013, respectively. Our effective tax rate for the three months ended March 31, 2013 was impacted by the settlement with a prior shareholder regarding its appraisal action over its holdings in Corporation prior to the Merger, which was not deductible for tax purposes.

Table of Contents

Consolidated Corporation

Our results for the three months ended March 31, 2014 reflect an increase in net revenue of \$125.9 million and an increase in net income of \$19.2 million compared to the three months ended March 31, 2013. The increase in net income is attributable primarily to the decrease in interest expense from the redemption of the 2019 Notes in December of 2013 and the re-pricing of the Term Loan Facility and ABL Facility in February of 2013 and the decrease in expenses related to the dissenting shareholder lawsuit that was settled in 2013.

Net revenue. For the three months ended March 31, 2014, we generated net revenue of \$1,014.2 million compared to \$888.3 million for the three months ended March 31, 2013, representing an increase of 14.2%. The increase is attributable primarily to increases in rates and volumes on existing contracts combined with increased volume from net new contracts and acquisitions, partially offset by the impact of markets exited.

Adjusted EBITDA. For the three months ended March 31, 2014, Adjusted EBITDA was \$110.0 million, or 10.8% of net revenue, compared to \$101.0 million, or 11.4% of net revenue for the three months ended March 31, 2013.

Restructuring charges. For the three months ended March 31, 2014, restructuring charges were \$0.8 million, related to continuing efforts to re-align AMR and EmCare operations, compared to \$0.6 million for the three months ended March 31, 2013.

Interest expense. For the three months ended March 31, 2014, interest expense was \$30.0 million compared to \$40.3 million for the three months ended March 31, 2013. The decrease was due to the redemption of the 2019 Notes on December 30, 2013 and the re-pricing of the Term Loan Facility and ABL Facility in February 2013.

Other income (expense), net. For the three months ended March 31, 2014, other income (expense), net was \$0.3 million of income compared to \$12.7 million of expense for the three months ended March 31, 2013. We recorded \$8.4 million of expense during the three months ended March 31, 2013 related to a settlement with a prior shareholder regarding its appraisal action over its holdings in Corporation prior to the Merger.

Income tax expense. For the three months ended March 31, 2014, income tax expense was \$17.1 million compared to \$7.1 million for the three months ended March 31, 2013. Our effective tax rate was 43.4% and 70.1% for the three months ended March 31, 2014 and 2013, respectively. For the three months ended March 31, 2013, our effective tax rate was impacted by the settlement with a prior shareholder regarding its appraisal action over its holdings in Corporation prior to the Merger, which was not deductible for tax purposes.

EmCare

Edgar Filing: Envision Healthcare Holdings, Inc. - Form 10-Q

Net revenue. For the three months ended March 31, 2014, EmCare generated net revenue of \$644.6 million compared to \$554.9 million for the three months ended March 31, 2013, representing an increase of \$89.7 million, or 16.2%. The increase was due to an increase in patient encounters from net new hospital contracts and net revenue increases in existing contracts. Net new contracts since March 31, 2013 accounted for a net revenue increase of \$73.9 million for the three months ended March 31, 2014, of which \$70.0 million came from net new contracts added in 2013, with the remaining increase in net revenue from those added in 2014. Net revenue under our same store contracts (contracts in existence for the entirety of both periods) increased \$14.0 million, or 2.9%, for the three months ended March 31, 2014. The change was due to a 4.6% increase in revenue per weighted patient encounter offset by a 1.7% decrease in same store weighted patient encounters. Revenue from recent acquisitions was \$1.8 million during the three months ended March 31, 2014.

Compensation and benefits. For the three months ended March 31, 2014, compensation and benefits costs were \$525.1 million, or 81.4% of net revenue, compared to \$439.4 million, or 79.2% of net revenue, for the three months ended March 31, 2013. Provider compensation costs increased \$70.5 million from net new contract additions and acquisitions. Same store provider compensation costs were \$9.9 million higher than the prior period due primarily to a 4.7% increase in provider compensation per weighted patient encounter due to recruiting challenges at a limited number of our contracts offset by a 1.7% decrease in same store weighted patient encounters. Non-provider compensation and total benefits costs increased by \$5.3 million for the three months ended March 31, 2014 compared to the three months ended March 31, 2013. The increase was due to organic growth.

Operating expenses. For the three months ended March 31, 2014, operating expenses were \$23.6 million, or 3.7% of net revenue, compared to \$23.0 million, or 4.1% of net revenue, for the three months ended March 31, 2013.

Insurance expense. For the three months ended March 31, 2014, professional liability insurance expense was \$17.0 million, or 2.6% of net revenue, compared to \$16.9 million, or 3.0% of net revenue, for the three months ended March 31, 2013. We recorded an

Table of Contents

increase of prior year insurance provisions of \$2.0 million during the three months ended March 31, 2014 compared to an increase of \$0.5 million for the three months ended March 31, 2013.

Selling, general and administrative. For the three months ended March 31, 2014, selling, general, and administrative expense was \$11.3 million, or 1.7% of net revenue, compared to \$10.7 million, or 1.9% of net revenue, for the three months ended March 31, 2013.

Depreciation and amortization. For the three months ended March 31, 2014, depreciation and amortization expense was \$16.3 million, or 2.5% of net revenue, compared to \$16.8 million, or 3.0% of net revenue, for the three months ended March 31, 2013.

AMR

Net revenue. For the three months ended March 31, 2014, AMR generated net revenue of \$369.6 million compared to \$333.4 million for the three months ended March 31, 2013, representing an increase of \$36.2 million, or 10.9%. The increase in net revenue was due primarily to an increase in net revenue per weighted transport of 4.6%, or \$15.4 million, primarily from increased fixed wing air ambulance net revenue which has higher revenue per transport, increased managed transportation revenue which has no associated transport volume and increased rates in existing markets and an increase of 6.3%, or \$20.8 million, in weighted transport volume. Weighted transports increased 44,030 from the same quarter last year. The change was due to an increase of 60,040 weighted transports from our entry into new markets and recent acquisitions offset by a decrease of 13,560 weighted transports from exited markets and a decrease in weighted transport volume in existing markets of 0.4%, or 2,450 weighted transports.

Compensation and benefits. For the three months ended March 31, 2014, compensation and benefits costs were \$218.6 million, or 59.1% of net revenue, compared to \$202.4 million, or 60.7% of net revenue, for the three months ended March 31, 2013. The increase was primarily due to additional compensation and benefits costs from the expansion of our fixed wing air ambulance operations and new markets and recent acquisitions. Ambulance crew wages per ambulance unit hour increased by approximately 0.2%, or \$0.3 million, and ambulance unit hours increased period over period by 7.2%, or \$8.2 million. Non-crew compensation increased \$6.6 million for the three months ended March 31, 2014 compared to the three months ended March 31, 2013 due to increased costs associated with the net impact from markets entered and exited and increased costs from recent acquisitions. Total benefits related costs increased \$1.1 million for the three months ended March 31, 2014 compared to the three months ended March 31, 2013 due primarily to the impact from markets entered and recent acquisitions.

Operating expenses. For the three months ended March 31, 2014, operating expenses were \$91.0 million, or 24.6% of net revenue, compared to \$77.4 million, or 23.2% of net revenue, for the three months ended March 31, 2013. The change was due primarily to increased costs of \$2.7 million associated with the net impact from markets entered and exited and increased costs of \$12.5 million primarily from recent managed transportation acquisitions offset by decreased costs associated with our managed transportation business of \$1.3 million and other miscellaneous net operating costs of \$0.3 million.

Insurance expense. For the three months ended March 31, 2014, insurance expense was \$14.0 million, or 3.8% of net revenue, compared to \$8.9 million, or 2.7% of net revenue, for the three months ended March 31, 2013. We recorded an increase of prior year insurance provisions of \$3.2 million during the three months ended March 31, 2014 compared to a decrease of \$1.7 million during the three months ended March 31, 2013.

Selling, general and administrative. For the three months ended March 31, 2014, selling, general, and administrative expense was \$8.1 million, or 2.2% of net revenue, compared to \$11.3 million, or 3.4% of net revenue, for the three months ended March 31, 2013. The decrease was due to the receipt of \$1.9 million in reimbursement of costs associated with certain exit activities.

Depreciation and amortization. For the three months ended March 31, 2014, depreciation and amortization expense was \$20.2 million, or 5.5% of net revenue, compared to \$18.0 million, or 5.4% of net revenue, for the three months ended March 31, 2013. The increase was due primarily to technology and fleet-related additions and an increase in amortizable intangible assets from recent acquisitions.

Liquidity and Capital Resources

Our primary source of liquidity is cash flows provided by the operating activities of our subsidiaries. Corporation and its subsidiaries also have the ability to use the ABL 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.

Table of Contents

On May 25, 2011, Corporation issued \$950 million of the 2019 Notes and entered into the \$1.8 billion Senior Secured Credit Facilities, which are further described in Note 7 of the accompanying consolidated financial statements that consisted of a \$1.44 billion Term Loan Facility and a \$350 million ABL Facility.

2019 Notes

During the second quarter of 2012, Corporation's captive insurance subsidiary purchased \$15.0 million of the 2019 Notes through an open market transaction and currently holds \$9.8 million of the 2019 Notes subsequent to the partial redemption of the 2019 Notes on December 30, 2013. On December 30, 2013, Corporation redeemed \$332.5 million in principal amount of the 2019 Notes of which \$5.2 million was held by our captive insurance subsidiary with a portion of the net proceeds of Holding's initial public offering, at a redemption price equal to 108.125% of the aggregate principal amount of the 2019 Notes, plus accrued and unpaid interest of \$2.2 million. During the fourth quarter of 2013, Corporation recorded a loss on early debt extinguishment of \$38.7 million related to premiums and unamortized debt issuance costs from the redemption of the 2019 Notes.

The indenture governing the 2019 Notes and the credit agreements governing the ABL Facility and the Term Loan Facility contain significant covenants, including prohibitions on our ability to incur certain additional indebtedness and to make certain investments and to pay dividends.

Term Loan Facility

On February 7, 2013, Corporation, the borrower under the Term Loan Facility, entered into a First Amendment (the Term Loan Amendment) to the credit agreement governing the Term Loan Facility (as amended, the Term Loan Credit Agreement). Under the Term Loan Amendment, Corporation incurred an additional \$150 million in incremental borrowings under the Term Loan Facility, the proceeds of which were used to pay down the ABL Facility. In addition, the rate at which the loans under the Term Loan Credit Agreement bear interest was amended to equal (i) the higher of (x) LIBOR and (y) 1.00%, plus, in each case, 3.00% (with a step-down to 2.75% in the event that we meet a consolidated first lien net leverage ratio of 2.50:1.00), or (ii) the alternate base rate, which will be the highest of (w) the corporate base rate established by the administrative agent from time to time, (x) 0.50% in excess of the overnight federal funds rate, (y) the one-month LIBOR (adjusted for maximum reserves) plus 1.00% and (z) 2.00%, plus, in each case, 2.00% (with a step-down to 1.75% in the event that Corporation meets a consolidated first lien net leverage ratio of 2.50:1.00).

ABL Facility

On February 27, 2013, Corporation entered into a First Amendment to the credit agreement governing the ABL Facility (as amended, the ABL Credit Agreement), under which Corporation increased its commitments under the ABL Facility to \$450 million and extended the term to 2018. In addition, the rate at which the loans under the ABL Credit Agreement bear interest was amended to equal (i) LIBOR plus, (x) 2.00% in the event that average daily excess availability is less than or equal to 33% of availability, (y) 1.75% in the event that average daily excess availability is greater than 33% but less than or equal to 66% of availability and (z) 1.50% in the event that average daily excess availability is greater than 66% of availability, or (ii) the alternate base rate, which will be the highest of (x) the corporate base rate established by the administrative agent from time to time, (y) 0.50% in excess of the overnight federal funds rate and (z) the one-month LIBOR (adjusted for maximum reserves) plus 1.00% plus, in each case, (A) 1.00% in the event that average daily excess availability is less than or equal to 33% of

Edgar Filing: Envision Healthcare Holdings, Inc. - Form 10-Q

availability, (B) 0.75% in the event that average daily excess availability is greater than 33% but less than or equal to 66% of availability and (C) 0.50% in the event that average daily excess availability is greater than 66% of availability.

The ABL Facility provides for up to \$450 million of senior secured first priority borrowings, subject to a borrowing base of \$450.0 million as of March 31, 2014. Corporation is the borrower under the ABL Facility. The ABL Facility is available to fund working capital and for general corporate purposes. As of March 31, 2014, we had available borrowing capacity of \$317.5 million and \$132.5 million of letters of credit issued under the ABL Facility.

While the ABL Facility generally does not contain financial maintenance covenants, a springing fixed charge coverage ratio of not less than 1.0 to 1.0 will be tested if our excess availability (as defined in the credit agreement governing the ABL Facility) falls below specified thresholds at any time. If we require additional financing to meet cyclical increases in working capital needs, to fund acquisitions or unanticipated capital expenditures, we may need to access the financial markets.

PIK Notes

On October 1, 2012, Holding issued \$450 million aggregate principal amount of the PIK Notes.

Table of Contents

On April 1, 2013, Corporation declared and paid a dividend to Envision Healthcare Intermediate Corporation, which in turn paid a dividend to Holding in the amount of \$20.8 million for Holding to pay interest due on the PIK Notes.

On August 30, 2013, Holding redeemed the PIK Notes in full with a portion of the net proceeds of Holding's initial public offering, at a redemption price equal to 102.75% of the aggregate principal amount of the PIK Notes, plus accrued and unpaid interest of \$17.2 million. During the third quarter of 2013, Holding recorded a loss on early debt extinguishment of \$29.5 million related to premiums and unamortized debt issuance costs from the redemption of the PIK Notes.

We may from time to time repurchase or otherwise retire or extend our debt and/or take other steps to reduce our debt or otherwise improve our financial position. These actions may include open market debt repurchases, negotiated repurchases, other retirements of outstanding debt, and/or opportunistic refinancing of debt. The amount of debt that may be repurchased or otherwise retired or refinanced, if any, will depend on market conditions, trading levels of our debt, our cash position, compliance with debt covenants and other considerations. Our affiliates may also purchase our debt from time to time, through open market purchases or other transactions. In such cases, our debt may not be retired, in which case we would continue to pay interest in accordance with the terms of the debt, and we would continue to reflect the debt as outstanding in our consolidated statements of financial position.

On August 13, 2013, Holding's Registration Statement was declared effective by the SEC for an initial public offering of its Common Stock. Holding registered the offering and sale of 42,000,000 shares of Common Stock and an additional 6,300,000 shares of Common Stock, to be sold to the underwriters pursuant to their option to purchase additional shares at a price of \$23 per share. On August 19, 2013, Holding completed the offering of 48,300,000 shares of Common Stock, at a price of \$23 for an aggregate offering price of \$1,110.9 million. At the closing, we received net proceeds of approximately \$1,025.9 million, after deducting the underwriters' discounts and commissions paid and offering expenses of approximately \$85.0 million, including a \$20.0 million payment to CD&R in connection with the termination of the consulting agreement with CD&R which was recorded to selling, general and administrative expenses in the statements of operations.

Net proceeds from the initial public offering were used to (i) redeem in full Holding's PIK Notes for a total of \$479.6 million, which included a call premium pursuant to the indenture governing the PIK Notes and all accrued but unpaid interest, (ii) pay CD&R the fee of \$20.0 million to terminate the consulting agreement with CD&R, (iii) pay \$16.5 million to repay all outstanding revolving credit facility borrowings, and (iv) redeem \$332.5 million in principal amount of the 2019 Notes of which \$5.2 million was held by our captive insurance subsidiary for a total of \$356.5 million, which included a call premium pursuant to the indenture governing the 2019 Notes and all accrued but unpaid interest. The remaining proceeds were used for general corporate purposes which included, among other things, repayment of indebtedness and acquisitions.

Cash Flow Holding

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

	Three months ended March 31,	
	2014	2013
Net cash provided by (used in):		
Operating activities	\$ 30,220	\$ 6,642

Edgar Filing: Envision Healthcare Holdings, Inc. - Form 10-Q

Investing activities	(39,973)	(4,770)
Financing activities	(3,963)	20,428

Operating activities. Net cash provided by operating activities was \$30.2 million for the three months ended March 31, 2014 compared to \$6.6 million for the three months ended March 31, 2013. Operating cash flows for the three months ended March 31, 2014 includes a payment of \$9.7 million in settlement of prior period insurance claims. Cash flow from operating activities for the three months ended March 31, 2014 excluding this item was \$39.9 million. Operating cash flows for the three months ended March 31, 2013 includes payments of \$24.5 million related to AMR contract terminations and FEMA external providers. Cash flow from operating activities for the three months ended March 31, 2013 excluding these payments was \$31.1 million. Further, the increase of \$23.6 million in net cash provided by operating activities relates primarily to the change in accounts receivable and an increase in accounts payable and accrued liabilities from the timing of payments.

Accounts receivable increased \$35.4 million and \$41.2 million during the three months ended March 31, 2014 and 2013, respectively. Days sales outstanding (DSO) decreased 1 day during the three months ended March 31, 2014. While AMR s DSO decreased 1 day, EmCare s DSO remained unchanged.

Table of Contents

We regularly analyze DSO which is calculated by dividing our net revenue for the quarter by the number of days in the quarter. The result is divided into net accounts receivable at the end of the period. DSO provides us with a gauge to measure receivables, revenue and collection activities.

The following table outlines our DSO by segment and in total excluding the impact of acquisitions completed within the specific quarter and the impact of the FEMA deployment at AMR in 2012:

	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012
EmCare	82	82	77	71	68	65	64
AMR	62	63	64	64	66	68	71
Company	74	75	73	68	67	66	67

Investing activities. Net cash used in investing activities was \$40.0 million for the three months ended March 31, 2014 compared to net cash used in investing activities of \$4.8 million for the three months ended March 31, 2013. The increase was primarily related to the increase in cash outflow for acquisitions of \$34.4 million.

Financing activities. Net cash used in financing activities was \$4.0 million for the three months ended March 31, 2014 compared to net cash provided by financing activities of \$20.4 million for the three months ended March 31, 2013. For the three months ended March 31, 2014, we paid \$14.4 million of employee related taxes related to the exercise of stock options in connection with the secondary offering in February of 2014 offset by the excess tax benefit from these stock option exercises of \$14.8 million. For the three months ended March 31, 2013, we increased our borrowings under our Term Loan Facility by \$150.0 million, the proceeds of which were used to pay down our ABL Facility. Additionally, we paid approximately \$5.0 million in costs incurred to refinance the Term Loan Facility and ABL Facility.

Cash Flow Corporation

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

	Three months ended March 31,	
	2014	2013
Net cash provided by (used in):		
Operating activities	\$ 30,220	\$ 6,571
Investing activities	(39,973)	(4,770)
Financing activities	(3,963)	20,499

Operating activities. Net cash provided by operating activities was \$30.2 million for the three months ended March 31, 2014 compared to \$6.6 million for the three months ended March 31, 2013. Operating cash flows for the three months ended March 31, 2014 includes a payment of \$9.7 million in settlement of prior period insurance claims. Cash flow from operating activities for the three months ended March 31, 2014 excluding this item was \$39.9 million. Operating cash flows for the three months ended March 31, 2013 includes payments of \$24.5 million related to AMR contract terminations and FEMA external providers. Cash flow from operating activities for the three months ended March 31,

Edgar Filing: Envision Healthcare Holdings, Inc. - Form 10-Q

2013 excluding these payments was \$31.1 million. Further, the increase of \$23.6 million in net cash provided by operating activities relates primarily to the change in accounts receivable and an increase in accounts payable and accrued liabilities from the timing of payments.

Accounts receivable increased \$35.4 million and \$41.4 million during the three months ended March 31, 2014 and 2013, respectively. Days sales outstanding (DSO) decreased 1 day during the three months ended March 31, 2014. While AMR 's DSO decreased 1 day, EmCare 's DSO remained unchanged.

Investing activities. Net cash used in investing activities was \$40.0 million for the three months ended March 31, 2014 compared to net cash used in investing activities of \$4.8 million for the three months ended March 31, 2013. The increase was primarily related to the increase in cash outflow for acquisitions of \$34.4 million.

Financing activities. Net cash used in financing activities was \$4.0 million for the three months ended March 31, 2014 compared to net cash provided by financing activities of \$20.5 million for the three months ended March 31, 2013. For the three months ended March 31, 2014, we paid \$14.4 million of employee related taxes related to the exercise of stock options in connection with the secondary offering in February of 2014 offset by the excess tax benefit from these stock option exercises of \$14.8 million. For the three months ended March 31, 2013, we increased our borrowings under our Term Loan Facility by \$150.0 million, the proceeds of

Table of Contents

which were used to pay down our ABL Facility. Additionally, we paid approximately \$5.0 million in costs incurred to refinance the Term Loan Facility and ABL Facility.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary exposure to market risk consists of changes in fuel prices, changes in interest rates on certain of our borrowings, and changes in stock prices. While we have from time to time entered into transactions to mitigate our exposure to both changes in fuel prices and interest rates, we do not use these instruments for speculative or trading purposes.

We manage our exposure to changes in fuel prices and, as appropriate, use highly effective derivative instruments to manage well-defined risk exposures. As of March 31, 2014, we were party to a series of fuel hedge transactions with a major financial institution under one master agreement. Each of the transactions effectively fixes the cost of diesel fuel at prices ranging from \$3.63 to \$3.82 per gallon. We purchase the diesel fuel at the market rate and periodically settle with our counterparty for the difference between the national average price for the period published by the Department of Energy and the agreed upon fixed price. The transactions fix the price for a total of 1.9 million gallons during the periods hedged through December 2014.

On October 17, 2011, we entered into interest rate swap agreements which mature on August 31, 2015. The swap agreements are with major financial institutions and effectively convert a notional amount of \$400 million in variable rate debt to fixed rate debt with an effective rate of 4.49%. We will continue to make interest payments based on the variable rate associated with the debt (based on LIBOR, but not less than 1.0%) and will periodically settle with our counterparties for the difference between the rate paid and the fixed rate.

As of March 31, 2014, we had \$1,904.3 million of debt, excluding capital leases, of which \$1,295.7 million was variable rate debt under our senior secured credit facility and the balance was fixed rate debt. An increase or decrease in interest rates of 1.0%, above our LIBOR floor of 1.0%, will impact our interest costs by \$13 million annually.

We are exposed to changes in stock prices primarily as a result of our holdings in publicly traded securities. We believe that changes in stock prices can be expected to vary as a result of general market conditions, specific industry changes, and other factors. As of March 31, 2014, the fair value of our available-for-sale securities was \$7.5 million. Had the market price of such securities been 10% lower as of March 31, 2014, the aggregate fair value of such securities would have been \$0.8 million lower.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Edgar Filing: Envision Healthcare Holdings, Inc. - Form 10-Q

Holding and Corporation maintain systems of disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) 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 they file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC'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, Holding's and Corporation's 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 the evaluation of Holding's and Corporation's management of Holding's and Corporation's disclosure controls and procedures conducted as of the end of the period covered by this Report on Form 10-Q, Holding's and Corporation's principal executive officer and principal financial officer have concluded that, as of the date of their evaluation, Holding's and Corporation's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act) were effective as of March 31, 2014.

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 March 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For information regarding legal proceedings, please refer to Note 12 to the accompanying consolidated financial statements included herein and Holding s and Corporation s Annual Report on Form 10-K for the year ended December 31, 2013.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in Holding s and Corporation s Annual Report on Form 10-K for the year ended December 31, 2013.

ITEM 6. EXHIBITS

See the Exhibit Index immediately following the signature page of this Quarterly Report on Form 10-Q.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ENVISION HEALTHCARE HOLDINGS, INC.

(registrant)

May 13, 2014
Date

By: /s/ William A. Sanger
William A. Sanger
Chief Executive Officer

By: /s/ Randel G. Owen
Randel G. Owen
Chief Financial Officer and Executive Vice President

ENVISION HEALTHCARE CORPORATION

(registrant)

May 13, 2014
Date

By: /s/ William A. Sanger
William A. Sanger
Chief Executive Officer

By: /s/ Randel G. Owen
Randel G. Owen
Chief Financial Officer and Executive Vice President

Table of Contents

EXHIBIT INDEX

- 10.1 Envision Healthcare Holdings, Inc. Senior Executive Bonus Plan, as amended and restated on March 26, 2014 (Incorporated by reference to Annex A to Holding s Definitive Proxy Statement on Schedule 14A filed on April 28, 2014).
- 31.1 Certification of the Chief Executive Officer of Envision Healthcare Holdings, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
- 31.2 Certification of the Chief Financial Officer of Envision Healthcare Holdings, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
- 31.3 Certification of the Chief Executive Officer of Envision Healthcare Corporation pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
- 31.4 Certification of the Chief Financial Officer of Envision Healthcare Corporation 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 Envision Healthcare Holdings, Inc. 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 Envision Healthcare Corporation pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
- 101 The following materials from Holding s and Corporation s Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 formatted in XBRL (eXtensible Business Reporting Language): (1) the Consolidated Statements of Operations and Comprehensive Income, (2) the Consolidated Balance Sheets, (3) the Consolidated Statements of Cash Flows and (4) Notes to the Unaudited Consolidated Financial Statements.*

*Filed with this Report