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FORM 10-Q

Envision Healthcare Corp - EVHC

Filed: August 08, 2017 (period: June 30, 2017)

Quarterly report with a continuing view of a company's financial position

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the Quarterly Period Ended June 30, 2017

Envision Healthcare Corporation
(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of Incorporation)

001-37955
(Commission
File Number)

62-1493316
(I.R.S. Employer
Identification No.)

1A Burton Hills Boulevard
Nashville, Tennessee
(Address of Principal
Executive Offices)

37215
(Zip Code)

(615) 665-1283
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Yes No

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes No

As of August 4, 2017 there were outstanding 120,826,594 shares of the registrant's Common Stock, \$0.01 par value.

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Part I

Item 1. Financial Statements

Envision Healthcare Corporation
Consolidated Balance Sheets (unaudited)
(Dollars in millions, shares in thousands)

	June 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 441.3	\$ 316.9
Insurance collateral	100.5	87.0
Accounts receivable, net of allowance of \$2,336.9 and \$584.0, respectively	1,353.2	1,297.8
Supplies inventory	23.1	23.4
Prepaid and other current assets	146.7	135.1
Current assets held for sale	3,005.6	551.1
Total current assets	5,070.4	2,411.3
Property and equipment, net	305.8	300.8
Investments in unconsolidated affiliates	131.4	114.7
Goodwill	8,179.0	7,584.0
Intangible assets, net	3,763.1	3,675.5
Other assets	138.7	134.2
Noncurrent assets held for sale	—	2,488.4
Total assets	\$ 17,588.4	\$ 16,708.9
Liabilities and Equity		
Current liabilities:		
Current portion of long-term debt	\$ 53.0	\$ 46.6
Accounts payable	61.6	69.9
Accrued salaries and benefits	475.1	483.8
Accrued interest	51.1	51.4
Other accrued liabilities	416.1	253.2
Current liabilities held for sale	734.6	249.4
Total current liabilities	1,791.5	1,154.3
Long-term debt, net of deferred financing costs of \$105.5 and \$111.0, respectively	6,276.4	5,790.2
Deferred income taxes	1,835.6	1,343.7
Insurance reserves	314.3	278.9
Other long-term liabilities	148.4	102.4
Noncurrent liabilities held for sale	—	468.6
Commitments and contingencies		
Noncontrolling interests – redeemable	186.7	182.9
Equity:		
Preferred stock, \$0.01 par value, 100,000 shares authorized, 1,206 and 1,725 shares issued and outstanding, respectively	0.1	0.1
Common stock, \$0.01 par value, 1,000,000 shares authorized, 118,560 and 117,478 shares issued and outstanding, respectively	1.2	1.2
Additional paid-in capital	5,990.7	5,976.3
Retained earnings	360.3	753.7
Accumulated other comprehensive income (loss)	1.1	(0.2)
Total Envision Healthcare Corporation equity	6,353.4	6,731.1
Noncontrolling interests – non-redeemable	682.1	656.8
Total equity	7,035.5	7,387.9
Total liabilities and equity	\$ 17,588.4	\$ 16,708.9

See accompanying notes to the unaudited consolidated financial statements.

Envision Healthcare Corporation
Consolidated Statements of Operations (unaudited)
(Dollars in millions, except earnings per share)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues	\$ 3,020.6	\$ 859.8	\$ 5,876.4	\$ 1,678.1
Provision for uncollectibles	(1,073.6)	(101.3)	(2,050.8)	(194.9)
Net revenue	1,947.0	758.5	3,825.6	1,483.2
Operating expenses:				
Salaries and benefits	1,363.6	406.1	2,711.7	817.6
Supply cost	57.0	49.7	111.0	96.7
Insurance expense	42.6	19.1	91.4	36.8
Other operating expenses	189.4	90.0	373.3	178.4
Transaction and integration costs	27.4	5.1	48.9	6.5
Impairment charges	—	—	0.3	—
Depreciation and amortization	71.6	30.1	142.9	59.1
Total operating expenses	1,751.6	600.1	3,479.5	1,195.1
Net gain (loss) on disposals and deconsolidations	(5.8)	2.6	(5.5)	2.6
Equity in earnings of unconsolidated affiliates	5.7	7.4	10.6	14.0
Operating income	195.3	168.4	351.2	304.7
Interest expense, net	56.1	31.9	108.5	62.7
Other income, net	0.4	—	1.5	—
Earnings from continuing operations before income taxes	139.6	136.5	244.2	242.0
Income tax expense	35.6	33.4	53.1	54.2
Net earnings from continuing operations	104.0	103.1	191.1	187.8
Discontinued operations:				
Earnings from discontinued operations	6.7	—	16.7	—
Income tax expense from discontinued operations	(2.8)	—	(491.0)	—
Net earnings (loss) from discontinued operations	3.9	—	(474.3)	—
Net earnings (loss)	107.9	103.1	(283.2)	187.8
Less net earnings attributable to noncontrolling interests	51.6	57.1	105.7	110.9
Net earnings (loss) attributable to Envision Healthcare Corporation stockholders	56.3	46.0	(388.9)	76.9
Preferred stock dividends	(2.2)	(2.2)	(4.5)	(4.5)
Net earnings (loss) attributable to Envision Healthcare Corporation common stockholders	\$ 54.1	\$ 43.8	\$ (393.4)	\$ 72.4
Amounts attributable to Envision Healthcare Corporation common stockholders:				
Earnings from continuing operations, net of income tax	\$ 50.2	\$ 43.8	\$ 80.9	\$ 72.4
Earnings (loss) from discontinued operations, net of income tax	3.9	—	(474.3)	—
Net earnings (loss) attributable to Envision Healthcare Corporation common stockholders	\$ 54.1	\$ 43.8	\$ (393.4)	\$ 72.4
Basic earnings (loss) per share attributable to common stockholders:				
Net earnings from continuing operations	\$ 0.43	\$ 0.82	\$ 0.69	\$ 1.35
Net earnings (loss) from discontinued operations	0.03	—	(4.06)	—
Net earnings (loss)	\$ 0.46	\$ 0.82	\$ (3.37)	\$ 1.35
Diluted earnings (loss) per share attributable to common stockholders:				
Net earnings from continuing operations	\$ 0.42	\$ 0.80	\$ 0.68	\$ 1.34
Net earnings (loss) from discontinued operations	0.03	—	(4.06)	—
Net earnings (loss)	\$ 0.45	\$ 0.80	\$ (3.37)	\$ 1.34
Weighted average number of shares and share equivalents outstanding:				
Basic	116,852	53,739	116,708	53,702
Diluted	119,581	57,327	119,528	57,229

See accompanying notes to the unaudited consolidated financial statements.

Envision Healthcare Corporation
Consolidated Statements of Comprehensive Income (unaudited)
(In millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net earnings (loss)	\$ 107.9	\$ 103.1	\$ (283.2)	\$ 187.8
Other comprehensive income, net of income tax:				
Unrealized holding gain during the period, net of income tax	0.4	—	1.3	—
Comprehensive income (loss), net of income tax	108.3	103.1	(281.9)	187.8
Less comprehensive income attributable to noncontrolling interests	51.6	57.1	105.7	110.9
Comprehensive income (loss) attributable to Envision Healthcare Corporation stockholders	\$ 56.7	\$ 46.0	\$ (387.6)	\$ 76.9

See accompanying notes to the unaudited consolidated financial statements.

Envision Healthcare Corporation
Consolidated Statements of Changes in Equity (unaudited)
(Dollars in millions, shares in thousands)

	Envision Healthcare Corporation Stockholders								Noncontrolling Interests – Redeemable (Temporary Equity)	
	Common Stock		Preferred Stock		Additional	Retained	Accumulated	Noncontrolling		Total Equity (Permanent)
	Shares	Amount	Shares	Amount	Paid-in Capital	Earnings	Other Comprehensive Income (Loss)	Interests – Non- Redeemable		
Balance at December 31, 2016	117,478	\$ 1.2	1,725	\$ 0.1	\$ 5,976.3	\$ 753.7	\$ (0.2)	\$ 656.8	\$ 7,387.9	\$ 182.9
Net earnings (loss)	—	—	—	—	—	(388.9)	—	35.0	(353.9)	70.7
Issuance of restricted stock	36	—	—	—	—	—	—	—	—	—
Conversion of preferred stock	941	—	(519)	—	—	—	—	—	—	—
Stock options exercised	235	—	—	—	3.7	—	—	—	3.7	—
Stock repurchased	(130)	—	—	—	(8.9)	—	—	—	(8.9)	—
Share-based compensation	—	—	—	—	29.3	—	—	—	29.3	—
Dividends paid on preferred stock	—	—	—	—	—	(4.5)	—	—	(4.5)	—
Acquisitions and other transactions impacting noncontrolling interests	—	—	—	—	0.6	—	—	39.1	39.7	—
Distributions to noncontrolling interests, net of capital contributions	—	—	—	—	—	—	—	(43.7)	(43.7)	(74.3)
Disposals and other transactions impacting noncontrolling interests	—	—	—	—	(10.3)	—	—	(5.1)	(15.4)	7.4
Unrealized holding gain on investments, net of income tax	—	—	—	—	—	—	1.3	—	1.3	—
Balance at June 30, 2017	118,560	\$ 1.2	1,206	\$ 0.1	\$ 5,990.7	\$ 360.3	\$ 1.1	\$ 682.1	\$ 7,035.5	\$ 186.7
Balance at January 1, 2016	54,294	\$ 1,345.4	1,725	\$ 166.6	\$ —	\$ 781.4	\$ —	\$ 471.3	\$ 2,764.7	\$ 175.7
Net earnings	—	—	—	—	—	76.9	—	36.1	113.0	74.8
Issuance of restricted stock	587	—	—	—	—	—	—	—	—	—
Cancellation of restricted stock	(7)	—	—	—	—	—	—	—	—	—
Stock options exercised	20	0.5	—	—	—	—	—	—	0.5	—
Stock repurchased	(78)	(5.7)	—	—	—	—	—	—	(5.7)	—
Share-based compensation	—	15.1	—	—	—	—	—	—	15.1	—
Tax benefit related to exercise of share-based awards	—	3.7	—	—	—	—	—	—	3.7	—
Dividends paid on preferred stock	—	—	—	—	—	(4.5)	—	—	(4.5)	—
Acquisitions and other transactions impacting noncontrolling interests	—	0.7	—	—	—	—	—	13.6	14.3	4.0
Distributions to noncontrolling interests, net of capital contributions	—	—	—	—	—	—	—	(38.1)	(38.1)	(77.2)
Disposals and other transactions impacting noncontrolling interests	—	(2.9)	—	—	—	—	—	—	(2.9)	0.5
Balance at June 30, 2016	54,816	\$ 1,356.8	1,725	\$ 166.6	\$ —	\$ 853.8	\$ —	\$ 482.9	\$ 2,860.1	\$ 177.8

See accompanying notes to the unaudited consolidated financial statements.

Envision Healthcare Corporation
Consolidated Statements of Cash Flows (unaudited)
(In millions)

	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Net earnings (loss)	\$ (283.2)	\$ 187.8
Adjustments to reconcile net earnings (loss) to net cash flows provided by operating activities:		
Depreciation and amortization	211.8	59.1
Amortization of deferred loan costs	8.4	4.2
Provision for uncollectibles	2,510.9	207.0
Net (gain) loss on disposals and deconsolidations	5.5	(2.6)
Share-based compensation	29.3	15.1
Deferred income taxes	529.3	21.0
Equity in earnings of unconsolidated affiliates	(10.9)	(14.0)
Impairment charges	0.3	—
Net change in fair value of contingent consideration	—	(2.6)
Other, net	—	(3.7)
Increases (decreases) in cash and cash equivalents, net of acquisitions and dispositions:		
Accounts receivable	(2,577.9)	(228.3)
Supplies inventory	(0.7)	(0.4)
Prepaid and other current assets	(5.1)	(23.7)
Accounts payable	(6.1)	(3.3)
Accrued expenses and other liabilities	(45.4)	(28.2)
Other, net	12.5	7.6
Net cash flows provided by operating activities	<u>378.7</u>	<u>195.0</u>
Cash flows from investing activities:		
Acquisitions and related expenses, net of cash acquired	(485.7)	(281.1)
Acquisition of property and equipment	(90.7)	(37.6)
Purchases of marketable securities	(15.9)	(0.5)
Maturities of marketable securities	7.0	2.7
Other, net	(5.2)	(8.7)
Net cash flows used in investing activities	<u>(590.5)</u>	<u>(325.2)</u>
Cash flows from financing activities:		
Proceeds from long-term borrowings	798.3	317.1
Repayment on long-term borrowings	(314.3)	(98.8)
Distributions to noncontrolling interests	(119.0)	(115.6)
Proceeds from issuance of common stock upon exercise of stock options	3.7	0.5
Repurchase of common stock	(8.9)	(5.6)
Financing costs incurred	(2.9)	—
Other, net	(12.1)	—
Net cash flows provided by financing activities	<u>344.8</u>	<u>97.6</u>
Net increase (decrease) in cash and cash equivalents	133.0	(32.6)
Cash and cash equivalents, beginning of period	331.6	106.7
Less cash and cash equivalents of held for sale assets, end of period	23.3	—
Cash and cash equivalents, end of period	<u>\$ 441.3</u>	<u>\$ 74.1</u>

See accompanying notes to the unaudited consolidated financial statements.

Envision Healthcare Corporation
Notes to the Unaudited Consolidated Financial Statements

(1) Description of Business and Basis of Presentation*Description of Business*

Envision Healthcare Corporation (the Company) was formed on June 10, 2016 for the purpose of effecting the merger (the Merger) of AmSurg Corp. (AmSurg) and Envision Healthcare Holdings, Inc. (EHH). Prior to the Merger, the Company did not conduct any activities other than those incidental to its formation and matters in connection with the consummation of the Merger. On December 1, 2016, AmSurg and EHH completed the Merger and the strategic combination of their respective businesses. In connection with the Merger, (i) AmSurg merged with and into the Company, a wholly owned subsidiary of AmSurg, with the Company as the surviving entity and (ii) EHH merged with and into the Company, with the Company as the surviving entity. AmSurg was the accounting acquirer in the Merger; therefore, the historical consolidated financial statements of AmSurg for periods prior to the Merger are considered to be the historical financial statements of the Company. The Company's unaudited consolidated financial statements reflect AmSurg's results for the three and six months ended June 30, 2016, and the Company's results as of December 31, 2016 and for the three and six months ended June 30, 2017.

Following the completion of the Merger, the Company had three reportable segments: physician services, medical transportation and ambulatory services. The physician services segment reflects the combination of AmSurg's physician services segment and EHH's physician services segment, while the ambulatory services segment reflects AmSurg's ambulatory services segment. On February 28, 2017, the Company announced it would explore strategic alternatives for the medical transportation business. During the six months ended June 30, 2017, the Company's board of directors (the Board) approved a plan to actively market and divest the medical transportation business. Accordingly, the results of the medical transportation business have been recorded in discontinued operations for the three and six months ended June 30, 2017 and assets and liabilities have been recorded as held for sale as of June 30, 2017 and December 31, 2016. The medical transportation business is no longer a separate reportable segment.

Basis of Presentation

These unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial reporting and in accordance with Rule 10-01 of Regulation S-X. In the opinion of management, the unaudited interim consolidated financial statements contained in this report reflect all normal recurring adjustments, which are necessary for a fair presentation of the financial position and the results of operations for the interim periods presented. The results of operations for any interim period are not necessarily indicative of results for the full year. The accompanying unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Restricted Cash and Marketable Securities

As of June 30, 2017 and December 31, 2016, the Company held restricted cash and cash equivalents of \$45.3 million and \$43.5 million, respectively, classified within insurance collateral in the accompanying consolidated balance sheets. The cash was restricted for the purpose of satisfying the obligations of the Company's wholly owned captive insurance companies.

Supplemental Cash Flow Data

The following presents supplemental cash flow statement disclosure (in millions):

	Six Months Ended June 30,	
	2017	2016
Supplemental cash flow information:		
Interest payments	\$ 146.2	\$ 58.8
Income tax paid, net of refunds	\$ 14.5	\$ 45.7

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain prior year amounts in the accompanying consolidated financial statements and these notes have been reclassified to reflect the impact of discontinued operations as further discussed in Note 5 and also to conform to current year classifications as a result of the Merger.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09 “Revenue from Contracts with Customers,” which will eliminate the transaction and industry-specific revenue recognition guidance under current GAAP and replace it with a principle-based approach using the following steps: identify the contract(s) with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract and recognize revenue when (or as) the entity satisfies a performance obligation. In August 2015, the FASB issued ASU 2015-14 “Revenue from Contracts with Customers (Topic 606), Deferral of the Effective Date,” which granted a one-year deferral of this ASU. In 2016, the FASB issued the following ASUs to provide entities further clarity on the application of ASU 2014-09:

- ASU 2016-08 “Principal versus Agent Considerations (Reporting Revenue Gross versus Net)”
- ASU 2016-10 “Identifying Performance Obligations and Licensing”
- ASU 2016-12 “Narrow-Scope Improvements and Practical Expedients”
- ASU 2016-20 “Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers”

The guidance in ASU 2014-09 and the subsequently related ASUs will now be effective for public entities for annual reporting periods beginning after December 15, 2017, including interim periods therein. The Company is continuing to assess the method of adoption it expects to utilize. The Company does not believe adoption of the standard will have a material impact on the results of operations or cash flows for the ambulatory services segment. The Company is continuing its evaluation of the impact on the physician services segment to determine the impact, if any, on the results of operations and cash flows. However, the Company does anticipate that, as a result of certain changes by ASU 2014-09 and the subsequently related ASUs, the majority of its provision for uncollectibles will be recognized as a direct reduction to revenues, instead of separately as a deduction to arrive at revenue.

In February 2016, the FASB issued ASU No. 2016-02, “Leases,” which amends existing accounting standards for lease accounting, including requiring lessees to recognize most leases on the balance sheet and making changes to lessor accounting. The standard is effective for annual periods beginning after December 15, 2018, with early adoption permitted. The new standard requires a modified retrospective application for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The Company will adopt the new standard effective January 1, 2019. The Company expects that nearly all leases currently classified as operating leases will be classified as operating leases under the new standard with a right-of-use asset and a corresponding obligation recognized on the balance sheet at the adoption date. The Company has not yet determined the impact this ASU will have on the Company's results of operations or cash flows.

In March 2016, the FASB issued ASU No. 2016-09, “Improvements to Employee Share-Based Payment Accounting,” which changed how companies account for certain aspects of share-based payments to employees by requiring companies to recognize the income tax effects of awards in the income statement when the awards vest or are settled. The standard is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company adopted this standard effective January 1, 2017 and determined there were no unrecognized tax benefits which required reclassification from additional paid in capital to retained earnings. As a result of the adoption, the Company has recognized approximately \$2.1 million of tax benefit associated with the awards that were either exercised or vested during the six months ended June 30, 2017.

In November 2016, the FASB issued ASU No. 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash (A Consensus of the FASB Emerging Issues Task Force),” which requires entities to show the changes in cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. Entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. The standard is effective for annual periods beginning after December 15, 2017, and interim periods within those years and is to be adopted retrospectively. The Company has not yet determined the impact this ASU will have on the Company's cash flows.

In January 2017, the FASB issued ASU No. 2017-01, "Business Combinations (Topic 805) - Clarifying the Definition of a Business," which changes the definition of a business to assist entities with evaluating when a set of transferred assets and activities is a business. The guidance requires an entity to evaluate if substantially all of the fair value of gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets. The guidance is effective for annual periods beginning after December 15, 2017, and interim periods within those years. The Company has not yet determined the impact this ASU will have on the Company's consolidated financial position, results of operations or cash flows.

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles - Goodwill and Other (Topic 350) - Simplifying the Test for Goodwill Impairment," which eliminates the requirement to calculate the implied fair value of goodwill to measure an impairment charge. Instead, companies will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value. The standard is effective for annual periods beginning after December 15, 2019, with early adoption permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company has not yet determined the impact this ASU will have on the Company's consolidated financial position, results of operations or cash flows.

(2) Variable Interest Entities

GAAP requires variable interest entities (VIEs) to be consolidated if an entity's interest in the VIE is a controlling financial interest. Under the variable interest model, a controlling financial interest is determined based on which entity, if any, has (i) the power to direct the activities of the VIE that most significantly impacts the VIE's economic performance and (ii) the obligations to absorb the losses that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE.

The Company performs ongoing reassessments of (i) whether entities previously evaluated under the majority voting-interest framework have become VIEs, based on certain triggering events, and therefore would be subject to the VIE consolidation framework, and (ii) whether changes in the facts and circumstances regarding the Company's involvement with a VIE cause the Company's consolidation conclusion to change. The consolidation status of the VIEs with which the Company is involved may change as a result of such reassessments. Changes in consolidation status are applied prospectively with assets and liabilities of a newly consolidated VIE initially recorded at fair value.

Physician Services Segment

The physician services segment structures its contractual arrangements for services in various ways. In most states, a wholly owned subsidiary contracts with hospitals to provide management services. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries along with the accounts of affiliated professional corporations (PCs) with which the Company has management arrangements. The Company's agreements with these PCs provide that the term of the arrangements is permanent, subject only to termination by the Company, except in the case of gross negligence, fraud or bankruptcy of the Company. The PC structure is necessary in states which prohibit the corporate practice of medicine but this structure is utilized by the Company in the majority of its physician practices regardless of the state where the PC operates. The arrangements are captive in nature as a majority of the outstanding voting equity instruments of the PCs are owned by nominee shareholders appointed at the sole discretion of the Company. The nominee shareholder is a medical doctor who is generally a senior corporate employee of the Company. The Company has a contractual right to transfer the ownership of the PCs at any time to any person it designates as the nominee shareholder. The Company has the right to all assets and to receive income, both as ongoing fees and as proceeds from the sale of any interest in the PCs, in an amount that fluctuates based on the performance of the PCs and the change in the fair value of the interest in the PCs. The Company has exclusive responsibility for the provision of all non-medical services required for the day-to-day operation and management of the PCs and establishes the guidelines for the employment and compensation of the physicians and other employees of the PCs, which is consistent with the operation of the Company's wholly owned subsidiaries. Based on the provisions of these agreements, the Company has determined that the PCs are variable interest entities and that the Company is the primary beneficiary as defined in ASC 810 "Consolidations."

The Company has a variable interest in the PCs through the management contracts and the PCs are considered VIEs due to its equity holder lacking the obligation to absorb expected losses or receive expected residual returns. The contractual arrangement to provide management services allows the Company to direct the economic activities considered most significant to the PC. Accordingly, the Company is the primary beneficiary of the PCs and consolidates the PCs under the variable interest model in ASC 810.

The physician services segment also has partnerships with health systems that are considered VIEs. The Company consolidates the majority of the partnerships with health systems as the Company is the primary beneficiary due to its ability to direct the majority of activities that most significantly impact the economic performance of the partnership which occurs generally through a management services agreement. Therefore, the results of consolidated partnerships are reflected as a component of the accompanying consolidated

balance sheets, statements of operations and statements of cash flows.

The total assets (excluding goodwill and intangible assets, net) of the consolidated VIEs within the physician services segment, which are included in the accompanying consolidated balance sheets, as of June 30, 2017 and December 31, 2016, were \$1.52 billion and \$1.31 billion, respectively, and the total liabilities of the consolidated VIEs were \$1.15 billion and \$1.10 billion, respectively. Included in total assets as of June 30, 2017 and December 31, 2016 were \$240.5 million and \$215.7 million, respectively, of assets which were restricted as to use due to the Company's ownership percentage in certain of the partnerships with health systems and could only be used to settle the obligations of the VIEs. The creditors of the consolidated VIEs within the physician services segment have no recourse to the Company.

Ambulatory Services Segment

The Company, through its wholly owned subsidiaries, owns interests, primarily 51%, in limited liability companies (LLCs) and limited partnerships (LPs) which own and operate ambulatory surgery centers (ASCs or surgery centers). The Company has variable interests in the LLCs and LPs through its equity ownership interests. Each LLC and LP is considered a VIE due to its structure as a limited partnership or functional equivalent under ASU No. 2015-02. For those LLCs and LPs which the Company consolidates, the Company is considered the primary beneficiary due to the partnership agreements allowing the Company to govern the day-to-day activities and thereby control the most significant economic activities.

The total assets (excluding goodwill and intangible assets, net) of the consolidated VIEs within the ambulatory services segment, which are included in the accompanying consolidated balance sheets, as of June 30, 2017 and December 31, 2016, were \$373.5 million and \$388.1 million, respectively, and the total liabilities of the consolidated VIEs were \$119.4 million and \$117.9 million, respectively. Included in total assets as of June 30, 2017 and December 31, 2016, were \$177.4 million and \$185.5 million of assets, respectively, which were restricted as to use due to the Company's ownership percentage in these entities from the ambulatory services segments and could only be used to settle the obligations of the VIEs. The creditors of the VIEs have no recourse to the Company, with the exception of \$20.2 million and \$14.7 million of debt guaranteed by the Company at June 30, 2017 and December 31, 2016, respectively.

Unconsolidated Variable Interest Entities

The Company also has certain equity interests in unconsolidated affiliates which meet the definition of a VIE. The Company has a variable interest in 27 LLCs and LPs through its equity interests; however, the Company is not the primary beneficiary of these entities as it does not have the power to direct the activities that most significantly impact the entities' economic performance as a result of the Company's shared or lack of control. In each of the investments, the Company is not obligated to contribute any additional capital beyond its initial contribution and its maximum exposure to loss is limited to the initial capital contribution. As a result, the Company has accounted for these investments under the equity method of accounting and net earnings or loss from these investments is included in equity in earnings of unconsolidated affiliates in the accompanying consolidated statements of operations. See Note 7 for further information.

The Company recognized management and billing fees associated with these investments totaling \$1.3 million and \$5.5 million during the three months ended June 30, 2017 and 2016, respectively, and \$3.0 million and \$11.8 million for the six months ended June 30, 2017 and 2016, which are included in net revenue in the accompanying consolidated statements of operations. The Company has also recorded receivables from these entities in the amount of \$5.6 million and \$6.1 million as of June 30, 2017 and December 31, 2016, respectively. These receivables are included in the other current assets in the accompanying consolidated balance sheets.

(3) Revenue Recognition and Accounts Receivable

Revenue Recognition

Net revenue primarily consists of fee for service revenue and is derived principally from the provision of physician services to patients of the healthcare facilities and communities served and from facility fees for the procedures performed at surgery centers. Contract revenue and other revenue primarily represents income earned from hospital customers to supplement payments from third-party payors, contract staffing assignments and subscription fees.

Patients are billed for services provided, and the Company receives payments for these services from patients or their third-party payors. Payments for services provided are generally less than billed charges. The Company recognizes fee for service revenue, net of contractual adjustments and provision for uncollectibles, at the time services are provided by healthcare providers. Services provided but not yet billed are estimated and recognized in the period services are provided. Revenue is recognized for services provided during the period but not yet billed based on fees and negotiated payment rates in the case of third-party payors, the specific benefits provided

for under each patients' healthcare plan, mandated payment rates under the Medicare and Medicaid programs, and historical cash collections. The Company records net revenue from uninsured patients at an estimated realizable value, which includes a provision for uncollectible balances, based on historical cash collections (net of recoveries). The Company records revenue net of an allowance for contractual adjustments, which represents the net revenue expected to collect from third-party payors (including managed care, commercial and governmental payors such as Medicare and Medicaid) and patients insured by these payors. These expected collections are based on fees and negotiated payment rates in the case of third-party payors, the specific benefits provided for under each patient's healthcare plans, mandated payment rates in the case of Medicare and Medicaid programs, and historical cash collections (net of recoveries). The provision for uncollectibles includes an estimate of uncollectible balances due from uninsured patients, uncollectible co-pay and deductible balances due from insured patients and special charges, if any, for uncollectible balances due from managed care, commercial and governmental payors.

In certain circumstances, federal law requires providers to render emergency medical 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. Although the Company does provide a level of charity care, it is not significant to the Company's net revenues.

Estimating net revenue is a complex process, largely due to the volume of transactions, the number and complexity of contracts with payors, the limited availability, at times, of certain patient and payor information at the time services are provided, and the length of time it takes for collections to fully mature. In the period services are provided, the Company estimates gross charges based on billed services plus an estimate for unbilled services based on pending case data collected, estimates contractual allowances based on contracted rates and historical or actual cash collections (net of recoveries), when available, and estimates the provision for uncollectibles based on historical cash collections (net of recoveries) from uninsured patients. The relationship between gross charges and the allowances for both contractual adjustments and provision for uncollectibles is significantly influenced by payor mix, as collections on gross charges may vary significantly depending on whether and with whom the patients the Company provides services to in the period are insured and the Company's contractual relationships with those payors. Payor mix is subject to change as additional patient and payor information is obtained after the period services are provided. The Company periodically assesses the estimates of unbilled revenue, contractual adjustments, provision for uncollectibles and payor mix for a period of at least one year following the date of service by analyzing actual results, including cash collections, against estimates. Changes in these estimates are charged or credited to the consolidated statement of operations in the period that the assessment is made. Significant changes in payor mix, contractual arrangements with payors, specialty mix, acuity, business office operations, general economic conditions and health care coverage provided by federal or state governments or private insurers may have a significant impact on estimates and significantly affect the results of operations and cash flows. Concentration of credit risk with respect to other payors is limited due to the large number of such payors.

The Company's billing and accounting systems provide historical trends of cash collections and contractual write-offs, accounts receivable agings and established fee adjustments from third-party payors. These estimates are recorded and monitored monthly as revenues are recognized. These estimates are not, however, established from billing system generated contractual adjustments based on fee schedules for the patient's insurance plan for each patient encounter. The principal exposure for uncollectible fee for service visits is from self-pay patients and, to a lesser extent, for co-payments and deductibles from patients with insurance.

Net revenue for the Company consists of the following major payors (in millions):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2017		2016 ⁽¹⁾		2017		2016 ⁽¹⁾	
Medicare	\$ 489.3	25 %	\$ 157.7	21 %	\$ 952.6	25 %	\$ 308.6	21 %
Medicaid	166.4	9	33.9	4	322.1	8	67.8	4
Commercial and managed care	1,231.3	63	554.0	73	2,437.2	64	1,086.1	73
Self-pay	882.4	45	75.8	10	1,695.7	44	141.5	10
Net fee for service revenue	2,769.4	142	821.4	108	5,407.6	141	1,604.0	108
Contract and other revenue	251.2	13	38.4	5	468.8	13	74.1	5
Provision for uncollectibles	(1,073.6)	(55)	(101.3)	(13)	(2,050.8)	(54)	(194.9)	(13)
Net revenue	\$ 1,947.0	100 %	\$ 758.5	100 %	\$ 3,825.6	100 %	\$ 1,483.2	100 %

(1) On December 1, 2016, the Company completed the Merger. Accordingly, historical amounts from EHH for periods prior to that date are not included.

During the six months ended June 30, 2017, the Company's net fee for service revenue associated with self-pay, prior to the provision for uncollectibles, has significantly increased primarily due to the payor mix of EHH, which has a higher percentage of self-pay patients from the concentration of emergency medicine services.

Due to the nature of the Company's operations, it is required to separate the presentation of its bad debt expense on the consolidated statements of operations. The Company records the portion of its bad debts associated with its physician services segment as a component of net revenue in the accompanying consolidated statements of operations, and the remaining portion, which is associated with its ambulatory services segment, is recorded as a component of other operating expenses in the accompanying consolidated statements of operations. The bifurcation is a result of the Company's ability to assess the ultimate collection of the patient service revenue associated with its ambulatory services segment before services are provided as those services are pre-scheduled and non-emergent. Bad debt expense for ambulatory services is included in other operating expenses and was \$5.4 million and \$6.3 million for the three months ended June 30, 2017 and 2016, respectively, and \$12.3 million and \$12.1 million for the six months ended June 30, 2017 and 2016, respectively.

Accounts Receivable

The Company manages accounts receivable by regularly reviewing its accounts and contracts and by providing appropriate allowances for contractual adjustments and uncollectible amounts. Some of the factors considered by management in determining the amount of such allowances are the historical trends of cash collections, contractual and bad debt write-offs, accounts receivable agings, established fee schedules, contracts with payors, changes in payor mix and procedure statistics. Actual collections of accounts receivable in subsequent periods may require changes in the estimated contractual allowances and provision for uncollectibles.

The Company tests its analysis by comparing cash collections to net patient revenues and monitoring self-pay utilization. In addition, when actual collection percentages differ from expected results, on a contract by contract basis, supplemental detailed reviews of the outstanding accounts receivable balances may be performed by the Company's billing operations to determine whether there are facts and circumstances existing that may cause a different conclusion as to the estimate of the collectability of that contract's accounts receivable from the estimate resulting from using the historical collection experience. The Company also supplements its allowance for doubtful accounts analysis for its physician services segment quarterly using a hindsight calculation that utilizes write-off data for all payor classes during the previous twelve month period to estimate the allowance for doubtful accounts at a point in time. Changes in these estimates, if any, are charged or credited to the consolidated statements of operations in the period of change. Material changes in estimates may result from unforeseen write-offs of patient or third-party accounts receivable, unsuccessful disputes with managed care payors, adverse macro-economic conditions which limit patients' ability to meet their financial obligations for the care provided by physicians, or broad changes to government regulations that adversely impact reimbursement rates for services provided by the Company. Significant changes in payor mix, changes in contractual arrangements with payors, business office operations, general economic conditions and health care coverage provided by federal or state governments or private insurers may have a significant impact on the Company's estimates and significantly affect its results of operations and cash flows. Concentration of credit risk is limited by the diversity and number of facilities, patients, payors and by the geographic dispersion of the Company's operations.

At June 30, 2017 and December 31, 2016, the allowance for doubtful accounts was \$2.34 billion and \$584.0 million, respectively. The increase in the allowance for doubtful accounts from December 31, 2016 to June 30, 2017 is attributable to the growth of the allowance from the accounts receivable acquired in the Merger, which represents \$1.65 billion, and from recent acquisitions that were recorded at net realizable value. Additionally, the allowance at December 31, 2016 has been reduced by \$68.2 million related to the amount reclassified as part of the medical transportation business held for sale.

(4) Acquisitions and Disposals

The Company accounts for its business combinations under the fundamental requirements of the acquisition method of accounting and under the premise that an acquirer be identified for each business combination. The acquirer is the entity that obtains control of one or more businesses in the business combination and the acquisition date is the date the acquirer achieves control. The assets acquired, liabilities assumed and any noncontrolling interests in the acquired business at the acquisition date are recognized at their fair values as of that date, and the direct costs incurred in connection with the business combination are recorded and expensed separately from the business combination. Acquisitions in which the Company is able to exert significant influence but does not have control are accounted for using the equity method.

EHH Merger

On December 1, 2016, AmSurg and EHH completed the Merger and the strategic combination of their respective businesses. We believe the Merger combined two industry leaders to create a premier healthcare services provider offering clinical solutions on a national scale, enabling the Company to create value for health systems, payors, providers and patients. Based on an evaluation of the provisions of ASC Topic 805, Business Combinations, AmSurg was determined to be the acquirer for accounting purposes. Under the terms of the Merger, each share of AmSurg common stock was converted into one share of Company common stock, each share of AmSurg 5.25% mandatory convertible preferred stock, Series A-1 (AmSurg Preferred Stock) was converted into one share of Company 5.25% mandatory convertible preferred stock, Series A-1 (Company Preferred Stock), and each share of EHH common stock was converted into 0.334 shares of Company common stock. Pursuant to the Merger, the Company issued 62,582,161 shares of common stock to former EHH stockholders, which were valued at approximately \$4.26 billion based on the closing price of AmSurg's common stock on November 30, 2016. In addition, the Company issued replacement equity awards, which were valued at \$180.3 million.

Concurrently with the Merger, on December 1, 2016, the Company entered into a new senior secured credit facility, incurring a new \$3.50 billion term loan and an \$850.0 million ABL revolving credit facility. At the closing of the Merger, the Company also completed a private offering of \$550.0 million aggregate principal amount of 6.25% senior unsecured notes due 2024 to provide incremental financing to the Company, adjust scheduled maturities and reallocate between variable and fixed rate debt.

Fees and expenses associated with the Merger, which includes fees incurred related to the Company's equity issuances and debt financings, was approximately \$199.0 million during the year ended December 31, 2016. Approximately \$94.9 million was capitalized as deferred financing costs, \$73.8 million was expensed as transaction and integration costs, and \$30.3 million was recorded as debt extinguishment costs during the year ended December 31, 2016.

Physician Services Activity

The Company, through wholly owned subsidiaries, completed the acquisition of nine physician practices in the six months ended June 30, 2017 and six physician practices in the six months ended June 30, 2016. The aggregate amount paid for the physician practices and for settlement of purchase price payable obligations during the six months ended June 30, 2017 and 2016 was approximately \$440.8 million and \$255.4 million, respectively, and was paid in cash and funded by either operating cash flow or borrowings under the Company's existing or prior credit agreement or a combination thereof. In addition to the cash paid, approximately \$110.0 million of consideration was deferred and paid in July 2017.

Ambulatory Services Activity

During each of the six months ended June 30, 2017 and 2016, the Company, through wholly-owned subsidiaries, acquired a controlling interest in four surgery centers. The aggregate amount paid for the centers during the six months ended June 30, 2017 and 2016 was approximately \$33.3 million and \$25.7 million, respectively, and was paid in cash and funded by either operating cash flow or borrowings under the Company's existing or prior credit agreement or a combination thereof. In addition to the cash paid, approximately \$13.5 million of consideration was deferred and paid in July 2017. During the six months ended June 30, 2017 and 2016, the Company disposed of three surgery centers and two surgery centers, respectively, and recognized a net loss from the disposals of \$3.9 million in the six months ended June 30, 2017 and a net gain of \$3.3 million in the six months ended June 30, 2016.

Purchase Price Allocations

Acquired assets and assumed liabilities include, but are not limited to, accounts receivable, fixed assets, intangible assets, deferred income taxes and insurance liabilities. The valuations are based on appraisal reports, discounted cash flow analyses, actuarial analyses or other appropriate valuation techniques to determine the fair value of the assets acquired or liabilities assumed. The preliminary estimated fair value assigned to goodwill is primarily attributable to synergies expected to arise after the Merger by enhancing the growth profile and diversity of the Company across the healthcare continuum. The Merger did not result in additional tax deductible goodwill. A majority of the deferred income taxes recognized as a component of the Company's purchase price allocation is a result of the difference between the book and tax basis of the intangible assets recognized. The amount allocated to the deferred income tax liability is subject to change as a result of the final allocation of purchase price to amortizable intangibles. The accounting for the Merger is currently preliminary. The Company continues to obtain information relative to the fair values of assets acquired, liabilities assumed and any noncontrolling interests in the transaction which could result in material changes to the amounts allocated below. The Company expects to finalize the purchase price allocation for EHH as soon as practical.

During the six months ended June 30, 2017, adjustments were recorded to the purchase price allocation related to EHH as part of the Company's continuing evaluation of the assets and liabilities existing at the date of acquisition. This resulted in a net increase to goodwill of approximately \$122.1 million and corresponding changes to certain account classes from the preliminary allocation recorded at December 31, 2016 that are reflected in the table below. The Company is still in the process of reviewing all major classes of consideration and expects to use the full measurement period from the Merger date to complete the evaluation. The acquisition date fair value of the total consideration transferred and acquisition date fair value of each major class of consideration for the acquisition of EHH are as follows (in millions):

Cash and cash equivalents	\$	165.8
Insurance collateral		59.9
Accounts receivable		1,155.6
Supplies inventory		38.7
Prepaid and other current assets		119.3
Property and equipment		376.0
Goodwill		4,642.9
Intangible assets		3,070.8
Other long-term assets		103.1
Accounts payable		(63.6)
Accrued salaries and benefits		(338.0)
Accrued interest		(17.3)
Other accrued liabilities		(333.0)
Deferred income taxes		(966.2)
Long term insurance reserves		(314.1)
Other long-term liabilities		(62.8)
Long-term debt		(3,063.1)
Total fair value		4,574.0
Less: Fair value attributable to noncontrolling interests		130.6
Acquisition date fair value of total consideration transferred	\$	<u>4,443.4</u>

The acquisition date fair value of the total consideration transferred and acquisition date fair value of each major financial class for individual acquisitions in both the ambulatory services and physician services segments completed in the six months ended June 30, 2017, including post acquisition date adjustments, are as follows (in millions):

Accounts receivable	\$	62.1
Supplies inventory		0.3
Prepaid and other current assets		4.4
Property and equipment		5.3
Goodwill		496.4
Intangible assets		236.0
Other long-term assets		1.0
Accounts payable		(6.6)
Accrued salaries and benefits		(23.5)
Other accrued liabilities		(48.3)
Deferred income taxes		(60.2)
Other long-term liabilities		(37.7)
Long-term debt		(0.5)
Total fair value		628.7
Less: Fair value attributable to noncontrolling interests		31.1
Acquisition date fair value of total consideration transferred	\$	<u>597.6</u>

Represents the preliminary allocation of fair value of acquired assets and liabilities associated with these acquisitions at June 30, 2017.

During the six months ended June 30, 2017, no significant changes were made to the purchase price allocation of assets and liabilities, existing at the date of acquisition, related to individual acquisitions completed in 2016. For the six months ended June 30, 2017 and 2016 approximately \$236.4 million and \$100.9 million, respectively, of goodwill recorded was deductible for tax purposes.

The total fair value of acquisitions completed by the Company include amounts allocated to goodwill, which result from the acquisitions' favorable reputations in their markets, their market positions and their ability to deliver quality care with high patient satisfaction consistent with the Company's business model. Fair value attributable to noncontrolling interests is based on significant inputs that are not observable in the market. Key inputs used to determine the fair value include financial multiples used in the purchase of noncontrolling interests primarily from acquisitions of centers. Such multiples, based on earnings, are used as a benchmark for the discount to be applied for the lack of control or marketability. The fair value of noncontrolling interests for acquisitions where the purchase price allocation is not finalized may be subject to adjustment as the Company completes its initial accounting for acquired intangible assets. Additionally, the Company continues to obtain information relative to the fair values of assets acquired, liabilities assumed and any noncontrolling interests associated with acquisitions completed in the last 12 months. Acquired assets and assumed liabilities include, but are not limited to, fixed assets, licenses, intangible assets and professional liabilities. The valuations are based on appraisal reports, discounted cash flow analyses, actuarial analyses or other appropriate valuation techniques used to determine the fair value of the assets acquired or liabilities assumed. A majority of the deferred income taxes recognized as a component of the Company's purchase price allocation is a result of the difference between the book and tax basis of the amortizable intangible assets recognized. The amount allocated to the deferred income tax liability is subject to change as a result of the final allocation of purchase price to amortizable intangibles. The Company expects to finalize the purchase price allocation for its most recent acquisitions as soon as practical.

During the three and six months ended June 30, 2017, the Company incurred approximately \$27.4 million and \$48.9 million of transaction and integration costs, respectively, and during the three and six months ended June 30, 2016 the Company incurred approximately \$5.1 million and \$6.5 million, respectively. The costs incurred during the three and six months ended June 30, 2017 were primarily a result of the Merger and from recent acquisitions.

Net revenue and net earnings associated with completed acquisitions during the six months ended June 30, 2017 and 2016 are as follows (in millions):

	Six Months Ended June 30,	
	2017	2016
Net revenue	\$ 88.6	\$ 12.7
Net earnings	\$ 5.6	\$ 2.2
Less: Net earnings attributable to noncontrolling interests	0.7	0.6
Net earnings attributable to Envision Healthcare Corporation stockholders	\$ 4.9	\$ 1.6

The unaudited consolidated pro forma results for the six months ended June 30, 2017 and 2016, assuming all 2017 acquisitions had been consummated on January 1, 2016, and the Merger and all 2016 acquisitions had been consummated on January 1, 2015 are as follows (in millions):

	Six Months Ended June 30,	
	2017	2016
Net revenue	\$ 4,017.1	\$ 3,995.0
Net earnings from continuing operations attributable to Envision Healthcare Corporation stockholders	155.6	143.5

The unaudited pro forma results for the six months ended June 30, 2017 were adjusted to exclude \$48.9 million of transaction costs, which is reflected in the unaudited pro forma results for 2016. The unaudited pro forma results for the six months ended June 30, 2017 and 2016 were adjusted to exclude the results from the medical transportation business, including \$29.6 million of pre-tax corporate overhead expenses allocated to continuing operations during the six months ended June 30, 2017. In addition, the unaudited pro forma results assumes proceeds from the sale of the medical transportation business would be used to repay outstanding debt obligations. Certain other adjustments, including those related to conforming accounting policies, have not been reflected in the supplemental pro forma operating results due to the impracticability of estimating such impacts.

(5) Discontinued Operations

During the six months ended June 30, 2017, the Company initiated a strategic review of each of the Company's lines of business. As a result of that review, management and the Board determined that the Company will focus on physician centric services, including facility based physician services, post-acute services and ambulatory services, which partners with community based physicians across the country. Accordingly, the Board approved a plan to market and divest the medical transportation business, representing the historical medical transportation reportable segment. The Company determined that the planned divestiture of the medical transportation business meets the criteria for classification as discontinued operations. All historical operating results for the medical transportation business are reflected within discontinued operations in the consolidated statements of operations. Furthermore, all assets and liabilities associated with the medical transportation business were classified as assets and liabilities held for sale in our consolidated balance sheets for all periods presented and are preliminary due to the purchase price allocation from the Merger. See Note 17 for more information regarding the divestiture of the medical transportation business.

In accordance with ASC 740, "Income Taxes", a tax liability should be recognized for the excess of the financial reporting basis over the tax basis (or the tax benefit when the tax basis exceeds the financial reporting basis) of an investment in a subsidiary (outside basis difference) when it is apparent that the temporary differences will reverse in the foreseeable future. In connection with presenting the medical transportation business as a discontinued operation as of June 30, 2017, the Company was required to re-evaluate its position related to the recognition of a deferred tax asset or liability for the outside basis differences of the entities being held for sale. Previously, deferred taxes for such outside basis differences had not been recognized as the Company applied one of the exceptions provided in ASC 740. However, the outside basis differences are now expected to reverse in the foreseeable future and therefore, these exceptions no longer applied at June 30, 2017. As a result, the Company recorded deferred tax expense and associated deferred tax liability in the amount of \$484.0 million, which is a component of income tax expense of discontinued operations, as of June 30, 2017, and will be the obligation of the Company upon the completion of the divestiture of the medical transportation business.

The following table is a reconciliation of the major classes of assets and liabilities classified as held for sale in the accompanying consolidated balance sheets representing the medical transportation business as of June 30, 2017 and December 31, 2016 (in millions):

	June 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 23.3	\$ 14.7
Insurance collateral ⁽¹⁾	1.5	—
Accounts receivable, net	414.8	457.2
Supplies inventory	38.2	37.8
Prepaid and other current assets	43.0	41.4
Property and equipment, net	292.0	294.4
Investments in unconsolidated affiliates	0.2	2.2
Goodwill	1,244.8	1,235.0
Intangible assets, net	913.4	929.4
Other assets	34.4	27.4
Total assets held for sale	<u>\$ 3,005.6</u>	<u>\$ 3,039.5</u>
Liabilities		
Current liabilities:		
Current portion of long-term debt	\$ 0.5	\$ 0.4
Accounts payable	31.3	31.4
Accrued salaries and benefits	75.6	77.4
Other accrued liabilities	139.0	140.2
Long-term debt	1.1	1.4
Deferred income taxes	361.4	337.0
Insurance reserves	89.0	91.6
Other long-term liabilities	36.7	38.6
Total liabilities held for sale	<u>\$ 734.6</u>	<u>\$ 718.0</u>

(1) Insurance collateral for claims related to the medical transportation business are generally held within a captive insurance company. Such balances are available to settle the insurance claims of the medical transportation business but are not recorded into assets held for sale as the captive insurance company is a subsidiary of the Company, not the medical transportation business.

The following table summarizes the results of discontinued operations for the three and six months ended June 30, 2017 (in millions):

	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
Net revenues	\$ 588.8	\$ 1,182.3
Operating expenses:		
Salaries and benefits	336.0	673.9
Supply cost	13.9	27.8
Insurance expense	22.3	41.0
Other operating expenses	151.2	303.5
Transaction and integration costs	1.7	6.0
Depreciation and amortization	34.7	68.9
Total operating expenses	559.8	1,121.1
Equity in earnings of unconsolidated affiliates	0.1	0.3
Operating income	29.1	61.5
Interest expense, net	22.4	44.8
Earnings before income taxes	\$ 6.7	\$ 16.7
Results of discontinued operations:		
Earnings from discontinued operations	\$ 6.7	\$ 16.7
Income tax expense of discontinued operations	(2.8)	(491.0)
Net earnings (loss) from discontinued operations	\$ 3.9	\$ (474.3)

In accordance with ASC 205, "Presentation of Financial Statements", for purposes of discontinued operations presentation, general corporate expenses are not permitted to be allocated to the operations of a business to be disposed. Accordingly, for the three and six months ended June 30, 2017 and on a before tax basis, approximately \$15.1 million and \$29.6 million, respectively, of general corporate expenses, including allocations for corporate salaries and stock-based compensation, general and administrative costs and depreciation, were removed from the medical transportation business and reallocated to the Company's remaining segments. In addition, ASC 205 requires interest associated with debt that is required to be repaid as a result of the disposal transaction to be allocated to discontinued operations. Accordingly, during the three and six months ended June 30, 2017, the Company allocated \$21.8 million and \$43.6 million, respectively, in interest expense to the medical transportation business, which is reflected in the loss from discontinued operations. The Company estimated the interest allocation by applying the effective interest rate of the Company's term loan B due 2023 by the estimated proceeds, less taxes and professional fees, from the potential divestiture of the medical transportation business.

For the six months ended June 30, 2017, the net cash flows provided by operating activities attributable to discontinued operations were \$100.7 million and the net cash flows used in investing activities were \$61.4 million, including \$11.6 million for an acquisition. As the Medical Transportation business was acquired on December 1, 2016, there were no cash flows attributable to discontinued operations for the six months ended June 30, 2016.

(6) Fair Value Measurements

The fair value of a financial instrument is the amount at which the instrument could be exchanged in an orderly transaction between market participants to sell the asset or transfer the liability. The inputs used by the Company to measure fair value are classified into the following hierarchy:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability through corroboration with market data at the measurement date.

Level 3: Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

In determining the fair value of assets and liabilities that are measured on a recurring basis at June 30, 2017 and December 31, 2016, with the exception of contingent purchase price payables, the Company utilized Level 1 and 2 inputs to perform such measurements methods, which were commensurate with the market approach. The Company utilizes Level 3 inputs to measure the fair value of the contingent consideration. There were no transfers to or from Levels 1 and 2 during the three and six months ended June 30, 2017. The Company's non-patient receivables and accounts payable are reflected in the financial statements at cost, which approximates fair value.

The following table summarizes the valuation of the Company's financial instruments by the above fair value hierarchy levels as of June 30, 2017 and December 31, 2016 (in millions):

	June 30, 2017			
	Level 1	Level 2	Level 3	Total
Assets:				
U.S. Treasuries	\$ 0.4	\$ 1.2	\$ —	\$ 1.6
Corporate bonds/Fixed income	30.5	9.1	—	39.6
Corporate equity	13.9	0.1	—	14.0
Liabilities:				
Contingent consideration	—	—	5.7	5.7
	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Assets:				
U.S. Treasuries	\$ 0.4	\$ 0.6	\$ —	\$ 1.0
Corporate bonds/Fixed income	22.8	5.5	—	28.3
Corporate equity	14.2	—	—	14.2
Liabilities:				
Contingent consideration	—	—	1.0	1.0

The following table summarizes the change in financial instruments classified as Level 3 in the fair value hierarchy as of June 30, 2017 (in millions):

Balance at December 31, 2016	\$ 1.0
Increase due to current period acquisitions	4.7
Balance at June 30, 2017	<u>\$ 5.7</u>

Insurance Collateral

Insurance collateral is comprised of investments in U.S. Treasuries and marketable equity and debt securities held by the Company's wholly owned captive insurance subsidiaries that support the Company's insurance programs and reserves, as well as cash deposits with third parties. 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 unrealized gains and losses reported as a separate component of accumulated other comprehensive income (loss), 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 a component of other income, net in the accompanying statements of operations. Realized gains and losses are determined based on an average cost basis.

Investments are generally classified within Level 1 or Level 2 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency.

Insurance collateral consisted of the following as of June 30, 2017 and December 31, 2016 (in millions):

	June 30, 2017	December 31, 2016
Available-for-sale securities:		
U.S. Treasuries	\$ 1.6	\$ 1.0
Corporate bonds/Fixed income	39.6	28.3
Corporate equity	14.0	14.2
Total available-for-sale securities	55.2	43.5
Cash deposits and other	45.3	43.5
Insurance collateral	\$ 100.5	\$ 87.0

Amortized cost basis and aggregate fair value of the Company's available-for-sale securities as of June 30, 2017 and December 31, 2016 were as follows (in millions):

Description:	June 30, 2017			
	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasuries	\$ 1.6	\$ —	\$ —	\$ 1.6
Corporate bonds/Fixed income	39.4	0.2	—	39.6
Corporate equity	12.9	1.2	(0.1)	14.0
Total available-for-sale securities	\$ 53.9	\$ 1.4	\$ (0.1)	\$ 55.2

Description:	December 31, 2016			
	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasuries	\$ 1.0	\$ —	\$ —	\$ 1.0
Corporate bonds/Fixed income	28.3	—	—	28.3
Corporate equity	14.4	0.1	(0.3)	14.2
Total available-for-sale securities	\$ 43.7	\$ 0.1	\$ (0.3)	\$ 43.5

As of June 30, 2017, available-for-sale securities included U.S. Treasuries, corporate bonds and fixed income securities of \$3.6 million with contractual maturities within one year and \$36.1 million with contractual maturities extending longer than one year through five years and \$1.5 million with contractual maturities extending longer than five years. Actual maturities may differ from contractual maturities as a result of the Company's ability to sell these securities prior to maturity.

The Company's available-for-sale investment securities that were temporarily impaired as of June 30, 2017 and December 31, 2016 consisted of corporate equity securities that had a fair value of \$2.9 million and \$7.6 million with a cumulative unrealized loss position of less than \$0.1 million and \$0.3 million for less than twelve months, respectively. There were no available-for-sale investment securities that were other-than-temporarily impaired as of June 30, 2017.

The Company evaluates the investment securities available-for-sale on a quarterly basis to determine whether declines in the fair value of these securities are other-than-temporary. The evaluation consists of reviewing the fair value of the security compared to the carrying amount, the historical volatility of the price of each security, and any industry and company specific factors related to each security.

The Company is not aware of any specific factors indicating that the underlying issuers of the corporate bonds/fixed income securities would not be able to pay interest as it becomes due or repay the principal amount at maturity. Therefore, the Company believes that the changes in the estimated fair values of these debt securities are related to temporary market fluctuations and the Company does not

intend to dispose of these investments. Additionally, the Company is not aware of any specific factors which indicate the unrealized losses on the investments in corporate equity securities are due to anything other than temporary market fluctuations.

The Company received proceeds of \$6.5 million and \$7.0 million on the sale and maturities of available-for-sale securities for the three and six months ended June 30, 2017, respectively. For the three and six months ended June 30, 2017, a gain of less than \$0.1 million was reclassified from accumulated other comprehensive income to other income, net in the accompanying consolidated statements of operations. For the three and six months ended June 30, 2017, unrealized gains on available-for-sale securities of \$0.4 million and \$1.3 million, respectively, were recorded in accumulated other comprehensive income. The Company did not receive any proceeds from the maturity or sale of available-for-sale securities for the three and six months ended June 30, 2016.

(7) Investments in Unconsolidated Affiliates

Investments in unconsolidated affiliates in which the Company exerts significant influence but does not control or otherwise consolidate are accounted for using the equity method. Equity method investments are initially recorded at cost, unless such investments are a result of the Company entering into a transaction whereby the Company loses control of a previously controlled entity but retains a noncontrolling interest. Such transactions, which result in the deconsolidation of a previously consolidated entity, are measured at fair value. The fair value measurement utilizes Level 3 inputs, which include unobservable data, to measure the fair value of the retained noncontrolling interest. The fair value determination is generally based on a combination of multiple valuation methods, which can include discounted cash flow, income approach, or market value approach, which incorporates estimates of future earnings and market valuation multiples for certain guideline companies. These investments are included as investments in unconsolidated affiliates in the accompanying consolidated balance sheets. The Company's share of the profits and losses from these investments is reported in equity in earnings of unconsolidated affiliates in the accompanying consolidated statements of operations. The Company monitors its investments for other-than-temporary impairment by considering factors such as current economic and market conditions and the operating performance of the companies and records reductions in carrying values when necessary.

As of June 30, 2017 and December 31, 2016, the Company recorded in the accompanying consolidated balance sheets its investments in unconsolidated affiliates of \$131.4 million and \$114.7 million, respectively. The Company's net earnings from these investments during the three months ended June 30, 2017 and 2016 were approximately \$5.7 million and \$7.4 million, respectively, and \$10.6 million and \$14.0 million, respectively, for the six months ended June 30, 2017 and 2016.

During the six months ended June 30, 2017, the Company entered into two equity method investments. As a result of these investments, the Company contributed its controlling interest in two centers in exchange for a noncontrolling interest in the new investments and net cash consideration of \$1.2 million. These investments are jointly owned by health systems and the Company. The newly formed investments (including the contributed centers) are controlled by the health systems. Also, as part of these transactions, the Company obtained a non-controlling interest in two additional centers which were contributed by the health systems. During the six months ended June 30, 2016, the Company's ambulatory services segment sold a portion of its interest in one surgery center, which resulted in the surgery center being deconsolidated and subsequently accounted for as an equity method investment.

As a result of these transactions, the Company recorded in the accompanying consolidated balance sheet, as a component of investments in unconsolidated affiliates, the fair value of the Company's investment in these entities of approximately \$15.4 million and \$1.8 million during the six months ended June 30, 2017 and 2016, respectively.

In each of these transactions, the gain or loss on deconsolidation, which is primarily non-cash in nature, was determined based on the difference between the fair value of the Company's interest, which was based on estimates of the expected future earnings, in the new entity and the carrying value of both the tangible and intangible assets of the contributed center immediately prior to the transaction. In certain cases, the Company evaluated likely scenarios which were weighted by a range of expected probabilities of 10% to 50% which were primarily based on third-party valuations received by the Company. Accordingly, the Company recognized a net gain on deconsolidation which is included in net gain on disposals and deconsolidations in the accompanying consolidated statements of operations of approximately \$7.4 million during the six months ended June 30, 2017. There was no deconsolidation activity during the three months ended June 30, 2017. During both the three and six months ended June 30, 2016, the Company recognized a net loss on deconsolidation in the accompanying consolidated statements of operations of approximately \$0.7 million.

(8) Goodwill and Intangible Assets*Goodwill*

The changes in the carrying amount of goodwill for the six months ended June 30, 2017 are as follows (in millions):

	Physician Services	Ambulatory Services	Total
Balance at December 31, 2016	\$ 5,509.7	\$ 2,074.3	\$ 7,584.0
Goodwill acquired, including post acquisition adjustments	534.1	75.0	609.1
Goodwill disposed, including impact of deconsolidation transactions	—	(14.1)	(14.1)
Balance at June 30, 2017	<u>\$ 6,043.8</u>	<u>\$ 2,135.2</u>	<u>\$ 8,179.0</u>

During the six months ended June 30, 2017, goodwill was recorded in the Company's physician services segment due to the acquisition of nine physician practices. In the Company's ambulatory services segment, goodwill increased due to the acquisition of four surgery centers and was offset by \$14.1 million of goodwill from the disposal of three surgery centers within the ambulatory services segment.

Intangible Assets

Amortizable Intangible Assets	Estimated Useful Life	Weighted Average Amortization Period
Customer relationships	17 to 20 years	18.6
Capitalized software	3 to 5 years	4.4
Trade names	1 year	0.4
Agreements, contracts and other	3 to 10 years	3.6

Intangible assets at June 30, 2017 and December 31, 2016 consisted of the following (in millions):

	June 30, 2017			December 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Amortizable intangible assets:						
Customer relationships	\$ 3,422.9	\$ (236.1)	\$ 3,186.8	\$ 3,235.0	\$ (154.6)	\$ 3,080.4
Capitalized software	148.0	(58.0)	90.0	136.5	(41.8)	94.7
Trade names	25.0	(14.6)	10.4	25.0	(2.1)	22.9
Agreements, contracts and other	13.7	(5.8)	7.9	13.2	(4.7)	8.5
Total amortizable intangible assets	<u>3,609.6</u>	<u>(314.5)</u>	<u>3,295.1</u>	<u>3,409.7</u>	<u>(203.2)</u>	<u>3,206.5</u>
Non-amortizable intangible assets:						
Trade names	460.0	—	460.0	460.0	—	460.0
Restrictive covenant arrangements	8.0	—	8.0	9.0	—	9.0
Total non-amortizable intangible assets	<u>468.0</u>	<u>—</u>	<u>468.0</u>	<u>469.0</u>	<u>—</u>	<u>469.0</u>
Total intangible assets	<u>\$ 4,077.6</u>	<u>\$ (314.5)</u>	<u>\$ 3,763.1</u>	<u>\$ 3,878.7</u>	<u>\$ (203.2)</u>	<u>\$ 3,675.5</u>

Amortization of intangible assets for the three months ended June 30, 2017 and 2016 was \$55.5 million and \$21.1 million, respectively, and \$111.6 million and \$41.5 million for the six months ended June 30, 2017 and 2016, respectively. Estimated amortization of intangible assets for the remainder of 2017 and each of the following five years and thereafter is \$113.4 million, \$202.1 million, \$193.7 million, \$186.9 million, \$180.0 million, \$174.8 million and \$2.24 billion, respectively. The Company expects to recognize amortization of all intangible assets over a weighted average period of 18.2 years with no expected residual values.

(9) Other Accrued Liabilities

The following table presents a summary of items comprising other accrued liabilities in the accompanying consolidated balance sheets as of June 30, 2017 and December 31, 2016 (in millions):

	June 30, 2017	December 31, 2016
Insurance reserves	\$ 76.1	\$ 78.2
Refunds payable	34.3	33.6
Deferred revenue	12.8	9.4
Other	292.9	132.0
Total other accrued liabilities	\$ 416.1	\$ 253.2

(10) Long-term Debt

Long-term debt at June 30, 2017 and December 31, 2016 consisted of the following (in millions):

	June 30, 2017	December 31, 2016
ABL Facility	\$ —	\$ —
Term Loan B - 2023	3,976.3	3,495.0
Senior Unsecured Notes due 2022 (5.625%)	1,100.0	1,100.0
Senior Unsecured Notes due 2022 (5.125%)	750.0	750.0
Senior Unsecured Notes due 2024 (6.250%)	550.0	550.0
Other debt due through 2025	25.8	20.9
Capitalized lease arrangements due through 2031	32.8	31.9
	6,434.9	5,947.8
Less current portion	53.0	46.6
Less net deferred financing costs	105.5	111.0
Long-term debt	\$ 6,276.4	\$ 5,790.2

The fair value of fixed rate long-term debt, with a carrying value of \$2.46 billion, was \$2.57 billion at June 30, 2017. The fair value of variable rate long-term debt approximates its carrying value of \$3.98 billion at June 30, 2017. With the exception of the Company's senior unsecured notes, the fair value of fixed rate debt (Level 2) is determined based on an estimation of discounted future cash flows of the debt at rates currently quoted or offered to the Company for similar debt instruments of comparable maturities by its lenders. The fair value of the Company's senior unsecured notes (Level 1) is determined based on quoted prices in an active market.

On June 23, 2017, the Company incurred incremental term loan borrowings in an aggregate principal amount of \$500 million, maturing on December 1, 2023. The incremental amounts were borrowed pursuant to the Increase Supplement, dated as of June 23, 2017, which supplements the Company's existing Amended and Restated Credit Agreement, dated as of December 1, 2016. The incremental borrowings bear interest at the same rate and have the same terms as the Company's Term Loan B.

(11) Insurance Reserves

Insurance reserves are established for professional and general liability claims utilizing policies with both fully-insured and self-insured components. This includes the use of an off-shore captive insurance program through wholly owned subsidiaries for certain professional (medical malpractice) and general liability programs. In those instances where the Company has obtained third-party insurance coverage, the Company normally retains liability for the first \$1 million 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 June 30, 2017.

The Company establishes reserves for claims based upon an assessment of claims reported and claims incurred but not reported. The reserves are established based on consultation with third-party independent actuaries using actuarial principles and assumptions that

consider a number of factors, including historical claim payment patterns (including legal costs) and changes in case reserves and the assumed rate of inflation in health care costs and property damage repairs. Claims are not discounted.

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

At June 30, 2017 and December 31, 2016, the Company's accrued professional liabilities are presented in the accompanying consolidated balance sheets as a component of other accrued liabilities and insurance reserves as follows (in millions):

	June 30, 2017	December 31, 2016
Third-party insurance reserves	\$ 100.4	\$ 92.8
Estimated losses under self-insured programs	167.1	170.0
Incurred but not reported losses	122.9	94.3
Total accrued insurance reserves	390.4	357.1
Less estimated losses payable within one year	76.1	78.2
Total	\$ 314.3	\$ 278.9

The changes to the Company's estimated losses under insurance programs as of June 30, 2017 were as follows (in millions):

Balance at December 31, 2016	\$ 357.1
Assumed liabilities through acquisitions	32.7
Provision related to current period reserves	34.3
Payments for current period reserves	(0.1)
Benefit related to changes in prior period reserves	(0.6)
Payments for prior period reserves	(30.1)
Change in third-party insurance reserves	(1.9)
Other, net including post-acquisition adjustments	(1.0)
Balance at June 30, 2017	\$ 390.4

(12) Stockholders' Equity

a. Common Stock

On December 1, 2016, the Company completed the Merger. Upon completion of the Merger, each share of AmSurg common stock was converted into one share of Company common stock, par value of \$0.01 per share, and each share of EHH common stock was converted into 0.334 shares of Company common stock. Pursuant to the Merger, the Company issued 62,582,161 shares of common stock to the former stockholders of EHH, which represented the conversion of all outstanding common stock of EHH as of December 1, 2016.

The Company repurchases shares by withholding a portion of employee restricted stock that vests to cover payroll withholding taxes in accordance with the restricted stock agreements. During the six months ended June 30, 2017 and 2016, the Company repurchased approximately 130,160 shares and 77,780 shares, respectively, of common stock for approximately \$8.9 million and \$5.7 million, respectively.

b. Preferred Stock

Upon completion of the Merger, each share of AmSurg 5.25% mandatory convertible preferred stock, Series A-1 ("AmSurg Preferred Stock") was converted into one share, par value of \$0.01 per share, of Company 5.25% mandatory convertible preferred stock, Series A-1 ("Company Preferred Stock"). The Company issued 1,725,000 shares of Company Preferred Stock. During the six months ended June 30, 2017, and prior to the mandatory conversion date, July 1, 2017, holders elected to convert 518,879 of Company Preferred Stock to 941,294 shares of common stock. On July 3, 2017, the first business day following the mandatory conversion date, the remaining 1,206,121 shares outstanding of Company Preferred Stock automatically converted to 2,188,024 shares of common stock.

The mandatory convertible preferred stock paid dividends at an annual rate of 5.25% of the initial liquidation preference of \$100 per share. During each of the six months ended June 30, 2017 and 2016, the Board declared two dividends totaling \$1.3125 per share in

cash, or \$2.3 million, for the Company's mandatory convertible preferred stock. The dividend declared during the three months ended June 30, 2017 was funded to the paying agent and paid to stockholders of record as of June 15, 2017. Following the mandatory conversion date, no shares of Company Preferred Stock were outstanding and all rights of the holders of Company Preferred Stock, including dividend rights, terminated.

c. Stock Incentive Plans

Transactions in which the Company receives employee and non-employee services in exchange for the Company's equity instruments or liabilities that are based on the fair value of the Company's equity securities or may be settled by the issuance of these securities are accounted using a fair value method. The Company applies the Black-Scholes method of valuation in determining share-based compensation expense for option awards. For performance share units, the Company utilizes the Monte-Carlo method of valuation. For awards with graded vesting schedules, the Company recognizes compensation expense using the accelerated method. Forfeitures are recognized as incurred.

In May 2014, the Company adopted the AmSurg Corp. 2014 Equity and Incentive Plan (the "2014 Plan"), which was amended in both 2016 and 2017, most recently to change the name of the plan to the Envision Healthcare Corporation 2014 Equity and Incentive Plan, among other things. Under this plan, the Company has granted restricted stock unit awards, non-qualified options and market-based performance share units to employees and outside directors. At June 30, 2017, 3,200,000 shares were authorized for grant under the 2014 Plan and 2,336,997 shares were available for future equity grants.

Restricted stock and stock units granted to outside directors vest on the first anniversary of the date of grant. Restricted stock granted to employees generally vests over three to four years in three equal installments. The fair value of restricted stock is determined based on the closing bid price of the Company's common stock on the grant date. The market-based performance share units vest based on achievement of both the three year service condition and market condition. Under the terms of the 2014 Plan, all equity awards granted thereunder are subject to a one year minimum vesting period.

During the six months ended June 30, 2017, the Company issued 58,022 market-based performance share units with a grant date fair value of \$57.47 per unit using a Monte Carlo simulation model. In addition, as a result of the Merger, 191,927 market-based performance share units were converted at a fair value of \$62.69 per share. At June 30, 2017, 219,411 market-based performance shares were outstanding. The market-based performance share units continue to have the same terms and conditions as were in effect prior to the Merger. The Monte Carlo simulation used to calculate the fair value of the market-based performance share units simulates the present value of the potential outcomes of future stock prices of the Company and the companies included in the defined performance index over the performance cycle. The projection of stock prices are based on the risk-free rate of return, the volatilities of the stock price of the Company and the companies included in the defined performance index, and the correlation of the stock price of the Company with these companies. If the financial performance goal is not achieved, the market based performance share units will be forfeited. The number of market based performance share units that will ultimately be received by the holders range from 0% to 150% of the units granted, depending on the Company's level of achievement with respect to the financial performance goal.

During the six months ended June 30, 2017, the Company issued 351,832 performance-based share units which vest in a range from 0% to 150% of the number of target units awarded, depending on the Company's level of achievement with respect to the financial performance goal, after three years. The Company has not recognized stock compensation expense for the performance-based share units during the six months ended June 30, 2017 as the performance conditions have not been determined as of June 30, 2017. The Company expects the performance conditions to be determined during the third year of vesting. At June 30, 2017, 345,792 performance-based share units were outstanding.

The Company did not issue options subsequent to 2008 from the 2014 Plan, and all outstanding options issued under the 2014 Plan are fully vested. Options previously issued under the 2014 Plan were granted at market value on the date of the grant and vested over four years. Outstanding options issued under the 2014 Plan have a term of ten years from the date of grant.

Under Company policy, shares held by outside directors and senior management are subject to certain stock ownership guidelines and restrictions on hedging and pledging.

On December 1, 2016, upon completion of the Merger, each outstanding option to purchase shares of EHH common stock and each outstanding EHH stock unit (including stock units subject to time-based and performance-based vesting conditions) were converted into an option to purchase 0.334 shares of common stock of the Company and 0.334 stock units of the Company, respectively. Each option and stock unit continues to have the same terms and conditions as were in effect under the Envision Healthcare Holdings, Inc. 2013 Omnibus Incentive Plan ("2013 Plan") prior to the completion of the Merger. During the six months ended June 30, 2017, the plan was renamed to the Envision Healthcare Corporation 2013 Omnibus Incentive Plan. At June 30, 2017, 5,580,568 shares were

authorized for grant under the 2013 Plan and 4,071,139 shares were available for future equity grants. Non-performance and performance-based awards issued under the 2013 Plan have a time-based vesting ranging from one to three years. All options issued under the 2013 Plan have a term of ten years from the date of grant. Under the terms of the 2013 Plan, all equity awards granted thereunder are subject to a one year minimum vesting period.

A summary of the status of non-vested restricted shares at June 30, 2017 and changes during the six months ended June 30, 2017 is as follows:

	Number of Shares	Weighted Average Grant Price
Non-vested awards at December 31, 2016	1,240,526	\$ 63.09
Shares granted	644,434	64.94
Shares vested	(386,660)	54.15
Shares forfeited	(14,508)	66.46
Non-vested awards at June 30, 2017	<u>1,483,792</u>	<u>66.19</u>

A summary of stock option activity for the six months ended June 30, 2017 is summarized as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)
Outstanding at December 31, 2016	3,511,114	\$ 20.81	5.1
Options exercised with total intrinsic value of \$12.0 million	(235,704)	12.68	
Options canceled	(36,826)	58.50	
Outstanding at June 30, 2017 with an aggregate intrinsic value of \$138.5 million	<u>3,238,584</u>	\$ 20.97	4.6
Vested and Exercisable at June 30, 2017 with an aggregate intrinsic value of \$138.3 million	<u>3,204,581</u>	\$ 16.34	4.2

The aggregate intrinsic value represents the total pre-tax intrinsic value received by the option holders on the exercise date or that would have been received by the option holders had all holders of in-the-money outstanding options at June 30, 2017 exercised their options at the Company's closing stock price on June 30, 2017.

The fair value of each stock option award converted as part of the Merger was calculated on the merger date, December 1, 2016, using the Black-Scholes valuation model with the following assumptions indicated in the below table. The volatility assumptions were based on the historical stock volatility of the Company.

Volatility	31.9%
Risk free rate	0.82% - 1.90%
Expected term of options in years	1.0 - 5.0
Expected dividend yield	0%

Other information pertaining to share-based activity during the three and six months ended June 30, 2017 and 2016 is as follows (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Share-based compensation expense from continuing operations	\$ 10.7	\$ 7.9	\$ 25.3	\$ 15.1
Fair value of shares vested	1.8	1.3	30.2	18.3
Cash received from option exercises	2.6	0.2	3.7	0.5
Tax expense (benefit) from exercises of share based awards	0.8	(0.1)	(2.1)	(3.7)

As of June 30, 2017, the Company had total unrecognized compensation cost of approximately \$58.3 million related to non-vested awards, which the Company expects to recognize through 2020 and over a weighted average period of 1.0 years. For the three and six months ended June 30, 2017 and 2016, there were 529,637 and no options that were anti-dilutive, respectively.

d. Earnings per Share

Basic net earnings (loss) attributable to Envision Healthcare Corporation common stockholders, per common share, excludes dilution and is computed by dividing net earnings (loss) attributable to Envision Healthcare Corporation common stockholders by the weighted-average number of common shares outstanding during the period. Diluted net earnings (loss) attributable to Envision Healthcare Corporation common stockholders, per common share is computed by dividing net earnings (loss) attributable to Envision Healthcare Corporation common stockholders by the weighted-average number of common shares outstanding during the period plus any potential dilutive common share equivalents, including shares issuable (i) upon the vesting of restricted stock awards, restricted stock units and performance stock units as determined under the treasury stock method and (ii) upon conversion of the Company's mandatory convertible preferred stock as determined under the if-converted method. For purposes of calculating diluted earnings (loss) per share, preferred stock dividends have been subtracted from both net earnings (loss) from continuing operations attributable to Envision Healthcare Corporation and net earnings (loss) attributable to Envision Healthcare Corporation common stockholders in periods in which utilizing the if-converted method would be anti-dilutive.

The following is a reconciliation of the numerator and denominators of basic and diluted earnings (loss) per share (dollars in millions; per share amounts in thousands):

	Three Months Ended June 30,			Six Months Ended June 30,		
	Earnings (Numerator)	Shares (Denominator)	Per Share Amount	Earnings (Numerator)	Shares (Denominator)	Per Share Amount
2017:						
Net earnings from continuing operations attributable to Envision Healthcare Corporation common stockholders (basic)	\$ 50.2	116,852	\$ 0.43	\$ 80.9	116,708	\$ 0.69
Effect of dilutive securities, options and non-vested shares	—	2,729		—	2,820	
Net earnings from continuing operations attributable to Envision Healthcare Corporation common stockholders (diluted)	\$ 50.2	119,581	\$ 0.42	\$ 80.9	119,528	\$ 0.68
2016:						
Net earnings from continuing operations attributable to Envision Healthcare Corporation common stockholders (basic)	\$ 43.8	53,739	\$ 0.82	\$ 72.4	53,702	\$ 1.35
Preferred stock dividends	2.2	—		4.5	—	
Effect of dilutive securities, options and non-vested shares	—	3,588		—	3,527	
Net earnings attributable to Envision Healthcare Corporation common stockholders (diluted)	\$ 46.0	57,327	\$ 0.80	\$ 76.9	57,229	\$ 1.34

(13) Income Taxes

The Company files a consolidated federal income tax return. Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company applies recognition thresholds and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return as it relates to accounting for uncertainty in income taxes. In addition, it is the Company's policy to recognize interest accrued and penalties, if any, related to unrecognized benefits as income tax expense in its consolidated statements of operations. The Company does not expect significant changes to its tax positions or liability for tax uncertainties during the next 12 months.

The Company and its subsidiaries file U.S. federal and various state tax returns. With few exceptions, the Company is no longer subject to U.S. federal or state income tax examinations for years prior to 2012.

(14) Commitments and Contingencies*Litigation*

The Company is subject to litigation arising in the ordinary course of business, including litigation principally relating to professional and general liability. There can be no assurance that the Company's insurance coverage and self-insured liabilities will be adequate to cover all liabilities occurring out of such claims. In addition, the Company receives requests for information from government agencies in connection with their regulatory or investigational authority. Such requests can include subpoenas or demand letters for documents to assist the government in audits or investigations. The Company reviews such requests and notices and takes appropriate action. The Company has been subject to certain requests for information and investigations in the past and could be subject to such requests for information and investigations in the future.

Other than the proceedings described below, the Company believes that it is not engaged in any legal proceedings that would reasonably be expected to have a material adverse effect on the Company's business, financial condition, cash flows or results of operations.

On August 7, 2012, EmCare received a subpoena from the Office of Inspector General of the Department of Health and Human Services (OIG) requesting documents focused on EmCare's contracts for services at hospitals affiliated with Health Management Associates, Inc. (HMA). The Company is a named defendant in two lawsuits filed by whistleblowers alleging misconduct by HMA and certain other parties (the HMA Lawsuits). The federal government has not intervened in these matters as they relate to allegations against EmCare. The Company continues to engage in dialogue with the government to resolve this matter. As the Company has made significant progress towards resolution with the government, the Company has recorded a reserve of \$31.2 million based on estimates of probable exposure.

Four putative class action lawsuits were filed against certain subsidiaries of the Company's medical transportation business in California alleging violations of California wage and hour laws, including failures to pay overtime wages and to provide required meal and rest breaks to employees. On April 16, 2008, L. Bartoni commenced a suit in the Superior Court of California, Alameda County, on July 8, 2008, Vaughn Banta filed suit in the Superior Court of California, Los Angeles County (L.A. Superior Court), on January 22, 2009, Laura Karapetian filed suit in the L.A. Superior Court, and on March 11, 2010, Melanie Aguilar filed suit in L.A. Superior Court. The Aguilar and Karapetian cases were consolidated into a single action. In the Bartoni case, the court denied class certification of the meal break claim, but the appellate court reversed and remanded the ruling on rest breaks for further proceedings. The plaintiffs in Bartoni have asserted representative claims on behalf of similarly situated employees under the California Private Attorney General Act (PAGA). In each of the Banta and Karapetian/Aguilar cases, while all classes have been decertified, the plaintiffs have also asserted representative claims under PAGA. The Company is unable at this time to estimate the amount of potential damages, if any.

In 2012, the Company's Rural/Metro subsidiary entered into a Corporate Integrity Agreement (CIA) with the OIG in connection with a qui tam action alleging that Rural/Metro had falsified Medicare documents and improperly billed for ambulance services. The CIA requires the Company to maintain a compliance program. This program includes, among other elements, the appointment of a compliance officer and committee, training of employees nationwide, safeguards for ambulance billing operations, review by an

independent review organization, and reporting of certain events. The term of the CIA expired in June 2017 and the Company is awaiting formal release by the OIG.

Insurance Programs

Given the nature of the services provided, the Company and its subsidiaries are subject to professional and general liability claims and related lawsuits in the ordinary course of business. The Company maintains professional insurance with third-party insurers generally on a claims-made basis, subject to self-insured retentions, exclusions and other restrictions. A substantial portion of the professional liability loss risks are being provided by a third-party insurer which is fully reinsured by the Company's wholly owned captive insurance subsidiary. The assets, liabilities and results of operations of the wholly owned captive are consolidated in the accompanying consolidated financial statements. The liabilities for self-insurance in the accompanying consolidated balance sheets include estimates of the ultimate costs related to both reported claims on an individual and aggregate basis and unreported claims. The Company also obtains professional liability insurance on a claims-made basis from third-party insurers for its surgery centers and certain of its owned practices and employed physicians.

The Company's reserves for professional liability claims within the self-insured retention are based upon periodic actuarial calculations. These actuarial estimates consider historical claims frequency and severity, loss development patterns and other actuarial assumptions and are not discounted to present value.

The Company also maintains insurance for director and officer liability, workers' compensation liability and property damage. Certain policies are subject to deductibles. In addition to the insurance coverage provided, the Company indemnifies its officers and directors for actions taken on behalf of the Company and its subsidiaries.

Redeemable Noncontrolling Interests

In the event of a change in current law that would prohibit the physicians' current form of ownership in the partnerships, the Company would be obligated to purchase the physicians' interests in a substantial majority of the Company's partnerships. The purchase price to be paid in such event would be determined by a predefined formula, as specified in the partnership agreements. The Company believes the likelihood of a change in current law that would trigger such purchases was remote as of June 30, 2017. As a result, the noncontrolling interests that are subject to this redemption feature are not included as part of the Company's equity and are classified as noncontrolling interests – redeemable on the Company's consolidated balance sheets.

In addition, certain wholly owned subsidiaries in the Company's ambulatory surgery segment are responsible for all debts incurred but unpaid by the Company's less than wholly owned partnerships as these subsidiaries are the general partner. As manager of the operations of these partnerships, the Company has the ability to limit potential liabilities by curtailing operations or taking other operating actions.

(15) Segment Reporting

Prior to the classification of the medical transportation business into discontinued operations, the Company operated in three major lines of business, physician services, medical transportation and ambulatory services, which had been identified as its operating and reportable segments. Subsequent to the discontinued operations classification, the Company has aligned financial results into two operating and reportable segments: physician services and ambulatory services. The physician services segment includes the Company's hospital-based and non-hospital-based physician services business. The ambulatory services segment includes the Company's ambulatory surgery business, which acquires, develops, owns and operates ASCs and surgical hospitals in partnership with physicians and health systems.

The Company's financial information by segment is prepared on an internal management reporting basis and includes allocations of corporate expenses. This financial information is used by the chief operating decision maker to allocate resources and assess the performance of the segments. The Company's segments have been defined based on the separate financial information that is regularly produced and reviewed by the Company's chief operating decision maker which is its Chief Executive Officer.

The following table presents financial information for each reportable segment (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net Revenue:				
Physician Services ⁽¹⁾	\$ 1,628.5	\$ 438.7	\$ 3,191.2	\$ 856.3
Ambulatory Services	318.5	319.8	634.4	626.9
Total	\$ 1,947.0	\$ 758.5	\$ 3,825.6	\$ 1,483.2
Adjusted EBITDA:				
Physician Services ⁽¹⁾⁽²⁾	\$ 193.3	\$ 87.5	\$ 343.4	\$ 154.0
Ambulatory Services ⁽²⁾	60.5	61.7	120.7	115.3
Total	\$ 253.8	\$ 149.2	\$ 464.1	\$ 269.3
Adjusted EBITDA:	\$ 253.8	\$ 149.2	\$ 464.1	\$ 269.3
Net earnings attributable to noncontrolling interests	51.6	57.1	105.7	110.9
Interest expense, net	(56.1)	(31.9)	(108.5)	(62.7)
Depreciation and amortization	(71.6)	(30.1)	(142.9)	(59.1)
Share-based compensation	(10.7)	(7.9)	(25.3)	(15.1)
Transaction and integration costs	(27.4)	(5.1)	(48.9)	(6.5)
Impairment charges	—	—	(0.3)	—
Net gain on disposals and deconsolidations, net of noncontrolling interests	—	2.6	0.3	2.6
Net change in fair value of contingent consideration	—	2.6	—	2.6
Earnings before income taxes	\$ 139.6	\$ 136.5	\$ 244.2	\$ 242.0
Acquisition and Capital Expenditures:				
Physician Services ⁽¹⁾	\$ 402.9	\$ 265.0	\$ 468.9	\$ 275.3
Ambulatory Services	23.3	35.0	51.1	43.4
Total	\$ 426.2	\$ 300.0	\$ 520.0	\$ 318.7

(1) On December 1, 2016, the Company completed the Merger. Accordingly, historical amounts from EHH for periods prior to that date are not included.

(2) For the three and six months ended June 30, 2017 and on a before tax basis, approximately \$15.1 million and \$29.6 million, respectively, of general corporate expenses, including allocations for corporate salaries and stock based compensation, general and administrative costs and depreciation, were removed from the medical transportation business and reallocated to the Company's remaining segments. This removal of corporate expenses resulted in a reduction of Adjusted EBITDA in the physician services and ambulatory services segments of \$6.5 million and \$2.0 million, respectively, and \$13.4 million and \$4.0 million, respectively, for the three and six months ended June 30, 2017.

(16) Financial Information for the Company and Its Subsidiaries

The 2022 Senior Unsecured Notes are senior unsecured obligations of the Company and are guaranteed by its existing and subsequently acquired or organized 100% owned domestic subsidiaries. The 2022 Senior Unsecured Notes are guaranteed on a full and unconditional and joint and several basis, with limited exceptions considered customary for such guarantees, including the release of the guarantee when a subsidiary's assets are sold. The following condensed consolidating financial statements present the Company (as parent issuer), the subsidiary guarantors, the subsidiary non-guarantors and consolidating adjustments. These condensed consolidating financial statements have been prepared and presented in accordance with Rule 3-10 of Regulation S-X "Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered." The operating and investing activities of the separate legal entities are fully interdependent and integrated. Accordingly, the results of the separate legal entities are not representative of what the operating results would be on a stand-alone basis. As a result of the refinancing related to the Merger, the guarantor structure of certain entities changed and these statements have been revised to reflect the current structure post-Merger.

Condensed Consolidating Balance Sheet - June 30, 2017 (In millions)

	Parent Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total Consolidated
Assets					
Current assets:					
Cash and cash equivalents	\$ 128.0	\$ 109.2	\$ 204.1	\$ —	\$ 441.3
Insurance collateral	—	—	100.5	—	100.5
Accounts receivable, net	—	238.6	1,114.6	—	1,353.2
Supplies inventory	—	—	23.1	—	23.1
Prepaid and other current assets	26.0	54.6	69.3	(3.2)	146.7
Current assets held for sale	—	3,005.6	—	—	3,005.6
Total current assets	154.0	3,408.0	1,511.6	(3.2)	5,070.4
Property and equipment, net	12.1	101.1	192.6	—	305.8
Investments in and advances to affiliates	11,251.6	1,084.7	—	(12,204.9)	131.4
Intercompany receivable	2,897.4	203.0	—	(3,100.4)	—
Goodwill	—	1,660.9	—	6,518.1	8,179.0
Intangible assets, net	11.4	1,311.1	2,440.6	—	3,763.1
Other assets	39.0	40.7	59.0	—	138.7
Total assets	\$ 14,365.5	\$ 7,809.5	\$ 4,203.8	\$ (8,790.4)	\$ 17,588.4
Liabilities and Equity					
Current liabilities:					
Current portion of long-term debt	\$ 40.0	\$ 0.5	\$ 12.5	\$ —	\$ 53.0
Accounts payable	2.0	26.7	32.9	—	61.6
Accrued salaries and benefits	3.8	167.3	304.0	—	475.1
Accrued interest	51.1	—	—	—	51.1
Other accrued liabilities	17.4	267.1	134.8	(3.2)	416.1
Current liabilities held for sale	—	734.6	—	—	734.6
Total current liabilities	114.3	1,196.2	484.2	(3.2)	1,791.5
Long-term debt	6,230.8	0.2	45.4	—	6,276.4
Deferred income taxes	1,627.9	—	207.7	—	1,835.6
Insurance reserves	5.0	181.1	128.2	—	314.3
Other long-term liabilities	34.1	81.7	32.6	—	148.4
Intercompany payable	—	2,539.5	560.9	(3,100.4)	—
Noncontrolling interests – redeemable	—	—	75.2	111.5	186.7
Equity:					
Total Envision Healthcare Corporation equity	6,353.4	3,810.8	2,533.8	(6,344.6)	6,353.4
Noncontrolling interests – non-redeemable	—	—	135.8	546.3	682.1
Total equity	6,353.4	3,810.8	2,669.6	(5,798.3)	7,035.5
Total liabilities and equity	\$ 14,365.5	\$ 7,809.5	\$ 4,203.8	\$ (8,790.4)	\$ 17,588.4

Condensed Consolidating Balance Sheet - December 31, 2016 (In millions)

	Parent Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total Consolidated
Assets					
Current assets:					
Cash and cash equivalents	\$ 41.6	\$ 45.0	\$ 230.3	\$ —	\$ 316.9
Insurance collateral	—	0.8	86.2	—	87.0
Accounts receivable, net	—	282.2	1,015.6	—	1,297.8
Supplies inventory	—	—	23.4	—	23.4
Prepaid and other current assets	21.2	58.3	56.6	(1.0)	135.1
Current assets held for sale	—	551.1	—	—	551.1
Total current assets	62.8	937.4	1,412.1	(1.0)	2,411.3
Property and equipment, net	11.6	96.5	192.7	—	300.8
Investments in and advances to affiliates	11,289.9	2,250.9	—	(13,426.1)	114.7
Intercompany receivable	2,324.9	291.2	—	(2,616.1)	—
Goodwill	—	1,580.6	—	6,003.4	7,584.0
Intangible assets, net	12.8	1,276.4	2,386.3	—	3,675.5
Other assets	31.3	54.2	59.4	(10.7)	134.2
Noncurrent assets held for sale	—	2,488.4	—	—	2,488.4
Total assets	\$ 13,733.3	\$ 8,975.6	\$ 4,050.5	\$ (10,050.5)	\$ 16,708.9
Liabilities and Equity					
Current liabilities:					
Current portion of long-term debt	\$ 35.0	\$ 0.6	\$ 11.0	\$ —	\$ 46.6
Accounts payable	5.0	34.1	30.8	—	69.9
Accrued salaries and benefits	13.4	186.1	284.3	—	483.8
Accrued interest	51.4	—	—	—	51.4
Other accrued liabilities	3.9	147.4	102.9	(1.0)	253.2
Current liabilities held for sale	—	249.4	—	—	249.4
Total current liabilities	108.7	617.6	429.0	(1.0)	1,154.3
Long-term debt	5,749.0	0.3	40.9	—	5,790.2
Deferred income taxes	1,109.9	—	233.8	—	1,343.7
Insurance reserves	4.2	127.6	147.1	—	278.9
Other long-term liabilities	30.4	33.1	38.9	—	102.4
Noncurrent liabilities held for sale	—	468.6	—	—	468.6
Intercompany payable	—	2,290.1	326.0	(2,616.1)	—
Noncontrolling interests – redeemable	—	—	70.5	112.4	182.9
Equity:					
Total Envision Healthcare Corporation equity	6,731.1	5,438.3	2,558.9	(7,997.2)	6,731.1
Noncontrolling interests – non-redeemable	—	—	205.4	451.4	656.8
Total equity	6,731.1	5,438.3	2,764.3	(7,545.8)	7,387.9
Total liabilities and equity	\$ 13,733.3	\$ 8,975.6	\$ 4,050.5	\$ (10,050.5)	\$ 16,708.9

Condensed Consolidating Statement of Operations - For the Three Months Ended June 30, 2017 (In millions)

	Parent Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total Consolidated
Net revenue	\$ 7.3	\$ 450.3	\$ 1,536.6	\$ (47.2)	\$ 1,947.0
Operating expenses:					
Salaries and benefits	18.0	412.5	933.2	(0.1)	1,363.6
Supply cost	—	1.5	55.5	—	57.0
Insurance expense	0.6	12.5	60.8	(31.3)	42.6
Other operating expenses	6.6	41.7	156.9	(15.8)	189.4
Transaction and integration costs	3.0	24.3	0.1	—	27.4
Impairment charges	—	—	—	—	—
Depreciation and amortization	1.5	53.0	17.1	—	71.6
Total operating expenses	29.7	545.5	1,223.6	(47.2)	1,751.6
Net gain (loss) on disposals and deconsolidations	—	8.2	(14.0)	—	(5.8)
Equity in earnings of unconsolidated affiliates	100.6	192.3	—	(287.2)	5.7
Operating income	78.2	105.3	299.0	(287.2)	195.3
Interest expense, net	6.8	38.4	10.9	—	56.1
Other income (expense)	0.4	(2.2)	2.2	—	0.4
Earnings before income taxes	71.8	64.7	290.3	(287.2)	139.6
Income tax expense (benefit)	15.5	(33.0)	53.1	—	35.6
Net earnings (loss) from continuing operations	56.3	97.7	237.2	(287.2)	104.0
Net earnings from discontinued operations	—	3.9	—	—	3.9
Net earnings	56.3	101.6	237.2	(287.2)	107.9
Less net earnings attributable to noncontrolling interests	—	—	51.6	—	51.6
Net earnings attributable to Envision Healthcare Corporation stockholders	56.3	101.6	185.6	(287.2)	56.3
Preferred stock dividends	(2.2)	—	—	—	(2.2)
Net earnings attributable to Envision Healthcare Corporation common stockholders	\$ 54.1	\$ 101.6	\$ 185.6	\$ (287.2)	\$ 54.1
Amounts attributable to Envision Healthcare common stockholders:					
Earnings from continuing operations, net of income tax	\$ 54.1	\$ 97.7	\$ 185.6	\$ (287.2)	\$ 50.2
Earnings from discontinued operations, net of income tax	—	3.9	—	—	3.9
Net earnings attributable to Envision Healthcare Corporation common stockholders	\$ 54.1	\$ 101.6	\$ 185.6	\$ (287.2)	\$ 54.1
Comprehensive income attributable to Envision Healthcare Corporation	\$ 56.3	\$ 102.0	\$ 185.6	\$ (287.2)	\$ 56.7

Condensed Consolidating Statement of Operations - For the Six Months Ended June 30, 2017 (In millions)

	Parent Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total Consolidated
Net revenue	\$ 15.5	\$ 890.4	\$ 3,005.3	\$ (85.6)	\$ 3,825.6
Operating expenses:					
Salaries and benefits	40.7	810.7	1,860.6	(0.3)	2,711.7
Supply cost	—	2.6	108.4	—	111.0
Insurance expense	1.1	28.3	116.5	(54.5)	91.4
Other operating expenses	13.3	76.9	313.9	(30.8)	373.3
Transaction and integration costs	5.3	43.0	0.6	—	48.9
Impairment charges	—	0.3	—	—	0.3
Depreciation and amortization	3.0	107.3	32.6	—	142.9
Total operating expenses	63.4	1,069.1	2,432.6	(85.6)	3,479.5
Net gain (loss) on disposals and deconsolidations	—	10.0	(15.5)	—	(5.5)
Equity in earnings of unconsolidated affiliates	(298.7)	356.0	—	(46.7)	10.6
Operating income	(346.6)	187.3	557.2	(46.7)	351.2
Interest expense, net	15.8	71.3	21.4	—	108.5
Other income (expense)	1.4	(2.2)	2.3	—	1.5
Earnings before income taxes	(361.0)	113.8	538.1	(46.7)	244.2
Income tax expense (benefit)	27.9	(63.0)	88.2	—	53.1
Net earnings (loss) from continuing operations	(388.9)	176.8	449.9	(46.7)	191.1
Net loss from discontinued operations	—	(474.3)	—	—	(474.3)
Net earnings (loss)	(388.9)	(297.5)	449.9	(46.7)	(283.2)
Less net earnings attributable to noncontrolling interests	—	—	105.7	—	105.7
Net earnings (loss) attributable to Envision Healthcare Corporation stockholders	(388.9)	(297.5)	344.2	(46.7)	(388.9)
Preferred stock dividends	(4.5)	—	—	—	(4.5)
Net earnings (loss) attributable to Envision Healthcare Corporation common stockholders	\$ (393.4)	\$ (297.5)	\$ 344.2	\$ (46.7)	\$ (393.4)
Amounts attributable to Envision Healthcare common stockholders:					
Earnings (loss) from continuing operations, net of income tax	\$ (393.4)	\$ 176.8	\$ 344.2	\$ (46.7)	\$ 80.9
Loss from discontinued operations, net of income tax	—	(474.3)	—	—	(474.3)
Net earnings attributable to Envision Healthcare Corporation common stockholders	\$ (393.4)	\$ (297.5)	\$ 344.2	\$ (46.7)	\$ (393.4)
Comprehensive income attributable to Envision Healthcare Corporation	\$ (388.9)	\$ (296.2)	\$ 344.2	\$ (46.7)	\$ (387.6)

Condensed Consolidating Statement of Operations - For the Three Months Ended June 30, 2016 (In millions)

	Parent Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total Consolidated
Net revenue	\$ 7.3	\$ 264.3	\$ 500.4	\$ (13.5)	\$ 758.5
Operating expenses:					
Salaries and benefits	22.3	196.6	187.4	(0.2)	406.1
Supply cost	—	0.9	48.8	—	49.7
Insurance expense	0.2	9.2	9.7	—	19.1
Other operating expenses	5.9	8.5	88.9	(13.3)	90.0
Transaction and integration costs	2.1	3.0	—	—	5.1
Depreciation and amortization	1.1	19.4	9.6	—	30.1
Total operating expenses	31.6	237.6	344.4	(13.5)	600.1
Net gain (loss) on disposals and deconsolidations	—	2.9	(0.3)	—	2.6
Equity in earnings of unconsolidated affiliates	88.1	98.9	—	(179.6)	7.4
Operating income	63.8	128.5	155.7	(179.6)	168.4
Interest expense (income)	(4.2)	29.5	6.6	—	31.9
Earnings before income taxes	68.0	99.0	149.1	(179.6)	136.5
Income tax expense	22.0	10.9	0.5	—	33.4
Net earnings from continuing operations	46.0	88.1	148.6	(179.6)	103.1
Less net earnings attributable to noncontrolling interests	—	—	57.1	—	57.1
Net earnings attributable to Envision Healthcare Corporation stockholders	46.0	88.1	91.5	(179.6)	46.0
Preferred stock dividends	(2.2)	—	—	—	(2.2)
Net earnings attributable to Envision Healthcare Corporation common stockholders	\$ 43.8	\$ 88.1	\$ 91.5	\$ (179.6)	\$ 43.8
Comprehensive income attributable to Envision Healthcare Corporation	\$ 46.0	\$ 88.1	\$ 91.5	\$ (179.6)	\$ 46.0

Condensed Consolidating Statement of Operations - For the Six Months Ended June 30, 2016 (In millions)

	Parent Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total Consolidated
Net revenue	\$ 15.8	\$ 516.0	\$ 977.9	\$ (26.5)	\$ 1,483.2
Operating expenses:					
Salaries and benefits	46.3	395.0	376.6	(0.3)	817.6
Supply cost	—	1.7	95.0	—	96.7
Insurance expense	0.4	19.1	17.3	—	36.8
Other operating expenses	13.2	17.2	174.2	(26.2)	178.4
Transaction and integration costs	2.3	4.2	—	—	6.5
Depreciation and amortization	2.2	38.1	18.8	—	59.1
Total operating expenses	64.4	475.3	681.9	(26.5)	1,195.1
Net gain (loss) on disposals and deconsolidations	—	2.9	(0.3)	—	2.6
Equity in earnings of unconsolidated affiliates	157.1	184.7	—	(327.8)	14.0
Operating income	108.5	228.3	295.7	(327.8)	304.7
Interest expense (income)	(7.0)	56.5	13.2	—	62.7
Earnings before income taxes	115.5	171.8	282.5	(327.8)	242.0
Income tax expense	38.6	14.7	0.9	—	54.2
Net earnings from continuing operations	76.9	157.1	281.6	(327.8)	187.8
Less net earnings attributable to noncontrolling interests	—	—	110.9	—	110.9
Net earnings attributable to Envision Healthcare Corporation stockholders	76.9	157.1	170.7	(327.8)	76.9
Preferred stock dividends	(4.5)	—	—	—	(4.5)
Net earnings attributable to Envision Healthcare Corporation common stockholders	\$ 72.4	\$ 157.1	\$ 170.7	\$ (327.8)	\$ 72.4
Comprehensive income attributable to Envision Healthcare Corporation	\$ 76.9	\$ 157.1	\$ 170.7	\$ (327.8)	\$ 76.9

Condensed Consolidating Statement of Cash Flows - For the Six Months Ended June 30, 2017 (In millions)

	Parent Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total Consolidated
Cash flows from operating activities:					
Net cash flows provided by (used in) operating activities	\$ (22.6)	\$ 353.2	\$ 267.9	\$ (219.8)	\$ 378.7
Cash flows from investing activities:					
Acquisitions and related expenses	(364.2)	(485.9)	—	364.4	(485.7)
Acquisition of property and equipment	(1.9)	(67.6)	(21.2)	—	(90.7)
Purchases of marketable securities	—	—	(15.9)	—	(15.9)
Maturities of marketable securities	—	—	7.0	—	7.0
Other, net	—	(16.7)	11.5	—	(5.2)
Net cash flows used in investing activities	(366.1)	(570.2)	(18.6)	364.4	(590.5)
Cash flows from financing activities:					
Proceeds from long-term borrowings	789.0	—	9.3	—	798.3
Repayment on long-term borrowings	(307.7)	(0.7)	(5.9)	—	(314.3)
Distributions to owners, including noncontrolling interests	—	(85.5)	(253.3)	219.8	(119.0)
Capital contributions	—	364.2	—	(364.2)	—
Changes in intercompany balances with affiliates, net	5.5	24.6	(30.1)	—	—
Other, net	(11.7)	(12.8)	4.5	(0.2)	(20.2)
Net cash flows provided by (used in) financing activities	475.1	289.8	(275.5)	(144.6)	344.8
Net increase (decrease) in cash and cash equivalents	86.4	72.8	(26.2)	—	133.0
Cash and cash equivalents, beginning of period	41.6	59.7	230.3	—	331.6
Less cash and cash equivalents of held for sale assets, end of period	—	23.3	—	—	23.3
Cash and cash equivalents, end of period	\$ 128.0	\$ 109.2	\$ 204.1	\$ —	\$ 441.3

Condensed Consolidating Statement of Cash Flows - For the Six Months Ended June 30, 2016 (In millions)

	Parent Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total Consolidated
Cash flows from operating activities:					
Net cash flows provided by operating activities	\$ 39.3	\$ 101.2	\$ 285.3	\$ (230.8)	\$ 195.0
Cash flows from investing activities:					
Acquisitions and related expenses	(265.2)	(284.0)	—	268.1	(281.1)
Acquisition of property and equipment	(1.7)	(19.0)	(16.9)	—	(37.6)
Purchases of marketable securities	—	—	(0.5)	—	(0.5)
Maturities of marketable securities	—	—	2.7	—	2.7
Other, net	—	(4.1)	(4.6)	—	(8.7)
Net cash flows used in investing activities	(266.9)	(307.1)	(19.3)	268.1	(325.2)
Cash flows from financing activities:					
Proceeds from long-term borrowings	313.0	—	4.1	—	317.1
Repayment on long-term borrowings	(92.4)	—	(6.4)	—	(98.8)
Distributions to owners, including noncontrolling interests	—	(102.3)	(244.0)	230.7	(115.6)
Capital contributions	—	265.2	—	(265.2)	—
Changes in intercompany balances with affiliates, net	(2.7)	29.4	(26.7)	—	—
Other, net	(6.1)	2.4	1.4	(2.8)	(5.1)
Net cash flows provided by (used in) financing activities	211.8	194.7	(271.6)	(37.3)	97.6
Net decrease in cash and cash equivalents	(15.8)	(11.2)	(5.6)	—	(32.6)
Cash and cash equivalents, beginning of period	20.4	24.5	61.8	—	106.7
Cash and cash equivalents, end of period	\$ 4.6	\$ 13.3	\$ 56.2	\$ —	\$ 74.1

(17) Subsequent Events

On August 7, 2017, the Company executed a definitive agreement to sell its medical transportation business to an entity controlled by funds affiliated with KKR & Co. L.P. for \$2.40 billion in cash. The transaction is subject to regulatory approval and customary closing conditions, including clearance under the Hart-Scott-Rodino Antitrust Improvements Act, and is expected to close in the fourth quarter of 2017.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This report contains certain forward-looking statements (all statements other than with respect to historical fact) within the meaning of the federal securities laws, which are intended to be covered by the safe harbors created thereby. Investors are cautioned that all forward-looking statements involve known and unknown risks and uncertainties including, without limitation, those described in this report and in our Annual Report on Form 10-K for the year ended December 31, 2016 (Form 10-K). Although we believe that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate. Therefore there can be no assurance that the forward-looking statements included in this report will prove to be accurate. Actual results could differ materially and adversely from those contemplated by any forward-looking statement. In light of the significant risks and uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved. We undertake no obligation to publicly release any revisions to any forward-looking statements in this discussion to reflect events and circumstances occurring after the date hereof or to reflect unanticipated events.

Among the factors that could cause future results to differ materially from those provided in this report, including our liquidity, financial condition and results of operations, are: risks related to the Merger, including that we may fail to realize the anticipated benefits of the Merger; changes to payment rates or methods of third-party payors; potential decreases in our revenue and profit margin under our fee for service contracts and arrangements due to changes in volume, payor mix and reimbursement rates; volumes at our existing surgery centers; our loss of existing contracts; our significant client relationships that result in a concentration of revenue; our failure to assess the costs under new contracts; our ability to successfully recruit and retain physicians and other healthcare professionals; enforceability of our non-compete agreements; our failure to implement our business strategy; our ability to cross-sell or sell bundled services to customers; the success of our partnerships with payors and other healthcare providers; litigation for which we are not fully reserved and our ability to accurately set reserves; failure to comply with laws and regulations or adjust operations as appropriate in response to changing laws and regulations; acquisitions that could divert the attention of management; our ability to manage growth effectively; the high level of competition in our lines of business; our ability to maintain our information systems; disruptions in our disaster recovery systems, management continuity planning or information systems; challenges by tax authorities on our treatment of certain physicians as independent contractors; our ability to successfully maintain effective internal controls over financial reporting; shortages of products, equipment and medical supplies; potential write-offs of intangible assets, such as goodwill; the negative impact of weather and other factors on our business; our responsibilities to the minority owners of entities through which we own our surgery centers; failure to timely or accurately bill for services; unfavorable changes in regulatory, economic and other conditions; our ability to adequately protect our intellectual property; risks related to our substantial indebtedness; the impact of the Health Reform Law, as currently structured, and the potential repeal or modification of the Health Reform Law; the impact of federal and state investigations and compliance reviews; initiatives to reduce spending on healthcare procedures; our ability to timely enroll our providers in the Medicare program; risks associated with the ability to consummate the pending sale of our medical transportation business and timing of the closing of the transaction; and the other risks and uncertainties discussed in this report and in our Form 10-K, including under "Item 1A. – Risk Factors" of Form 10-K.

Executive Overview

We are a nationwide provider of healthcare services, offering a highly differentiated array of clinical solutions, including physician-led services, ambulatory services and post-acute services. The Company was formed on June 10, 2016 for the purpose of effecting the Merger. Prior to the Merger, the Company did not conduct any activities other than those incidental to its formation and matters in connection with the consummation of the Merger. On December 1, 2016, AmSurg and EHH completed the Merger and the strategic combination of their respective businesses. In connection with the Merger, (i) AmSurg merged with and into the Company, a wholly owned subsidiary of AmSurg, with the Company as the surviving entity and (ii) EHH merged with and into the Company, with the Company as the surviving entity. While the Merger was a merger of equals of AmSurg and EHH, AmSurg was the accounting acquirer in the Merger; therefore, the historical consolidated financial statements of AmSurg for periods prior to the Merger are considered to be the historical financial statements of the Company. The Company's unaudited consolidated financial statements reflect AmSurg's results for the three and six months ended June 30, 2016, and the Company's results as of December 31, 2016 and for the three and six months ended June 30, 2017. The Company accounted for the Merger using the acquisition method of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) and Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 805, "Business Combinations" (ASC 805).

The Company's consolidated balance sheet as of December 31, 2016 reflects the full consolidation of EHH's assets and liabilities as of December 1, 2016. The Company's purchase accounting for the Merger remains preliminary as permitted under GAAP and, as a

result, there will likely be changes to certain balance sheet items relating to the value, as well as allocation, of the acquired assets and liabilities, associated amortization expense and goodwill, upon further review. Any such changes could be material.

Following the completion of the Merger, we had three reportable segments: physician services, medical transportation and ambulatory services. The physician services segment reflects the combination of AmSurg's physician services segment and EHH's physician services segment while the ambulatory services segment reflects AmSurg's ambulatory services segment. On February 28, 2017, we announced that the Company would begin exploring strategic alternatives for our medical transportation business, American Medical Response (AMR). During the six months ended June 30, 2017, the Board approved a plan to actively market and divest the AMR business. Accordingly, the results of the medical transportation business have been recorded in discontinued operations for the three and six months ended June 30, 2017 and assets and liabilities have been recorded as held for sale as of June 30, 2017 and December 31, 2016. The medical transportation business is no longer a separate reportable segment.

Physician Services Overview

At June 30, 2017, we delivered physician services, primarily in the areas of emergency department and hospitalist services, anesthesiology services, radiology/tele-radiology services, and children's services to more than 1,800 clinical departments in healthcare facilities in 47 states and the District of Columbia, with a significant presence in Arizona, California, Florida, New Jersey and Texas. At June 30, 2017, we employed more than 24,200 physicians and other healthcare professionals in our physician services business. We receive reimbursement from third-party payors for fee for service medical services rendered by our affiliated healthcare professionals and other employees to the patients who receive medical treatment at these facilities. In certain cases, in addition to this primary form of reimbursement, we also receive contract revenue directly from the facilities where we perform our services through a variety of payment arrangements that are established to supplement payments from third-party payors. We also provide physician services and manage office-based practices in the areas of pain management, gynecology, obstetrics and perinatology.

Ambulatory Services Overview

We acquire, develop and operate surgery centers in partnership primarily with physicians. Our surgery centers are typically located adjacent to or in close proximity to the medical practices of our partner physicians. At June 30, 2017, we operated 263 ASCs in 35 states and the District of Columbia with approximately 2,000 physician partners and 1,000 other affiliated physicians who utilize our centers. We generally own a majority interest, primarily 51%, in the surgery centers we operate. We also own a minority interest in certain surgery centers in partnership with leading health systems and physicians, and currently intend to continue to pursue such partnerships.

Health Care Reform and Government Sponsored Programs

Our physician services and ASC businesses depend upon third-party reimbursement programs, including governmental and private insurance programs, to pay for substantially all of the services rendered to patients. For the six months ended June 30, 2017, we derived approximately 28% and 27%, respectively, of our physician services and ambulatory services net revenue from governmental healthcare programs, primarily Medicare and managed Medicare programs, and the remainder from a wide mix of commercial payors and patient co-pays and deductibles. The Medicare program currently reimburses physician practices and ASCs in accordance with predetermined fee schedules. We are not required to file cost reports and, accordingly, we have no unsettled amounts from governmental third-party payors.

The payments we receive under government healthcare programs are often less than our standard charges for the healthcare services provided. Furthermore, reimbursement payments under federally-funded healthcare programs are subject to across-the-board spending cuts to the federal budget imposed by the Budget Control Act of 2011. These spending cuts, commonly referred to as "sequestration," may not be more than 2% for a FFY (federal fiscal year). The sequestration cuts have been extended through FFY 2025. In addition, the Health Reform Law contains a number of provisions designed to reduce Medicare program spending. We cannot predict what other deficit reduction initiatives may be proposed by Congress, whether Congress will attempt to restructure or suspend sequestration or the impact sequestration may have on our business.

Physician services payment. Medicare pays for physician services based upon the Medicare Physician Fee Schedule (MPFS), which contains a list of uniform payment rates. These payment rates are determined based on national relative value units (RVU), which CMS assigns to most medical procedures and services in an effort to capture the various resources required by a physician to provide the service relative to all other services. Each RVU is calculated based on a combination of work required in terms of time and intensity of effort for the service, practice expense attributable to the service and malpractice insurance expense attributable to the service. The work, practice expense, and malpractice insurance elements are each modified by a geographic adjustment factor to account for local practice costs and then aggregated. MACRA provides for an increase of 0.5% to the MPFS reimbursement rate each calendar year through 2019, partially offset by various adjustments and policy updates, and outlines a new method for determining

updates thereafter. In 2017, after accounting for various adjustments payment rates under the MPFS will be 0.24% more than 2016 payment rates.

In addition, MACRA required the establishment of the Quality Payment Program (QPP), a payment methodology intended to reward high-quality patient care. Beginning in 2017, physicians and certain other health care clinicians are required to participate in one of two QPP tracks. Under both tracks, performance data collected in 2017 will affect Medicare payments in 2019. CMS expects to transition increasing financial risk to providers as the QPP evolves. The Advanced Alternative Payment Model (Advanced APM) track makes incentive payments available for participation in specific innovative payment models approved by CMS. Providers may earn a 5% Medicare incentive payment and will be exempt from the reporting requirements and payment adjustments imposed under the Merit-Based Incentive Payment System (MIPS) if the provider has sufficient participation (based on percentage of payments or patients) in an Advanced APM. Alternatively, providers may participate in the MIPS track. Providers electing this option may receive payment incentives or be subject to payment reductions of up to 4% of the provider's Medicare payments based on their performance with respect to clinical quality, resource use, clinical improvement activities, and meaningful use of EHRs. The adjustment percentage will increase incrementally, up to 9%, by 2022. MIPS will consolidate components of several existing physician incentive programs: the Physician Quality Reporting System, the Physician Value-Based Payment Modifier, and the Medicare EHR Incentive Program.

ASC payments. Medicare reimburses facility services provided by ASCs under a system that is primarily linked to HOPD payments, which are set under the hospital outpatient prospective payment system (OPPS). Reimbursement rates for ASCs are updated annually based on a conversion rate that accounts for changes in the consumer price index and a productivity adjustment. In 2016, CMS increased ASC reimbursement rates by 0.3%, which did not have a significant impact on our 2016 ambulatory services revenues. For 2017, CMS has increased ASC reimbursement rates by 1.9%. However, based on our current procedure mix, the impact of these rate adjustments would result in a reduction in our ambulatory services revenue of approximately \$2.5 million in 2017. We estimate that proposed ASC reimbursement rates for 2018 recently announced by CMS, which are subject to final approval in November 2017, would positively impact our 2018 ambulatory services revenue by approximately \$6.9 million. There can be no assurance that CMS will not revise the ASC payment system or that annual CPI increases will be material.

Health reform. In recent years, the U.S. Congress and certain state legislatures have passed a large number of laws and regulations intended to result in significant change across the healthcare industry. The most prominent of these reform efforts, the Health Reform Law, expands health insurance coverage through a combination of public program expansion and private sector health reforms. For example, the Health Reform Law expanded eligibility under existing Medicaid programs in states that have not opted out of Medicaid expansion provisions. Private health insurance market reforms include a ban on lifetime limits and pre-existing condition exclusions, new benefit mandates, and increased dependent coverage. As currently structured, the Health Reform Law requires many health plans to cover certain preventive services designated by the U.S. Preventive Services Task Force, including screening colonoscopies.

We believe that health insurance market reforms that expand health insurance coverage have resulted in increased volumes of certain procedures. However, the future of the Health Reform Law is uncertain as a result of efforts by the president and certain members of Congress to repeal or revise and replace the Health Reform Law. We cannot predict whether the Health Reform Law will be repealed or whether or how the Health Reform Law will ultimately be changed. The impact of repeal or any such change to the Healthcare Reform Law on the healthcare industry and our business is unknown.

Critical Accounting Policies

A summary of significant accounting policies is disclosed in our 2016 Annual Report on Form 10-K under the caption "Critical Accounting Policies" in Management's Discussion and Analysis of Financial Condition and Results of Operations. There have been no material changes in the nature of our critical accounting policies or the application of those policies since December 31, 2016.

Recent Accounting Pronouncements

See Note 1 in the Notes to the Unaudited Consolidated Financial Statements.

Results of Operations

Our consolidated statements of operations include the results of our physician services and ambulatory services segments. Our revenue primarily consists of fee for service revenue and is derived principally from the provision of physician services to patients of the healthcare facilities and from facility fees for the procedures performed at our surgery centers. Contract revenue represents income earned from our hospital customers to supplement payments from third-party payors.

Factors Impacting Revenues

Our revenues are influenced by national surgery trends, hospital specific factors and other factors affecting patient needs for medical services. National surgery trends can change based on changes in patient utilization, population growth and demographics, weather related disruptions as well as general economic factors. Hospital-specific elements include changes in local availability of alternative sites of care to the patient, changes in surgeon utilization of the facility, construction and regulations that affect patient flow through the hospital. We believe patient utilization can be affected by changes in the portion of medical costs for which the patients themselves bear financial responsibility, by general economic conditions and by other factors.

Factors Impacting Operating Expenses

Salaries and benefits expense is the most significant expense associated with our physician services segment and includes compensation and benefits for our employed and affiliated physicians and other professional providers as well as the salaries and benefits of our administrative support staff. Other operating expenses of our physician services segment includes costs of business development and marketing, information technology, dues and licenses, occupancy costs and other administrative functions that are indirectly related to the operations of our physician practices. Our insurance expense includes provisions for paid and estimated losses for actual claims and estimates of 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, and other costs related to insured liabilities. We plan to continue to expand our investment in administrative support initiatives to support our planned future growth.

Expenses associated with our ambulatory services segment relate directly and indirectly to procedures performed and include: clinical and administrative salaries and benefits, supply cost and other operating expenses such as linen cost, repair and maintenance of equipment, billing fees and bad debt expense. The majority of our salary and benefits cost is associated directly with the number of surgery centers we own and manage and tends to grow in proportion to the growth in our number of surgery centers in operation. We also incur operating expenses resulting from our ambulatory segment oversight function, which includes salaries and benefits of our operators and administrative support infrastructure. Our surgery centers also incur costs that are more fixed in nature, such as lease expense, property taxes, utilities and depreciation and amortization.

Our depreciation expense primarily relates to charges for medical equipment and leasehold improvements. Amortization expense primarily relates to intangible assets recorded for customer relationships arising from acquisitions and computer software.

Our interest expense results primarily from our borrowings used to fund acquisition and development activity, as well as interest incurred on capital leases and the amortization of deferred financing costs.

Income Tax Expense

The effective tax rate on pre-tax earnings (loss) as presented in the statements of operations is typically lower due to the inclusion of noncontrolling interests. However, after removing the earnings attributable to noncontrolling interests, our adjusted effective tax rate, excluding discrete items, generally increases to approximately 40%. We file a consolidated federal income tax return and numerous state income tax returns with varying tax rates which reflects the blending of these rates.

Noncontrolling Interests

Profits and losses are allocated to our noncontrolling partners in proportion to their individual ownership percentages and reflected in the aggregate as total net earnings attributable to noncontrolling interests. The noncontrolling partners are typically organized as general partnerships, LPs or LLCs that are not subject to federal income tax. Each noncontrolling partner shares in the pre-tax earnings or loss of the entity of which it is a partner. Accordingly, net earnings attributable to the noncontrolling interests in each of our LPs and LLCs are generally determined on a pre-tax basis, and pre-tax earnings are presented before net earnings attributable to noncontrolling interests have been subtracted.

Consolidated Operations

The following table shows certain statement of operations items expressed as a percentage of net revenues for the three and six months ended June 30, 2017 and 2016. The operating results of EHH are included in our operating results effective December 1, 2016.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net revenue	100.0 %	100.0%	100.0 %	100.0%
Operating expenses:				
Salaries and benefits	70.0	53.5	70.9	55.1
Supply cost	2.9	6.6	2.9	6.5
Insurance expense	2.2	2.5	2.4	2.5
Other operating expenses	9.7	11.9	9.8	12.0
Transaction and integration costs	1.4	0.7	1.3	0.4
Impairment charges	—	—	—	—
Depreciation and amortization	3.7	4.0	3.7	4.0
Total operating expenses	90.0	79.1	91.0	80.6
Net gain (loss) on disposals and deconsolidations	(0.3)	0.3	(0.1)	0.2
Equity in earnings of unconsolidated affiliates	0.3	1.0	0.3	0.9
Operating income	10.0	22.2	9.2	20.5
Interest expense, net	2.9	4.2	2.8	4.2
Other income, net	—	—	—	—
Earnings from operations before income taxes	7.2	18.0	6.4	16.3
Income tax expense	1.8	4.4	1.4	3.7
Net earnings from continuing operations	5.3	13.6	5.0	12.7
Discontinued operations:				
Earnings from discontinued operations	0.3	—	0.4	—
Income tax expense from discontinued operations	(0.1)	—	(12.8)	—
Net earnings (loss) from discontinued operations	0.2	—	(12.4)	—
Net earnings (loss)	5.5	13.6	(7.4)	12.7
Net earnings attributable to noncontrolling interests	2.7	7.5	2.8	7.5
Net earnings (loss) attributable to Envision Healthcare Corporation stockholders	2.9 %	6.1%	(10.2)%	5.2%

Three and Six Months Ended June 30, 2017 compared to Three and Six Months Ended June 30, 2016

Net revenue increased \$1.19 billion, or 156.7%, to \$1.95 billion in the three months ended June 30, 2017 from \$758.5 million in the three months ended June 30, 2016. Net revenue increased \$2.34 billion, or 157.9%, to \$3.83 billion in the six months ended June 30, 2017 from \$1.48 billion in the six months ended June 30, 2016. Our net revenue was impacted primarily due to the following:

- an increase of \$1.19 billion and \$2.33 billion during the three and six months ended June 30, 2017, respectively, associated with our physician services segment, driven primarily by a full period of results of operations received from the Merger in the current period; acquisitions completed in 2016 and 2017, increases in our same-contract growth and the consolidation of a partnership previously accounted for as an equity method investment; and
- a decrease of \$1.3 million and an increase of \$7.5 million during the three and six months ended June 30, 2017, respectively, associated with our ambulatory services segment driven primarily by acquisitions completed in 2016 and 2017 and increases in our same-center growth offset by disposal and deconsolidation activity.

Operating income increased \$26.9 million, or 16.0%, to \$195.3 million during the three months ended June 30, 2017, from \$168.4 million in the three months ended June 30, 2016. Operating income increased \$46.5 million, or 15.3%, to \$351.2 million during the six months ended June 30, 2017, from \$304.7 million in the six months ended June 30, 2016. Our operating income was impacted during the three and six months ended June 30, 2017 primarily due to the following:

- an increase of \$35.0 million and \$45.3 million during the three and six months ended June 30, 2017, respectively, associated with results from our physician services segment primarily due to the full period of results of operations received from the Merger and acquisitions completed during 2017 and 2016; and
- a decrease of \$8.1 million and \$1.2 million during the three and six months ended June 30, 2017, respectively, experienced by our ambulatory services segment primarily as a result of disposal and deconsolidation activity offset in part by the operations of recent acquisitions and same-contract growth.

As a percentage of our consolidated net revenue, our physician services segment represented 83.4% of our net revenue for the six months ended June 30, 2017, respectively, as compared to 57.7% for the six months ended June 30, 2016. As a result, our consolidated operations compared to prior periods has changed as a percentage of net revenue in both individual operating expense categories as well as in our net earnings attributable to noncontrolling interests. See further discussion of specific operating expense categories within our discussion of each of our operating segments.

Net interest expense increased \$24.2 million, or 75.9%, to \$56.1 million in the three months ended June 30, 2017, from \$31.9 million in the three months ended June 30, 2016 and increased \$45.8 million, or 73.0%, to \$108.5 million in the six months ended June 30, 2017, from \$62.7 million in the six months ended June 30, 2016, primarily as a result of increased borrowings related to the Merger and incremental term loan borrowings to fund recent acquisitions. See "- Liquidity and Capital Resources" for additional information.

We recognized income tax expense of \$35.6 million and \$53.1 million for the three and six months ended June 30, 2017, respectively, compared to \$33.4 million and \$54.2 million in the three and six months ended June 30, 2016, respectively. Our effective tax rate during the six months ended June 30, 2017 was approximately 22% of earnings from continuing operations. This differs from the federal statutory income tax rate of 35% primarily due to the exclusion of the noncontrolling interests' share of pre-tax earnings and the impact of state income taxes. However, excluding the earnings attributable to noncontrolling interest, our adjusted effective tax rate was approximately 38% for the six months ended June 30, 2017. For the six months ended June 30, 2016, our adjusted effective tax rate was approximately 41%. Our effective tax rate decreased from approximately 41% to 38% in the current period due to the recognition of \$2.1 million of tax benefits as a result of the adoption of ASU 2016-09, which requires the income tax effects of equity awards to be recognized in the statement of operations in the period in which awards vest or are exercised.

Noncontrolling interests in net earnings for the six months ended June 30, 2017 decreased \$5.2 million from the six months ended June 30, 2016, primarily due to recent disposal and deconsolidation activity offset, in part, to operations from noncontrolling interests in earnings at surgery centers added to operations during 2017 and 2016.

Physician Services Operations

Our physician services segment represents the combination of the historical physician services segment from AmSurg and the historical physician services segment from EHH. We utilize certain measures for our physician services operations to monitor our net revenue growth, which includes same contract, new contract, terminated contracts and acquired contract revenues. Our same contract revenue reflects revenue received from services provided through contracts in existence in both comparable reporting periods. Our new contract revenue reflects revenue from contracts that have not been in effect for both the entire current and comparable periods. Terminated contracts reflect decreased revenue from contracts terminated during such periods. Acquired contract revenue reflects the revenue from acquisitions that were completed during the periods. The following table presents the percentage change related to our net revenue growth and same contract revenue growth assuming the Merger had occurred on January 1, 2016, based on separately reported historical results.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Contribution to Net Revenue Growth:				
Same contract	2.5 %	4.5 %	3.1 %	7.0 %
New contracts	5.6	2.6	5.9	3.2
Terminated contracts	(9.4)	(2.0)	(9.7)	(2.3)
Acquired contract and other	10.6	27.5	10.0	30.8
Total net revenue growth	9.3 %	32.6 %	9.3 %	38.7 %
Patient encounters per day (day adjusted)				
Patient encounters per day (day adjusted)	1.1 %	5.1 %	2.0 %	5.9 %
Net revenue per encounter	2.1	0.4	2.5	1.8
Same contract revenue growth	3.2 %	5.5 %	4.5 %	7.7 %

We evaluate our physician services revenue net of contractual adjustments and provisions for uncollectible charges. Payors generally receive discounts from standard charges, which we refer to as contractual adjustments. In addition, patients our physicians serve may be personally responsible for the payment of the medical services they receive. Our contracts with hospitals and other facilities typically require us to provide care to all patients who present at locations where we perform services. While we seek to bill for all medical services we provide, a portion of our medical services are delivered to patients that have no insurance and from whom we cannot collect full compensation. As a result, we establish a provision for uncollectible charges. Our net revenue from our physician services operations represents gross billings after provisions for contractual allowances and uncollectibles.

The following tables and comparisons to prior periods include results of EHH effective December 1, 2016, the date of the Merger.

The following table summarizes our approximate payor mix as a percentage of net revenue and our approximate payor mix based on patient encounters for the periods indicated.

	Percentage of Net Revenue				Percentage of Total Volume			
	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016	2017	2016	2017	2016
Medicare	20%	13%	21%	13%	34%	34%	33%	34%
Medicaid	8	6	7	6	24	21	24	21
Commercial and managed care	55	71	56	71	30	36	30	36
Self-pay	2	1	2	1	12	9	13	9
Net fee for service revenue	85	91	86	91	100%	100%	100%	100%
Contract and other revenue	15	9	14	9				
Net revenue for physician services	100%	100%	100%	100%				

The following table shows selected statement of operations data expressed in dollars (in millions) and as a percentage of net revenue for our physician services segment.

	Three Months Ended June 30,				Six Months Ended June 30,			
	2017		2016		2017		2016	
Net revenue	\$ 1,628.5	100.0 %	\$ 438.7	100.0%	\$ 3,191.2	100.0 %	\$ 856.3	100.0%
Operating expenses:								
Salaries and benefits	1,269.4	77.9	308.5	70.3	2,518.0	78.9	621.1	72.5
Supply cost	5.7	0.4	1.1	0.3	11.5	0.4	2.1	0.2
Insurance expense	40.8	2.5	17.5	4.0	87.7	2.7	33.7	3.9
Other operating expenses	126.4	7.8	26.8	6.1	246.5	7.7	53.4	6.2
Transaction and integration costs	24.4	1.5	3.0	0.7	43.6	1.4	4.2	0.5
Impairment charges	—	—	—	—	0.3	—	—	—
Depreciation and amortization	61.8	3.8	21.2	4.8	123.4	3.9	41.5	4.8
Total operating expenses	1,528.5	93.9	378.1	86.2	3,031.0	95.0	756.0	88.3
Net loss on disposals and deconsolidations	(1.9)	(0.1)	—	—	(9.0)	(0.3)	—	—
Equity in earnings (loss) of unconsolidated affiliates	(0.4)	—	2.1	0.5	(0.7)	—	4.9	0.6
Operating income	\$ 97.7	6.0 %	\$ 62.7	14.3%	\$ 150.5	4.7 %	\$ 105.2	12.3%

Three and Six Months Ended June 30, 2017 compared to Three and Six Months Ended June 30, 2016

Physician services net revenue increased \$1.19 billion, or 271%, to \$1.63 billion and \$2.33 billion, or 273%, to \$3.2 billion in the three and six months ended June 30, 2017, respectively, from \$438.7 million and \$856.3 million in the three and six months ended June 30, 2016, respectively. During the three and six months ended June 30, 2017, compared to the prior year periods, our total growth in net revenue of our physician services segment resulted primarily from a full period of results of operations received from the Merger, which represented \$1.02 billion and \$2.05 billion, respectively, and from physician practices acquired in 2017 and 2016, which contributed approximately \$117.7 million and \$182.2 million, respectively. In addition during the six months ended June 30, 2017, we experienced an increase in net revenue as a result of same-contract growth which contributed approximately \$7.9 million. We also experienced an increase in revenue of \$41.6 million and \$83.2 million in the three and six months ended June 30, 2017, respectively, due to the consolidation of a previously unconsolidated affiliate beginning July 1, 2016.

Salaries and benefits increased by \$960.9 million, or 311.5%, to \$1.27 billion and \$1.90 billion, or 305.4%, to \$2.52 billion in the three and six months ended June 30, 2017, respectively, from \$308.5 million and \$621.1 million from the three and six months ended June 30, 2016, respectively. The increase during the three and six months ended June 30, 2017 is primarily due to increased compensation costs resulting from EHH, which contributed \$834.6 million and \$1.68 billion, respectively, and both newly hired and existing physician and related staff to support growth in same-contracts and acquired contracts. As a percentage of revenue, salaries and benefits increased due to the inclusion of EHH's physician services, which historically has a higher percentage of salaries and benefits as a percentage of revenue compared to that of the legacy AmSurg physician services.

Insurance expense increased \$23.3 million, or 133.1%, to \$40.8 million and \$54.0 million, or 160.2%, to \$87.7 million in the three and six months ended June 30, 2017, respectively, from \$17.5 million and \$33.7 million in the three and six months ended June 30, 2016, respectively. The increase is primarily due to the inclusion of EHH, which contributed \$23.0 million and \$49.1 million, and acquisitions completed during the latter half of 2016 and during 2017.

Other operating expenses increased \$99.6 million, or 371.6%, to \$126.4 million and \$193.1 million, or 361.6%, to \$246.5 million in the three and six months ended June 30, 2017, respectively, from \$26.8 million and \$53.4 million during the three and six months ended June 30, 2016, respectively. The increase is primarily due to the inclusion of EHH, which contributed \$80.7 million and \$161.0 million, respectively, and from recent acquisitions completed in 2016 and 2017.

Transaction costs were approximately \$24.4 million and \$43.6 million for the three and six months ended June 30, 2017, respectively, and \$3.0 million and \$4.2 million for the three and six months ended June 30, 2016, respectively, resulting primarily from the inclusion of EHH and our recent acquisitions of physician practices.

Depreciation and amortization for our physician services segment was approximately \$61.8 million and \$123.4 million for the three and six months ended June 30, 2017, respectively, and \$21.2 million and \$41.5 million for the three and six months ended June 30, 2016, respectively, resulting primarily from amortizable intangible assets related to our customer relationships with hospitals. The increase is primarily due to the inclusion of EHH, which contributed \$32.6 million and \$66.1 million, respectively, and from recent acquisitions completed in 2016 and 2017.

During the six months ended June 30, 2017, equity in earnings (loss) of unconsolidated affiliates decreased to a loss of \$0.7 million from earnings of \$4.9 million for the six months ended June 30, 2016 due to the consolidation of an affiliate previously accounted for as an equity method investment.

Ambulatory Services Operations

The following table presents certain operating data of our ambulatory services segment for the three and six months ended June 30, 2017 and 2016. An ASC is deemed to be under development when a LP or LLC has been formed with the physician partners to develop the ASC.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Procedures performed during the period at consolidated surgery centers	434,694	436,940	855,181	853,524
Surgery centers in operation, end of period (consolidated)	237	236	237	236
Surgery centers in operation, end of period (unconsolidated)	26	22	26	22
Average number of continuing surgery centers in operation (consolidated)	236	237	237	236
New surgery centers added, during period	2	4	6	4
Surgery centers merged into existing centers, during period	—	—	—	1
Surgery centers disposed, during period	3	2	3	2
Surgery centers under development, end of period	—	1	—	1
Surgery centers under letter of intent, end of period	—	4	—	4
Average revenue per consolidated surgery center (in millions)	\$ 1,350	\$ 1,352	\$ 2,673	\$ 2,655
Same-center revenues increase, day adjusted (consolidated)	0.6%	4.2%	1.3%	6.6%
Surgical hospitals in operation at end of period (unconsolidated)	1	1	1	1

Of the continuing centers in operation at June 30, 2017, 159 centers performed gastrointestinal endoscopy procedures, 57 centers performed procedures in multiple specialties, 37 centers performed ophthalmology procedures and 10 centers performed orthopaedic procedures.

A significant measurement of our ambulatory service revenues growth from year to year is the change in our same-center revenue. We define our same-center group each year as those centers that contain full year-to-date operations in both comparable reporting periods, including the expansion of the number of operating centers associated with a LLC or LP. Ambulatory services revenues at our 2017 same-center group, constituting approximately 95% of our total number of consolidated centers, increased by 0.6% and 1.3% during the three and six months ended June 30, 2017, respectively, comprised of a 0.1% and 0.3% increase in procedures and a 0.5% and 1.0% increase in revenue per procedure as compared to the prior year period.

The following table presents selected statement of operations data expressed in dollars (in millions) and as a percentage of net revenue for our ambulatory services segment.

	Three Months Ended June 30,				Six Months Ended June 30,			
	2017		2016		2017		2016	
Net revenue	\$ 318.5	100.0 %	\$ 319.8	100.0%	\$ 634.4	100.0%	\$ 626.9	100.0%
Operating expenses:								
Salaries and benefits	94.2	29.6	97.6	30.5	193.7	30.5	196.5	31.3
Supply cost	51.3	16.1	48.6	15.2	99.5	15.7	94.6	15.1
Insurance expense	1.8	0.6	1.6	0.5	3.7	0.6	3.1	0.5
Other operating expenses	63.0	19.8	63.2	19.8	126.8	20.0	125.0	19.9
Transaction and integration costs	3.0	0.9	2.1	0.7	5.3	0.8	2.3	0.4
Depreciation and amortization	9.8	3.1	8.9	2.8	19.5	3.1	17.6	2.8
Total operating expenses	223.1	70.0	222.0	69.4	448.5	70.7	439.1	70.0
Net gain (loss) on disposals and deconsolidations	(3.9)	(1.2)	2.6	0.8	3.5	0.6	2.6	0.4
Equity in earnings of unconsolidated affiliates	6.1	1.9	5.3	1.7	11.3	1.8	9.1	1.5
Operating income	<u>\$ 97.6</u>	<u>30.6 %</u>	<u>\$ 105.7</u>	<u>33.1%</u>	<u>\$ 200.7</u>	<u>31.6%</u>	<u>\$ 199.5</u>	<u>31.8%</u>

Three and Six Months Ended June 30, 2017 compared to Three and Six Months Ended June 30, 2016

Ambulatory services revenues decreased \$1.3 million, or 0.4%, to \$318.5 million and increased \$7.5 million, or 1.2%, to \$634.4 million in the three and six months ended June 30, 2017, respectively, from \$319.8 million and \$626.9 million in the three and six months ended June 30, 2016, respectively. Our ambulatory services revenues were impacted during the three and six months ended June 30, 2017 as compared to the prior periods primarily due to the following:

- revenue growth of \$1.7 million, or 0.6%, and \$7.7 million, or 1.3%, for the three and six months ended June 30, 2017, respectively, recognized by our 2017 same-center group;
- centers acquired in 2016, which contributed \$4.6 million and \$12.6 million of additional revenues in the three and six months ended June 30, 2017, respectively, due to having a full period of operations in 2017;
- centers acquired in 2017, which contributed \$1.8 million and \$2.9 million of additional revenues in the three and six months ended June 30, 2017, respectively;
- reduced revenue recognized during the three and six months ended June 30, 2017 of \$4.7 million and \$6.3 million, respectively, resulting from the deconsolidation of centers that were consolidated in the prior periods. The deconsolidated centers represented a reduction of 7,116 and 11,617 procedures reported during the three and six months ended June 30, 2016, respectively. Our share of the results of operations from the deconsolidated centers is reflected in equity in earnings of unconsolidated affiliates in our consolidated statements of operations; and
- reduced revenue recognized during the three and six months ended June 30, 2017 of \$4.5 million and \$8.9 million, respectively, resulting from the disposal of centers that had a full period of operations during the three and six months ended June 30, 2016.

Salaries and benefits decreased by \$3.4 million, or 3.5%, to \$94.2 million and \$2.8 million, or 1.4%, to \$193.7 million in the three and six months ended June 30, 2017, respectively, from \$97.6 million and \$196.5 million in the three and six months ended June 30, 2016, respectively. Salaries and benefits decreased due to lower incentive compensation expense and lower corporate expense allocation related to the Merger in the 2017 period, as well as the reduction in expense from the deconsolidated centers that were consolidated in the prior period.

Supply cost increased \$2.7 million, or 5.6%, to \$51.3 million and \$4.9 million, or 5.2%, to \$99.5 million in the three and six months ended June 30, 2017, respectively, from \$48.6 million and \$94.6 million in the three and six months ended June 30, 2016, respectively. Increased supply costs for the three and six months ended June 30, 2017 are primarily due to the change in the mix and cost of certain procedures performed by our same-center group offset by the reduction in expense from the deconsolidated centers that were consolidated in the prior period.

Other operating expenses decreased \$0.2 million, or 0.3%, to \$63.0 million and increased \$1.8 million, or 1.4%, to \$126.8 million in the three and six months ended June 30, 2017, respectively, from \$63.2 million and \$125.0 million in the three and six months ended

June 30, 2016, respectively. The change in expense for the three and six months ended June 30, 2017 resulted primarily from:

- an increase of \$0.1 million and \$2.4 million, respectively, in other operating expenses at our 2017 same-center group;
- centers acquired or opened during 2016, which resulted in an increase of \$1.0 million and \$2.6 million, respectively;
- centers acquired during 2017, which resulted in an increase of \$0.4 million and \$0.6 million, respectively;
- deconsolidation of centers in the prior period, which resulted in a decrease of \$1.1 million and \$1.3 million, respectively; and
- disposal of centers in the current and prior periods, which resulted in a decrease of \$1.5 million and \$2.7 million, respectively.

Transaction costs were approximately \$3.0 million and \$5.3 million for the three and six months ended June 30, 2017, respectively, and \$2.1 million and \$2.3 million for the three and six months ended June 30, 2016, respectively, primarily resulting from the Merger, as well as our acquisition of surgery centers during the current period.

Depreciation and amortization expense remained relatively unchanged at 3.1% and 2.8% of net revenue for the three and six months ended June 30, 2017 and 2016, respectively.

Equity in earnings of unconsolidated affiliates was \$6.1 million and \$11.3 million during the three and six months ended June 30, 2017, respectively, and \$5.3 million and \$9.1 million during the three and six months ended June 30, 2016, respectively. The increase in our earnings from equity method investments during the three and six months ended June 30, 2017 is due to the consummation of one equity method investment during 2016 whereby we contributed one ASC to a joint venture with a health system, which were not fully reflected in 2016 results. Additionally, in 2017, we entered into two equity method investments in which we contributed two ASCs into a joint venture with a health system. In one of these transactions, the health system contributed two additional ASCs to the joint venture.

Liquidity and Capital Resources

Our primary source of liquidity is cash flows provided by the operating activities of our subsidiaries. We and our subsidiaries also have the ability to use the ABL Facility, described below, to supplement cash flows provided by our operating activities for strategic or operating purposes. Our liquidity needs are primarily to service long-term debt and to fund working capital requirements, acquisitions and capital expenditures.

Cash and cash equivalents attributable to continuing operations at June 30, 2017 and December 31, 2016 were \$441.3 million and \$316.9 million, respectively. In addition, included in current assets held for sale at June 30, 2017 and December 31, 2016 are cash and cash equivalents attributable to discontinued operations of \$23.3 million and \$14.7 million, respectively. The table below summarizes cash flow information derived from our statements of cash flows for the six months ended June 30, 2017 and 2016 (in millions).

	Six Months Ended June 30,	
	2017	2016
Net cash provided by (used in):		
Operating activities	\$ 378.7	\$ 195.0
Investing activities	(590.5)	(325.2)
Financing activities	344.8	97.6

Operating activities. Net cash provided by operating activities for the six months ended June 30, 2017 was \$378.7 million, compared to \$195.0 million for the six months ended June 30, 2016. Additionally, net cash flow provided by operating activities, net of distributions to noncontrolling interests, for the six months ended June 30, 2017 was \$259.7 million, compared to \$79.4 million for the six months ended June 30, 2016. Cash flows from operations during the six months ended June 30, 2017 were impacted by the following:

- increased operating cash flows as a result of the Merger;
- payments of transaction and integration costs related to the Merger of \$40.9 million;
- the increase in interest payments due to the Merger-related debt refinancing; and
- the timing of payments on accounts payable and certain accrued expenses, including incentive compensation based upon achieving certain performance goals for the year ended December 31, 2016. In accordance with most of our incentive plans, payments are typically made in the first six months of each fiscal year.

The principal source of our operating cash flow is the collection of accounts receivable from governmental payors, commercial payors

and individuals. We bill for services as delivered, usually within a few days following the date the service is rendered for our ambulatory services segment and within 5 to 30 days following the date the service is rendered for our physician services segment. Generally, unpaid amounts that are 30 to 45 days past due are rebilled based on a standard set of procedures. If amounts remain uncollected after 60 days, we proceed with a series of late-notice notifications until amounts are either collected, contractually written off in accordance with contracted rates or determined to be uncollectible, typically after 90 to 240 days. Receivables determined to be uncollectible are written off and such amounts are applied to our estimate of allowance for bad debts as previously established in accordance with our policy for bad debt expense. The amount of actual write-offs of account balances for each of our subsidiaries is continuously compared to established allowances for bad debt to ensure that such allowances are adequate. At June 30, 2017, our physician services segment's net accounts receivable represented 70 days of revenue outstanding, which is an increase from 63 days outstanding at December 31, 2016 (which excluded the results from EHH). The increase in days is due to including the impact of EHH's physician services business, which historically has a longer billing and collection cycle, as it is primarily focused on emergency department services. The increase is due in part to recent acquisitions completed during the six months ended June 30, 2017 and year ended December 31, 2016, as it is not unusual for us to experience delays in our ability to bill for procedures until certain administrative procedures are finalized. In addition, we are currently migrating the billing of certain contracts to new billing systems, which we expect will improve efficiency in the billing cycle during 2017. As a result of this process, we are experiencing expected delays in our collections for our physician services. At both June 30, 2017 and December 31, 2016, our ambulatory services segment net accounts receivable represented 33 days of revenue outstanding.

As of June 30, 2017, we had insurance collateral of \$100.5 million, which is comprised of restricted cash and available-for-sale securities that are restricted for the purpose of satisfying the obligations of our wholly owned captive insurance companies.

Investing activities. Net cash used in investing activities was \$590.5 million for the six months ended June 30, 2017 compared to \$325.2 million for the six months ended June 30, 2016. The change was primarily related to the funding of acquisitions and capital expenditures that occurred during the six months ended June 30, 2017.

During the six months ended June 30, 2017, we had total acquisition and capital expenditures of \$576.4 million, which primarily included:

- \$440.8 million for the acquisition of physician practices;
- \$33.3 million for the acquisition of interests in surgery centers;
- \$11.6 million for the acquisition of a medical transportation business; and
- \$90.7 million for new or replacement property.

Financing activities. Net cash provided by financing activities was \$344.8 million for the six months ended June 30, 2017 compared to \$97.6 million for the six months ended June 30, 2016. For the six months ended June 30, 2017, we had net proceeds on long-term borrowings of \$484.0 million, which included gross proceeds of \$798.3 million and payments of \$314.3 million. Our proceeds primarily resulted from \$500.0 million of incremental borrowings under our Term Loan B 2023 and from borrowings from the ABL Facility. We used the incremental borrowings from the Term Loan B 2023 to fund acquisitions, to repay amounts outstanding under the ABL Facility, and to pay fees and expenses related to the financing.

During the six months ended June 30, 2017, we repurchased approximately 130,160 shares of our common stock by withholding a portion of employee restricted stock that vested, with a value of approximately \$8.9 million, to cover payroll withholding taxes in accordance with the restricted stock agreements.

Our Company Preferred Stock paid dividends at an annual rate of 5.25% of the initial liquidation preference of \$100 per share. Dividends accrued and cumulated from the date of issuance and, to the extent lawful and declared by our Board, was paid on each January 1, April 1, July 1 and October 1 in cash or, at our election (subject to certain limitations), by delivery of any combination of cash and shares of common stock. During the six months ended June 30, 2017, and prior to the mandatory conversion date, July 1, 2017, holders elected to convert 518,879 of our Company Preferred Stock to 941,294 shares of common stock. On July 3, 2017, the first business day following the mandatory conversion date, the remaining 1,206,121 shares outstanding of Company Preferred Stock automatically converted to 2,188,024 shares of common stock. During the six months ended June 30, 2017, our Board declared two dividends, each totaling \$1.3125 per share in cash, or \$2.3 million, to the holders of Company Preferred Stock. The dividend declared in June 2017 was funded to the paying agent at June 30, 2017 and was paid on July 1, 2017 to stockholders of record as of June 15, 2017. Following mandatory conversion Date, no shares of our Company Preferred Stock were outstanding and all rights of the holders of our Preferred Stock, including dividend rights, terminated.

Pursuant to the Merger, we issued 62,582,161 shares of common stock to the former stockholders of EHH, which represented the conversion of all outstanding common stock of EHH as of December 1, 2016 pursuant to the terms of the of the Merger.

As of June 30, 2017, we had total indebtedness, including capital leases, of \$6.43 billion, including \$3.98 billion of term loans that mature in 2023 (Term Loan B - 2023), \$1.10 billion of 5.625% senior unsecured notes due 2022 (5.625% 2022 Notes), \$750.0 million of 5.125% senior unsecured notes due 2022 (5.125% 2022 Notes), \$550.0 million of 6.25% senior unsecured notes due 2024 (6.25% 2024 Notes) and approximately \$58.6 million of other long-term indebtedness. As of June 30, 2017, there were no borrowings under our ABL Facility.

Term Loan B - 2023

As a result of the Merger, on December 1, 2016, we incurred term loan borrowings in an aggregate principal amount of \$3.50 billion that mature on December 1, 2023 by assuming the term loan borrowings made in connection with the Merger through a wholly owned finance subsidiary of EHH immediately prior to the consummation of the Merger. Under the terms of the Term Loan Facility, the Term Loan B - 2023 bears interest at a rate equal to (i) LIBOR, plus 3.00% per annum, or (ii) the alternate base rate as defined in the credit agreement. At June 30, 2017, we had approximately \$0.5 million in accrued interest associated with the Term Loan B - 2023.

On June 23, 2017, we incurred incremental term loan borrowings in an aggregate principal amount of \$500 million, maturing on December 1, 2023. The incremental amounts were borrowed pursuant to the Increase Supplement, dated as of June 23, 2017, which supplements our existing Amended and Restated Credit Agreement, dated as of December 1, 2016. The incremental borrowings bear interest at the same rate and have the same terms as our Term Loan B.

On August 7, 2017, we executed a definitive agreement to sell our medical transportation business for \$2.4 billion in cash to an entity controlled by funds affiliated with KKR Co. L.P. Upon completion of the divestiture, under the terms of the Term Loan Facility, we are required to utilize the net proceeds to pay down the outstanding principal on the Term Loan B - 2023 unless the proceeds can be used to acquire the assets or capital stock of businesses similar to ours within 365 days from the sale.

ABL Facility

On December 1, 2016, in connection with the Merger, we assumed EHH's asset-based revolving credit facility providing for revolving borrowings of up to \$850.0 million, subject to borrowing base availability. In addition, subject to certain terms and conditions, we are entitled to request additional revolving credit commitments or term loans under the ABL Facility, which share in the borrowing base, up to an amount such that the aggregate amount of ABL commitments does not exceed \$1.35 billion. The final maturity date of the ABL Facility is December 1, 2021.

The revolving credit loans under the ABL Facility bear interest initially at a rate equal to (i) LIBOR plus an applicable margin, which shall be determined based on the average daily excess availability, or (ii) the alternate base rate, which will be the highest of the prime rate established by the administrative agent from time to time, 0.50% in excess of the greater of (A) the overnight federal funds rate or (B) the composite overnight federal funds and overnight LIBOR rate, the one-month LIBOR rate (adjusted for maximum reserves) plus 1.0% per annum, plus, in each case, an applicable margin, which shall be determined based on the average daily excess availability.

As of June 30, 2017, the maximum available under the ABL Facility was \$793.9 million. As of June 30, 2017, letters of credit outstanding, which impact the available credit under the ABL Facility, were \$174.2 million. Our borrowing capacity, after giving effect to the letters of credit, was \$619.7 million as of June 30, 2017. These letters of credit primarily secure the obligations under our captive insurance program. At June 30, 2017, we had not drawn on the ABL.

5.625% 2022 Notes

We have \$1.10 billion aggregate principal amount of the 5.625% 2022 Notes outstanding. Interest on the 5.625% 2022 Senior Unsecured Notes accrues at the rate of 5.625% per annum and is payable semi-annually in arrears on January 15 and July 15 through the maturity date on July 15, 2022. The 5.625% 2022 Notes are unsecured obligations and are guaranteed by each of our wholly owned domestic subsidiaries, except for any of our subsidiaries subject to regulation as an insurance company, including our wholly owned captive insurance subsidiaries. At June 30, 2017, we had approximately \$28.5 million in accrued interest associated with the 5.625% 2022 Notes reflected in other accrued liabilities.

5.125% 2022 Notes

Upon completion of the Merger, we assumed \$750.0 million aggregate principal amount of the 5.125% 2022 Notes, which were issued on June 18, 2014 by EEH. The 5.125% 2022 Notes are unsecured obligations and are guaranteed by each of our wholly owned domestic subsidiaries, except for any of our subsidiaries subject to regulation as an insurance company, including our wholly owned captive insurance subsidiaries. Interest on the 5.125% 2022 Notes accrues at the rate of 5.125% per annum and is payable semi-annually in arrears on January 1 and July 1, beginning on January 1, 2017, and ending on the maturity date of July 1, 2022. At June 30, 2017, we had \$19.2 million in accrued interest associated with the 5.125% 2022 Notes.

6.25% 2024 Notes

Upon completion of the Merger, we completed a private offering of \$550.0 million aggregate principal amount of the 6.25% 2024 Notes. Interest on the 6.25% 2024 Notes accrues at the rate of 6.25% per annum and is payable semi-annually in arrears on June 1 and December 1, beginning on June 1, 2017, and ending on the maturity date of December 1, 2024. The 6.25% 2022 Notes are unsecured obligations and are guaranteed by each of our wholly owned domestic subsidiaries, except for any of our subsidiaries subject to regulation as an insurance company, including our wholly owned captive insurance subsidiaries. At June 30, 2017, we had approximately \$2.9 million in accrued interest associated with the 6.25% 2024 Notes.

Based upon our current operations and anticipated growth, we believe our operating cash flow, borrowing availability and ability to access capital markets will provide adequate resources to meet our working capital and capital expenditure requirements for the next 12 to 18 months. In addition to acquiring and developing our current business segments, we may from time to time consider other strategic acquisitions or joint ventures. Such acquisitions, joint ventures or other opportunities may require an amendment to our current debt agreements or additional external financing, which may include sales of equity securities. We cannot assure you that any required financing will be available, or will be available on terms acceptable to us.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are subject to market risk primarily from exposure to changes in interest rates based on our financing, investing and cash management activities. We utilize a balanced mix of maturities along with both fixed rate and variable rate debt to manage our exposures to changes in interest rates. Our variable debt instruments are primarily indexed to the prime rate or LIBOR. Interest rate changes would result in gains or losses in the market value of our fixed rate debt portfolio due to differences in market interest rates and the rates at the inception of the debt agreements. Based upon our indebtedness at June 30, 2017, a 100 basis point interest rate change would impact our net earnings and cash flow by approximately \$23.9 million annually. Although there can be no assurances that interest rates will not change significantly, we do not expect changes in interest rates to have a material effect on our net earnings or cash flows in 2017 based on our indebtedness at June 30, 2017.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management team, including our chief executive officer and chief financial officer, we conducted an evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended, or the Exchange Act) as of June 30, 2017. Based on that evaluation, our chief executive officer (principal executive officer) and chief financial officer (principal accounting officer) have concluded that our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

As a result of the completion of the acquisitions made in 2016, we have begun our analysis of the systems of disclosure controls and procedures and internal controls over financial reporting of the acquired entities and we will continue to integrate them within our broader framework of controls and expect to be finalized as of December 31, 2017. The SEC's rules require us to include acquired entities in our assessment of the effectiveness of internal control over financial reporting no later than the annual management report following the first anniversary of the acquisition. We plan to complete the evaluation and the integration of the 2016 acquisitions within the required time frames and report management's assessment of our internal control over financial reporting in our first annual report in which such assessment is required for this acquisition. There has been no change in our internal control over financial reporting during the quarter ended June 30, 2017 that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

Part II

Item 1. Legal Proceedings

There have been no material changes during the six months ended June 30, 2017 to the legal proceedings we previously described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2016 except for the following:

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares (or Units) Purchased ⁽¹⁾	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) That May Yet Be Purchased Under the Plans or Programs
April 1, 2017 through April 30, 2017	—	\$ —	—	\$ —
May 1, 2017 through May 31, 2017	1,743	56.27	—	—
June 1, 2017 through June 30, 2017	231	56.15	—	—
Total	1,974	\$ 56.26	—	\$ —

(1) During the three months ended June 30, 2017, we repurchased 1,974 shares with a value of approximately \$0.1 million to cover payroll withholding taxes in connection with the vesting of restricted stock awards under the Envision Healthcare Corporation 2014 Equity and Incentive Plan.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit	Description
10.1	Increase Supplement, dated as of June 23, 2017, by and among the Company, the increasing lenders party thereto, JPMorgan Chase Bank, N.A., as administrative agent and collateral agent, and each of the other parties thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, dated June 27, 2017).
31.1	Certification of President and Chief Executive Officer pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Executive Vice President and Chief Financial Officer pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets at June 30, 2017 and December 31, 2016, (ii) the Consolidated Statements of Operations for the three and six month periods ended June 30, 2017 and 2016, (iii) the Consolidated Statements of Comprehensive Income for the three and six month periods ended June 30, 2017 and 2016, (iv) the Consolidated Statements of Changes in Equity for the six month periods ended June 30, 2017 and 2016, (v) the Consolidated Statements of Cash Flows for the six month periods ended June 30, 2017 and 2016 and (vi) the notes to the Unaudited Consolidated Financial Statements for the six month periods ended June 30, 2017 and 2016

Signature

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 CORPORATION

Date: August 8, 2017

By: /s/ Claire M. Gulmi

Claire M. Gulmi

Executive Vice President and
Chief Financial Officer
(Principal Financial and Duly Authorized Officer)

Certifications

I, Christopher A. Holden, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Envision Healthcare Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2017

By: /s/ Christopher A. Holden
Name: **Christopher A. Holden**
Title: President and Chief Executive Officer

Certifications

I, Claire M. Gulmi, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Envision Healthcare Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2017

By: /s/ Claire M. Gulmi
Name: **Claire M. Gulmi**
Title: Executive Vice President and
Chief Financial Officer

ENVISION HEALTHCARE CORPORATION
CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Envision Healthcare Corporation (the "Company") on Form 10-Q for the period ending June 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Christopher A. Holden

Christopher A. Holden
President and Chief Executive
Officer of the Company

August 8, 2017

/s/ Claire M. Gulmi

Claire M. Gulmi
Executive Vice President and
Chief Financial Officer of the Company

August 8, 2017

