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HEALTH FACILITIES & SERVICES REVIEW BOARD

ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD
APPLICATION FOR EXEMPTION FOR THE
CHANGE OF OWNERSHIP FOR AN EXISTING HEALTH CARE FACILITY

1. INFORMATION FOR EXISTING FACILITY

Current Facility Name Midwest Center for Day Surgery, LLC
Address 3811 Highland Avenue
City Downers Grove Zip Code 60515 County DuPage County
Name of current licensed entity for the facility Midwest Center for Day Surgery, LLC
Does the current licensee: own this facility ____ OR lease this facility X (if leased, check if sublease □)
Type of ownership of the current licensed entity (check one of the following:) ____ Sole Proprietorship
____ Not-for-Profit Corporation ____ For Profit Corporation ____ Partnership ____ Governmental
X Limited Liability Company ____ Other, specify ____
Illinois State Senator for the district where the facility is located: Sen. Chris Nybo
State Senate District Number 24 Mailing address of the State Senator
929 S. Main Street, Unit 105B, Lombard, IL 60418
Illinois State Representative for the district where the facility is located: Rep. Patricia R. Bellock
State Representative District Number 47 Mailing address of the State Representative
1 S. Cass Avenue, Westmont Centre, Suite 205, Westmont, IL 60559

2. OUTSTANDING PERMITS. Does the facility have any projects for which the State Board issued a permit that will not be completed (refer to 1130.140 "Completion or Project Completion" for a definition of project completion) by the time of the proposed ownership change? Yes □ No X. If yes, refer to Section 1130.520(f), and indicate the projects by Project # ____

3. NAME OF APPLICANT (complete this information for each co-applicant and insert after this page).
Exact Legal Name of Applicant Advocate-SCA Partners, LLC
Address ATTN: General Counsel, 520 Lake Cook Road, Suite 250
City, State & Zip Code Deerfield, IL 60015
Type of ownership of the current licensed entity (check one of the following:) ____ Sole Proprietorship
____ Not-for-Profit Corporation ____ For Profit Corporation ____ Partnership ____ Governmental
X Limited Liability Company ____ Other, specify ____

4. NAME OF LEGAL ENTITY THAT WILL BE THE LICENSEE/OPERATING ENTITY OF THE FACILITY NAMED IN THE APPLICATION AS A RESULT OF THIS TRANSACTION.

Exact Legal Name of Entity to be Licensed Midwest Center for Day Surgery, LLC
Address 3811 Highland Avenue
City, State & Zip Code Downers Grove, IL 60515
Type of ownership of the current licensed entity (check one of the following:) ____ Sole Proprietorship
____ Not-for-Profit Corporation ____ For Profit Corporation ____ Partnership ____ Governmental
X Limited Liability Company ____ Other, specify ____

5. BUILDING/SITE OWNERSHIP. NAME OF LEGAL ENTITY THAT WILL OWN THE "BRICKS AND MORTAR" (BUILDING) OF THE FACILITY NAMED IN THIS APPLICATION IF DIFFERENT FROM THE OPERATING/LICENSED ENTITY

Exact Legal Name of Entity That Will Own the Site Advocate Health & Hospitals Corporation, d/b/a Advocate Good Samaritan Hospital f/k/a Evangelical Hospitals Corporation
Address 3815 Highland Avenue
City, State & Zip Code Downers Grove, IL 60515
Type of ownership of the current licensed entity (check one of the following:) ____ Sole Proprietorship
X Not-for-Profit Corporation ____ For Profit Corporation ____ Partnership ____ Governmental
____ Limited Liability Company ____ Other, specify ____

ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD
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Illinois State Senator for the district where the facility is located: Sen. ____________
State Senate District Number ________ Mailing address of the State Senator ____________
____
Illinois State Representative for the district where the facility is located: Rep. ____________
State Representative District Number ________ Mailing address of the State Representative ____________
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2. OUTSTANDING PERMITS. Does the facility have any projects for which the State Board issued a permit that will not be completed (refer to 1130.140 "Completion or Project Completion" for a definition of project completion) by the time of the proposed ownership change? Yes □ No □. If yes, refer to Section 1130.520(f), and indicate the projects by Project # ____________________

3. NAME OF APPLICANT (complete this information for each co-applicant and insert after this page).
Exact Legal Name of Applicant SCA - Illinois, LLC
Address ATTN: General Counsel, 520 Lake Cook Road, Suite 250
City, State & Zip Code Deerfield, IL 60015
Type of ownership of the current licensed entity (check one of the following:) ________ Sole Proprietorship
________ Not-for-Profit Corporation ________ For Profit Corporation ________ Partnership ________ Governmental
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Illinois State Senator for the district where the facility is located: Sen. ______
State Senate District Number ______ Mailing address of the State Senator ______

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State Representative District Number ______ Mailing address of the State Representative ______

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3. NAME OF APPLICANT (complete this information for each co-applicant and insert after this page).
Exact Legal Name of Applicant SCA-Surgery Holdings, LLC
Address ATTN: General Counsel, 520 Lake Cook Road, Suite 250
City, State & Zip Code Deerfield, IL 60015
Type of ownership of the current licensed entity (check one of the following:) ______ Sole Proprietorship
______ Not-for-Profit Corporation ______ For Profit Corporation ______ Partnership ______ Governmental
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State Senate District Number ________ Mailing address of the State Senator ____________

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State Representative District Number ________ Mailing address of the State Representative ____________

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3. NAME OF APPLICANT (complete this information for each co-applicant and insert after this page).
Exact Legal Name of Applicant Surgical Care Affiliates, LLC
Address ATTN: General Counsel, 520 Lake Cook Road, Suite 250
City, State & Zip Code Deerfield, IL 60015
Type of ownership of the current licensed entity (check one of the following:) ________ Sole Proprietorship
________ Not-for-Profit Corporation ________ For Profit Corporation ________ Partnership ________ Governmental
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3. NAME OF APPLICANT (complete this information for each co-applicant and insert after this page).
Exact Legal Name of Applicant Surgical Care Affiliates, Inc.
Address ATTN: General Counsel, 520 Lake Cook Road, Suite 250
City, State & Zip Code Deerfield, IL 60015
Type of ownership of the current licensed entity (check one of the following:) ________ Sole Proprietorship
________ Not-for-Profit Corporation __X__ For Profit Corporation ________ Partnership ________ Governmental
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NAME OF APPLICANT (complete this information for each co-applicant and insert after this page).
Exact Legal Name of Applicant Midwest Center for Day Surgery, LLC
Address 3811 Highland Avenue
City, State & Zip Code Downers Grove, IL 60515
Type of ownership of the current licensed entity (check one of the following:) ______ Sole Proprietorship
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Type of ownership of the current licensed entity (check one of the following:) ______ Sole Proprietorship
______ Not-for-Profit Corporation ______ For Profit Corporation ______ Partnership ______ Governmental
______ Limited Liability Company ______ Other, specify ____________

6. **TRANSACTION TYPE. CHECK THE FOLLOWING THAT APPLY TO THE TRANSACTION:**
   - o Purchase resulting in the issuance of a license to an entity different from current licensee;
   - o Lease resulting in the issuance of a license to an entity different from current licensee;
   - o Stock transfer resulting in the issuance of a license to a different entity from current licensee;
   - X Stock transfer resulting in no change from current licensee;
   - o Assignment or transfer of assets resulting in the issuance of a license to an entity different from the current licensee;
   - o Assignment or transfer of assets not resulting in the issuance of a license to an entity different from the current licensee;
   - o Change in membership or sponsorship of a not-for-profit corporation that is the licensed entity;
   - o Change of 50% or more of the voting members of a not-for-profit corporation's board of directors that controls a health care facility's operations, license, certification or physical plant and assets;
   - o Change in the sponsorship or control of the person who is licensed, certified or owns the physical plant and assets of a governmental health care facility;
   - o Sale or transfer of the physical plant and related assets of a health care facility not resulting in a change of current licensee;
   - o Any other transaction that results in a person obtaining control of a health care facility's operation or physical plant and assets, and explain in "Attachment 3 Narrative Description"

7. **APPLICATION FEE.** Submit the application fee in the form of a check or money order for $2,500 payable to the Illinois Department of Public Health and append as **ATTACHMENT #1.**

8. **FUNDING.** Indicate the type and source of funds which will be used to acquire the facility (e.g., mortgage through Health Facilities Authority; cash gift from parent company, etc.) and append as **ATTACHMENT #2.**

9. **ANTICIPATED ACQUISITION PRICE: $** approximately $585,000; See Attachment 5

10. **FAIR MARKET VALUE OF THE FACILITY: $** 2,250,000; See Attachment 5
    (to determine fair market value, refer to 77 IAC 1130.140)

11. **DATE OF PROPOSED TRANSACTION:** September 1, 2016

12. **NARRATIVE DESCRIPTION.** Provide a narrative description explaining the transaction, and append it to the application as **ATTACHMENT #3.**

13. **BACKGROUND OF APPLICANT** (co-applicants must also provide this information). Corporations and Limited Liability Companies must provide a current Certificate of Good Standing from the Illinois Secretary of State. Limited Liability Companies and Partnerships must provide the name and address of each partner/ member and specify the percentage of ownership of each. Append this information to the application as **ATTACHMENT #4.**

14. **TRANSACTION DOCUMENTS.** Provide a copy of the complete transaction document(s) including schedules and exhibits which detail the terms and conditions of the proposed transaction (purchase, lease, stock transfer, etc). Applicants should note that the document(s) submitted should reflect the applicant's (and co-applicant's, if applicable) involvement in the transaction. The document must be signed by both parties and contain language stating that the transaction is contingent upon approval of the Illinois Health Facilities and Services Review Board. Append this document(s) to the application as **ATTACHMENT #5.**

15. FINANCIAL STATEMENTS. (Co-applicants must also provide this information) Provide a copy of the applicants latest audited financial statements, and append it to this application as ATTACHMENT #6. If the applicant is a newly formed entity and financial statements are not available, please indicate by checking YES X , and indicate the date the entity was formed 12/21/2015

16. **PRIMARY CONTACT PERSON**. Individual representing the applicant to whom all correspondence and inquiries pertaining to this application are to be directed. (Note: other persons representing the applicant not named below will need written authorization from the applicant stating that such persons are also authorized to represent the applicant in relationship to this application).

Name: Joe Ourth
Address: Arnstein & Lehr LLP, 120 S. Riverside Pl., #1200
City, Chicago State IL & Zip Code: 60606
Telephone ( ) Ext. 312-876-7815

17. **ADDITIONAL CONTACT PERSON. Consultant, attorney, other individual who is also authorized to discuss this** application and act on behalf of the applicant.

Name: Dee Repici
Address: 569 Brookwood Village, ~~Suite~~ 901
City, State & Zip Code: Birmingham, Alabama 35209
Telephone ( ) Ext. (205) 545-2762

18. **CERTIFICATION** Advocate-SCA Partners, LLC

I certify that the above information and all attached information are true and correct to the best of my knowledge and belief. I certify that the number of beds within the facility will not change as part of this transaction. I certify that no adverse action has been taken against the applicant(s) by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois. I certify that I am fully aware that a change in ownership will void any permits for projects that have not been completed unless such projects will be completed or altered pursuant to the requirements in 77 IAC 1130.520(f) prior to the effective date of the proposed ownership change. I also certify that the applicant has not already acquired the facility named in this application or entered into an agreement to acquire the facility named in the application unless the contract contains a clause that the transaction is contingent upon approval by the State Board.

Signature of Authorized Officer

Typed or Printed Name of Authorized Officer Michael A. Rucker

Title of Authorized Officer: Surgical Care Affiliates Executive Vice President and Chief Operating Officer

Address: 520 Lake Cook Road, Suite 250

City, State & Zip Code: Deerfield, IL 60015

Telephone (847)267-9814 Date: 7/13/2016

NOTE: complete a separate signature page for each co-applicant and insert following this page.

#743721

Angelina K. Vazquez
Notary Public/Commissioner of Oaths

(SEAL)
My Commission Expires: 05|18|19

OFFICIAL SEAL
ANGELINA K VAZQUEZ
NOTARY PUBLIC - STATE OF ILLINOIS
MY COMMISSION EXPIRES:05/18/19

16. **PRIMARY CONTACT PERSON**. Individual representing the applicant to whom all correspondence and inquiries pertaining to this application are to be directed. (Note: other persons representing the applicant not named below will need written authorization from the applicant stating that such persons are also authorized to represent the applicant in relationship to this application).

Name: ______
Address: ______
City, State & Zip Code: ______
Telephone ( ) Ext. ______

17. **ADDITIONAL CONTACT PERSON. Consultant, attorney, other individual who is also authorized to discuss this** application and act on behalf of the applicant.

Name: ______
Address: ______
City, State & Zip Code: ______
Telephone ( ) Ext. ______

18. **CERTIFICATION** SCA - Illinois, LLC

I certify that the above information and all attached information are true and correct to the best of my knowledge and belief. I certify that the number of beds within the facility will not change as part of this transaction. I certify that no adverse action has been taken against the applicant(s) by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois. I certify that I am fully aware that a change in ownership will void any permits for projects that have not been completed unless such projects will be completed or altered pursuant to the requirements in 77 IAC 1130.520(f) prior to the effective date of the proposed ownership change. I also certify that the applicant has not already acquired the facility named in this application or entered into an agreement to acquire the facility named in the application unless the contract contains a clause that the transaction is contingent upon approval by the State Board.

Signature of Authorized Officer ______

Typed or Printed Name of Authorized Officer Richard L. Sharff, Jr.

Title of Authorized Officer: Vice President

Address: 569 Brookwood Village, Suite 901

City, State & Zip Code: Birmingham, AL 35209

Telephone (847) 267-9814 Date: 07/14/2016

NOTE: complete a separate signature page for each co-applicant and insert following this page.

THE STATE OF ALABAMA
COUNTY OF JEFFERSON

On this 14th day of July, 2016, before me, the undersigned officer, personally appeared Richard L. Sharff, Jr., known personally to me to be the same person whose name is signed to the foregoing instrument, and acknowledged the execution thereof for the uses and purposes therein set forth.

IN WITNESS WHEREOF, I have hereto set my hand and official seal.

______
Notary Public/Commissioner of Oaths

(SEAL)
My Commission Expires: 9/22/2018

STATE OF ALABAMA NOTARY PUBLIC
KINESHIA RONAY COLLINS
My Commission Expires
September 22, 2018

000009

16. **PRIMARY CONTACT PERSON**. Individual representing the applicant to whom all correspondence and inquiries pertaining to this application are to be directed. (Note: other persons representing the applicant not named below will need written authorization from the applicant stating that such persons are also authorized to represent the applicant in relationship to this application).

Name: ______________________
Address: ______________________
City, State & Zip Code: ______________________
Telephone ( ) Ext. ______________________

17. **ADDITIONAL CONTACT PERSON. Consultant, attorney, other individual who is also authorized to discuss this** application and act on behalf of the applicant.

Name: ______________________
Address: ______________________
City, State & Zip Code: ______________________
Telephone ( ) Ext. ______________________

18. **CERTIFICATION** SCA Surgery Holdings, LLC

I certify that the above information and all attached information are true and correct to the best of my knowledge and belief. I certify that the number of beds within the facility will not change as part of this transaction. I certify that no adverse action has been taken against the applicant(s) by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois. I certify that I am fully aware that a change in ownership will void any permits for projects that have not been completed unless such projects will be completed or altered pursuant to the requirements in 77 IAC 1130.520(f) prior to the effective date of the proposed ownership change. I also certify that the applicant has not already acquired the facility named in this application or entered into an agreement to acquire the facility named in the application unless the contract contains a clause that the transaction is contingent upon approval by the State Board.

Signature of Authorized Officer ______________________

Typed or Printed Name of Authorized Officer Richard L. Sharff, Jr.

Title of Authorized Officer: Vice President

Address: 569 Brookwood Village, Suite 901

City, State & Zip Code: Birmingham, AL 35209

Telephone (847) 267-9814 Date: 07/14/16

NOTE: complete a separate signature page for each co-applicant and insert following this page.

THE STATE OF ALABAMA
COUNTY OF JEFFERSON

On this 14th day of July, 2016, before me, the undersigned officer, personally appeared Richard L. Sharff, Jr., known personally to me to be the same person whose name is signed to the foregoing instrument, and acknowledged the execution thereof for the uses and purposes therein set forth.

IN WITNESS WHEREOF, I have hereto set my hand and official seal.

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Notary Public/Commissioner of Oaths

(SEAL)
My Commission Expires: 9/22/2018

STATE OF NOTARY PUBLIC ALABAMA
KINESHIA RONAY COLLINS
My Commission Expires
September 22, 2018

000010

16. **PRIMARY CONTACT PERSON**. Individual representing the applicant to whom all correspondence and inquiries pertaining to this application are to be directed. (Note: other persons representing the applicant not named below will need written authorization from the applicant stating that such persons are also authorized to represent the applicant in relationship to this application).

Name: ______________________________
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Signature of Authorized Officer ______________

Typed or Printed Name of Authorized Officer Richard L. Sharff, Jr.

Title of Authorized Officer: Executive Vice President and Corporate Secretary

Address: ATTN: General Counsel, 520 Lake Cook Road, Suite 250

City, State & Zip Code: Deerfield, IL 60015

Telephone (205) 545-2572 Date: 07/13/2016

NOTE: complete a separate signature page for each co-applicant and insert following this page.

THE STATE OF ALABAMA
COUNTY OF JEFFERSON

On this 13th day of July, 2016, before me, the undersigned officer, personally appeared Richard L. Sharff, Jr. known personally to me to be the same person whose name is signed to the foregoing instrument, and acknowledged the execution thereof for the uses and purposes therein set forth.

IN WITNESS WHEREOF, I have hereto set my hand and official seal.

____
Notary Public/Commissioner of Oaths

(SEAL)
My Commission Expires: 9/22/2018

STATE OF ALABAMA NOTARY PUBLIC
KINESHIA RONAY COLLINS
My Commission Expires
September 22, 2018

000011

16. **PRIMARY CONTACT PERSON**. Individual representing the applicant to whom all correspondence and inquiries pertaining to this application are to be directed. (Note: other persons representing the applicant not named below will need written authorization from the applicant stating that such persons are also authorized to represent the applicant in relationship to this application).

Name: ______

Address: ______

City, State & Zip Code: ______

Telephone ( ) Ext. ______

17. **ADDITIONAL CONTACT PERSON. Consultant, attorney, other individual who is also authorized to discuss this** application and act on behalf of the applicant.

Name: ______

Address: ______

City, State & Zip Code: ______

Telephone ( ) Ext. ______

18. **CERTIFICATION** Surgical Care Affiliates, Inc.

I certify that the above information and all attached information are true and correct to the best of my knowledge and belief. I certify that the number of beds within the facility will not change as part of this transaction. I certify that no adverse action has been taken against the applicant(s) by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois. I certify that I am fully aware that a change in ownership will void any permits for projects that have not been completed unless such projects will be completed or altered pursuant to the requirements in 77 IAC 1130.520(f) prior to the effective date of the proposed ownership change. I also certify that the applicant has not already acquired the facility named in this application or entered into an agreement to acquire the facility named in the application unless the contract contains a clause that the transaction is contingent upon approval by the State Board.

Signature of Authorized Officer ______

Typed or Printed Name of Authorized Officer Richard L. Sharff, Jr.

Title of Authorized Officer: Executive Vice President and Corporate Secretary

Address: ATTN: General Counsel, 520 Lake Cook Road, Suite 250

City, State & Zip Code: Deerfield, IL 60015

Telephone (205) 545-2572 Date: 7/13/2016

NOTE: complete a separate signature page for each co-applicant and insert following this page.

THE STATE OF ALABAMA

COUNTY OF JEFFERSON

On this 13th day of July, 2016 before me, the undersigned officer, personally appeared Richard L. Sharff, Jr., known personally to me to be the same person whose name is signed to the foregoing instrument, and acknowledged the execution thereof for the uses and purposes therein set forth.

IN WITNESS WHEREOF, I have hereto set my hand and official seal.

______

Notary Public/Commissioner of Oaths

(SEAL)

My Commission Expires: 9/22/2018

STATE OF ALABAMA NOTARY PUBLIC

KINESHIA RONAY COLLINS
My Commission Expires
September 22, 2018

000012

16. **PRIMARY CONTACT PERSON**. Individual representing the applicant to whom all correspondence and inquiries pertaining to this application are to be directed. (Note: other persons representing the applicant not named below will need written authorization from the applicant stating that such persons are also authorized to represent the applicant in relationship to this application).

Name: ______________________________
Address: ______________________________
City, State & Zip Code: ______________________________
Telephone ( ) Ext. ______________

17. **ADDITIONAL CONTACT PERSON. Consultant, attorney, other individual who is also authorized to discuss this** application and act on behalf of the applicant.

Name: ______________________________
Address: ______________________________
City, State & Zip Code: ______________________________
Telephone ( ) Ext. ______________

18. **CERTIFICATION** Midwest Center for Day Surgery, LLC

I certify that the above information and all attached information are true and correct to the best of my knowledge and belief. I certify that the number of beds within the facility will not change as part of this transaction. I certify that no adverse action has been taken against the applicant(s) by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois. I certify that I am fully aware that a change in ownership will void any permits for projects that have not been completed unless such projects will be completed or altered pursuant to the requirements in 77 IAC 1130.520(f) prior to the effective date of the proposed ownership change. I also certify that the applicant has not already acquired the facility named in this application or entered into an agreement to acquire the facility named in the application unless the contract contains a clause that the transaction is contingent upon approval by the State Board.

Signature of Authorized Officer Richard Bulger MD

Typed or Printed Name of Authorized Officer Richard Bulger, M.D.

Title of Authorized Officer: Board President

Address: 3811 Highland Avenue

City, State & Zip Code: Downers Grove, IL 60515

Telephone (630) 852-9300 Date: 7-12-16

NOTE: complete a separate signature page for each co-applicant and insert following this page.

THE STATE OF Illinois
COUNTY OF DuPage

On this 12 day of July, 2015, before me, the undersigned officer, personally appeared Richard Bulger, MD known personally to me to be the same person whose name is signed to the foregoing instrument, and acknowledged the execution thereof for the uses and purposes therein set forth.

IN WITNESS WHEREOF, I have hereto set my hand and official seal.

Candice Truett

Notary Public/Commissioner of Oaths

(SEAL)
My Commission Expires: 4/18/2020

CANDICE TRUETT
Official Seal
Notary Public - State of Illinois
My Commission Expires Apr 18, 2020

Section 7, Application Fee

Attachment 1

Application Fee

Attached is a check for Two Thousand Five Hundred Dollars ($2,500.00) payable to the Illinois Department of Public Health for the required application fee.

Section 8, Funding

Attachment 2

Funding Sources

Advocate-SCA Partners, LLC ("Advocate-SCA") is a joint venture between SCA-Illinois, LLC ("SCA-Illinois") (51%) and Evangelical Services Corp. ("Evangelical") (49%), a subsidiary of Advocate Health Care Network ("Advocate").

Advocate-SCA proposes to acquire, upon the Review Board's approval, fifty-one percent (51%) of the ownership interest in Midwest Center for Day Surgery, LLC ("Midwest"). SCA-Illinois will use cash from internally available financial resources from its parent, Surgical Care Affiliates, LLC ("SCA"), to acquire the SCA-Illinois ownership interests for an aggregate price of approximately $585,000. Evangelical, presently owns 49% of Midwest and will contribute its ownership interest in Midwest into the Advocate-SCA joint venture.

Advocate-SCA is a recently formed entity and has no audited financial statements. The most recently audited financial statements of SCA, Inc., are included in Attachment 6 and show cash and cash equivalents in an amount sufficient to fund the purchase price.

Section 12, Narrative Description

Attachment 3

Narrative Description

Midwest Center for Day Surgery, LLC is located at 3811 Highland Ave., Downers Grove, IL 60515 and is a multi-specialty, ambulatory surgical treatment center. The facility has 5 operating rooms.

Midwest is presently owned collectively by multiple physician owners (current and future physician owners, collectively, "Physician Owners") (51%) and Evangelical Services Corp. ("Evangelical"), a subsidiary of Advocate Health Care Network ("Advocate") (49%).

Under the proposed transaction, Advocate-SCA Partners, LLC ("Advocate-SCA") would acquire, contingent upon the Review Board's approval, fifty-one percent (51%) of the ownership interest in Midwest. Following the transaction, the Physician Owners will collectively own forty-nine percent (49%) of Midwest, and Advocate-SCA will own a fifty-one percent (51%) interest.

A similar exemption application for a change of ownership had previously been filed and approved by the Review Board Chair as Project No. E-038-15. In that application, SCA and Advocate were collectively holding a 51% ownership in Midwest, but in their individual capacity rather than through a joint venture. Other than the joint venture change this application is substantively similar to the prior application. Because there was a change in the key terms as described in the application for Project No. E-038-15 this new COE application is being requested.

Midwest Center for Day Surgery, LLC will remain the licensed entity.

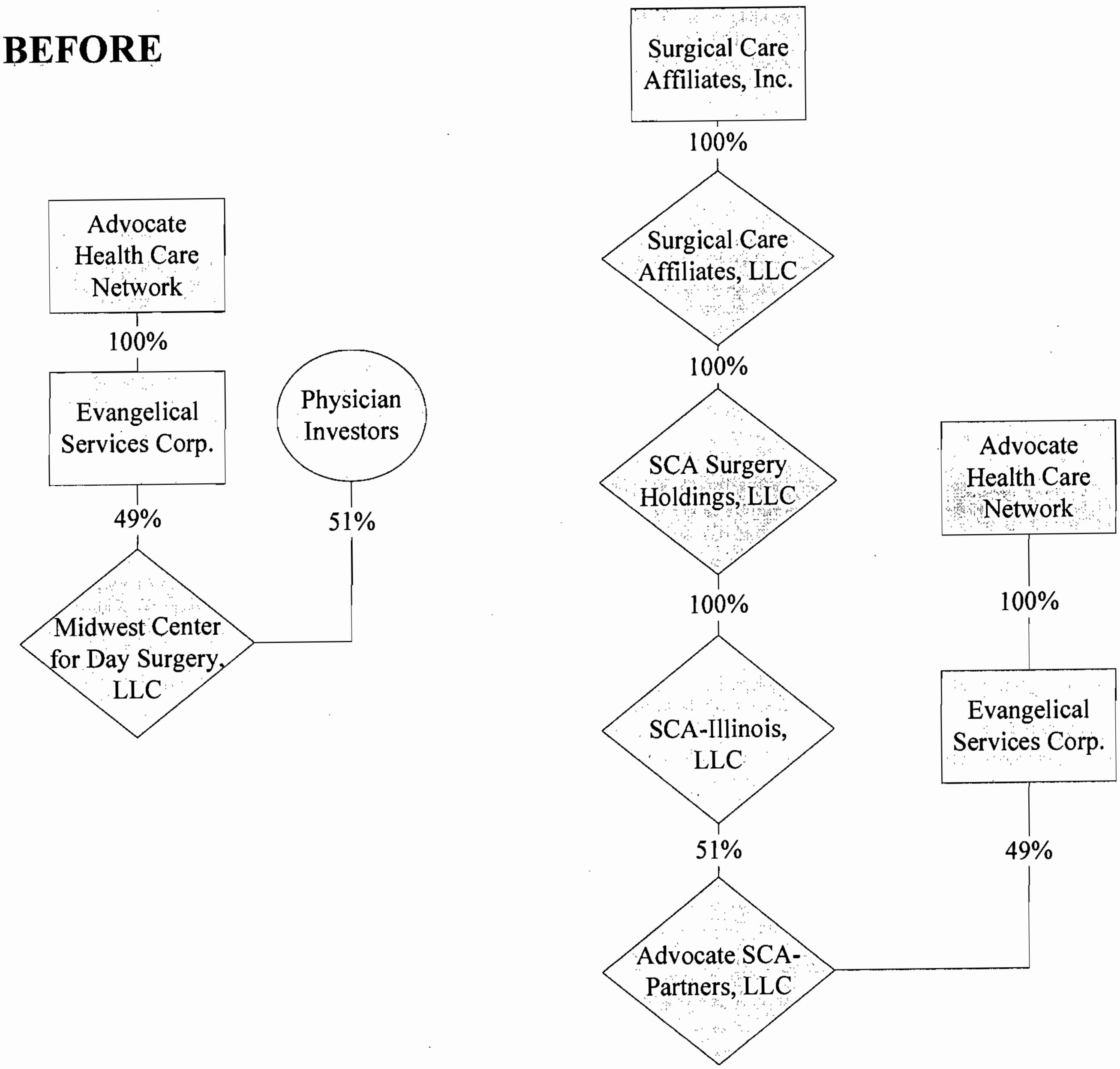
A diagram of the current ownership structure of each of Midwest and Advocate-SCA and the post-transaction ownership structure of Midwest is attached.

Midwest Center for Day Surgery, LLC

3811 Highland Avenue, Downers Grove, IL 60515

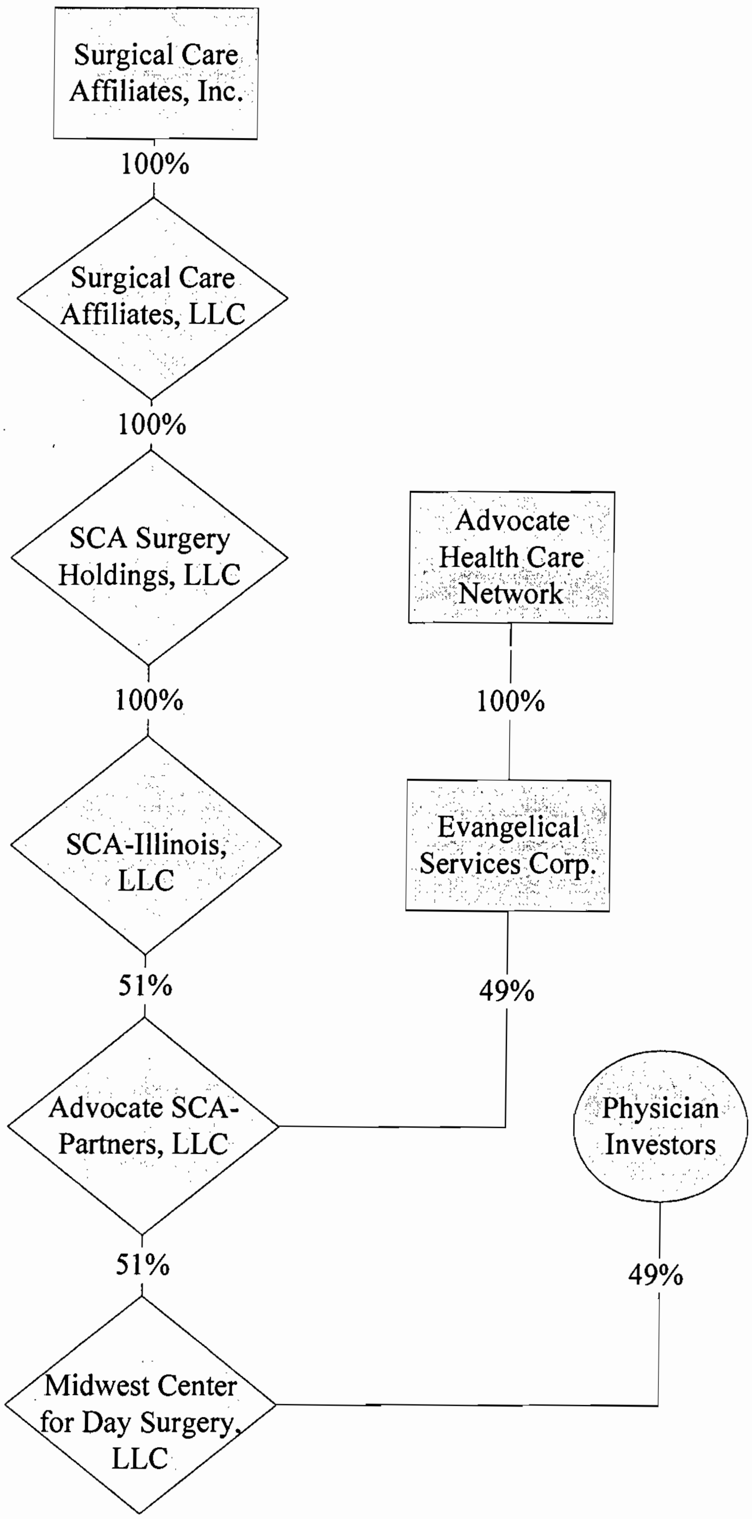
1

BEFORE



ATTACHMENT 3

AFTER


Surgical Care Affiliates, Inc.
100%
Surgical Care Affiliates, LLC
100%
SCA Surgery Holdings, LLC
Advocate Health Care Network
100%
100%
SCA-Illinois, LLC
Evangelical Services Corp.
51%
49%
Advocate SCA-Partners, LLC
Physician Investors
51%
49%
Midwest Center for Day Surgery, LLC

Section 13 Background of Applicant

Attachment 4

<u>Background of Applicant</u>

An organizational chart showing the current ownership structure of Midwest Center for Day Surgery, LLC ("Midwest") and Advocate-SCA Partners, LLC, along with the post-closing ownership structure of Midwest is included in Attachment 3. Good standing certificates for the following entities are also attached:

1. <u>Midwest Center for Day Surgery, LLC ("Midwest")</u>: Midwest is an Illinois limited liability company, which is presently owned by multiple physicians (current and future physician owners, collectively, "Physician Owners") (51%) and Evangelical Services Corp., a subsidiary of Advocate Health Care Network, ("Evangelical") (49%). A copy of Midwest's Illinois Good Standing Certificate is attached.

2. <u>Advocate-SCA Partners, LLC ("Advocate-SCA")</u>: Advocate-SCA is a recently created Illinois limited liability company whose members are Evangelical Services Corp. (49%) and SCA-Illinois, LLC, a subsidiary of SCA. Advocate-SCA is owned 51% by SCA and 49% by Evangelical. A copy of Advocate-SCA's Illinois Good Standing Certificate is attached.

3. <u>SCA – Illinois, LLC ("SCA – Illinois)</u>: SCA – Illinois is a Delaware limited liability company and is wholly owned subsidiary of SCA. A copy of SCA-Illinois' Delaware Good Standing Certificate is attached. Because SCA – Illinois only holds assets and performs no operations in Illinois, it is not required to obtain authorization to do business in Illinois and, therefore, an Illinois Certificate of Good Standing for a foreign limited liability company is not applicable.

4. <u>SCA Surgery Holdings, LLC ("SCA Surgery Holdings")</u>: SCA Surgery Holdings is a Delaware limited liability company and a wholly owned subsidiary of SCA. A copy of SCA Surgery Holdings' Delaware Good Standing Certificate is attached. Because SCA Surgery Holdings only holds assets and performs no operations in Illinois, it is not required to obtain authorization to do business in Illinois and, therefore, an Illinois Certificate of Good Standing for a foreign limited liability company is not applicable.

5. <u>SC Affiliates, LLC ("SC Affiliates")</u>: SC Affiliates is a Delaware limited liability, whose sole member is Surgical Care Affiliates, LLC. A copy of SC Affiliates' Delaware Good Standing Certificate is attached. Because SC Affiliates performs no operations in Illinois

and only holds assets, it is not required to obtain authorization to conduct business in Illinois and, therefore an Illinois Certificate of Good Standing for a foreign limited liability company is not applicable.

6. Surgical Care Affiliates, LLC ("SCA"): SCA is Delaware limited liability company registered to do business in Illinois, whose sole member is Surgical Care Affiliates, Inc. (100%). Copies of SCA's Delaware Good Standing Certificate and its Illinois Good Standing Certificate for a foreign limited liability company are attached.

7. Surgical Care Affiliates, Inc. ("SCA, Inc."): SCA, Inc. is a Delaware corporation registered to do business in Illinois. SCA, Inc. is the parent entity of SCA. Copies of SCA, Inc.'s Delaware Good Standing Certificate and Illinois Good Standing Certificate for a foreign corporation are attached.

8. Evangelical Services Corp. ("Evangelical"): Evangelical is not necessary an applicant, but is described here for informational purposes. Evangelical is a wholly owned subsidiary of Advocate Health Care Network.

File Number 0140584-5

STATE OF ILLINOIS
OFFICE OF THE SECRETARY OF STATE

To all to whom these Presents Shall Come, Greeting:

I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that I am the keeper of the records of the Department of Business Services. I certify that

MIDWEST CENTER FOR DAY SURGERY, LLC, HAVING ORGANIZED IN THE STATE OF ILLINOIS ON JANUARY 25, 2005, APPEARS TO HAVE COMPLIED WITH ALL PROVISIONS OF THE LIMITED LIABILITY COMPANY ACT OF THIS STATE, AND AS OF THIS DATE IS IN GOOD STANDING AS A DOMESTIC LIMITED LIABILITY COMPANY IN THE STATE OF ILLINOIS.

In Testimony Whereof, *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this* 18TH *day of* DECEMBER *A.D.* 2015 .

SEAL OF THE STATE OF ILLINOIS AUG. 26TH 1818

Authentication #: 1535201556 verifiable until 12/18/2016
Authenticate at: http://www.cyberdriveillinois.com

Jesse White

SECRETARY OF STATE

ATTACHMENT 4

File Number 0509172-1

STATE OF ILLINOIS

OFFICE OF THE SECRETARY OF STATE

To all to whom these Presents Shall Come, Greeting:

I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that I am the keeper of the records of the Department of Business Services. I certify that

ADVOCATE-SCA PARTNERS, LLC, A DELAWARE LIMITED LIABILITY COMPANY HAVING OBTAINED ADMISSION TO TRANSACT BUSINESS IN ILLINOIS ON FEBRUARY 25, 2015, APPEARS TO HAVE COMPLIED WITH ALL PROVISIONS OF THE LIMITED LIABILITY COMPANY ACT OF THIS STATE, AND AS OF THIS DATE IS IN GOOD STANDING AS A FOREIGN LIMITED LIABILITY COMPANY ADMITTED TO TRANSACT BUSINESS IN THE STATE OF ILLINOIS.

In Testimony Whereof, *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this* 15TH *day of* JULY *A.D.* 2016 .

SEAL OF THE STATE OF ILLINOIS
AUG. 26TH 1818

Authentication #: 1619701394 verifiable until 07/15/2017
Authenticate at: http://www.cyberdriveillinois.com

Jesse White
SECRETARY OF STATE

ATTACHMENT 4

Delaware

The First State

I, JEFFREY W. BULLOCK, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY "SCA-ILLINOIS, LLC" IS DULY FORMED UNDER THE LAWS OF THE STATE OF DELAWARE AND IS IN GOOD STANDING AND HAS A LEGAL EXISTENCE SO FAR AS THE RECORDS OF THIS OFFICE SHOW, AS OF THE FIFTEENTH DAY OF JULY, A.D. 2016.

AND I DO HEREBY FURTHER CERTIFY THAT THE SAID "SCA-ILLINOIS, LLC" WAS FORMED ON THE THIRTEENTH DAY OF JANUARY, A.D. 2015.

AND I DO HEREBY FURTHER CERTIFY THAT THE ANNUAL TAXES HAVE BEEN PAID TO DATE.

Jeffrey W. Bullock, Secretary of State

SECRETARY'S OFFICE 1793 DELAWARE 1853

5673924 8300

SR# 20164928756

You may verify this certificate online at corp.delaware.gov/authver.shtml

Authentication: 202665062

Date: 07-15-16

ATTACHMENT 4

Delaware

The First State

I, JEFFREY W. BULLOCK, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY "SCA SURGERY HOLDINGS, LLC" IS DULY FORMED UNDER THE LAWS OF THE STATE OF DELAWARE AND IS IN GOOD STANDING AND HAS A LEGAL EXISTENCE SO FAR AS THE RECORDS OF THIS OFFICE SHOW, AS OF THE FIFTEENTH DAY OF JULY, A.D. 2016.

AND I DO HEREBY FURTHER CERTIFY THAT THE SAID "SCA SURGERY HOLDINGS, LLC" WAS FORMED ON THE EIGHTH DAY OF MAY, A.D. 2008.

AND I DO HEREBY FURTHER CERTIFY THAT THE ANNUAL TAXES HAVE BEEN PAID TO DATE.

SECRETARY'S OFFICE · 1793 · DELAWARE · 1893

Jeffrey W. Bullock, Secretary of State

4545056 8300

SR# 20164928773

You may verify this certificate online at corp.delaware.gov/authver.shtml

Authentication: 202665074

Date: 07-15-16

ATTACHMENT 4

Delaware

The First State

I, JEFFREY W. BULLOCK, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY "SC AFFILIATES, LLC" IS DULY FORMED UNDER THE LAWS OF THE STATE OF DELAWARE AND IS IN GOOD STANDING AND HAS A LEGAL EXISTENCE SO FAR AS THE RECORDS OF THIS OFFICE SHOW, AS OF THE FIFTEENTH DAY OF JULY, A.D. 2016.

AND I DO HEREBY FURTHER CERTIFY THAT THE SAID "SC AFFILIATES, LLC" WAS FORMED ON THE TWENTY-NINTH DAY OF APRIL, A.D. 1986.

AND I DO HEREBY FURTHER CERTIFY THAT THE ANNUAL TAXES HAVE BEEN PAID TO DATE.

Jeffrey W. Bullock, Secretary of State

2089674 8300

SR# 20164928807

You may verify this certificate online at corp.delaware.gov/authver.shtml

Authentication: 202665088

Date: 07-15-16

ATTACHMENT 4

Delaware

The First State

I, JEFFREY W. BULLOCK, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY "SURGICAL CARE AFFILIATES, LLC" IS DULY FORMED UNDER THE LAWS OF THE STATE OF DELAWARE AND IS IN GOOD STANDING AND HAS A LEGAL EXISTENCE SO FAR AS THE RECORDS OF THIS OFFICE SHOW, AS OF THE FIFTEENTH DAY OF JULY, A.D. 2016.

AND I DO HEREBY FURTHER CERTIFY THAT THE SAID "SURGICAL CARE AFFILIATES, LLC" WAS FORMED ON THE TWENTY-THIRD DAY OF JANUARY, A.D. 2007.

AND I DO HEREBY FURTHER CERTIFY THAT THE ANNUAL TAXES HAVE BEEN PAID TO DATE.

Jeffrey W. Bullock, Secretary of State

4289130 8300

SR# 20164928846

You may verify this certificate online at corp.delaware.gov/authver.shtml

Authentication: 202665110

Date: 07-15-16

ATTACHMENT 4

File Number 0226541-9

STATE OF ILLINOIS
OFFICE OF THE SECRETARY OF STATE

To all to whom these Presents Shall Come, Greeting:

I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that I am the keeper of the records of the Department of Business Services. I certify that

SURGICAL CARE AFFILIATES, LLC, A DELAWARE LIMITED LIABILITY COMPANY HAVING OBTAINED ADMISSION TO TRANSACT BUSINESS IN ILLINOIS ON JULY 09, 2007, APPEARS TO HAVE COMPLIED WITH ALL PROVISIONS OF THE LIMITED LIABILITY COMPANY ACT OF THIS STATE, AND AS OF THIS DATE IS IN GOOD STANDING AS A FOREIGN LIMITED LIABILITY COMPANY ADMITTED TO TRANSACT BUSINESS IN THE STATE OF ILLINOIS.

In Testimony Whereof, *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this* 15TH *day of* JULY *A.D.* 2016 .

SEAL OF THE STATE OF ILLINOIS AUG. 26TH 1818

Authentication #: 1619701424 verifiable until 07/15/2017
Authenticate at: http://www.cyberdriveillinois.com

Jesse White
SECRETARY OF STATE

ATTACHMENT 4

Delaware

The First State

I, JEFFREY W. BULLOCK, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY "SURGICAL CARE AFFILIATES, INC." IS DULY INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE AND IS IN GOOD STANDING AND HAS A LEGAL CORPORATE EXISTENCE SO FAR AS THE RECORDS OF THIS OFFICE SHOW, AS OF THE FIFTEENTH DAY OF JULY, A.D. 2016.

AND I DO HEREBY FURTHER CERTIFY THAT THE ANNUAL REPORTS HAVE BEEN FILED TO DATE.

AND I DO HEREBY FURTHER CERTIFY THAT THE SAID "SURGICAL CARE AFFILIATES, INC." WAS INCORPORATED ON THE TWENTY-THIRD DAY OF MARCH, A.D. 2007.

AND I DO HEREBY FURTHER CERTIFY THAT THE FRANCHISE TAXES HAVE BEEN PAID TO DATE.

Jeffrey W. Bullock, Secretary of State

4322814 8300

SR# 20164928875

Authentication: 202665117

Date: 07-15-16

You may verify this certificate online at corp.delaware.gov/authver.shtml

ATTACHMENT 4

File Number 6955-963-8

STATE OF ILLINOIS
OFFICE OF THE SECRETARY OF STATE

To all to whom these Presents Shall Come, Greeting:

I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that I am the keeper of the records of the Department of Business Services. I certify that

SURGICAL CARE AFFILIATES, INC., INCORPORATED IN DELAWARE AND LICENSED TO TRANSACT BUSINESS IN THIS STATE ON JUNE 05, 2014, AND MUST CONDUCT ALL BUSINESS IN THIS STATE UNDER THE ASSUMED NAME OF ILLINOIS SURGICAL CARE AFFILIATES, INC., APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE BUSINESS CORPORATION ACT OF THIS STATE RELATING TO THE PAYMENT OF FRANCHISE TAXES, AND AS OF THIS DATE, IS A FOREIGN CORPORATION IN GOOD STANDING AND AUTHORIZED TO TRANSACT BUSINESS IN THE STATE OF ILLINOIS.

In Testimony Whereof, *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this* 19TH *day of* JULY *A.D.* 2016 .

SEAL OF THE STATE OF ILLINOIS AUG. 26TH 1818

Authentication #: 1620100964 verifiable until 07/19/2017
Authenticate at: http://www.cyberdriveillinois.com

Jesse White
SECRETARY OF STATE

ATTACHMENT 4

Section 14, Transaction Documents

Attachment 5

Summary of Transaction Documents

1. **Names and Background of the Parties**

   The parties to the change of ownership transaction are described in Attachment 4.

2. **Structure of the Transaction**

   Advocate-SCA Partners, LLC ("Advocate-SCA") proposes to acquire a fifty-one percent (51%) ownership interest in Midwest Center for Day Surgery, LLC ("Midwest"). Any definitive agreement relating to the proposed transaction will contain a contingency providing that consummation of the transaction is subject to the Review Board's approval.

   Advocate-SCA is owned by 51% by SCA-Illinois, LLC ("SCA-Illinois") and 49% by Evangelical Services Corp. ("Evangelical"), a subsidiary of Advocate Health Care Network ("Advocate"). Consequently, following the transaction SCA will have a 26% indirect ownership interest in Midwest and Advocate will have a 25% indirect ownership interest.

   SCA-Illinois will use cash from internally available financial resources from its parent, Surgical Care Affiliates, LLC ("SCA"), to acquire, directly or indirectly, its interests from Evangelical for an aggregate amount of approximately $585,000, which may be adjusted for typical closing adjustments and subject to adjustment following an independent valuation. Concurrent with the transaction there will be some issuances and adjustments of ownership interests and percentages among Evangelical and the Physician Owners.

   Following the transaction, the physician owners will collectively own a 49% ownership interest in Midwest, and Advocate-SCA will own a 51% interest.

3. **The Person Who Will Be the Licensed Entity After the Transaction**

   Midwest Center for Day Surgery, LLC will remain the licensed entity.

4. **The Ownership/Membership Interest in the Licensed Entity Pre and Post Transaction**

After the proposed transaction Midwest will be owned by Advocate-SCA (51%) and the Physician Owners (49%).

An organizational chart showing the current ownership structure of Midwest and Advocate-SCA, along with the post-closing ownership structure of Midwest is included in Attachment 3.

5. **Fair Market Value of the Assets Being Transferred**

The fair market value of Midwest is estimated at approximately $2,250,000. An independent valuation will be performed prior to the closing of the transaction to establishing the final price.

6. **Purchase Price and Other Consideration**

SCA will be acquiring a 26% indirect ownership through Advocate-SCA and will pay approximately 26% of the fair market value, estimated at $585,000.

7. **Post-Closing Attestation**

Within ninety (90) days of after the closing of the proposed transaction, the Applicants will provide a certification to the Review Board that the change in ownership has been completed in accordance with the terms set forth in this application.

Section 15, Financial Statements

Attachment 6

Financial Statements

Attached are copies of the most recently audited consolidated financial statements for the years ending December 31, 2015 and December 31, 2014 for Surgical Care Affiliates, Inc. ("SCA, Inc."), which is the entity with ultimate control as defined in Review Board regulations.

These financial statements were taken from SCA, Inc.'s most recent 10-K for Fiscal Year ending December 31, 2015; however, for space consideration reasons, we have only included the portion of the 10-K which includes the financial statements and notes.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Surgical Care Affiliates, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive income (loss), changes in equity and cash flows present fairly, in all material respects, the financial position of Surgical Care Affiliates, Inc. and its subsidiaries at December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our audits (which was an integrated audit in 2015). We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

As described in Management's Report on Internal Control Over Financial Reporting, management has excluded all 2015 business combinations from its assessment of internal control over financial reporting as of December 31, 2015 because these entities were acquired by the Company in purchase business combinations during 2015. We have also excluded all 2015 business combinations from our audit of internal control over financial reporting. The acquired entities are consolidated subsidiaries of the Company whose total assets and net operating revenues represent 5.2% and 7.7%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2015.

/s/ PricewaterhouseCoopers LLP
Birmingham, Alabama
February 22, 2016

ATTACHMENT 6

SURGICAL CARE AFFILIATES, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except par value amount)

	DECEMBER 31, 2015	DECEMBER 31, 2014
Assets		
Current assets		
Cash and cash equivalents	$ 79,269	$ 8,731
Restricted cash	26,116	24,073
Accounts receivable, net of allowance for doubtful accounts (2015 — $17,045; 2014 — $10,448)	129,659	100,529
Receivable from nonconsolidated affiliates	46,949	72,030
Prepaids and other current assets	32,850	30,170
Current assets related to discontinued operations	19	1,959
Total current assets	314,862	237,492
Property and equipment, net of accumulated depreciation (2015 — $99,678; 2014 — $99,111)	296,831	209,642
Goodwill	1,061,088	902,391
Intangible assets, net of accumulated amortization (2015 — $48,495; 2014 — $35,270)	109,188	84,262
Deferred debt issue costs	7,472	5,383
Investment in and advances to nonconsolidated affiliates	216,111	194,610
Other long-term assets	1,787	4,311
Assets related to discontinued operations	59	9,344
Assets held for sale	408	—
Total assets (a)	$ 2,007,806	$ 1,647,435
Liabilities and Equity		
Current liabilities		
Current portion of long-term debt	$ 32,503	$ 24,690
Accounts payable	37,419	31,717
Accrued payroll	37,802	29,199
Accrued interest	4,173	234
Accrued distributions	37,175	29,134
Payable to nonconsolidated affiliates	77,683	104,519
Other current liabilities	30,938	26,747
Current liabilities related to discontinued operations	368	2,280
Current liabilities held for sale	26	—
Total current liabilities	258,087	248,520
Long-term debt, net of current portion	858,044	665,119
Deferred income tax liability	44,339	131,020
Other long-term liabilities	31,587	19,683
Liabilities related to discontinued operations	28	683
Total liabilities (a)	1,192,085	1,065,025
Commitments and contingent liabilities (Note 17)		
Noncontrolling interests — redeemable (Note 10)	21,989	15,444
Equity		
Surgical Care Affiliates' equity		
Common stock, $0.01 par value, 180,000 shares authorized, 39,690 and 38,648 shares outstanding, respectively	397	386
Additional paid in capital	442,678	419,088
Accumulated deficit	(60,814)	(176,135)
Total Surgical Care Affiliates' equity	382,261	243,339
Noncontrolling interests — non-redeemable	411,471	323,627
Total equity	793,732	566,966
Total liabilities and equity	$ 2,007,806	$ 1,647,435

(a) Our consolidated assets as of December 31, 2015 and December 31, 2014 include total assets of a variable interest entity ("VIE") of $167.8 million and $117.5 million, respectively, which can only be used to settle the obligations of the VIE. Our consolidated total liabilities as of December 31, 2015 and December 31, 2014 include total liabilities of the VIE of $41.0 million and $23.8 million, respectively, for which the creditors of the VIE have no recourse to us, with the exception of $4.0 million and $3.4 million of debt guaranteed by us at December 31, 2015 and December 31, 2014, respectively. See further description in Note 4, *Variable Interest Entities* .

See Notes to Consolidated Financial Statements.

SURGICAL CARE AFFILIATES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	YEAR-ENDED DECEMBER 31, 2015	2014	2013
Net operating revenues:			
Net patient revenues	$ 971,422	$ 788,048	$ 731,584
Management fee revenues	61,011	58,914	40,469
Other revenues	19,057	17,774	13,610
Total net operating revenues	1,051,490	864,736	785,663
Equity in net income of nonconsolidated affiliates	49,867	32,564	23,364
Operating expenses:			
Salaries and benefits	351,029	297,174	270,929
Supplies	221,392	177,853	170,174
Other operating expenses	161,854	124,870	127,701
Depreciation and amortization	66,225	52,663	41,450
Occupancy costs	36,480	29,390	25,544
Provision for doubtful accounts	17,195	14,051	14,208
Impairment of intangible and long-lived assets	625	610	—
Loss (gain) on disposal of assets	1,886	(232)	123
Total operating expenses	856,686	696,379	650,129
Operating income	244,671	200,921	158,898
Interest expense	42,111	32,785	60,202
HealthSouth option expense	11,702	—	—
Debt modification expense	5,032	—	—
Loss on extinguishment of debt	544	—	10,333
Interest income	(367)	(174)	(215)
(Gain) loss on sale of investments	(3,982)	(7,633)	12,330
Income from continuing operations before income tax expense	189,631	175,943	76,248
(Benefit) provision for income taxes	(84,778)	9,439	12,320
Income from continuing operations	274,409	166,504	63,928
Loss from discontinued operations, net of income tax expense	(784)	(9,355)	(9,330)
Net income	273,625	157,149	54,598
Less: Net income attributable to noncontrolling interests	(158,304)	(125,169)	(105,942)
Net income (loss) attributable to Surgical Care Affiliates	$ 115,321	$ 31,980	$ (51,344)
Basic net income (loss) per share attributable to Surgical Care Affiliates:			
Continuing operations attributable to Surgical Care Affiliates	$ 2.95	$ 1.07	$ (1.33)
Discontinued operations attributable to Surgical Care Affiliates	$ (.02)	$ (.24)	$ (.29)
Net income (loss) per share attributable to Surgical Care Affiliates	$ 2.93	$ 0.83	$ (1.62)
Basic weighted average shares outstanding	39,360	38,477	31,688
Diluted net income (loss) per share attributable to Surgical Care Affiliates:			
Continuing operations attributable to Surgical Care Affiliates	$ 2.85	$ 1.03	$ (1.33)
Discontinued operations attributable to Surgical Care Affiliates	$ (.02)	$ (.23)	$ (.29)
Net income (loss) per share attributable to Surgical Care Affiliates	$ 2.83	$ 0.80	$ (1.62)
Diluted weighted average shares outstanding	40,734	39,958	31,688

See Notes to Consolidated Financial Statements.

SURGICAL CARE AFFILIATES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands)

	YEAR-ENDED DECEMBER 31, 2015	2014	2013
Net income	$ 273,625	$ 157,149	$ 54,598
Other comprehensive income:			
Unrealized income (loss) on interest rate swap	—	—	847
Amounts reclassified from accumulated other comprehensive loss	—	—	7,480
Total other comprehensive income	—	—	8,327
Comprehensive income	273,625	157,149	62,925
Comprehensive income attributable to noncontrolling interests	(158,304)	(125,169)	(105,942)
Comprehensive income (loss) attributable to Surgical Care Affiliates	$ 115,321	$ 31,980	$ (43,017)

See Notes to Consolidated Financial Statements.

SURGICAL CARE AFFILIATES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid in Capital	Contributed Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Surgical Care Affiliates Equity	Noncontrolling Interests-Non-redeemable	Total Equity
Balance at December 31, 2012	—	$ —	$ —	$ 313,153	$ (8,327)	$ (157,309)	$ 147,517	$ 172,494	$ 320,011
Member distributions	—	—	—	(74,900)	—	—	(74,900)	—	(74,900)
Net (loss) income	—	—	—	—	—	(51,344)	(51,344)	81,804	30,460
Other comprehensive income	—	—	—	—	8,327	—	8,327	—	8,327
Conversion from LLC to INC (Note 1)	30,286	303	240,447	(240,750)	—	—	—	—	—
Issuance of stock from the initial public offering, net of offering costs	7,857	79	171,798	—	—	—	171,877	—	171,877
Stock options exercised	23	—	285	—	—	—	285	—	285
Stock compensation	—	—	421	2,303	—	—	2,724	—	2,724
Net change in equity related to amendments in agreements with noncontrolling interests (Note 10)	—	—	—	—	—	—	—	1,050	1,050
Net change in equity related to purchase of ownership interests	—	—	468	194	—	538	1,200	32,473	33,673
Contributions from noncontrolling interests	—	—	—	—	—	—	—	3,137	3,137
Change in distribution accrual	—	—	—	—	—	—	—	(2,363)	(2,363)
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(78,310)	(78,310)
Balance at December 31, 2013	38,166	$ 382	$ 413,419	$ —	$ —	$ (208,115)	$ 205,686	$ 210,285	$ 415,971
Net income	—	—	—	—	—	31,980	31,980	102,564	134,544
Issuance of stock pursuant to teammate equity plans	482	4	1,866	—	—	—	1,870	—	1,870
Stock compensation	—	—	4,126	—	—	—	4,126	—	4,126
Net change in equity related to purchase of ownership interests	—	—	(323)	—	—	—	(323)	78,153	77,830
Contributions from noncontrolling interests	—	—	—	—	—	—	—	22,677	22,677
Change in distribution accrual	—	—	—	—	—	—	—	(233)	(233)
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(89,819)	(89,819)
Balance at December 31, 2014	38,648	386	$ 419,088	$ —	$ —	$ (176,135)	$ 243,339	$ 323,627	$ 566,966
Net income	—	—	—	—	—	115,321	115,321	129,800	245,121
Issuance of stock pursuant to teammate equity plans	716	8	6,636	—	—	—	6,644	—	6,644
HealthSouth stock option	326	3	11,699	—	—	—	11,702	—	11,702
Stock compensation	—	—	8,519	—	—	—	8,519	—	8,519
Net change in equity related to amendments in agreements with noncontrolling interests (Note 10)	—	—	—	—	—	—	—	(504)	(504)
Net change in equity related to purchase of ownership interests	—	—	(3,264)	—	—	—	(3,264)	86,284	83,020
Contributions from noncontrolling interests	—	—	—	—	—	—	—	6,276	6,276
Change in distribution accrual	—	—	—	—	—	—	—	(8,352)	(8,352)
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(125,660)	(125,660)
Balance at December 31, 2015	39,690	$ 397	$ 442,678	$ —	$ —	$ (60,814)	$ 382,261	$ 411,471	$ 793,732

See Notes to Consolidated Financial Statements.

SURGICAL CARE AFFILIATES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	YEAR-ENDED DECEMBER 31,		
	2015	2014	2013
Cash flows from operating activities			
Net income	$ 273,625	$ 157,149	$ 54,598
Loss from discontinued operations	784	9,355	9,330
Adjustments to reconcile net income to net cash provided by operating activities			
Provision for doubtful accounts	17,195	14,051	14,208
Depreciation and amortization	66,225	52,663	41,450
Amortization of deferred issuance costs	1,352	2,954	3,891
Impairment of long-lived assets	625	610	—
Realized (gain) loss on sale of investments	(3,982)	(7,633)	12,330
Loss (gain) on disposal of assets	1,886	(232)	123
Equity in net income of nonconsolidated affiliates	(49,867)	(32,564)	(23,364)
Distributions from nonconsolidated affiliates	56,263	50,773	50,505
Deferred income tax	(86,185)	8,556	15,410
Stock compensation	8,519	4,126	2,724
Change in fair value and loss on de-designation of interest rate swap	336	485	8,314
Loss on extinguishment of debt	544	—	10,333
HealthSouth option expense	11,702	—	—
Payment of deferred interest	—	—	(14,785)
Debt call premium paid	—	—	(5,000)
(Increase) decrease in assets, net of business combinations			
Accounts receivable	(31,066)	(18,692)	(20,000)
Other assets	18,576	(66,709)	8,230
(Decrease) increase in liabilities, net of business combinations			
Accounts payable	(10,740)	4,709	3,679
Accrued payroll	6,476	2,404	6,143
Accrued interest	3,939	(213)	(13,263)
Other liabilities	(19,450)	34,261	9,064
Other	(332)	(722)	(251)
Net cash used in operating activities of discontinued operations	(3,219)	(4,750)	(8,085)
Net cash provided by operating activities	263,206	210,581	165,584
Cash flows from investing activities			
Capital expenditures	(44,760)	(37,304)	(36,838)
Proceeds from sale of business	6,884	2,711	1,276
Proceeds from disposal of assets	2,303	1,302	5,880
Proceeds from sale of equity interests of nonconsolidated affiliates	20,512	2,344	4,587
Proceeds from sale of equity interests of consolidated affiliates in deconsolidation transactions	—	2,375	2,069
Decrease in cash related to conversion of consolidated affiliates to equity interests	(37)	(30)	(116)
Net change in restricted cash	(1,543)	1,062	1,886
Net settlements on interest rate swap	(1,449)	(1,539)	(2,921)
Business acquisitions, net of cash acquired 2015 - $2,711; 2014 - $2,527; 2013 - $6,131	(112,794)	(122,165)	(54,499)
Purchase of equity interests in nonconsolidated affiliates	(35,642)	(36,032)	(766)
Return of equity method investments in nonconsolidated affiliates	2,284	2,555	2,592
Other	(3,224)	(3,791)	—
Net cash provided by investing activities of discontinued operations	11,000	—	16
Net cash used in investing activities	$ (156,466)	$ (188,512)	$ (76,834)

SURGICAL CARE AFFILIATES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	YEAR-ENDED DECEMBER 31,		
	2015	2014	2013
Cash flows from financing activities			
Borrowings under line of credit arrangements and long-term debt, net of issuance costs	$ 728,310	$ 35,646	$ 417,678
Payment of debt acquisition costs	(3,238)	—	(5,700)
Proceeds from issuance of shares pursuant to IPO, net of offering costs	—	—	171,877
Principal payments on line of credit arrangements and long-term debt	(614,468)	(31,083)	(527,634)
Principal payments under capital lease obligations	(9,042)	(8,225)	(7,552)
Distributions to noncontrolling interests of consolidated affiliates	(150,529)	(113,432)	(102,975)
Contributions from noncontrolling interests of consolidated affiliates	6,276	17,452	4,758
Proceeds from sale of equity interests of consolidated affiliates	5,933	5,593	7,864
Repurchase of equity interests of consolidated affiliates	(6,124)	(8,726)	(5,612)
Distributions to unit holders	—	—	(74,900)
Proceeds from teammate equity plans	12,054	5,820	453
Tax payments on options and awards	(5,409)	—	—
Other	—	(2,189)	—
Net cash used in financing activities	(36,237)	(99,144)	(121,743)
Change in cash and cash equivalents	70,503	(77,075)	(32,993)
Cash and cash equivalents at beginning of period	8,731	85,829	118,618
Cash and cash equivalents of discontinued operations at beginning of period	37	14	178
Less: Cash and cash equivalents of discontinued operations at end of period	(2)	(37)	26
Cash and cash equivalents at end of period	$ 79,269	$ 8,731	$ 85,829
Supplemental cash flow information			
Cash paid during the year for interest	$ 37,615	$ 31,173	$ 62,167
Cash paid during the year for income taxes	1,021	753	493
Supplemental schedule of noncash investing and financing activities			
Property and equipment acquired through capital leases and installment purchases	18,640	9,722	21,329
Goodwill attributable to sale of surgery centers	2,503	752	10,062
Net investment in consolidated affiliates that became equity method facilities	164	1,848	5,356
Noncontrolling interest associated with conversion of consolidated affiliates to equity method affiliates	1,750	3,886	747
Contributions (non-cash) from noncontrolling interests of consolidated affiliates	—	5,225	—
Accrued capital expenditures at end of period	3,976	3,457	2,341
Equity interest purchase in nonconsolidated affiliates via withheld distributions	5,259	—	—

See Notes to Consolidated Financial Statements.

(Amounts in tables are in thousands of U.S. dollars unless otherwise indicated)

Unless the context otherwise indicates or requires, the terms "Surgical Care Affiliates," "we," "us," "our" and "Company" refer to Surgical Care Affiliates, Inc. and its subsidiaries.

NOTE 1 — DESCRIPTION OF BUSINESS

Nature of Operations and Ownership of the Company

Surgical Care Affiliates, Inc., a Delaware corporation, was converted from a Delaware limited liability company, previously named ASC Acquisition LLC, to a Delaware corporation on October 30, 2013. Pursuant to the conversion, every 10.25 outstanding membership units of ASC Acquisition LLC were converted into one share of common stock of Surgical Care Affiliates, and options to purchase membership units of ASC Acquisition LLC were converted into options to purchase shares of common stock of Surgical Care Affiliates at a ratio of 10.25 membership units of ASC Acquisition LLC underlying such options to each one share of common stock of Surgical Care Affiliates underlying such converted options. In connection with the conversion, the exercise prices of such converted options were adjusted accordingly. Upon conversion, each outstanding restricted equity unit of ASC Acquisition LLC was converted into one restricted stock unit of Surgical Care Affiliates. All share and per share amounts reflect these conversion amounts throughout these financial statements.

We were formed primarily to own and operate a network of multi-specialty ambulatory surgery centers ("ASCs") and surgical hospitals in the United States of America. We do this through our direct operating subsidiary, Surgical Care Affiliates, LLC ("SCA"). For a portion of the periods covered by our financial statements, the Company was a Delaware limited liability company named ASC Acquisition LLC. As of December 31, 2015, the Company operated in 33 states and had an interest in and/or operated 185 ASCs, seven surgical hospitals and one sleep center with 11 locations, with a concentration of facilities in California, Texas, Indiana, Florida and New Jersey. Our ASCs and surgical hospitals primarily provide the facilities, equipment and medical support staff necessary for physicians to perform non-emergency surgical and other procedures in various specialties, including orthopedics, ophthalmology, gastroenterology, pain management, otolaryngology (ear, nose and throat, or "ENT"), urology and gynecology, as well as other general surgery procedures. At our ASCs, physicians perform same-day surgical procedures. At our surgical hospitals, physicians perform a broader range of surgical procedures, and patients may stay in the hospital for several days.

Business Structure

Our business model is focused on building strategic relationships with physicians, health plans and health systems to acquire, develop and optimize facilities in an aligned economic model that enables better access to high-quality care at lower cost. As of December 31, 2015, we owned and operated facilities in partnership with approximately 2,800 physician partners. The facilities in which we hold an ownership interest are owned by general partnerships, limited partnerships ("LP"), limited liability partnerships ("LLP") or limited liability companies ("LLC") in which a subsidiary of the Company typically serves as the general partner, limited partner, managing member or member. We account for our 193 facilities as follows:

	AS OF DECEMBER 31, 2015
Consolidated facilities (1)	104
Equity method facilities	68
Managed-only facilities	21
Total facilities	193

(1) As of December 31, 2015, we consolidated sixteen facilities as Variable Interest Entities ("VIE") (see Note 4).

Basis of Presentation

The Company maintains its books and records on the accrual basis of accounting, and the accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Such financial statements include the assets, liabilities, revenues and expenses of all wholly owned subsidiaries and majority-owned subsidiaries over which we exercise control and, when applicable, entities in which we have a controlling financial interest.

NOTE 2 — TRANSACTIONS

Acquisitions of Consolidated Facilities

During the year-ended December 31, 2015, we purchased a controlling interest in sixteen ASCs and two surgical hospitals for total cash consideration of $116.5 million. Three of the eighteen acquisitions were previously equity method investments, and six of the eighteen acquisitions were acquired through our VIE groups (see Note 4) for which we are the primary beneficiary. These acquisitions are described in further detail below.

We accounted for these transactions under the acquisition method of accounting and reported the results of operations from the date of acquisition. The assets acquired, liabilities assumed and any noncontrolling interest 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. The fair value of identifiable intangible assets were based on valuations using the cost and income approaches. The cost approach is based on amounts that would be required to replace the asset (i.e., replacement cost). The income approach is based on management's estimates of future operating results and cash flows discounted using a weighted-average cost of capital that reflects market participant assumptions. The excess of the fair value of the consideration conveyed over the fair value of the net assets acquired was recorded as goodwill. Factors contributing to the recognition of goodwill include the centers' favorable reputations in their markets, their market positions, their ability to deliver quality care with high patient satisfaction consistent with the Company's business model and synergistic benefits that are expected to be realized as a result of the acquisitions. The total amount of goodwill that is expected to be tax deductible as a result of these 2015 transactions is approximately $89.5 million.

The details of the eighteen consolidated acquisitions closed during the year-ended December 31, 2015 are as follows:

					Cash Consideration (in millions)		
Facility (1)	Location	Transaction Date	SCA Effective Ownership	Number of facilities	Equity Interest (2)	Management Agreement (3)	Total
Lexington Surgery Center, Ltd. (4)	Lexington, KY	1/1/2015	36.0%	1	$ —	$ —	$ —
Louisville S.C., Ltd. (4)	Louisville, KY	1/1/2015	30.3%	1	$ —	$ —	$ —
Premier Surgery Center of Louisville, L.P. (4)	Louisville, KY	1/1/2015	25.0%	1	$ —	$ —	$ —
Clinton Partners, LLC	Clinton Township, MI	2/1/2015	25.0%	1	$ 4.1	$ 0.7	$ 4.8
Surgery Center of Wilson, LLC	Wilson, NC	2/1/2015	67.0%	1	$ 3.8	$ 0.2	$ 4.0
Texas Health Surgery Center Preston Plaza, LLC ("Preston Plaza") (5)	Dallas, TX	3/1/2015	29.9%	1	$ 6.8	$ 1.2	$ 8.0
Specialists in Urology Surgery Center, LLC ("SIU")	Naples, FL; Bonita Springs, FL; Fort Myers, FL	4/1/2015	60.0%	3	$ 11.5	$ —	$ 11.5
Parkway Surgery Center, LLC ("Parkway")	Hagerstown, MD	5/1/2015	55.0%	1	$ 7.7	$ 0.4	$ 8.1
Franklin Surgery Center, LLC ("Franklin")	Basking Ridge, NJ	5/1/2015	55.0%	1	$ 21.5	$ —	$ 21.5
Advanced Surgical Hospital, LLC (6) ("Advanced")	Washington, PA	9/1/2015	51.0%	1	$ 17.1	$ —	$ 17.1
Arise Transaction							
Arise Healthcare System, LLC (6)	Austin, TX	10/1/2015	52.8%	1	$ 1.0	$ 5.0	$ 6.0
Cedar Park Surgery Center, LLC	Cedar Park, TX	10/1/2015	51.0%	1	$ 8.1	$ 2.6	$ 10.7
Hays Surgery Center, LLC	Kyle, TX	10/1/2015	27.3%	1	$ —	$ 1.1	$ 1.1
Stonegate Surgery Center, L.P.	Austin, TX	10/1/2015	52.4%	1	$ 4.6	$ 1.8	$ 6.4
The Outpatient Surgery Center of Hilton Head, LLC ("Hilton Head")	Hilton Head Island, SC	11/1/2015	50.0%	1	$ 6.7	$ 0.2	$ 6.9
Surgery Center of Athens, LLC ("Athens")	Athens, GA	11/30/2015	60.0%	1	$ 9.1	$ 1.3	$ 10.4
				18	$ 102.0	$ 14.5	$ 116.5

(1) All facilities are ASCs unless otherwise noted.

(2) Purchase price for controlling interest acquired.

(3) Purchase price for management agreement rights to manage the facility.

(4) Facilities were previously included in SCA's portfolio but accounted for under the equity method of accounting. We consolidated these facilities as of January 1, 2015. A health system partner delegated certain rights to SCA. Cash consideration was not paid due to the delegation of these rights.

(5) We do not currently hold an equity ownership interest in this facility. Instead, we hold a promissory note that is convertible into equity. The percentage represents what our beneficial ownership percentage will be upon conversion of the promissory note. Because this promissory note provides us with the power to direct the activities that most significantly impact the economic performance of this entity, we consolidate this facility into our financial results, as it meets the requirements to be a VIE. See Note 3 "Summary of Significant Accounting Policies — Variable Interest Entities" of our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for further discussion.

(6) Facility is a surgical hospital.

The aggregate amounts recognized as of the acquisition date for each major class of assets and liabilities assumed in the eighteen consolidated acquisitions closed during the year-ended December 31, 2015 are as follows:

	Preston Plaza	SIU	Parkway	Franklin	Advanced	Arise	Hilton Head	Athens	Other (1)	Total
Current assets										
Cash and cash equivalents	$ 421	$ 2	$ 276	$ 10	$ 505	$ 569	$ 447	$ 1	$ 480	$ 2,711
Accounts receivable	457	860	665	1,730	1,205	5,755	777	980	2,469	14,898
Other current assets	68	267	42	64	103	608	62	14	677	1,905
Total current assets	946	1,129	983	1,804	1,813	6,932	1,286	995	3,626	19,514
Property and equipment	1,665	6,880	732	3,047	1,861	50,439	2,727	1,803	10,993	80,147
Goodwill	6,060	16,774	12,067	31,144	27,160	37,935	9,150	15,500	9,629	165,419
Intangible assets	4,813	2,200	1,960	3,825	3,283	13,744	2,050	2,304	4,943	39,122
Total assets	$ 13,484	$26,983	$15,742	$39,820	$ 34,117	$109,050	$15,213	$20,602	$29,191	$304,202
Current liabilities										
Accounts payable and other current liabilities	$ 736	$ 2,456	$ 479	$ 432	$ 414	$ 13,743	$ 750	$ 995	$ 3,237	$ 23,242
Total current liabilities	736	2,456	479	432	414	13,743	750	995	3,237	23,242
Other long-term liabilities	212	5,188	742	42	120	57,974	1,018	3,129	6,910	75,335
Total liabilities	$ 948	$ 7,644	$ 1,221	$ 474	$ 534	$ 71,717	$ 1,768	$ 4,124	$10,147	$ 98,577

(1) Includes Lexington Surgery Center, Ltd., Louisville S.C., Ltd., Premier Surgery Center of Louisville, L.P., Clinton Partners, LLC and Surgery Center of Wilson, LLC.

Intangible assets acquired in 2015, from the above acquisitions, include:

	Estimated Fair Value on Acquisition Date	Estimated Useful Life
Certificates of need	$ 3,990	15.0*
Licenses	$ 5,772	15.0*
Management agreements	$ 17,922	15.0*
Noncompete agreements	$ 11,328	4.5*
Total	$ 39,012	12.0*

*Reflects the weighted average estimated useful life of acquired intangible assets that are subject to amortization.

During the year-ended December 31, 2014, the Company acquired a controlling interest in fifteen ASCs for total consideration of $138.1 million. We had managed two of these ASCs without an ownership interest prior to acquiring a controlling interest. Four of the fifteen ASCs were acquired through the future Texas JV (see Note 4) and are a VIE for which we are the primary beneficiary. The aggregate amounts recognized as of the acquisition date for each major class of assets and liabilities assumed in the fifteen consolidated acquisitions closed during the year-ended December 31, 2014 are as follows:

Assets		
Current assets		
Cash and cash equivalents	$	2,896
Accounts receivable		8,549
Other current assets		3,066
Total current assets		14,511
Property and equipment		19,692
Goodwill		177,726
Intangible assets		34,497
Total assets	$	246,426
Liabilities		
Current liabilities		
Accounts payable and other current liabilities	$	5,981
Total current liabilities		5,981
Other long-term liabilities		15,331
Total liabilities	$	21,312

The purchase price allocations for 2015 acquisitions above are preliminary. When all relevant information is obtained, resulting changes, if any, to our provisional purchase price allocation will be adjusted to reflect new information about the facts and circumstances that existed as of the respective acquisition dates that, if known, would have affected the measurement of the amounts recognized as of those dates. The preliminary amounts of these purchase price allocations relate primarily to working capital balances.

Acquisitions of Noncontrolling Interests in Facilities

During the year-ended December 31, 2015, we acquired a noncontrolling interest in nine ASCs for total cash consideration of $33.2 million. These acquisitions are accounted for as equity method investments. Three of these ASCs were previously managed-only facilities and one was a de novo facility placed into operation. These acquisitions are described in further detail below.

Facility (1)	Location	Transaction Date	SCA Effective Ownership	Number of facilities	Cash Consideration (in millions)
Multi-Specialty Surgery Center, LLC (2)	Indianapolis, IN	3/1/2015	24.8%	1	N/A
Mississippi Medical Plaza, L.C.	Davenport, IA	4/1/2015	27.0%	2	$ 17.3
Seashore Surgical Institute, L.L.C.	Brick, NJ	4/1/2015	27.0%	1	$ 3.6
PS Center, LLC (3)	Costa Mesa, CA	4/1/2015	49.0%	1	N/A
Surgicare of Central Jersey, LLC	Watchung, NJ	6/1/2015	27.0%	1	$ 7.4
Audubon Ambulatory Surgery Center, LLC (4)	Colorado Springs, CO	7/31/2015	18.9%	2	$ 4.6
IU Health East Washington Ambulatory Surgery Center, LLC (5)	Indianapolis, IN	12/18/2015	25.9%	1	$ 0.3
				9	$ 33.2

(1) All facilities are ASCs unless otherwise noted.
(2) $5.2 million paid with withheld distributions.
(3) Converted $4.2 million of debt to equity.
(4) Price paid for equity in predecessor entity prior to transaction.
(5) De novo facility placed into operations.

During the year-ended December 31, 2014, we acquired a noncontrolling interest in seven ASCs for total consideration of $34.2 million. These acquisitions are accounted for as equity method investments. Two of these ASCs were previously managed-only facilities.

Also during the year-ended December 31, 2014, we contributed an existing equity method investment to another entity in which we have an equity method investment that is controlled by a health system partner. In conjunction with the contribution, we recognized a $1.9 million gain relating to the remeasurement of a portion of the investment to fair value. This gain is included in *(Gain) loss on sale of investments* in the accompanying consolidated statements of operations.

Deconsolidations

During the year-ended December 31, 2015, we deconsolidated one facility as a result of other parties obtaining substantive rights. We retained a noncontrolling interest in this affiliate. We recorded an immaterial loss related to this deconsolidation which was primarily related to the revaluation of our investment in this affiliate to fair value. We also wrote off approximately $4.1 million of goodwill related to the deconsolidation.

During the year-ended December 31, 2014, we completed two separate deconsolidation transactions. In one transaction, we sold a controlling equity interest in an ASC and transferred certain control rights to a partner in the entity. We retained a noncontrolling interest in this affiliate. We received cash proceeds of approximately $2.4 million and recorded a pre-tax loss of approximately $3.4 million, which was primarily related to the revaluation of our remaining investment in this affiliate to fair value. In the other transaction, we agreed to sell our ownership interest in an ASC in Santa Monica, California at a later date. In conjunction with this transaction, the operating agreement of this affiliate was amended on October 1, 2014 to remove SCA's control rights until the date of the sale. As a result of removing SCA's control rights, the facility became a nonconsolidated affiliate. We recorded a pre-tax gain of approximately $2.7 million. The net loss on these transactions is recorded in *(Gain) loss on sale of investments* in the accompanying consolidated statement of operations.

During the year-ended December 31, 2013, we completed two separate deconsolidation transactions. In one of these transactions, we sold a controlling equity interest, and transferred certain control rights, to a health system. We retained a noncontrolling interest in this affiliate. We received cash proceeds of approximately $2.1 million and recorded a pre-tax loss of approximately $1.6 million, which was primarily related to the revaluation of our remaining investment in this affiliate to fair value. The loss on this transaction is recorded in *(Gain) loss on sale of investments* in the accompanying consolidated statements of operations. In the other transaction, we transferred certain control rights to partners in the entity. We retained a noncontrolling interest in this affiliate. We recorded a pre-tax loss of approximately $1.5 million, which was primarily related to the revaluation of our remaining investment in this affiliate to fair value. The loss on this transaction is recorded in *Equity in net income of nonconsolidated affiliates* in the accompanying consolidated statements of operations.

Fair values for the retained noncontrolling interests are primarily estimated based on third-party valuations we have obtained in connection with such transactions and/or the amount of proceeds received for the controlling equity interest sold.

Closures and Sales

During the year-ended December 31, 2015, we closed six consolidated ASCs. One of these ASCs closed during the second quarter and was sold during the third quarter. A pre-tax gain of approximately $1.3 million related to this transaction was recorded in *Gain on sale of investments* in the accompanying consolidated statement of operations. We also wrote off approximately $1.5 million of goodwill related to this transaction. A pre-tax loss of approximately $1.4 million related to the closure of another one of these consolidated ASCs was recorded in *Gain on sale of investments* in the accompanying consolidated statements of operations. The operations of another consolidated ASC that closed during the second quarter was absorbed into an existing SCA consolidated facility. There were no material gains or losses recorded related to this closure or the other three consolidated closures. We also closed three nonconsolidated ASCs in 2015, two of which were combined into the operations of existing SCA facilities. There were no material gains or losses recorded related to these closures.

During the year-ended December 31, 2014, we closed six facilities. Two consolidated facilities were closed in the first quarter of 2014, and their operations were absorbed into existing SCA consolidated facilities. We impaired $0.5 million of property and equipment and intangible assets related to these two closed facilities in the first quarter. One consolidated facility ceased operations in July 2014 and an impairment charge of $0.7 million was recorded during the year-ended December 31, 2014 for intangible and long-lived assets related to this facility. These impairments are recorded in *Loss from discontinued operations, net of income tax expense* on the Company's consolidated statements of operations. One consolidated facility ceased operations in December 2014. Two nonconsolidated facilities were closed in the second half of 2014, and their operations were absorbed into two existing SCA nonconsolidated facilities. The losses related to these closures were immaterial.

During the year-ended December 31, 2013, we closed two consolidated facilities. We recorded a pre-tax loss of approximately $1.4 million as a result of the closures. The loss on the transactions is recorded in the *Loss from discontinued operations, net of income tax* in the accompanying consolidated statements of operations.

During the year-ended December 31, 2015, we sold our entire ownership interest in an ASC that we held as an equity method investment for $7.6 million. We continued to provide management services to the facility for a period of time after the sale, but we no longer provided tho se services as of December 31, 2015. During the year-ended December 31, 2015, we also sold our entire interest in a consolidated surgical hospital for $0.3 million and the real estate owned by the surgical hospital for $10.8 million. We recorded a pre-t ax gain of approximately $2.1 million related to this transaction in the *Loss from discontinued operations, net of income tax* in the accompanying consolidated statement of operations. The surgical hospital and its real estate were placed into discontinued operations in 2014. We sold one consolidated ASC during the third quarter of 2015 and recorded a pre-tax loss of approximat ely $0.4 million related to this transaction in *Gain (loss) on sale of investments* in the accompanying consolidated statement of operations. We also wrote off approximately $1.0 million of goodwill related to this sale. Additionally, we sold the real est ate of an ASC located in Wilson, North Carolina for approximately $2.0 million.

During the year-ended December 31, 2014, we sold all of our interest in one consolidated ASC and two nonconsolidated ASCs. We recorded a pre-tax gain of approximately $0.4 million as a result of the sales. The gain on these transactions is recorded in *(Gain) loss on sale of investments* in the accompanying consolidated statement of operations. We also wrote off approximately $0.8 million of goodwill related to one of these sales.

During the year-ended December 31, 2013, we sold all of our interest in two consolidated ASCs and one nonconsolidated ASC, all of which we continued to manage as managed-only facilities, for aggregate consideration of $1.3 million. We recorded a pre-tax loss of approximately $8.4 million as a result of the sale. The loss on this transaction is recorded in the *Gain (loss) on sale of investments* in the accompanying consolidated statement of operations. Our continuing involvement as manager of these facilities precluded classification of these transactions as discontinued operations.

Unaudited Pro Forma Financial Information

The following table presents the unaudited pro forma results of the Company as though all of the business combinations discussed above for 2015 had been made on January 1, 2014, and for 2014 had been made on January 1, 2013. The pro forma information is based on the Company's consolidated results of operations for the years ended December 31, 2015, 2014 and 2013, and on other available information. These pro forma amounts include historical financial statement amounts with the following adjustments: we converted the sellers' historical financial statements to GAAP and applied the Company's accounting policies, and we adjusted for depreciation and amortization expense assuming the fair value adjustments to intangible assets had been applied beginning January 1, 2014 and 2013. The pro forma financial information does not purport to be indicative of results of operations that would have occurred had the transaction occurred on the basis assumed above, nor are they indicative of results of the future operations of the combined enterprises.

	YEAR-ENDED DECEMBER 31, 2015	YEAR-ENDED DECEMBER 31, 2014	YEAR-ENDED DECEMBER 31, 2013
Net operating revenues	$ 1,128,903	$ 1,006,096	$ 923,904
Income from continuing operations	282,390	171,596	75,131

Consolidated acquisitions closed during 2015 contributed *Net operating revenues* of $80.6 million and *Income from continuing operations* of $9.2 million for the year-ended December 31, 2015. Nonconsolidated acquisitions closed during 2015 contributed $2.9 million to *Equity in net income of nonconsolidated affiliates* for the year-ended December 31, 2015.

NOTE 3 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its subsidiaries and VIEs for which we are the primary beneficiary. All significant intercompany transactions and accounts have been eliminated.

We evaluate partially owned subsidiaries and joint ventures held in partnership form using authoritative guidance, which includes a framework for evaluating whether a general partner(s) or managing member(s) controls an affiliate and therefore should consolidate it. The framework includes the presumption that general partner or managing member control would be overcome only when the limited partners or members have certain rights. Such rights include the right to dissolve or liquidate the LP, LLP or LLC or otherwise remove the general partner or managing member "without cause," or the right to effectively participate in significant decisions made in the ordinary course of business of the LP, LLP or LLC. To the extent that any noncontrolling investor has rights that inhibit our ability to control the affiliate, including substantive veto rights, we do not consolidate the affiliate.

We use the equity method to account for our investments in affiliates with respect to which we do not have control rights but have the ability to exercise significant influence over operating and financial policies. Assets, liabilities, revenues and expenses are reported in the respective detailed line items on the consolidated financial statements for our consolidated affiliates. For our equity method affiliates, assets and liabilities are reported on a net basis in *Investment in and advances to nonconsolidated affiliates* on the consolidated balance sheets, and revenues and expenses are reported on a net basis in *Equity in net income of nonconsolidated affiliates* on the consolidated statements of operations. This difference in accounting treatment of equity method affiliates impacts certain financial ratios of the Company.

Variable Interest Entities

In order to determine if we are the primary beneficiary of a VIE for financial reporting purposes, we consider whether we have the power to direct the activities of the VIE that most significantly impact the economic performance of the VIE and whether we have the obligation to absorb losses or the right to receive returns that would be significant to the VIE. We consolidate a VIE when we are the primary beneficiary of the VIE. At December 31, 2015 and as further described below, we had four VIE groups: the Future Texas JV, the Kentucky JVs, the Michigan JV and the Hilton Head JV.

The Company holds a promissory note payable by an entity (the "Future Texas JV") that owns controlling interests in 11 ASCs and is wholly-owned by a health system partner. The promissory note, which eliminates upon consolidation, has a fixed interest rate plus a variable component dependent on the earnings of the Future Texas JV. The promissory note contains a conversion feature that allows us to convert the promissory note into a 49% equity interest in the Future Texas JV at our option upon the occurrence of the renegotiation of certain contractual arrangements. We are also party to management services agreements with the facilities controlled by the Future Texas JV. As a result of the financial interest in the earnings of the Future Texas JV held by us via the promissory note and the powers granted us in the promissory note and the management services agreements, we have determined that the Future Texas JV is a VIE for which we are the primary beneficiary. Accordingly, we consolidate the Future Texas JV and the underlying ASCs.

In January 2015, we entered into an agreement with a health system partner whereby the health system partner delegated certain rights to SCA that result in us consolidating under the VIE model three jointly owned joint venture entities (the "Kentucky JVs"), which own controlling interests in three ASCs in the Lexington and Louisville, Kentucky markets. As a result of SCA receiving these rights, we consolidate the three Kentucky JVs and the three underlying ASCs; these entities were previously accounted for as equity method investments.

In February 2015, we and a health system partner, through a joint venture entity (the "Michigan JV"), acquired a controlling interest in an ASC located in Clinton Township, Michigan. In conjunction with the acquisition, our health system partner delegated certain rights to SCA that result in us consolidating the Michigan JV under the VIE model. Accordingly, we consolidate the Michigan JV and the underlying ASC.

In November 2015, we acquired a controlling interest in an ASC located in Hilton Head Island, South Carolina (the "Hilton Head JV"). As a result of the powers granted us in the management services agreement, we have determined that the Hilton Head JV is a VIE for which we are the primary beneficiary. Accordingly, we consolidate the Hilton Head JV.

Secondary Offerings and HealthSouth Option

In March 2015, certain existing stockholders of the Company (the "Selling Stockholders"), including certain affiliates of TPG Global, LLC and certain directors and officers of the Company, sold 8,050,000 shares of our common stock in an underwritten public offering at a price of $33.25 per share. The Company did not sell any shares of common stock in the offering and did not receive any proceeds from the sale of the shares of common stock by the Selling Stockholders. The secondary offering closed on April 1, 2015.

In connection with the acquisition of our Company in 2007 by TPG, we granted HealthSouth Corporation ("HealthSouth") an option (the "H ealthSouth Option") to purchase 5% of our outstanding equity as of the closing of the 2007 acquisition. The HealthSouth Option became exercisable upon certain customary liquidity events, including a public offering of shares of our common stock that resul ted in 30% or more of our common stock being listed or traded on a national securities exchange. Once vested, the HealthSouth Option became exercisable on a net exercise basis. The HealthSouth Option vested on April 1, 2015 upon the closing of the aforeme ntioned secondary offering.

On April 9, 2015, HealthSouth exercised the HealthSouth Option and we issued 326,242 new shares of common stock at a value of $11.7 million. Accordingly, $11.7 million of expense was included in *HealthSouth option expense* on our consolidated statement of operations for the year-ended December 31, 2015.

In August 2015, certain affiliates of TPG Global, LLC sold 4,000,000 shares of our common stock in an underwritten public offering at a price to the underwriter of $37.68 per share. The Company did not sell any shares of common stock in the offering and did not receive any proceeds from the sale of the shares of common stock by the selling stockholders. The secondary offering closed on August 11, 2015.

Reclassifications and Revisions

Certain amounts in the consolidated financial statements for prior periods have been reclassified to conform to the current period presentation. Such reclassifications primarily relate to facilities that we closed or sold, which qualify for reporting as discontinued operations.

During the quarter ended March 31, 2014, we recorded corrections to increase *Loss on sale of investments* by $1.0 million related to the sale of our investment in a consolidated facility during the year ended December 31, 2013, as well as a correction to increase *Equity in net income of nonconsolidated affiliates* by $0.2 million in connection with the sale of equity interests in a nonconsolidated facility during the year ended December 31, 2012. During the quarter ended September 30, 2014, we recorded corrections to increase *Gain on sale of investments* by approximately $2.8 million related to the sale of our interest in equity method facilities during prior years. We do not believe that these corrections are material to our previously issued financial statements.

The consolidated statements of operations for the year-ended December 31, 2013 include reclassifications totaling $0.7 million within *Supplies* and *Other operating expenses* to conform the December 31, 2013 presentation to the current presentation.

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 the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates include, but are not limited to: (1) allowance for contractual revenue adjustments; (2) allowance for doubtful accounts; (3) asset impairments, including goodwill; (4) depreciable lives of assets; (5) useful lives of intangible assets; (6) economic lives and fair value of leased assets; (7) provision for income taxes, including valuation allowances; (8) reserves for contingent liabilities; and (9) reserves for losses in connection with unresolved legal matters. Future events and their effects cannot be predicted with certainty; accordingly, our accounting estimates require the exercise of judgment. The accounting estimates used in the preparation of our consolidated financial statements will change as new events occur, as more experience is acquired, as additional information is obtained, and as our operating environment changes. We evaluate and update our assumptions and estimates on an ongoing basis and may employ outside experts to assist in our evaluation as considered necessary. Actual results could differ from those estimates.

Risks and Uncertainties

We operate in a highly regulated industry and are required to comply with extensive and complex laws and regulations at the federal, state and local government levels. These laws and regulations relate to, among other things:

- licensure, certification and accreditation;
- coding and billing for services;
- relationships with physicians and other referral sources, including physician self-referral and anti-kickback laws;
- quality of medical care;
- use and maintenance of medical supplies and equipment;

- maintenance and security of medical records;
- acquisition and dispensing of pharmaceuticals and controlled substances; and
- disposal of medical and hazardous waste.

Many of these laws and regulations are expansive, and we do not have the benefit of significant regulatory or judicial interpretation of them. In the future, different interpretations or enforcement of these laws and regulations could subject our current or past practices to allegations of impropriety or illegality or could require us to make changes in our investment structure, facilities, equipment, personnel, services, capital expenditure programs, operating procedures and contractual arrangements.

If we fail to comply with applicable laws and regulations, we could be subjected to liabilities, including (1) criminal penalties, (2) civil penalties, including monetary penalties and the loss of our licenses to operate one or more of our ASCs and surgical hospitals and (3) exclusion or suspension of one or more of our ASCs and surgical hospitals from participation in Medicare, Medicaid and other federal and state healthcare programs.

Historically, the United States Congress and some state legislatures have periodically proposed significant changes in regulations governing the healthcare system. Many of these changes have resulted in limitations on and, in some cases, significant reductions in the levels of payments to healthcare providers for services under many government reimbursement programs. Because we receive a significant percentage of our revenues from Medicare, such proposed changes in legislation might have a material adverse effect on our business, financial position, results of operations and cash flows, if any such changes were to occur.

Certain of our operating agreements have termination dates by which the agreement expires by its terms. In these situations, if we wish to continue the business, we would attempt to negotiate an amendment to the agreement and if necessary, to renegotiate material terms of the agreement, to prevent such termination. None of our operating agreements have termination dates in 2016.

In addition, certain of our partnership and operating agreements contain provisions that give our partners or other members rights that include, but are not limited to, rights to purchase our interest, rights to require us to purchase the interests of our partners or other members or rights requiring the consent of our partners and other members prior to our transferring our ownership interest in a facility or prior to a change in control of us or certain of our subsidiaries.

Almost all of our partnership and operating agreements contain restrictions on actions that we can take, even though we may be the general partner or the managing member, including rights of our partners and other members to approve the sale of substantially all of the assets of the entity, to dissolve the partnership or LLC, and to amend the partnership or operating agreement. Many of our agreements also restrict our ability in certain instances to compete with our existing facilities or with our partners. Where we hold only a limited partner or a non-managing member interest, the general partner or managing member may take certain actions without our consent, although we typically have certain protective rights to approve major decisions, such as the sale of substantially all of the assets of the entity, the dissolution of the partnership or LLC, and the amendment of the partnership or operating agreement.

As discussed in Note 17, *Commitments and Contingent Liabilities*, we are a party to a number of lawsuits. We cannot predict the outcome of litigation filed against us. Substantial damages or other monetary remedies assessed against us could have a material adverse effect on our business, financial position, results of operations and cash flows.

Revenue Recognition

Our revenues consist primarily of net patient service revenues that are recorded based upon established billing rates, less allowances for contractual adjustments. Revenues are recorded during the period the services are provided, based upon the estimated amounts due from patients and third-party payors, including federal and state payors (primarily, the Medicare and Medicaid programs), commercial health plans, workers' compensation programs and employers. Estimates of contractual allowances under third-party payor arrangements are based upon the payment terms specified in the related contractual agreements and payment history. Third-party payor contractual payment terms are generally based upon predetermined rates per procedure or discounted fee-for-service rates.

During each of the years-ended December 31, 2015, 2014 and 2013, approximately 65%, 62% and 61%, respectively, of our net patient revenues related to patients with commercial insurance coverage. Healthcare services providers are under increasing pressure to accept reduced reimbursement for services provided to such patients. Continued reductions could have a material adverse impact on our business, financial position, results of operations and cash flows.

During each of the years-ended December 31, 2015, 2014 and 2013, approximately 22%, 23% and 23%, respectively, of our net patient revenues related to patients participating in the Medicare and Medicaid programs. Laws and regulations governing the Medicare and Medicaid programs are complex, subject to interpretation and routinely modified for provider reimbursement. The Centers for Medicare and Medicaid Services ("CMS") has been granted authority to suspend payments, in whole or in part, to Medicare providers if CMS possesses reliable information that an overpayment, fraud or willful misrepresentation exists. If CMS suspects that payments are being made as the result of fraud or misrepresentation, CMS may suspend payment at any time without providing us with prior notice. The initial suspension period is limited to 180 days. However, the payment suspension period can be extended almost indefinitely if the matter is under investigation by the United States Department of Health & Human Services Office of Inspector General ("OIG") or the Department of Justice ("DOJ"). Therefore, we are unable to predict if or when we may be subject to a suspension of payments by the Medicare and/or Medicaid programs, the possible length of the suspension period or the potential cash flow impact of a payment suspension. Any such suspension would adversely impact our business, financial position, results of operations and cash flows.

During each of the years-ended December 31, 2015, 2014 and 2013, approximately 9%, 10% and 11%, respectively, of our net patient revenues related to patients with workers' compensation coverage. Workers' compensation payors have typically paid surgical facilities at rates that are higher than other third-party payors. However, workers' compensation payment amounts are subject to legislative, regulatory and other payment changes over which we have no control, and in a number of states payment rates have been or could be reduced. A reduction in workers' compensation payment amounts could have a material adverse effect on the revenues of our facilities which perform a significant number of workers compensation cases.

Our revenues also include *Management fee revenues* representing fees that we earn from providing management services to facilities that we do not consolidate for financial reporting purposes. Management fee revenues are determined in accordance with the provisions of management agreements between SCA and the facility, and the fee for our management services is generally a defined percentage of the facility's net patient revenues.

Cash and Cash Equivalents

Cash and cash equivalents include all demand deposits reduced by the amount of outstanding checks and drafts where the right of offset exists for these bank accounts. As a result of the Company's cash management system, checks issued but not presented to banks for payment may create negative book cash balances. Such negative balances are included in current liabilities as *Other current liabilities* of $3.4 million at December 31, 2014. There were no such balances at December 31, 2015. The Company has deposits with certain financial institutions which exceed federally insured limits. The Company has not experienced any losses on such deposits.

Restricted Cash

As of December 31, 2015 and 2014, we had approximately $26.1 million and $24.1 million, respectively, of restricted cash in affiliate cash accounts maintained by partnerships in which we participate where one or more external partners requested, and we agreed, that the partnership's cash not be commingled with other Company cash and be used only to fund the operations of the partnership.

Accounts Receivable

We report accounts receivable at estimated net realizable amounts from services rendered from federal and state payors (primarily the Medicare and Medicaid programs), commercial health plans, workers' compensation programs, employers and patients. Our accounts receivable are geographically dispersed, but a significant portion of our accounts receivable are concentrated by type of payor. The concentration of net patient service-accounts receivable by payor class, as a percentage of total net patient service accounts receivable, as of the end of each of the reporting periods, is as follows:

	AS OF DECEMBER 31,	
	2015	2014
Commercial health plan payors	63%	59%
Medicare	15	14
Workers' compensation	11	14
Medicaid	3	3
Patients and other third-party payors	8	10
Total	100%	100%

Revenues and accounts receivable from government payors are significant to our operations; however, we do not believe that there are significant credit risks associated with these government payors.

Revenue and accounts receivable from commercial health plan payors are also significant to our operations. Because the category of commercial health insurance plans is composed of numerous individual payors which are geographically dispersed, our management does not believe that there are any significant concentrations of revenues from any individual payor that would subject us to significant credit risks in the collection of our accounts receivable.

Additions to the allowance for doubtful accounts are made by means of the *Provision for doubtful accounts*. We write off uncollectible accounts against the allowance for doubtful accounts after exhausting collection efforts and adding subsequent recoveries. Net accounts receivable include only those amounts that we estimate we will collect.

We perform an analysis of our historical cash collection patterns and consider the impact of any known material events in determining the allowance for doubtful accounts. In performing our analysis, we consider the impact of any adverse changes in general economic conditions, business office operations, payor mix or trends in federal or state governmental healthcare coverage and reimbursement.

Long-Lived Assets

We report land, buildings, improvements and equipment at cost, net of asset impairment. We report assets under capital lease obligations at the lower of fair value or the present value of the aggregate future minimum lease payments at the beginning of the lease term. We depreciate our assets using the straight-line method over the shorter of the estimated useful life of the assets or life of the lease term, excluding any lease renewals, unless the lease renewals are reasonably assured. Useful lives are as follows:

	YEARS
Buildings	15 to 30
Leasehold improvements	5 to 20
Furniture, fixtures and equipment	3 to 7
Assets under capital lease obligations:	
Real estate	15 to 25
Equipment	3 to 5

Maintenance and repairs of property and equipment are expensed as incurred. We capitalize replacements and improvements that increase the estimated useful life of an asset. We capitalize interest expense on major construction and development projects while in progress. No interest was capitalized during the years-ended December 31, 2015, 2014 and 2013.

We retain fully depreciated assets in property and accumulated depreciation accounts until we remove them from service. In the case of sale, retirement or disposal, the asset cost and related accumulated depreciation balance is removed from the respective account, and the resulting net amount, less any proceeds, is included as a component of income from continuing operations in the consolidated statements of operations. However, if the sale, retirement or disposal involves a discontinued operation, the resulting net amount, less any proceeds, is included in the results of discontinued operations.

For operating leases, we recognize escalated rents, including any rent holidays, on a straight-line basis over the term of the lease.

Goodwill

We test goodwill for impairment using a fair value approach at least annually, absent some triggering event that would require an interim impairment assessment. Absent any impairment indicators, we perform our goodwill impairment testing as of October 1 of each year.

In 2015 and 2013, we evaluated our reporting units for goodwill impairment using a two-step process. We have six operating segments, which are aggregated into one reportable segment. Our six operating segments are generally organized geographically.

The first step of the impairment test identifies potential impairment by comparing the fair value of a reporting unit to its carrying value, including goodwill. If the fair value of a reporting unit exceeds its carrying value, goodwill of the reporting unit is not considered impaired, and the second step of the impairment test is not required. If the carrying value of a reporting unit exceeds its fair value, the second step of the impairment test is performed to measure the amount of impairment loss, if any.

The second step of the impairment test compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. The implied fair value of goodwill is determined by hypothetically allocating the fair value of the reporting u nit to its identifiable assets and liabilities in a manner consistent with a business combination, with any excess fair value representing implied goodwill. If the carrying value of the reporting unit goodwill exceeds the implied fair value of that goodwil l, an impairment loss is recognized in an amount equal to that excess.

In 2015, we determined recoverability of goodwill by comparing the estimated fair value of the reporting unit to which the goodwill applies to the carrying value, including goodwill, of that reporting unit using a discounted cash flow model. Estimating the fair value of the reporting unit involves uncertainties, because it requires management to develop numerous assumptions, including assumptions about the future growth and potential volatility in revenues and costs, industry economic factors and future business strategy. All assumptions are interdependent and, therefore, do not change in isolation. Accordingly, our accounting estimates may materially change from period to period due to changing market factors. If we had used other assumptions and estimates or if different conditions occur in future periods, future operating results could be materially impacted.

Based on the 2015 test, there is one reporting unit that the estimated fair value exceeds, but does not substantially exceed, its carrying value. The goodwill attributable to this reporting unit was $237.8 million as of December 31, 2015. No events have occurred since the latest annual goodwill impairment assessment that would necessitate an interim goodwill impairment assessment.

For 2014, we performed a qualitative assessment because management estimated the fair value to significantly exceed the carrying value. In the qualitative assessments, we weighed the relative impact of factors that are specific to us, as well as industry and macroeconomic factors. The factors specific to us that were considered included financial performance and changes to the carrying value since the most recent impairment test. We also considered growth projections from independent sources and significant developments within our industry. We determined that the impact of macroeconomic factors on the most recent impairment tests would not significantly affect the estimated fair value. Based on this qualitative assessment, considering the aggregation of these factors, we concluded that it is not more-likely-than-not that the fair value of the operating segments exceeded the carrying amounts and, therefore, performing the two-step impairment test was unnecessary.

The carrying value of each operating segment was determined by assigning assets and liabilities to those reporting units as of the measurement date. We estimated the fair values of the operating segments by considering the indicated fair values derived from an income approach, which involves discounting estimated future cash flows. We considered market factors when determining the assumptions and estimates used in our valuation models. To substantiate the fair values derived from these valuations, we reconciled the reporting unit fair values to our market capitalization.

We recognize an impairment charge for any amount by which the carrying amount of goodwill exceeds its implied fair value. We present a goodwill impairment charge as a separate line item within income from continuing operations in the consolidated statements of operations, unless the goodwill impairment is associated with a discontinued operation. In that case, we include the goodwill impairment charge, on a net-of-tax basis, within the results of discontinued operations.

When we dispose of a business, the relative fair value of goodwill is allocated to the carrying amount of the business disposed of in determining the gain or loss on disposition.

Impairment of Long-Lived Assets and Other Intangible Assets

We assess the recoverability of long-lived assets (excluding goodwill) and identifiable acquired intangible assets with definite useful lives on an annual basis and whenever events or changes in circumstances indicate that we may not be able to recover the asset's carrying amount. We measure the recoverability of assets to be held and used by a comparison of the carrying amount of the asset to the expected undiscounted cash flows to be generated by that asset, or, for identifiable intangibles with definite useful lives, by determining whether the amortization of the intangible asset balance over its remaining life can be recovered through undiscounted future cash flows. The amount of impairment of identifiable intangible assets with definite useful lives, if any, to be recognized is measured based on projected discounted future cash flows. We measure the amount of impairment of other long-lived assets (excluding goodwill) as the amount by which the carrying value of the asset exceeds the fair market value of the asset, which is generally determined based on projected discounted future cash flows or appraised values. We present an impairment charge as a separate line item within income from continuing operations in our consolidated statements of operations, unless the impairment is associated with a discontinued operation. In that case, we include the impairment charge, on a net-of-tax basis, within the results of discontinued operations. We classify long-lived assets to be disposed of other than by sale as held and used until they are disposed. We report long-lived assets to be disposed of by sale as held for sale and recognize those assets in the balance sheet at the lower of carrying amount or fair value less cost to sell, and cease depreciation.

We amortize the cost of intangible assets with definite useful lives over their respective estimated useful lives to their estimated residual value. As of December 31, 2015, none of our definite useful lived intangible assets had an estimated residual value. As of December 31, 2015, we did not have any intangible assets with indefinite useful lives. The range of estimated useful lives of our other intangible assets is as follows:

	YEARS
Certificates of need	10 to 30
Favorable contracts	4
Favorable lease obligations	5
Licenses	15 to 20
Management agreements	3 to 15
Noncompete agreements	2 to 15

For the years ended December 31, 2015, 2014 and 2013, we recorded on our consolidated statements of operations within *Equity in net income of nonconsolidated affiliates* amortization expense of $1.4 million, $23.2 million and $25.9 million, respectively, for definite-lived intangible assets attributable to equity method investments.

Investment in and Advances to Nonconsolidated Affiliates

Investments in entities we do not control, but for which we have the ability to exercise significant influence over the operating and financial policies, are accounted for under the equity method. Equity method investments are recorded at original cost and adjusted periodically to recognize our proportionate share of the entity's net income or losses after the date of investment, additional contributions made and distributions received, amortization of definite-lived intangible assets attributable to equity method investments and impairment losses resulting from adjustments to the carrying value of the investment. We record equity method losses in excess of the carrying amount of an investment when we guarantee obligations or we are otherwise committed to provide further financial support to the affiliate.

During 2015, we received an aggregate amount of $11.2 million of cash proceeds related to the planned sale of a portion of an equity method investment that was initially acquired on December 31, 2014. These transactions had an immaterial impact on *Gain on sale of investments* in our consolidated statement of operations. The proceeds from these transactions are included in *Proceeds from sale of equity interests of nonconsolidated affiliates* in our consolidated statement of cash flows.

Other than Temporary Impairments

Management periodically assesses the recoverability of our equity method investments for impairment. We consider all available information, including the recoverability of the investment, the earnings and near-term prospects of the affiliate, factors related to the industry, conditions of the affiliate and our ability, if any, to influence the management of the affiliate. We assess fair value based on valuation methodologies, as appropriate, including discounted cash flows, estimates of sales proceeds and external appraisals, as appropriate. If an equity method investment's decline in value is other than temporary, we record an impairment in *Equity in net income of nonconsolidated affiliates*.

Financing Costs

We amortize financing costs using the effective interest method over the life of the related debt. The related expense is included in *Interest expense* in our consolidated statements of operations.

Fair Value of Financial Instruments

Our financial instruments consist mainly of cash and cash equivalents, restricted cash, accounts receivable, accounts payable, letters of credit, long-term debt and interest rate swap agreements. The carrying amounts of cash and cash equivalents, restricted cash, accounts receivable and accounts payable approximate fair value because of the short-term maturity of these instruments. The fair value of our letters of credit is deemed to be the amount of payment guaranteed on our behalf by third-party financial institutions. We determine the fair value of our long-term debt based on various factors, including maturity schedules, call features and current market rates. We also use quoted market prices, when available, or discounted cash flows to determine fair values of long-term debt. The fair value of our interest rate swaps is determined using information provided by a third-party financial institution and discounted cash flows.

Derivative Instruments

All derivative instruments are recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or in other comprehensive income, depending on whether a derivative is designated as part of a hedging relationship and, if it is, depending on the type of hedging relationship.

As of December 31, 2015 and 2014, we held interest rate swaps to hedge the interest rate risk on a portion of our long-term debt. These swaps were historically designated as a cash flow hedge; however, in 2013, we de-designated these instruments. The de-designation resulted in the reclassification of all amounts related to the cash flow hedges in *Accumulated other comprehensive loss* to be reclassified to *Interest expense* . Prior to de-designation, all changes in the fair value of these interest rate swaps were reported in other comprehensive income on the consolidated statement of changes in equity. Net cash settlements on our interest rate swaps are included in investing activities in our consolidated statements of cash flows. For additional information regarding these interest rate swaps, see Note 9, *Long-Term Debt* .

Noncontrolling Interest in Consolidated Affiliates

The consolidated financial statements include all assets, liabilities, revenues and expenses of less-than-100%-owned affiliates that we control. Accordingly, we have recorded a noncontrolling interest in the earnings and equity of such affiliates. We record adjustments to noncontrolling interest for the allocable portion of income or loss to which the noncontrolling interest holders are entitled based upon the portion of the subsidiaries that they own. Distributions to holders of noncontrolling interests reduce the respective noncontrolling interest holders' balance.

Also, certain of the Company's noncontrolling interests have industry-specific redemption features, such as a change in law that would prohibit the noncontrolling interests' current fonn of ownership in ASCs, which are not solely within the control of the Company. We are not aware of events that would make a redemption probable. According to authoritative guidance, classification of these noncontrolling interests outside of permanent equity is required due to the redemption features.

Equity-Based Compensation

We have one active equity-based compensation plan, the 2013 Omnibus Long-Term Incentive Plan, and two legacy equity-based compensation plans, the Management Equity Incentive Plan and the Directors and Consultants Equity Incentive Plan, under which we are no longer issuing new awards (together, the "Plans"). The Plans provide or have provided for the granting of options to purchase our stock as well as RSUs to key teammates, directors, service providers, consultants and affiliates. We also made stand-alone grants (not under any Plan) of RSUs to an executive officer and three non-employee directors prior to our initial public offering.

Under the Plans, our key teammates, directors, service providers, consultants and affiliates are provided with what we believe to be appropriate incentives to encourage them to continue employment with us or providing service to us or any of our affiliates and to improve our growth and profitability.

Option awards are generally granted with an exercise price equal to at least the fair market value of the underlying share at the date of grant. Vesting in the option awards varies based upon time, attainment of certain performance conditions, or upon the occurrence of a Liquidity Event (as defined in the applicable Plan) in which the TPG Funds and/or any of its affiliates achieves a minimum cash return on its original investment. All existing RSU awards vest over time.

Income Taxes

We provide for income taxes using the asset and liability method. This approach recognizes the amount of federal, state and local taxes payable or refundable for the current year, as well as deferred tax assets and liabilities for the future tax consequence of events recognized in the consolidated financial statements and income tax returns. Deferred income tax assets and liabilities are adjusted to recognize the effects of changes in tax laws or enacted tax rates.

A valuation allowance is required when it is more-likely-than-not that some portion of the deferred tax assets will not be realized. Realization is dependent on generating sufficient future taxable income.

We file a consolidated federal income tax return. State income tax returns are filed on a separate, combined or consolidated basis in accordance with relevant state laws and regulations. LPs, LLPs, LLCs and other pass-through entities that we consolidate or account for using the equity method of accounting file separate federal and state income tax returns. We include the allocable portion of each pass-through entity's income or loss in our federal income tax return. We allocate the remaining income or loss of each pass-through entity to the other partners or members who are responsible for their portion of the taxes.

Discontinued Operations

Components that have been disposed of or are classified as held for sale and represent a strategic shift that has or will have a major effect on our operations or financial results are reported as discontinued operations. We reclassify the results of operations for current and prior periods into a single caption titled *Loss from discontinued operations, net of income tax expense*. In addition, assets and liabilities associated with facilities that qualify for reporting as discontinued operations are reflected in the consolidated balance sheets as *Current assets related to discontinued operations, Assets related to discontinued operations, Current liabilities related to discontinued operations* and *Liabilities related to discontinued operations*. We also classify cash flows related to discontinued operations as one line item within each category of cash flows in our consolidated statements of cash flows.

Assets and Liabilities Held for Sale

We classify components of entities as held for sale when management is committed to selling components of an entity within twelve months and the entity does not also qualify for reporting as discontinued operations. The applicable assets and liabilities associated with an entity are reflected in the accompanying consolidated balance sheets as of December 31, 2015 as *Current assets held for sale, Assets held for sale, Current liabilities held for sale* and *Liabilities held for sale.*

Assessment of Loss Contingencies

We have legal and other contingencies that could result in significant losses upon the ultimate resolution of such contingencies. We record accruals for such contingencies to the extent that we conclude it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. A significant amount of judgment is involved in determining whether a loss is probable and reasonably estimable due to the uncertainty involved in determining the likelihood of future events and estimating the financial statement impact of such events. If further developments or resolution of a contingent matter are not consistent with our assumptions and judgments, we may need to recognize a significant charge in a future period related to an existing contingent matter. See Note 16, *Commitments and Contingent Liabilities*, for more information regarding these matters.

Earnings Per Share (EPS)

We report two earnings per share numbers, basic and diluted. These are computed by dividing net earnings by the weighted-average common shares outstanding (basic EPS) or weighted-average common shares outstanding assuming dilution (diluted EPS), as set forth below:

In thousands	YEAR-ENDED DECEMBER 31, 2015	YEAR-ENDED DECEMBER 31, 2014	YEAR-ENDED DECEMBER 31, 2013
Weighted average shares outstanding	39,360	38,477	31,688
Dilutive effect of equity-based compensation plans	1,374	1,481	—
Weighted-average shares outstanding, assuming dilution	40,734	39,958	31,688

The shares used reflect the conversion to a Delaware corporation discussed in Note 1 for all periods. All dilutive share equivalents are reflected in our earnings per share calculations. Antidilutive share equivalents are not included in our EPS calculations. In periods of loss, shares that otherwise would have been included in our diluted weighted-average shares outstanding computation are excluded. The number of excluded shares for the year-ended December 31, 2013 is 216,682.

Reportable Segments

We have six operating segments, which aggregate into one reportable segment. Our six operating segments are generally organized geographically. For reporting purposes, we have aggregated our operating segments into one reportable segment as the nature of the services are similar and the businesses exhibit similar economic characteristics, processes, types and classes of customers, methods of service delivery and distribution and regulatory environments.

Distribution

On September 16, 2013, we declared a cash distribution of approximately $0.24 per outstanding membership unit, resulting in a total distribution to our membership unit holders of $74.9 million. The distribution was payable promptly after the date on which it was declared. In addition, on September 16, 2013, the board of directors of the Company resolved to pay a cash bonus to eligible holders of vested options and restricted equity units of approximately $0.24 per vested option or restricted equity unit, as applicable, resulting in a total bonus payment of $4.6 million, and to reduce the exercise price of any such holder's unvested options by approximately $0.24 per unvested option. The cash bonus payment was recorded as compensation expense in the third quarter of 2013. We record stock compensation expense over the remaining vesting periods related to the adjustment to unvested options.

Recent Revisions to Authoritative Guidance

In November 2015, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2015-17, *Balance Sheet Classification of Deferred Taxes*. ASU 2015-17 simplifies the presentation of deferred income taxes by eliminating the requirement for companies to present deferred tax liabilities and assets as current and non-current on the consolidated statements of financial position. Instead, companies will be required to classify all deferred tax assets and liabilities as non-current. This guidance is effective for annual and interim periods beginning after December 15, 2016 and early adoption is permitted. We elected to early adopt ASU 2015-17 on December 31, 2015. ASU 2015-17 did not have a material impact on our consolidated financial position, and had no impact on our results of operations or cash flows. All prior period financial information presented herein has been adjusted to reflect the retrospective application of this ASU.

In September 2015, the FASB issued ASU No. 2015-16, *Simplifying the Accounting for Measurement-Period Adjustments*. This standard eliminates the requirement to restate prior period financial statements for measurement period adjustments. ASU 2015-16 is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. Early adoption is permitted and we have chosen to adopt this ASU prospectively as of September 30, 2015. This ASU did not have a material impact on our consolidated financial position, results of operations or cash flows.

In August 2015, the FASB issued ASU No. 2015-15, *Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements*. This standard clarifies the SEC staff's position on presenting and measuring debt issuance costs incurred in connection with line-of-credit arrangements given the lack of guidance on this topic in ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. The SEC staff has announced that it would "not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement." This ASU should be adopted concurrent with ASU 2015-03 which is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2015. This ASU became effective for the Company on January 1, 2016. The provisions should be applied on a retrospective basis as a change in accounting principle. We do not believe this ASU will have a material impact on our consolidated financial position, results of operations or cash flows.

In February 2015, the FASB issued ASU No. 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*. This standard modifies existing consolidation guidance for reporting organizations that are required to evaluate whether they should consolidate certain legal entities. ASU 2015-02 is effective for fiscal years and interim periods within those years beginning after December 15, 2015 and requires either a retrospective or a modified retrospective approach to adoption. This ASU became effective for the Company on January 1, 2016. We are currently evaluating the potential impact of this standard on our consolidated financial position, results of operations and cash flows.

In April 2014, the FASB issued ASU No. 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. This ASU changes the criteria for determining which disposals (both consolidated investments and equity method investments) can be presented as discontinued operations and modifies related disclosure requirements. Under the new criteria, a discontinued operation is defined as a disposal of a component or group of components, which may include equity method investments, that is disposed of or is classified as held for sale and "represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results." The ASU became effective for the Company on January 1, 2015. This ASU did not have a material effect on our consolidated financial position, results of operations or cash flows; however, the presentation of discontinued operations will be impacted.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The ASU is based on the principle that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract. Entities have the option of using either a full retrospective or a modified retrospective approach for the adoption of the new standard. The ASU becomes effective for the Company at the beginning of its 2017 fiscal year; early adoption is not permitted. We are currently assessing the impact that this ASU will have on our consolidated financial position, results of operation and cash flows.

We do not believe that any other recently issued, but not yet effective, revisions to authoritative guidance will have a material effect on our consolidated financial position, results of operations or cash flows.

NOTE 4 — VARIABLE INTEREST ENTITIES

Under the applicable authoritative guidance, a VIE is a legal entity that possesses any of the following characteristics: an insufficient amount of equity at risk to finance its activities, equity owners who do not have the power to direct the significant activities of the entity (or have voting rights that are disproportionate to their ownership interest) or equity owners who do not have the obligation to absorb expected losses or the right to receive the expected residual returns of the entity. Companies are required to consolidate a VIE if they are its primary beneficiary, which is the enterprise that has the power to direct the activities that most significantly affect the entity's economic performance.

At December 31, 2015 and December 31, 2014, we consolidated four VIE groups and one VIE group, respectively, for which we were the primary beneficiary. As of December 31, 2015, we consolidated a total of 16 facilities among the four VIE groups, the details of which are as follows:

VIE Group	# of Consolidated Facilities as of December 31, 2015	# of Consolidated Facilities as of December 31, 2014
Future Texas JV	11	10
Kentucky JVs	3	—
Michigan JV	1	—
Hilton Head JV	1	—

The carrying amounts and classifications of the assets and liabilities of the VIE groups, which are included in our December 31, 2015 and December 31, 2014 consolidated balance sheets, were as follows:

	DECEMBER 31, 2015	DECEMBER 31, 2014
Assets		
Current assets		
Accounts receivable, net	$ 17,515	$ 12,396
Other current assets	4,922	2,236
Total current assets	22,437	14,632
Property and equipment, net	35,325	20,829
Goodwill	91,777	69,330
Intangible assets	18,294	12,663
Total assets	$ 167,833	$ 117,454
Liabilities		
Current liabilities		
Accounts payable and other current liabilities	$ 18,445	$ 11,402
Total current liabilities	18,445	11,402
Other long-term liabilities	22,574	12,403
Total liabilities	$ 41,019	$ 23,805

The assets of the consolidated VIE groups can only be used to settle the obligations of the VIE groups. The creditors of the VIE groups have no recourse to us, with the exception of $4.0 million and $3.4 million of debt guaranteed by us at December 31, 2015 and December 31, 2014, respectively.

NOTE 5 — ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	AS OF DECEMBER 31, 2015	AS OF DECEMBER 31, 2014
Accounts receivable	$ 146,704	$ 110,977
Less: Allowance for doubtful accounts	(17,045)	(10,448)
Accounts receivable, net	$ 129,659	$ 100,529

The following is the activity related to our allowance for doubtful accounts:

	YEAR-ENDED DECEMBER 31, 2015	YEAR-ENDED DECEMBER 31, 2014	YEAR-ENDED DECEMBER 31, 2013
Balance at beginning of period	$ 10,448	$ 10,393	$ 5,698
Provision for doubtful accounts	17,195	14,051	14,208
Deductions and accounts written off	(10,598)	(13,996)	(9,513)
Balance at end of period	$ 17,045	$ 10,448	$ 10,393

NOTE 6 — PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	AS OF DECEMBER 31, 2015	AS OF DECEMBER 31, 2014
Land	$ 15,410	$ 17,081
Buildings	93,055	42,667
Leasehold improvements	76,878	53,890
Furniture, fixtures and equipment	200,530	180,270
	385,873	293,908
Less: Accumulated depreciation	(99,678)	(99,111)
	286,195	194,797
Construction in progress	10,636	14,845
Property and equipment, net	$ 296,831	$ 209,642

The amount of depreciation expense, amortization expense and accumulated amortization relating to assets under capital lease obligations, and rent expense under operating leases is as follows:

	YEAR-ENDED DECEMBER 31, 2015	YEAR-ENDED DECEMBER 31, 2014	YEAR-ENDED DECEMBER 31, 2013
Depreciation expense	$ 42,149	$ 34,796	$ 28,808
Assets under capital lease obligations:			
Buildings	$ 77,205	$ 19,279	$ 17,062
Equipment	42,008	31,898	28,484
	119,213	51,177	45,546
Accumulated depreciation	(34,469)	(22,930)	(16,588)
Assets under capital lease obligations, net	$ 84,744	$ 28,247	$ 28,958
Amortization expense	$ 9,800	$ 7,753	$ 5,991
Rent Expense:			
Minimum rent payments	$ 29,268	$ 24,419	$ 21,986
Contingent and other rents	13,625	10,727	9,596
Total rent expense	$ 42,893	$ 35,146	$ 31,582

Leases

We lease certain land, buildings and equipment under non-cancelable operating leases expiring at various dates through 2034. We also lease certain buildings and equipment under capital leases expiring at various dates through 2033. Operating leases generally have 3 to 20 year terms, with one or more renewal options, with terms to be negotiated at the time of renewal. Various facility leases include provisions for rent escalation to recognize increased operating costs or require us to pay certain maintenance and utility costs. Contingent rents are included in rent expense in the year incurred. Some facilities are subleased to other parties. Rental income from subleases approximated $0.7 million, $0.5 million and $0.6 million for the years-ended December 31, 2015, 2014 and 2013, respectively. Certain leases contain annual escalation clauses based on changes in the Consumer Price Index while others have fixed escalation terms. The excess of cumulative rent expense (recognized on a straight-line basis) over cumulative rent payments made on leases with fixed escalation terms is recognized as straight-line rental accrual and is included in *Other long-term liabilities* in the accompanying consolidated balance sheets.

Our facilities lease land, buildings and equipment, with most leases being for terms of three to ten years. On April 4, 2014, the Company entered into a new lease agreement that resulted in the relocation of our Birmingham, Alabama office to Brookwood Village Center in Birmingham, Alabama. This lease, which commenced on December 1, 2014, is for an initial term of 10.5 years. The lease for our previous Birmingham, Alabama office, which commenced on March 1, 2008, expired on March 31, 2015. We do not intend to renew this lease upon expiration.

Future minimum lease payments at December 31, 2015 for those leases of the Company and its subsidiaries having an initial or remaining non-cancelable lease term of one year or more are as follows:

YEAR ENDING DECEMBER 31,	OPERATING LEASES	CAPITAL LEASE OBLIGATIONS	TOTAL
2016	$ 30,301	$ 15,438	$ 45,739
2017	24,968	13,683	38,651
2018	22,484	11,903	34,387
2019	19,327	9,959	29,286
2020	15,268	8,501	23,769
2021 and thereafter	58,724	77,922	136,646
	$ 171,072	137,406	$ 308,478
Less: interest portion		(52,854)	
Obligations under capital leases		$ 84,552	

Obligations Under Lease Guarantees

In conjunction with the sale of certain facilities in prior years, the leases of certain properties were assigned to the purchasers and, as a condition of the lease, the Company is a guarantor on the lease. Should the purchaser fail to pay the rent due on these leases, the lessor would have contractual recourse against the Company. We have not recorded a liability for these guarantees because we do not believe it is probable that we will have to perform under these agreements. If we are required to perform under these guarantees, we could potentially have recourse against the purchaser for recovery of any amounts paid. These guarantees are not secured by any assets under the leases. As of December 31, 2015, the Company has not been required to perform under any such lease guarantees.

The Company has provided guarantees related to operating leases of nonconsolidated affiliates in the amount of $31.6 million as of December 31, 2015.

Impairment of Long-Lived Assets

During 2015, 2014 and 2013, we examined our long-lived assets for impairment due to facility closings and facilities experiencing cash flow insufficient to recover the net book value of its long-lived assets. Based on this review, $0.6 million of impairment charges were recorded for each of the years-ended December 31, 2015 and 2014. These impairments are recorded in *Impairment of intangible and long-lived assets* in the Company's consolidated statements of operations. Also, an impairment charge of $0.7 million was recorded during the year-ended December 31, 2014 for intangible and long-lived assets. This impairment is recorded in *Loss from discontinued operations, net of income tax expense* in the Company's consolidated statements of operations. No material impairment charges were recorded for the year-ended December 31, 2013. For all periods presented, the fair value of the impaired long-lived assets at our facilities was determined primarily based on the assets' estimated fair value using valuation tech niques that included discounted future cash flows and the cost approach.

NOTE 7 — GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill represents the unallocated excess of purchase price over the fair value of identifiable assets and liabilities acquired in business combinations. Goodwill also includes the unallocated excess of purchase price plus the fair value of any noncontrolling interest in the acquiree at the acquisition date over the fair value of identifiable assets and liabilities acquired in business combinations. Other definite-lived intangibles consist primarily of certificates of need, licenses, noncompete agreements and management agreements. We had no accumulated impairment of goodwill for the years ended December 31, 2015 or December 31, 2014.

The following tables show changes in the carrying amount of goodwill for the years-ended December 31, 2015 and December 31, 2014:

	YEAR-ENDED DECEMBER 31, 2015	YEAR-ENDED DECEMBER 31, 2014
Balance at beginning of period	$ 902,391	$ 745,036
Acquisitions (Note 2)	165,419	177,726
Deconsolidations (Note 2)	(4,148)	(22,018)
Sales	(2,503)	(454)
Closure and other	(71)	2,101
Balance at end of period	$ 1,061,088	$ 902,391

We performed impairment reviews as of October 1, 2015, 2014 and 2013, and concluded that no goodwill impairment existed.

The following table provides information regarding our other intangible assets:

	AS OF DECEMBER 31, 2015	2014
Certificates of need		
Gross carrying amount	$ 22,114	$ 18,250
Accumulated amortization	(10,455)	(9,237)
Net	$ 11,659	$ 9,013
Management agreements		
Gross carrying amount	$ 79,773	$ 61,905
Accumulated amortization	(23,972)	(19,231)
Net	$ 55,801	$ 42,674
Licenses		
Gross carrying amount	$ 20,980	$ 15,338
Accumulated amortization	(3,472)	(2,091)
Net	$ 17,508	$ 13,247
Noncompete agreements		
Gross carrying amount	$ 34,816	$ 24,039
Accumulated amortization	(10,596)	(4,711)
Net	$ 24,220	$ 19,328
Total other intangible assets		
Gross carrying amount	$ 157,683	$ 119,532
Accumulated amortization	(48,495)	(35,270)
Net	$ 109,188	$ 84,262

During 2015, 2014 and 2013, we examined our intangible assets for impairment due to facility closings and facilities experiencing cash flow insufficient to recover the net book value of their long-lived assets. In all periods presented, no impairment charge was deemed necessary for intangible assets.

For the years-ended December 31, 201 5 , December 31, 201 4 and December 31, 201 3 , we recorded $ 1.4 million, $2 3.2 million and $2 5.9 million, respectively, of amortization expense for definite-lived intangible assets attributable to equit y method investments. These expenses are included in *Equity in net income of nonconsolidated affiliates* in our consolidated financial statements.

Amortization expense for other intangible assets is as follows:

	YEAR-ENDED DECEMBER 31, 2015	YEAR-ENDED DECEMBER 31, 2014	YEAR-ENDED DECEMBER 31, 2013
Amortization expense	$ 14,276	$ 10,114	$ 6,651

Total estimated amortization expense for our other intangible assets for the next five years is as follows:

YEAR ENDING DECEMBER 31,	ESTIMATED AMORTIZATION EXPENSE
2016	$ 15,762
2017	15,125
2018	14,982
2019	12,317
2020	9,750

NOTE 8 — RESULTS OF OPERATIONS OF NONCONSOLIDATED AFFILIATES

As of December 31, 2015, *Investment in and advances to nonconsolidated affiliates* represents Surgical Care Affiliates' investment in 68 partially owned entities, most of which are general partnerships, LPs, LLPs, LLCs or joint ventures in which SCA or one of our subsidiaries is a general or limited partner, managing member, member or venturer, as applicable. We do not control these affiliates but have the ability to exercise significant influence over the operating and financial policies of certain of these affiliates. Accordingly, we account for these affiliates using the equity method. Our ownership percentage in these affiliates generally ranged from 5% to 50% as of December 31, 2015. Our investment in these affiliates is an integral part of our operations.

During the year-ended December 31, 2015, we deconsolidated one facility as a result of other parties obtaining substantive rights. We retained a noncontrolling interest in this affiliate. We recorded an immaterial loss related to this deconsolidation which was primarily related to the revaluation of our investment in this affiliate to fair value. We also wrote off approximately $4.1 million of goodwill related to the deconsolidation.

During the year-ended December 31, 2014, we completed two separate deconsolidation transactions. In one of these transactions, we sold a controlling equity interest in an ASC and transferred certain control rights to a partner in the entity. We retained a noncontrolling interest in this affiliate. We received cash proceeds of approximately $2.4 million and recorded a pre-tax loss of approximately $3.4 million, which was primarily related to the revaluation of our remaining investment in this affiliate to fair value. In the other transaction, we agreed to sell our entire interest in an ASC in Santa Monica, California at a later date. In conjunction with this transaction, the operating agreement of this affiliate was amended on October 1, 2014 to remove SCA's control rights until the date of the sale. As a result of the removal of SCA's control rights, the facility became a nonconsolidated affiliate. We recorded a pre-tax gain of approximately $2.7 million, which was primarily related to the revaluation of our remaining investment in this affiliate to fair value. The net loss on these transactions is recorded in *(Gain) loss on sale of investments* in the accompanying consolidated statements of operations.

During the year-ended December 31, 2013, we completed two separate deconsolidation transactions. In one of these transactions, we sold a controlling equity interest and transferred certain control rights to a health system. We retained a noncontrolling interest in this affiliate. We received cash proceeds of approximately $2.1 million and recorded a pre-tax loss of approximately $1.6 million, which was primarily related to the revaluation of our remaining investment in this affiliate to fair value. The loss on this transaction is recorded in *(Gain) loss on sale of investments* in the accompanying consolidated statements of operations. In the other transaction, we transferred certain control rights to partners in the entity. We retained a noncontrolling interest in this affiliate. We recorded a pre-tax loss of approximately $1.5 million, which was primarily related to the revaluation of our remaining investment in this affiliate to fair value. The loss on this transaction is recorded in *Equity in net income of nonconsolidated affiliates* in the accompanying consolidated statements of operations.

Fair values for the retained noncontrolling interests are primarily estimated based on third-party valuations that we have obtained in connection with such transactions and/or the amount of proceeds received for the controlling interest sold.

During 2015, we recorded $5.2 million of impairment to our investments in nonconsolidated affiliates due to declines in the expected future cash flows of three nonconsolidated affiliates that we determined to be other than temporary. This impairment is included in *Equity in net income of nonconsolidated affiliates* . The declines in the expected future cash flows were caused by events specific to each impacted fac ility, as further described below. The impairments included :

- a $3.1 million impairment on our investment in PS Center, LLC related to insufficient forecasted growth at the facility;
- a $1.4 million impairment on our investment in Glendale Endoscopy Center, LLC related to insufficient forecasted growth at the facility;
- a $0.5 million impairment on our investment in Lackawanna Physicians Ambulatory Surgery Center, LLC related to insufficient forecasted growth at the facility; and
- a $0.2 million impairment on our investment in Emerald Coast Surgery Center, L.P. related to insufficient forecasted growth at the facility.

Also during 2015, we recorded an impairment charge of $4.1 million due to advances previously extended to a nonconsolidated affiliate that were deemed not recoverable. This impairment is included in *Equity in net income of nonconsolidated affiliates* in the accompanying consolidated statement of operations.

During 2014 and 2013, we recorded $0.3 million and $6.1 million, respectively, of impairment to our investments in nonconsolidated affiliates due to a decline in the expected future cash flows of nonconsolidated affiliates that we determined to be other than temporary. These impairments are included in *Equity in net income of nonconsolidated affiliates* .

In determining whether an impairment charge is necessary on a particular investment, we consider all available information, including the recoverability of the investment, the earnings and near-term prospects of the affiliate, factors related to the industry, conditions of the affiliate and our ability, if any, to influence the management of the affiliate. We assess fair value based on valuation methodologies, including discounted cash flows, estimates of sales proceeds and external appraisals, as appropriate.

We account for investments in nonconsolidated affiliates primarily using the equity method of accounting. The difference between the carrying amount of the investment and the underlying equity in net assets was $59.0 million and $67.7 million at December 31, 2015 and 2014, respectively, and is primarily attributable to goodwill and other intangible assets. Our investments consist of the following:

INVESTMENT IN AND ADVANCES TO NONCONSOLIDATED AFFILIATES:	AS OF DECEMBER 31, 2015	2014
Beginning balance	$ 194,610	$ 168,824
Share of income (1)	49,867	32,564
Share of distributions	(58,547)	(53,328)
Acquisitions	42,403	36,021
Conversion to/from investments in nonconsolidated affiliates	(458)	8,238
Sale/closure of investments in nonconsolidated affiliates	(19,168)	(1,947)
Other	7,404	4,238
Total investment in and advances to nonconsolidated affiliates	$ 216,111	$ 194,610

(1) Includes $9.3 million and $0.3 million of impairments at December 31, 2015 and 2014, respectively, as previously noted.

Included in the 2015 and 2014 *Share of income* amount above is amortization expense of $1.4 million and $23.2 million, respectively, for definite-lived intangible assets attributable to equity method investments.

The following summarizes the combined assets, liabilities and equity of our nonconsolidated affiliates (on a 100% basis):

	DECEMBER 31, 2015	DECEMBER 31, 2014
Assets		
Current	$ 228,103	$ 205,917
Noncurrent	312,500	183,311
Total assets	$ 540,603	$ 389,228
Liabilities		
Current	$ 67,626	$ 54,863
Noncurrent	64,874	58,800
Total liabilities	132,500	113,663
Partners' capital and shareholders' equity		
Surgical Care Affiliates	155,802	126,425
Outside parties	252,301	149,140
Total partners' capital and shareholders' equity	408,103	275,565
Total liabilities and partners' capital and shareholders' equity	$ 540,603	$ 389,228

The following summarizes the combined condensed results of operations of our nonconsolidated affiliates:

	YEAR-ENDED DECEMBER 31, 2015	YEAR-ENDED DECEMBER 31, 2014	YEAR-ENDED DECEMBER 31, 2013
Net operating revenues:			
Net patient revenues	$ 749,780	$ 659,367	$ 600,600
Other revenues	8,078	5,884	5,166
Total net operating revenues	757,858	665,251	605,766
Operating expenses:			
Salaries and benefits	161,333	140,365	128,892
Supplies	133,885	111,833	99,299
Other operating expenses	164,240	141,872	123,052
Depreciation and amortization	28,087	21,765	17,281
Total operating expenses	487,545	415,835	368,524
Operating income	270,313	249,416	237,242
Interest expense, net of interest income	2,474	2,254	1,627
Loss on sale of investments	—	—	22
Income from continuing operations before income tax expense	$ 267,839	$ 247,162	$ 235,593
Net income	$ 267,802	$ 247,097	$ 235,522

NOTE 9 — LONG-TERM DEBT

Our long-term debt outstanding consists of the following:

	AS OF DECEMBER 31, 2015	AS OF DECEMBER 31, 2014
New Credit Facilities debt payable:		
Advances under $250 million New Revolving Credit Facility (excluding letters of credit issued thereunder)	$ 15,000	$ —
New Term Loan Facility due 2022	446,625	—
Discount of New Term Loan due 2022	(1,372)	—
Old Credit Facilities debt payable:		
Advances under $132.3 million Class B Revolving Credit Facility (excluding letters of credit issued thereunder)	—	—
Class B Term Loan due 2017	—	212,224
Class C Term Loan due 2018	—	384,150
Discount of Class C Term Loan	—	(452)
6.00% Senior Notes due 2023	250,000	—
Discount of Senior Notes due 2023	(3,965)	—
Notes payable to banks and others	99,707	64,634
Capital lease obligations	84,552	29,253
	890,547	689,809
Less: Current portion	(32,503)	(24,690)
Long-term debt, net of current portion	$ 858,044	$ 665,119

The following chart shows scheduled principal payments due on long-term debt, including capital leases, for the next five years and thereafter:

Year Ending December 31,	
2016	$ 32,503
2017	45,427
2018	25,499
2019	20,279
2020	24,695
Thereafter	742,144
Total	$ 890,547

The following table provides information regarding our total *Interest expense* presented in our consolidated statements of operations for both continuing and discontinued operations:

	YEAR-ENDED DECEMBER 31, 2015	YEAR-ENDED DECEMBER 31, 2014	YEAR-ENDED DECEMBER 31, 2013
Continuing operations:			
Interest expense	$ 40,759	$ 29,831	$ 56,311
Amortization of bond issue costs	1,352	2,954	3,891
Total interest expense and amortization of bond issue costs for continuing operations	42,111	32,785	60,202
Discontinued operations:			
Interest expense	159	280	414
Total interest expense for discontinued operations	159	280	414
Total interest expense and amortization of bond issue costs	$ 42,270	$ 33,065	$ 60,616

Capital Lease Obligations

We engage in a significant number of leasing transactions, including real estate, medical equipment, computer equipment and other equipment utilized in operations. Certain leases that meet the lease capitalization criteria have been recorded as an asset and liability at the net present value of the minimum lease payments at the inception of the lease. Interest rates used in computing the net present value of the lease payments generally range from 2.3% to 13.0% based on the incremental borrowing rate at the inception of the lease. Our leasing transactions include arrangements for equipment with major equipment finance companies and manufacturers who retain ownership of the equipment during the term of the lease and with a variety of both small and large real estate owners.

First Quarter 2015 Refinancing Transactions

On March 17, 2015, we issued senior unsecured notes due in 2023 in the aggregate principal amount of $250 million (the "Senior Notes") under an Indenture dated March 17, 2015 among the Company, The Bank of New York Mellon Trust Company, N.A., as trustee, and certain wholly-owned subsidiaries of the Company (the "Guarantors") that are guaranteeing the Senior Notes (the "Indenture"). Also on March 17, 2015, we entered into a $700 million credit agreement with JP Morgan Chase Bank, N.A., as administrative agent and collateral agent, and the other lenders party thereto (the "New Credit Agreement"). The New Credit Agreement provides for a seven-year, $450 million term loan credit facility (the "New Term Loan Facility") and a five-year, $250 million revolving credit facility (the "New Revolving Credit Facility" and together with the New Term Loan Facility, collectively, the "New Credit Facilities"). This issuance of the Senior Notes and the entry into the New Credit Facilities are collectively referred to as the "Refinancing Transactions."

We received $245.6 million in net proceeds from the sale of the Senior Notes after deducting the Initial Purchasers' (as defined below) discount. We used all of those net proceeds, together with approximately $381 million of the $450 million borrowed under the New Term Loan Facility, to repay all of the outstanding indebtedness (including accrued interest and fees) under the Company's previous credit facilities (the "Old Credit Facilities"). The remaining approximately $69 million of net proceeds from the Refinancing Transactions was used to pay the transaction costs associated with the Refinancing Transactions and for general corporate purposes. In connection with the settlement of existing debt upon entering into our New Credit Facilities, we incurred debt modification expense of $5.0 million.

Senior Notes

On March 17, 2015, we issued the Senior Notes under the Indenture. The Senior Notes were sold to Goldman, Sachs & Co. and certain other initial purchasers (the "Initial Purchasers") in a private placement in reliance on Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act"). The Senior Notes were expected to be resold by the Initial Purchasers to qualified institutional buyers pursuant to Rule 144A and/or in an offshore transaction pursuant to Regulation S under the Securities Act.

The Senior Notes are general unsecured obligations of the Company and are guaranteed by the Guarantors and any subsequently acquired wholly-owned subsidiaries that guarantee certain of the Company's indebtedness, subject to certain exceptions. The Senior Notes are *pari passu* in right of payment with all of the existing and future senior debt of the Company, including the Company's indebtedness under the New Credit Facilities, and senior to all existing and future subordinated debt of the Company.

Interest on the Senior Notes accrues at the rate of 6.00% per annum and is payable semi-annually in arrears on April 1 and October 1, beginning on October 1, 2015. The Senior Notes mature on April 1, 2023.

The Indenture contains certain covenants that, with certain exceptions and qualifications, limit the ability of the Company and the restricted subsidiaries to, among other things, incur or guarantee additional indebtedness and issue certain types of preferred stock; pay dividends on capital stock or redeem, repurchase or retire capital stock or subordinated indebtedness; create liens on assets; make investments; sell assets; engage in transactions with affiliates; create restrictions on the ability of the restricted subsidiaries to pay dividends; and consolidate, merge or transfer substantially all of the Company's assets. The Indenture also provides for certain events of default which, if any of them were to occur, would permit or require the principal and accrued interest, if any, on the Senior Notes to become or be declared due and payable (subject, in some cases, to specified grace periods). We believe that we were in compliance with the covenants contained in the Indenture as of December 31, 2015.

New Credit Facilities

On March 17, 2015, we entered into the New Credit Agreement, which, subject to the terms and conditions set forth therein, provides for the New Term Loan Facility and the New Revolving Credit Facility. The New Credit Agreement includes an accordion feature that, subject to the satisfaction of certain conditions, will allow us to add one or more incremental term loan facilities to the New Term Loan Facility and/or increase the revolving commitments under the New Revolving Credit Facility, in each case based on leverage ratios and minimum dollar amounts, as more particularly set forth in the New Credit Agreement. The interest rate on the New Term Loan Facility was 4.25% at December 31, 2015.

The New Credit Facilities replaced our Credit Agreement, dated as of June 29, 2007 (as amended and restated and further amended, the "2007 Credit Agreement"), among the Company, SCA, JPMorgan Chase Bank, N.A., as administrative agent and collateral agent, and the other lenders party thereto.

Quarterly principal payments on the loans under the New Term Loan Facility are payable in equal installments in an amount equal to 0.25% of the aggregate initial principal amount of the loans made under the New Term Loan Facility. The loans made under the New Term Loan Facility mature and all amounts then outstanding thereunder are payable on March 17, 2022.

The New Revolving Credit Facility matures, the commitments thereunder terminate, and all amounts then outstanding thereunder are payable, on March 17, 2020.

Borrowings under the New Credit Agreement bear interest, at our election, either at (1) a base rate determined by reference to the highest of (a) the prime rate of JPMorgan Chase Bank, N.A., (b) the United States federal funds rate plus 0.50% and (c) a LIBOR rate plus 1.00% (provided that, with respect to the New Term Loan Facility, in no event will the base rate be deemed to be less than 2.00%) (the "Base Rate") or (2) an adjusted LIBOR rate (provided that, with respect to the New Term Loan Facility, in no event will the adjusted LIBOR rate be deemed to be less than 1.00%) (the "LIBOR Rate"), plus in either case an applicable margin. The applicable margin for borrowings under the New Term Loan Facility is 2.25% for Base Rate loans and 3.25% for LIBOR Rate loans. The applicable margin for any borrowings under the New Revolving Credit Facility depends on the Company's senior secured leverage ratio and varies from 0.75% to 1.25% for Base Rate loans and from 1.75% to 2.25% for LIBOR Rate loans. Interest payments, along with the installment payments of principal, are payable at the end of each quarter. The following table outlines the applicable margin for each portion of the New Credit Facilities:

	Applicable Margin (per annum)	
Facility	Base Rate Borrowings	LIBOR Borrowings
New Revolving Credit Facility	0.75% to 1.25%, depending upon the senior secured leverage ratio	1.75% to 2.25%, depending upon the senior secured leverage ratio
New Term Loan Facility due 2022	2.25% (with a base rate floor of 2.00%)	3.25% (with a LIBOR floor of 1.00%)

There was $15.0 million and no outstanding balance under the New Revolving Credit Facility or the revolving credit facility of the Old Credit Facilities as of December 31, 2015 or December 31, 2014, respectively, other than $4.2 million and $2.9 million, respectively, of letters of credit. As of December 31, 2015, the New Revolving Credit Facility had a capacity of $230.8 million.

Any utilization of the New Revolving Credit Facility in excess of $15.0 million will be subject to compliance with a total leverage ratio test. At December 31, 2015, we had approximately $4.2 million in letters of credit outstanding that utilize capacity under the New Revolving Credit Facility. We pay a commitment fee of either 0.375% or 0.500% per annum, depending on our senior secured leverage ratio, on the unused portion of the New Revolving Credit Facility.

The New Credit Facilities are guaranteed by SCA and certain of SCA's direct wholly-owned domestic subsidiaries (the "Credit Agreement Guarantors"), subject to certain exceptions, and borrowings under the New Credit Facilities are secured by a first priority security interest in substantially all equity interests of SCA and of each wholly-owned domestic subsidiary directly held by SCA or a Credit Agreement Guarantor. The New Credit Agreement contains a provision that could require prepayment of a portion of our indebtedness if SCA has excess cash flow, as defined by the New Credit Agreement. Payment was not required as of December 31, 2015. Additionally, the New Credit Agreement contains various restrictive covenants that, subject to certain exceptions, prohibit us from prepaying certain subordinated indebtedness. The New Credit Agreement also generally restricts the Company's and its restricted subsidiaries' ability to, among other things, incur indebtedness or liens, make investments or declare or pay dividends. We believe that we were in compliance with these covenants as of December 31, 2015.

Senior Subordinated Notes and Senior PIK-election Notes

In connection with the amendment to the Company's Senior Secured Credit Facility (the "Credit Facility") in the second quarter of 2013, on June 14, 2013 we extinguished the Senior PIK-election Notes at par, including a payment of accrued interest through July 15, 2015. Additionally, we redeemed the Senior Subordinated Notes at a premium of 3.333% on December 4, 2013. An aggregate loss on extinguishment of debt of $10.3 million was recorded in connection with these two redemptions.

Old Credit Facility

With respect to the Old Credit Facility, as of December 31, 2014, we had $596.4 million outstanding under the senior secured term loan facility consisting of the following:

- $212.2 million under the Class B Term Loan due December 30, 2017. The interest rate on the Class B Term Loan was 4.26% at December 31, 2014.
- $384.2 million under the Class C Term Loan (as defined below) due June 30, 2018. The interest rate on the Class C Term Loan was 4.00% at December 31, 2014.

We were required to repay the Class B Term Loan and the Class C Term Loan in quarterly installments equal to 0.25% of the original principal amount, with the remaining amount payable in full on the maturity date.

Borrowings under each portion of the Old Credit Facility bore interest at a base rate or at the London interbank market for the interest period relevant to such borrowings ("LIBOR"), as elected by SCA, plus an applicable margin. The base rate was determined by reference to the higher of (i) the prime rate of JPMorgan Chase Bank, N.A. and (ii) the federal funds effective rate plus 0.50%. The LIBOR rate was determined by reference to the interest rate for dollar deposits in the London interbank market for the interest period relevant to such borrowings. Interest payments, along with the installment payments of principal, were required to be made at the end of each quarter. The following table outlines the applicable margin for each portion of the Old Credit Facility.

	Applicable Margin (per annum)	
Facility	**Base Rate Borrowings**	**LIBOR Borrowings**
Class B Revolving Credit Facility	2.50%	3.50%
Class B Term Loan	3.00%	4.00%
Class C Term Loan	2.00% or 2.25% (with a base rate floor of 2.00%) depending upon the total leverage ratio	3.00% or 3.25% (with a LIBOR floor of 1.00%) depending upon the total leverage ratio

There was no outstanding balance under the old senior secured revolving credit facility (the "Class B Revolving Credit Facility") as of December 31, 2014 or December 31, 2013 other than $2.9 million and $1.7 million, respectively, of letters of credit. As of December 31, 2014 the Class B Revolving Credit Facility had a capacity of $132.3 million with a maturity date of June 30, 2016.

On June 29, 2013, our Class A Revolving Credit Facility was terminated in connection with our decision not to renew it.

2013 Amendment to the Old Credit Facility

In the second quarter of 2013, we amended our credit agreement (the "Amended Credit Agreement") related to the Old Credit Facility. The Amended Credit Agreement provided for a Class C Term Loan Facility ("Class C Term Loan") of $384.2 million ($383.7 million, net of discount) as of December 31, 2014. The Class C Term Loan was scheduled to mature on June 30, 2018. We utilized the proceeds of the Class C Term Loan plus $8.7 million in cash to extinguish the Senior PIK-election Notes, the Class A Term Loan and the Incremental Term Loan. The applicable margin for borrowings under the Class C Term Loan was (i) 2.25% with respect to base rate borrowings (with a base rate floor of 2.00%) and (ii) 3.25% with respect to LIBOR borrowings (with a LIBOR floor of 1.00%). The interest rate on the Class C Term Loan was 4.00% at December 31, 2014. Quarterly amortization payments were made in an amount equal to 0.25% of the original principal amount of the Class C Term Loan.

We incurred a loss on extinguishment of debt of $3.8 million in connection with the settlement of existing debt due to the closing of the Class C Term Loan during 2013.

The Old Credit Facility was guaranteed by the Company and certain of SCA's direct 100% owned domestic subsidiaries (the "Guarantors"), subject to certain exceptions, and borrowings under the Old Credit Facility were secured by a first priority security interest in all equity interests of SCA and of each 100% owned domestic subsidiary directly held by SCA or a Guarantor. The Credit Facility generally restricted SCA and SCA's restricted subsidiaries' ability to, among other things:

- incur liens;
- incur or assume additional debt or guarantees or issue or sell certain types of preferred stock;
- pay dividends or make redemptions and repurchases with respect to capital stock;
- prepay, or make redemptions and repurchases of, subordinated debt;
- make loans or investments; and
- engage in mergers, acquisitions, asset sales, sale/leaseback transactions and transactions with affiliates.

The Company believed that it and SCA were in compliance with these covenants as of December 31, 2014. The Amended Credit Agreement contained a provision that could require prepayment of a portion of our indebtedness if SCA has excess cash flow, as defined by the Amended Credit Agreement. No such prepayment was required at December 31, 2014.

Interest Rate Swaps

We use an interest rate risk management strategy that incorporates the use of derivative financial instruments to limit our exposure to interest rate risk. The swaps are "receive floating/pay fixed" instruments that define a fixed rate of interest on the economically hedged debt that the Company will pay, meaning we receive floating rate payments, which fluctuate based on LIBOR, from the counterparty and pay at a fixed rate to the counterparty, the result of which is to convert the interest rate of a portion of our floating rate debt into fixed rate debt, or to limit the variability of interest related payments caused by changes in LIBOR. At December 31, 2015, interest rate swaps of $190.0 million remained outstanding. The remaining aggregate notional amount of $190.0 million in interest rate swaps will terminate on September 30, 2016.

All derivative instruments are recognized on the balance sheet on a gross basis at fair value. The fair value of the interest rate swaps is recorded in the Company's consolidated balance sheets, either in *Other current liabilities* and *Other long-term liabilities* or *Prepaids and other current assets* and *Other long-term assets*, depending on the changes in the fair value of the swap and the payments or receipts expected within the next 12 months, with an offsetting adjustment reported as *Interest expense* in the consolidated statements of operations. At December 31, 2015 and December 31, 2014, $1.1 million and $1.4 million, respectively, was included in *Other current liabilities* in the consolidated balance sheets based on the fair value of the derivative instruments and the amounts expected to be settled within the next 12 months. At December 31, 2014, $0.8 million was included in *Other long-term liabilities* in the consolidated balance sheets based on the fair value of the derivative instruments. Although all our derivative instruments are subject to master netting arrangements, no amounts have been netted against the gross liabilities previously detailed and no collateral has been posted with counterparties. During the year-ended December 31, 2015, the liability related to the swaps decreased by $1.1 million due to $1.4 million of swap settlements and a $0.3 million increase in the change in fair value. During the year-ended December 31, 2015, the Company recorded losses of approximately $0.3 million within *Interest expense* due to changes in fair value of derivative instruments.

The accounting for changes in fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge or a hedge related to foreign currency exposure. We previously designated our interest rate swaps as a cash flow hedge; however, the interest rate swaps were de-designated as hedges in the second quarter of 2013.

Credit risk occurs when a counterparty to a derivative instrument fails to perform according to the terms of the agreement. Derivative instruments expose the Company to credit risk and could result in material changes from period to period. The Company minimizes its credit risk by entering into transactions with highly rated counterparties. In addition, at least quarterly, the Company evaluates its exposure to counterparties who have experienced or may likely experience significant threats to their ability to perform according to the terms of the derivative agreements to which we are a party. We have completed this review of the financial strength of the counterparties to our interest rate swaps using publicly available information, as well as qualitative inputs, as of December 31, 2015. Based on this review, we do not believe there is a significant counterparty credit risk associated with these derivative instruments. However, no assurances can be provided regarding our potential exposure to counterparty credit risk in the future.

Other Debt

Certain partnerships included in the Company's consolidated financial statements have loans with financial institutions and other parties, included above in notes payable to banks and others. These loans mature at various dates through 2030 and accrue interest at fixed and variable rates typically ranging from 2.2% to 10.0%.

NOTE 10 — NONCONTROLLING INTERESTS

The following table shows the breakout of net loss attributable to Surgical Care Affiliates between continuing operations and discontinued operations:

	YEAR-ENDED DECEMBER 31, 2015	YEAR-ENDED DECEMBER 31, 2014	YEAR-ENDED DECEMBER 31, 2013
Net income (loss) from continuing operations, net of tax, attributable to Surgical Care Affiliates	$ 116,105	$ 41,335	$ (42,014)
Net loss from discontinued operations, net of tax, attributable to Surgical Care Affiliates	(784)	(9,355)	(9,330)
Net income (loss), net of tax, attributable to Surgical Care Affiliates	$ 115,321	$ 31,980	$ (51,344)

The following table shows the effects of changes to Surgical Care Affiliates' ownership interest in its subsidiaries on Surgical Care Affiliates' equity:

	YEAR-ENDED DECEMBER 31, 2015	YEAR-ENDED DECEMBER 31, 2014	YEAR-ENDED DECEMBER 31, 2013
Net income (loss) attributable to Surgical Care Affiliates	$ 115,321	$ 31,980	$ (51,344)
(Decrease) increase in equity due to sales to noncontrolling interests	(2,050)	(1,121)	2,056
(Decrease) increase in equity due to purchases from noncontrolling interests	(1,214)	798	(1,394)
Change from net loss attributable to Surgical Care Affiliates and transfers to/from noncontrolling interests	$ 112,057	$ 31,657	$ (50,682)

Certain of the Company's noncontrolling interests have industry-specific redemption features whereby the Company could be obligated, under the terms of certain of its operating subsidiaries' partnership and operating agreements, to purchase some or all of the noncontrolling interests of the consolidated subsidiaries. As a result, these noncontrolling interests are not included as part of the Company's equity and are carried as *Noncontrolling interests-redeemable* on the Company's consolidated balance sheets.

The activity relating to the Company's noncontrolling interests — redeemable is summarized below:

	YEAR-ENDED DECEMBER 31, 2015	YEAR-ENDED DECEMBER 31, 2014	YEAR-ENDED DECEMBER 31, 2013
Balance at beginning of period	$ 15,444	$ 21,902	$ 21,709
Net income attributable to noncontrolling interests-redeemable	28,504	22,605	24,138
Net change in equity related to amendments in agreements with noncontrolling interests	504	—	(1,050)
Net change related to purchase of ownership interests	2,095	(4,150)	581
Contributions from noncontrolling interests	—	—	1,622
Change in distribution accrual	311	(1,300)	(433)
Distributions to noncontrolling interests-redeemable	(24,869)	(23,613)	(24,665)
Balance at end of period	$ 21,989	$ 15,444	$ 21,902

NOTE 11 — FAIR VALUE

We follow the provisions of the authoritative guidance for fair value measurements, which address how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under GAAP.

The fair value of an asset or liability 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. As a basis for considering assumptions, the authoritative guidance establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1 — Observable inputs such as quoted prices in active markets;
- Level 2 — Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3 — Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Assets and liabilities measured at fair value are based on one or more of three valuation techniques, as follows:

- Market approach — Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;
- Cost approach — Amount that would be required to replace the service capacity of an asset (i.e., replacement cost); and
- Income approach — Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing models and lattice models).

Disclosures for Recurring Measurements

Interest Rate Swaps

On a recurring basis, we measure our interest rate swaps at fair value. The fair value of our interest rate swaps is a Level 2 measurement derived from models based upon well recognized financial principles and reasonable estimates about relevant future market conditions and calculations of the present value of future cash flows, discounted using market rates of interest. Further, included in the fair value is approximately $0.1 million related to non-performance risk associated with the interest rate swaps at each of December 31, 2015 and December 31, 2014.

The fair values of our liabilities that are measured on a recurring basis are as follows (in millions):

	December 31, 2015				
	Fair Value Measurements Using				
	Level 1	Level 2	Level 3	Total Liabilities at Fair Value	Valuation Technique [1]
Liabilities					
Other current liabilities	$ —	$ 1.1	$ —	$ 1.1	I
Other long-term liabilities	—	—	$ —	—	I
Total liabilities	$ —	$ 1.1	$ —	$ 1.1	

	December 31, 2014				
	Fair Value Measurements Using				
	Level 1	Level 2	Level 3	Total Liabilities at Fair Value	Valuation Technique 1
Liabilities					
Other current liabilities	$ —	$ 1.4	$ —	$ 1.4	I
Other long-term liabilities	—	0.8	$ —	0.8	I
Total liabilities	$ —	$ 2.2	$ —	$ 2.2	

(1) As discussed above, the authoritative guidance identifies three valuation techniques: market approach (M), cost approach (C), and income approach (I).

Disclosures for Nonrecurring Measurements

Where applicable, on a nonrecurring basis, we measure property and equipment, goodwill, other intangible assets, investments in nonconsolidated affiliates and assets and liabilities of discontinued operations at fair value. The fair values of our property and equipment and other intangible assets are determined using discounted cash flows and significant unobservable inputs. The fair value of our investments in nonconsolidated affiliates is determined using discounted cash flows or earnings, or market multiples derived from a set of comparables. The fair value of our assets and liabilities of discontinued operations is determined using discounted cash flows and significant unobservable inputs unless there is an offer to purchase such assets and liabilities, which would be the basis for determining fair value. The fair value of our goodwill is determined using discounted cash flows, and, when available and as appropriate, we use comparative market multiples to corroborate discounted cash flow results. Goodwill is tested for impairment as of October 1 of each year, absent any interim impairment indicators.

During 2015, we recorded $5.2 million of impairment to our investments in nonconsolidated affiliates due to the decline of future cash flows of such nonconsolidated affiliates that we judged to be other than temporary. This impairment is included in *Equity in net income of nonconsolidated affiliates* in our consolidated statement of operations.

The investments in nonconsolidated affiliates measured at fair value on a nonrecurring basis was as follows (in millions):

		Fair Value Measurements Using			
December 31, 2015	Net Carrying Value as of:	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Losses
Investment in nonconsolidated affiliates	$ 5.5	—	—	$ 5.5	$ 5.2

During 2013, we recorded $4.6 million of impairment to our investments in a nonconsolidated affiliates due to the decline of future cash flows of such nonconsolidated affiliates that we judged to be other than temporary. This impairment is included in *Equity in net income of nonconsolidated affiliates* .

The investment in nonconsolidated affiliates measured at fair value on a nonrecurring basis was as follows (in millions):

		Fair Value Measurements Using			
December 31, 2013	Net Carrying Value as of:	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Losses Year-ended:
Investment in nonconsolidated affiliates	$ 6.4	—	—	$ 6.4	$ 4.6

Also during 2013, we recorded an impairment charge of $1.5 million during 2013 for an investment in a nonconsolidated affiliate. In conjunction with the deconsolidation of this affiliate (as described in Note 2), we adjusted the investment to fair value. The fair value of the investment in the nonconsolidated affiliate was determined based on the estimated fair value using valuations techniques that included recent market transactions.

The investment in nonconsolidated affiliate measured at fair value on a nonrecurring basis wa s as follows (in millions):

June 30, 2013	Net Carrying Value as of:	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Losses Year-ended:
Investment in nonconsolidated affiliate	$ 2.9	—	—	$ 2.9	$ 1.5

The inputs used by the Company in estimating the value of Level 3 *Investment in nonconsolidated affiliates* above may include the market multiple of EBITDA, weighted average cost of capital ("WACC"), revenue growth rates and exit price. Assumptions used by the Company due to the lack of observable inputs may significantly impact the resulting fair value and therefore the Company's results of operations. The following table includes information regarding the significant unobservable input used in the estimation of Level 3 fair value measurement (in millions).

Level 3 Investment in nonconsolidated affiliates	Level 3 Assets as of December 31, 2015	Significant Unobservable Input	Range of Inputs
Market Approach	$ 5.5	Multiple of EBITDA	7.0x Multiple

Level 3 Investment in nonconsolidated affiliates	Level 3 Assets as of December 31, 2013	Significant Unobservable Inputs	Range of Inputs
Income Approach	$ 6.4	WACC	11.4% - 15%
		Revenue growth rates	0.0% - 3.0%

Level 3 Investment in nonconsolidated affiliate	Level 3 Assets as of June 30, 2013	Significant Unobservable Input	Range of Inputs
Market Approach	$ 2.9	Exit price [(a)]	$ 2.9

(a) The exit price was determined using the amount stated in a firm offer letter for the investment.

Impairment charges of $0.6 million were recorded during the years-ended December 31, 2015 and 2014 for intangible and long-lived assets. These impairments are recorded in *Impairment of intangible and long-lived assets* in the Company's consolidated statements of operations. Also, an impairment charge of $0.7 million was recorded during the year-ended December 31, 2014 for intangible and long-lived assets. This impairment is recorded in *Loss from discontinued operations, net of income tax expense* in the Company's consolidated statements of operations. A declining trend of earnings from operations at a facility and increased local competition resulted in the impairment charge recorded in 2014, as management determined its intent to sell or close the impacted facility. No impairment charges for intangible and long-lived assets were recorded during the year-ended December 31, 2013. The fair value of the impaired long-lived assets was determined based on the assets' estimated fair value using expected proceeds from the sale of the facility.

The following table presents the carrying amounts and estimated fair values of our financial instruments that are classified as long-term liabilities in our consolidated balance sheets (in thousands). The carrying value equals fair value for our financial instruments that are classified as current in our consolidated balance sheets. The carrying amounts of a portion of our long-term debt approximate fair value due to various characteristics of those issues, including short-term maturities, call features and rates that are reflective of current market rates. As the inputs are not observable, the fair values are in level 3 of the fair value hierarchy. For our long-term debt without such characteristics, we determine the fair market value by using quoted market prices, when available, or discounted cash flows to calculate their fair values. The fair values utilize inputs other than quoted prices in active markets, although the inputs are observable either directly or indirectly; accordingly, the fair values are in level 2 of the fair value hierarchy.

	As of December 31, 2015		As of December 31, 2014	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Interest rate swap agreements (includes short-term component)	$ 1,085	$ 1,085	$ 2,192	$ 2,192
Long-term debt:				
New Credit Facilities debt payable:				
Advances under $250 million New Revolving Credit Facility (excluding letters of credit issued thereunder)	$ 15,000	$ 14,803	$ —	$ —
New Term Loan due 2022	446,625	440,763	—	—
Old Credit Facilities debt payable:				
Advances under $132.3 million Class B Revolving Credit Facility	—	—	—	—
Class B Term Loan due 2017	—	—	212,224	206,786
Class C Term Loan due 2018	—	—	384,150	371,905
6.00% Senior Notes due 2023	250,000	243,125	—	—
Notes payable to banks and others	99,707	99,707	64,634	64,634
Financial commitments	$ —	$ —	$ —	$ —

NOTE 12 — EQUITY-BASED COMPENSATION

We have one active equity-based compensation plan, the 2013 Omnibus Long-Term Incentive Plan, and two legacy equity-based compensation plans, the Management Equity Incentive Plan and the Directors and Consultants Equity Incentive Plan, under which we are no longer issuing new awards (together, the "Plans"). The Plans provide or have provided for the granting of options to purchase our stock as well as RSUs to key teammates, directors, service providers, consultants and affiliates. We also made stand-alone grants (not under any Plan) of RSUs to an executive officer and three non-employee directors prior to our initial public offering.

Option awards are generally granted with an exercise price equal to at least the fair market value of the underlying share at the date of grant. Vesting in the option awards varies based upon time, attainment of certain performance conditions, or upon the occurrence of a Liquidity Event (as defined in the applicable Plan) in which the TPG Funds and/or any of its affiliates achieves a minimum cash return on its original investment. All existing RSU awards vest over time.

At December 31, 2015, 3,024,751 stock-based awards were outstanding (of which 2,944,351 are awards under the Plans) and 1,006,107 shares were available for future equity grants under the Plans.

In conjunction with our conversion to a Delaware corporation on October 30, 2013 (see Note 1), every 10.25 outstanding membership units of ASC Acquisition LLC were converted into one share of common stock of Surgical Care Affiliates, Inc., and options to purchase membership units of ASC Acquisition LLC were converted into options to purchase shares of common stock of Surgical Care Affiliates, Inc. at a ratio of 10.25 membership units of ASC Acquisition LLC underlying such options to each one share of common stock of Surgical Care Affiliates, Inc. underlying such converted options. In connection with the conversion, the exercise prices of such converted options were adjusted accordingly. In addition, every 10.25 outstanding restricted equity units of ASC Acquisition LLC were converted into one restricted stock unit of Surgical Care Affiliates, Inc. All information in this footnote is presented giving effect to the conversion.

On September 16, 2013, our Board of Directors accelerated the vesting of all performance-based options. This modification was a "probable-to-probable" modification under the authoritative guidance. As a result of the acceleration, the Company recognized $0.8 million of additional stock-based compensation expense in the year-ended December 31, 2013. The additional expense represents the incremental fair value as a result of the modification. As a result of the acceleration, no unvested performance-based options existed at December 31, 2013.

Also on September 16, 2013, our Board of Directors resolved to pay a cash bonus of $2.46 per vested option and adjust downward the exercise price of all unvested options by approximately $2.46 per unvested option. As such, the Company recorded additional compensation expense of $4.6 million during the year-ended December 31, 2013. We have recorded stock-based compensation expense over the remaining vesting periods related to the adjustment to unvested options. This modification was a "probable-to-probable" modification under the authoritative guidance. We will record $1.5 million of additional stock-based compensation expense over remaining vesting periods of the modified options.

Information pertaining to equity-based compensation was as follows (in thousands):

	YEAR-ENDED DECEMBER 31, 2015	YEAR-ENDED DECEMBER 31, 2014	YEAR-ENDED DECEMBER 31, 2013
Equity-based compensation expense	$ 8,519	$ 4,126	$ 2,724
Cash received from option exercises	6,652	3,887	453

As of December 31, 2015, the Company had total unrecognized compensation cost of approximately $24,124 related to non-vested awards, which the Company expects to recognize through 2019 and over a weighted-average period of 2.84 years.

Option Awards

A summary of option activity under the Plans are presented below:

	UNITS (IN 000'S)	WEIGHTED-AVERAGE EXERCISE PRICE	AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	AGGREGATE INTRINSIC VALUE
Outstanding, December 31, 2012	2,485	$ 10.52	5.6	$ 56,779
Granted	612	$ 13.05		
Exercised	(41)	$ 12.09		
Forfeitures	(49)	$ 11.51		
Expirations	—	n/a		
Outstanding, December 31, 2013	3,007	$ 11.42	5.57	$ 70,117
Granted	417	$ 29.46		
Exercised	(633)	$ 10.93		
Forfeitures	(74)	$ 16.16		
Expirations	(2)	$ 14.05		
Outstanding, December 31, 2014	2,715	$ 14.23	5.81	$ 52,488
Granted	352	$ 35.94		
Exercised	(611)	$ 11.08		
Forfeitures	(71)	$ 24.04		
Expirations	(2)	$ 10.25		
Outstanding, December 31, 2015	2,383	$ 17.97	6.38	$ 52,226
Exercisable, December 31, 2015	1,385	$ 12.68	5.02	37,689

The weighted average grant-date fair value per option of all options granted during the year-ended December 31, 2015 was $14.44. The weighted average grant-date fair value per option of all options granted during the year-ended December 31, 2014 was $11.88. The weighted-average grant-date fair value per option of all options granted during the year-ended December 31, 2013 was $6.68.

The fair value of each option award is estimated on the date of grant utilizing two methodologies. For time-based options, the Company estimates the fair value of the grant utilizing the Black-Scholes-Merton model that utilizes the assumptions shown in the table below. Expected volatilities are based on observed historical trends in the industry and other factors. The expected term of the options granted represents the period of time that options granted are expected to be outstanding. As historically the Company had limited activity surrounding its options, the expected term of options granted is derived using the "simplified method" which computes expected term as the average of the sum of the vesting term plus the contract term. The risk-free interest rate was based on the time horizon of the expected term and is based on the U.S. Treasury yield curve in effect at the time of the grant.

	YEAR-ENDED DECEMBER 31, 2015	YEAR-ENDED DECEMBER 31, 2014	YEAR-ENDED DECEMBER 31, 2013
Expected volatility	25% - 40%	40%	35% -40%
Risk-free interest rate	1.0% -1.88%	1.0% -1.35%	1.0% -1.35%
Expected term (years)	6.25	6.25	6.25
Dividend yield	0.00%	0.00%	0.00%

The fair value of the p erformance- b ased o ptions is based on the application of a Monte Carlo simulation model. Expected volatilities are based on observed historical trends in the industry and other factors. The expected term of the options granted is derived from the output of the option valuation model and represents the period of time that options granted are expected to be outstanding. The risk-free interest rate was based on the time horizon of the expected term and is based on the U.S. Treasury yield curve in effect at the time of the grant. On September 16, 2013, our Board of Directors accelerated the vesting of all performance-based options outstanding at that time. This modification was a "probable-to-probable" modification under the authoritative guidance. As a result of the acceleration, the Company recognized $0.8 million of additional stock-based compensation expense. The additional expense represents the incremental fair value as a result of the modification.

For the expected volatility assumption, an emphasis was placed on identifying comparable public companies that operate ambulatory surgery centers. The Company utilized comparable public company volatility rates to estimate the expected volatility. The Company used the exponentially weighted moving average volatility of the public companies identified, adjusted for changes in the capital structure (as described by ASC 718), for the derived expected term for the time-based options.

RSU Awards

A summary of activity associated with RSU awards is presented below:

	UNITS (IN 000'S)		GRANT DATE FAIR VALUE PER UNIT
Nonvested and Nonsettled RSUs at December 31, 2012	20	$	11.64
Granted	77	$	24.58
Vested and Released	—		n/a
Vested and Deferred	(17)		n/a
Forfeited	—		n/a
Nonvested and Nonsettled RSUs at December 31, 2013	80	$	24.58
Granted	318	$	29.55
Vested and Released	(17)	$	25.47
Vested and Deferred	(7)		n/a
Forfeited	(7)		31.24
Nonvested and Nonsettled RSUs at December 31, 2014	367	$	28.58
Granted	315	$	36.12
Vested and Released	(86)	$	28.67
Vested and Deferred	(9)		n/a
Forfeited	(33)		30.51
Nonvested and Nonsettled RSUs at December 31, 2015	554	$	32.95

	UNITS (IN 000'S)		GRANT DATE FAIR VALUE PER UNIT
Total RSUs at December 31, 2012	74	$	10.63
Granted	77	$	24.58
Vested and Released	—		n/a
Forfeited	—		n/a
Total RSUs at December 31, 2013	151	$	17.71
Granted	318	$	29.55
Vested and Released	(17)	$	25.47
Forfeited	(7)	$	31.24
Total RSUs at December 31, 2014	445	$	25.67
Granted	315	$	36.12
Vested and Released	(86)	$	28.67
Forfeited	(33)	$	30.51
Total RSUs at December 31, 2015	641	$	30.16

NOTE 13 — EMPLOYEE BENEFIT PLANS

SCA has certain employee benefit plans, including the following:

- Company sponsored healthcare plans, including coverage for medical and dental benefits;
- The Retirement Investment Plan, which is a qualified 401(k) savings plan;
- The Senior Management Bonus Program; and
- The Teammate Stock Purchase Plan.

Substantially all teammates are eligible to enroll in the SCA's sponsored healthcare plans, including coverage for medical and dental benefits. Our primary healthcare plans are national plans administered by third-party administrators, for which we are self-insured. The cost associated with these plans, net of amounts paid by teammates, was approximately $21.9 million, $23.3 million and $20.5 million for the years-ended December 31, 2015, 2014 and 2013, respectively.

The Retirement Investment Plan is a qualified 401(k) savings plan. The plan allows eligible teammates to contribute up to 100% of their pay on a pre-tax basis into their individual retirement account in the plan, subject to the maximum annual limits set by the IRS. SCA's employer matching contribution is 50% of the first 4% of each participant's elective deferrals. All contributions to the plan are in the form of cash. Substantially all teammates who are at least 21 years of age are eligible to participate in the plan. Employer contributions vest over a six-year service period. Participants are immediately fully vested in their own contributions. Employer contributions made to the Retirement Investment Plan approximated $3.4 million, $2.7 million and $2.9 million during the years-ended December 31, 2015, 2014 and 2013, respectively.

SCA has a Senior Management Bonus Program designed to reward senior management for performance, based on a combination of corporate, regional and individual goals. The corporate goals are based upon the Company meeting a pre-determined financial goal. Similarly, regional goals, if any, are based upon a pre-determined set of financial goals for the applicable region. Individual goals are initially proposed by each participant in consultation with his or her immediate supervisor and, with respect to our executive officers, are then approved by our Compensation Committee. We recorded expense of approximately $13.6 million, $9.0 million and $8.5 million under the Senior Management Bonus Program for the years-ended December 31, 2015, 2014 and 2013, respectively.

The Company's Teammate Stock Purchase Plan (the "TSPP") enables eligible teammates to purchase shares of the Company's common stock through payroll deductions or other permitted means. As determined by the Company's Compensation Committee, the purchase price for shares offered under the TSPP ranges during any particular offering period from 85% to 100% of the closing price of the Company's common stock on the purchase date at the end of such period. The Company recognizes the fair value of the discount associated with shares purchased in *Salaries and benefits* expense on the consolidated statements of operations. The Company's Board of Directors has authorized 500,000 shares of the Company's common stock to be issued under the TSPP. During the year-ended December 31, 2015, the Company issued 38,858 shares under the TSPP and received cash totaling $1.3 million.

NOTE 14 — INCOME TAXES

The Company is subject to U.S. federal, state and local income taxes. The *Income from continuing operations before income tax expense* is as follows:

	YEAR-ENDED DECEMBER 31, 2015	YEAR-ENDED DECEMBER 31, 2014	YEAR-ENDED DECEMBER 31, 2013
Income from continuing operations before income taxes	$ 189,631	$ 175,943	$ 76,248

The significant components of the (benefit) provision for income taxes related to continuing operations are as follows:

	YEAR-ENDED DECEMBER 31, 2015	YEAR-ENDED DECEMBER 31, 2014	YEAR-ENDED DECEMBER 31, 2013
Current:			
Federal	$ —	$ (6)	$ 200
State and local	1,408	846	610
Total current expense	1,408	840	810
Deferred:			
Federal	(67,428)	6,916	9,217
State and local	(18,758)	1,683	2,293
Total deferred (benefit) expense	(86,186)	8,599	11,510
Total income tax (benefit) expense related to continuing operations	$ (84,778)	$ 9,439	$ 12,320

Through the period ended June 30, 2015, the Company had a full valuation allowance recorded against its net deferred tax assets, except for the portion of its deferred tax differences related to goodwill, an asset considered to be an indefinite-lived intangible. The Company's assessment of whether a full valuation allowance is appropriate includes review of operating performance, the scheduled reversal of temporary differences and our forecast of taxable income in future periods. Based on management's review of these factors as of the third quarter 2015, we determined that there was sufficient positive evidence to support the release of a significant portion of the valuation allowance. This conclusion was reached in the third quarter as a result of the Company achieving three year cumulative pre-tax earnings for consecutive reporting periods. Additionally, the Company maintains consistent projections which indicate that it is more likely than not that sufficient taxable income will be generated to utilize a significant portion of the Company's deferred tax assets in future years.

The $84.8 million income tax benefit for the year-ended December 31, 2015 includes the third quarter release of the valuation allowance that was recorded through the period ended June 30, 2015, net of $23.9 million of valuation allowance retained and tax expense recorded for current year earnings. The $23.9 million valuation allowance retained is attributable to deferred tax assets recorded for capital loss carryforwards not anticipated to be utilized prior to expiration. We continue to closely monitor actual and forecasted earnings and, if there is a change in management's assessment of the amount of deferred income tax assets that is realizable, adjustments to the valuation allowance will be made in future periods.

The provision for income tax expense for the year-ended December 31, 2014 was reflective of a full valuation allowance. Accordingly, the majority of tax expense for that period was due to the amortization of goodwill that is not amortized for book purposes, as well as write-offs of book and tax goodwill.

A reconciliation of differences between the federal income tax at statutory rates and our actual income tax expense on income from continuing operations, which include federal, state and other income taxes, is as follows:

	YEAR-ENDED DECEMBER 31, 2015	YEAR-ENDED DECEMBER 31, 2014	YEAR-ENDED DECEMBER 31, 2013
Tax expense at statutory rate	35.0%	35.0%	35.0%
Increase (decrease) in tax rate resulting from:			
Federal income tax assumed by noncontrolling interests	(29.2)	(24.9)	(48.6)
Change in valuation allowance	(51.9)	(6.6)	27.4
State income taxes, net of federal tax benefit	1.3	1.8	(1.5)
Non-deductible stock issuance costs	—	—	3.7
Other, net	0.1	0.1	0.2
Effective tax rate	(44.7)%	5.4%	16.2%

The income tax expense at the statutory rate is the expected income tax expense resulting from the income from continuing operations. Income tax expense, subsequent to the removal of tax expense related to noncontrolling interest income, varies from the statutory rate for the year-ended December 31, 2015 due to the release of a significant portion of the valuation allowance recorded against net deferred tax assets. Income tax expense varies for the year-ended December 31, 2014 and 2013, due to the company recording a full valuation allowance against its net deferred tax assets, whereby tax expense was attributable to the tax amortization of goodwill, an indefinite-lived intangible, as well as write-offs of book and tax goodwill.

Deferred income taxes recognize the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for income tax purposes and the impact of available net operating loss ("NOL") carryforwards. The significant components of the Company's deferred tax assets and liabilities are as follows:

		AS OF DECEMBER 31,	
		2015	2014
Deferred income tax assets:			
Net operating loss		89,374	106,504
Capital loss		24,496	33,524
Accrued liabilities		9,064	6,599
Goodwill		4,296	698
Other		3,356	2,054
Total deferred income tax assets		130,586	149,379
Deferred income tax liabilities:			
Investment in partnerships		(148,442)	(114,438)
Valuation allowance		(23,917)	(163,528)
Other		(2,566)	(2,433)
Total deferred income tax liabilities		(174,925)	(280,399)
Total deferred income tax liability	$	(44,339)	$ (131,020)

Presentation of the Company's deferred tax items has changed subsequent to the filing of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014. In November 2015, the FASB issued ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes* . This standard requires the presentation of deferred tax assets (DTAs) and deferred tax liabilities (DTLs) as noncurrent on a classified balance sheet. The current guidance requires entities to separately present DTAs and DTLs as current and noncurrent in a classified balance sheet. ASU 2015-17 is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted, and we have chosen to adopt this ASU as of December 31, 2015. With the early adoption of ASU 2015-17, the Company has revised its December 31, 2014 balance sheet, reflecting the $0.8 million current DTL and $130.2 million non-current DTL, as a $131.0 million non-current DTL. Also effective December 31, 2015, the Company has chosen to reflect in its disclosure of the components of deferred tax assets and liabilities, the deferred tax liability related to investments in partnerships as a single line item. It is the company's position that, subsequent to the September 30, 2015 release of the tax valuation allowance, this presentation more appropriately reflects the Company's tax position with respect to its largest deferred tax item.

For the years-ended December 31, 2015 and December 31, 2014, the net decreases in our valuation allowance were $139.6 million and $2.6 million, respectively. The decrease in our valuation allowance in 2015 relates primarily to the release of a substantial portion of the allowance, due to our assessment that there is sufficient positive evidence that we will realize our deferred tax assets in the future. The decrease in 2015 also included the impact of the expiration of capital losses as of December 31, 2015. The decrease in the valuation allowance in 2014 relates primarily to the reduction of the deferred tax asset attributable to NOLs. For the year-ended December 31, 2013, the net $14.3 million increase in the valuation relates primarily to the increase in the deferred tax asset attributable to NOLs and capital losses. The Company anticipates that the valuation allowance will decrease by approximately $4.5 million in the next 12 months due to the expiration of capital losses.

Changes to the Company's deferred tax valuation allowance are as follows:

	YEAR-ENDED DECEMBER 31, 2015		YEAR-ENDED DECEMBER 31, 2014		YEAR-ENDED DECEMBER 31, 2013	
Balance at beginning of period	$	163,528	$	166,145	$	151,819
Additions: Charged to costs and expenses		—		—		14,326
Deductions		(139,611)		(2,617)		—
Balance at end of period	$	23,917	$	163,528	$	166,145

At December 31, 2015 we had federal NOLs of $77.0 million ($223.5 million on a gross basis) and state NOLs of $12.4 million. The federal NOLs expire in various amounts at varying times beginning in 2027. During 2015, the Company released the valuation allowance previously maintained against the deferred tax asset attributable to NOLs. The release was based on the Company's forecast of taxable income in future periods sufficient to utilize the NOLs, as well as the assessment that the limitations imposed by Internal Revenue Code Section 382 should not restrict our ability to use the federal NOLs before they expire.

The deferred tax asset for the NOL carryfoward as of December 31, 2015 excludes $9.4 milli on for loss carryforwards resulting from excess tax benefits attributable to share-based awards, the tax benefits of which when recognized, will be accounted for as a credit to additional paid-in capital when they reduce income taxes payable.

The Company had no tax liability for uncertain tax positions as of December 31, 2015 or December 31, 2014. Our continuing practice is to recognize interest and penalties related to income tax matters in income tax expense. Interest recorded as part of our income tax provision during 2015, 2014, and 2013 was not material. Accrued interest income related to income taxes as of December 31, 2015 and 2014 was not material.

NOTE 15 — ASSETS AND LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATIONS

We have closed or sold certain facilities that qualify for reporting as discontinued operations. The assets and liabilities associated with these facilities are reflected in the accompanying consolidated balance sheets as of December 31, 2015 and December 31, 2014 as *Current assets related to discontinued operations, Assets related to discontinued operations, Current liabilities related to discontinued operations* and *Liabilities related to discontinued operations*. Additionally, the accompanying consolidated statements of operations and cash flows reflect the loss, net of income tax expense, and the net cash (used in) provided by operating, investing and financing activities, respectively, associated with these facilities as discontinued operations.

The operating results of discontinued operations are as follows:

	YEAR-ENDED DECEMBER 31, 2015	YEAR-ENDED DECEMBER 31, 2014	YEAR-ENDED DECEMBER 31, 2013
Net operating revenues	$ 4,029	$ 15,507	$ 20,449
Costs and expenses	(7,143)	(18,690)	(23,349)
Gain (loss) on sale of investments	1,891	294	(2,493)
Impairments	—	(700)	—
Loss from discontinued operations	(1,223)	(3,589)	(5,393)
Income tax benefit (expense)	439	(5,766)	(3,937)
Net loss from discontinued operations	$ (784)	$ (9,355)	$ (9,330)

The assets and liabilities related to discontinued operations consist of the following:

	DECEMBER 31, 2015	DECEMBER 31, 2014
Assets		
Current assets		
Accounts receivable, net	$ —	$ 1,788
Other current assets	19	171
Total current assets	19	1,959
Property and equipment, net	59	9,153
Other long term assets	—	191
Total assets	$ 78	$ 11,303
Liabilities		
Current liabilities		
Accounts payable and other current liabilities	$ 368	$ 2,280
Total current liabilities	368	2,280
Other long-term liabilities	28	683
Total liabilities	$ 396	$ 2,963

We have one property that qualifies for reporting as held for sale that does not also qualify for reporting as discontinued operations. Management has committed to selling this property, and an active program to locate a buyer is underway. We expect that the sale of this property will be completed within twelve months. The assets and liabilities associated with this property are reflected in the accompanying consolidated balance sheets as of December 31, 2015 as *Assets held for sale and Current liabilities held for sale*. There were no assets or liabilities held for sale that were not also discontinued operations as of December 31, 2014.

Assets and liabilities held for sale consisted of the following:

	DECEMBER 31, 2015
Assets	
Current assets	
Accounts receivable, net and other current assets	$ —
Total current assets	—
Property and equipment, net	408
Other long term assets	—
Total assets	$ 408
Liabilities	
Current liabilities	
Accounts payable and other current liabilities	$ 26
Total current liabilities	26
Other long-term liabilities	—
Total liabilities	$ 26

NOTE 16 — RELATED PARTY TRANSACTIONS

TPG Capital BD, LLC, an affiliate of TPG, served as an arranger in connection with the New Credit Agreement and was paid an arrangement fee in the amount of approximately $0.2 million during the three-months ended March 31, 2015. TPG Capital BD, LLC also served as an initial purchaser in connection with our offering of the Senior Notes, which resulted in an aggregate gross spread to TPG Capital BD, LLC of approximately $0.2 million. In addition, TPG Capital BD, LLC participated in the underwriting of the shares of our common stock that were offered and sold by the Selling Stockholders in March 2015 on the same terms as other underwriters in the offering, which resulted in an aggregate underwriting discount to TPG Capital BD, LLC of approximately $0.4 million that was paid by the Selling Stockholders.

The Company paid management fees to TPG Capital Management, L.P., an affiliate of TPG Global LLC and its affiliates ("TPG"), our majority owner, of $1.5 million during the year-ended December 31, 2013. Following the completion of our initial public offering ("IPO") (see Note 1), the Company no longer pays management fees to TPG, and the related management services agreement has been terminated.

In conjunction with the completion of our IPO, TPG received a fee payable under our management services agreement in an amount equal to $8.0 million. This fee was paid during the fourth quarter of 2013 and recorded in *Other operating expenses* in the accompanying consolidated statement of operations.

Also in connection with the IPO, we entered into a registration rights agreement with the TPG Funds and certain members of our management and of our Board of Directors (the "Registration Rights Agreement"), which provides the TPG Funds with certain demand registration rights, including shelf registration rights, in respect of any shares of our common stock held by them, subject to certain conditions and limitations. The TPG Funds are entitled to an unlimited number of demand registrations, upon written notice.

In connection with the entry into the Amended Credit Agreement related to the Old Credit Facilities on May 8, 2013, TPG Capital BD, LLC, an affiliate of TPG, served as an arranger for purposes of the amendment and was paid an arrangement fee in the amount of $0.5 million during the year-ended December 31, 2013. In addition, TPG Capital BD, LLC participated as an underwriter underwriting the shares of our common stock in connection with our initial public offering of common stock and was paid an underwriting discount of approximately $0.7 million by us and the selling stockholders.

Certain directors of the Company have received options to purchase shares of the Company under the Directors Plan as part of their compensation for service on the Company's Board and for consulting services provided to the Company. Total expense recognized by the Company related to these options was immaterial for the years-ended December 31, 2015, 2014 and 2013.

NOTE 17 — COMMITMENTS AND CONTINGENT LIABILITIES

Legal Proceedings

The Company provides services in a highly regulated industry and is subject to various legal actions and regulatory and other governmental and internal audits and investigations from time to time. As a result, we expect that various lawsuits, claims and legal and regulatory proceedings may be instituted or asserted against us, including, without limitation, employment-related claims and medical negligence claims. Additionally, governmental agencies often possess a great deal of discretion to assess a wide range of monetary penalties and fines. We record accruals for contingencies to the extent that we conclude that it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. No estimate of the possible loss or range of loss in excess of amounts accrued, if any, can be made at this time regarding the matters specifically described below because the inherently unpredictable nature of legal proceedings may be exacerbated by various factors, including, but not limited to: (i) the damages sought in the proceedings are unsubstantiated or indeterminate; (ii) discovery is not complete; (iii) the proceeding is in its early stages; (iv) the matters present legal uncertainties; (v) there are significant facts in dispute; (vi) there are a large number of parties (including where it is uncertain how liability, if any, will be shared among multiple defendants); or (vii) there is a wide range of potential outcomes. The outcome of any current or future litigation or governmental or internal investigations, cannot be accurately predicted, nor can we predict any resulting penalties, fines or other sanctions that may be imposed at the discretion of federal or state regulatory authorities. Nevertheless, it is reasonably possible that any such penalties, fines or other sanctions could be substantial, and the outcome of these matters may have a material adverse effect on our results of operations, financial position and cash flows and may affect our reputation.

Risk Insurance

Risk insurance for SCA and most of our facilities is provided through SCA's risk insurance program. We insure our professional liability, general liability and workers' compensation risks through commercial insurance plans placed with unrelated carriers.

Provisions for these risks are based upon market driven premiums and actuarially determined estimates for incurred but not reported exposure under claims made policies. Provisions for losses within the policy deductibles represent the estimated ultimate net cost of all reported and unreported losses incurred through the consolidated balance sheet dates. Those estimates are subject to the effects of trends in loss severity and frequency. While we believe that the provisions for losses are adequate, we cannot be sure that the ultimate costs will not exceed our estimates.

Reserves for incurred but not reported professional and general liability risks were approximately \$7.8 million and \$6.4 million at December 31, 2015 and December 31, 2014, and are included in *Other long-term liabilities* in the consolidated balance sheets. Expenses related to professional and general liability risks were \$6.0 million, \$4.3 million and \$4.5 million for the years-ended December 31, 2015, 2014 and 2013, respectively, and are classified in *Other operating expenses* in our consolidated statements of operations. Expenses associated with workers' compensation were \$2.6 million, \$2.0 million and \$2.1 million for the years-ended December 31, 2015, 2014 and 2013, respectively, and are classified in *Salaries and benefits* in our consolidated statements of operations.

Leases

We lease certain land, buildings and equipment under non-cancelable operating leases expiring at various dates through 2034. We also lease certain buildings and equipment under capital leases expiring at various dates through 2033. Operating leases generally have 3 to 20 year terms with one or more renewal options and with terms to be negotiated at the time of renewal.

NOTE 18 — SUBSEQUENT EVENTS

Effective January 1, 2016, an indirect wholly-owned subsidiary of SCA purchased a 60.0% controlling interest in Southwest Surgery Center, LLC, which owns and operates an ASC in Mokena, Illinois ("Mokena ASC"), for total consideration of \$30.0 million. This ASC is a consolidated facility. In addition, SCA also purchased, through another indirect wholly-owned subsidiary, Mokena ASC's real estate from Southwest Surgery Center, LLC for \$17.0 million.

Effective January 21, 2016, an indirect wholly-owned subsidiary of SCA purchased a 51.0% controlling interest in Winchester Endoscopy, LLC, which owns and operates an ASC in Libertyville, Illinois, for total consideration of \$15.3 million. This ASC is a consolidated facility.

NOTE 19 — CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY

Surgical Care Affiliates has no material assets or standalone operations other than its ownership in SCA and its subsidiaries.

There are significant restrictions on the Surgical Care Affiliates' ability to obtain funds from any of its subsidiaries through dividends, loans or advances. Accordingly, these condensed financial statements have been presented on a "Parent-only" basis. Under a Parent-only presentation, the Company's investments in its consolidated subsidiaries are presented under the equity method of accounting. These Parent-only financial statements should be read in conjunction with the Company's Consolidated Financial Statements.

The following tables present the financial position of Surgical Care Affiliates as of December 31, 2015 and 2014 and the results of its operations and cash flows for the years-ended December 31, 2015, 2014 and 2013.

Surgical Care Affiliates, Inc.
Condensed Balance Sheets
(In thousands)

	DECEMBER 31, 2015	DECEMBER 31, 2014
Assets		
Cash and cash equivalents	$ 162	$ 162
Due from SCA	706,126	—
Investment in SCA	382,261	243,339
Total assets	$ 1,088,549	$ 243,501
Liabilities		
Advances under $250 million New Revolving Credit Facility (excluding letters of credit issued thereunder)	$ 15,000	$ —
New Term Loan Facility due 2022	446,625	—
Discount of New Term Loan due 2022	(1,372)	—
6.00% Senior Notes due 2023	250,000	—
Discount of Senior Notes due 2023	(3,965)	—
Due to SCA	—	162
Total liabilities	706,288	162
Equity		
Common stock	397	386
Additional paid in capital	442,678	419,088
Contributed capital	—	—
Accumulated deficit	(60,814)	(176,135)
Total equity	382,261	243,339
Total liabilities and equity	$ 1,088,549	$ 243,501

ATTACHMENT 6

Surgical Care Affiliates, Inc.
Condensed Statements of Comprehensive Income
(In thousands, except per share data)

	YEAR-ENDED DECEMBER 31, 2015	YEAR-ENDED DECEMBER 31, 2014	YEAR-ENDED DECEMBER 31, 2013
Equity in net income (loss) of SCA	$ 123,840	$ 36,137	$ (48,620)
Stock compensation expense	8,519	4,126	2,724
Other expenses	—	31	—
Income (loss) before income taxes	115,321	31,980	(51,344)
Provision for income taxes	—	—	—
Net income (loss)	115,321	31,980	(51,344)
Equity in comprehensive income of SCA	—	—	8,327
Comprehensive income (loss)	$ 115,321	$ 31,980	$ (43,017)
Basic net income (loss) per share	$ 2.93	$ 0.83	$ (1.62)
Basic average shares outstanding	39,360	38,477	31,688
Diluted net income (loss) per share	$ 2.83	$ 0.80	$ (1.62)
Diluted average shares outstanding	40,734	39,958	31,688

Surgical Care Affiliates, Inc.
Condensed Statements of Cash Flows
(In thousands)

	YEAR-ENDED DECEMBER 31, 2015	YEAR-ENDED DECEMBER 31, 2014	YEAR-ENDED DECEMBER 31, 2013
Net income (loss)	$ 115,321	$ 31,980	$ (51,344)
Adjustment to reconcile net loss to net cash from operating activities			
Equity in net (income) loss of SCA	(123,840)	(36,137)	48,620
Stock compensation expense	8,519	4,126	2,724
Net cash from operating activities	—	(31)	—
Investing activities:			
Increase in due from SCA	(706,126)	—	—
Investment in SCA	—	(16,000)	(160,793)
Distributions from SCA	—	—	74,900
Net cash used in investing activities	(706,126)	(16,000)	(85,893)
Financing activities:			
Borrowings under line of credit arrangements and long-term debt, net of issuance costs	709,500	—	—
Principal payments on line of credit arrangements and long-term debt	(3,374)		
Proceeds from issuance of shares pursuant to IPO	—	—	176,786
Distributions to unitholders	—	—	(74,900)
Net cash provided by financing activities	706,126	—	101,886
Net change in cash and cash equivalents	—	(16,031)	15,993
Cash and cash equivalents at beginning of period	162	16,193	200
Cash and cash equivalents at end of period	$ 162	$ 162	$ 16,193
Supplemental schedule of noncash investing and financing activities			
IPO fees paid by SCA	$ —	$ —	$ 4,909

Quarterly Statement of Earnings Data (Unaudited)

The following table presents certain quarterly statement of earnings data for the years ended December 31, 2015 and 2014. The quarterly statement of earnings data set forth below was derived from our unaudited financial statements and includes all adjustments, consisting of normal recurring adjustments, which we consider necessary for a fair presentation thereof. Results of operations for any particular quarter are not necessarily indicative of results of operations for a full year or predictive of future periods.

	2015				2014			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	(In thousands, except per share data)							
Net operating revenues	$234,091	$253,686	$257,787	$305,926	$192,651	$208,720	$216,196	$247,169
Income from continuing operations before income taxes	26,568	47,949	51,470	63,644	24,756	38,562	46,341	66,284
Income from continuing operations	22,755	43,682	156,086	51,886	23,007	37,197	43,511	62,789
Gain (loss) from discontinued operations, net of income tax	(1,470)	(172)	983	(125)	163	(2,716)	(5,052)	(1,750)
Net income	21,285	43,510	157,069	51,761	23,170	34,481	38,459	61,039
Less: Net income attributable to noncontrolling interests	(30,451)	(38,950)	(38,430)	(50,473)	(22,936)	(28,452)	(30,627)	(43,154)
Net income (loss) attributable to Surgical Care Affiliates	$ (9,166)	$ 4,560	$118,639	$ 1,288	$ 234	$ 6,029	$ 7,832	$ 17,885
Basic net earnings (loss) from continuing operations per common share	$ (0.20)	$ 0.12	$ 2.97	$ 0.04	$ 0.00	$ 0.23	$ 0.33	$ 0.51
Basic net income (loss) per common share	$ (0.24)	$ 0.12	$ 3.00	$ 0.03	$ 0.01	$ 0.16	$ 0.20	$ 0.46
Diluted net earnings (loss) from continuing operations per common share	$ (0.20)	$ 0.11	$ 2.88	$ 0.03	$ 0.00	$ 0.22	$ 0.32	$ 0.49
Diluted net earnings (loss) per common share	$ (0.24)	$ 0.11	$ 2.90	$ 0.03	$ 0.01	$ 0.15	$ 0.20	$ 0.45

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2015. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act of 1934, as amended (the "Exchange Act"), means controls and other procedures of a company that are designed to provide reasonable assurance that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of December 31, 2015, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Management's Annual Report on Internal Control Over Financial Reporting

Management of Surgical Care Affiliates, Inc. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) and Rule 15d-15(f) of the Securities Exchange Act of 1934, as amended. The Company's internal control over financial reporting is defined as a process designed by, or under the supervision of, the issuer's principal executive and principal financial officers, or persons performing similar functions, and effected by the issuer's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and disposition of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded

Attachment 7

Section 1130.520, Information Requirements for Change of Ownership of a Health Care Facility

1. **Affirmations**: In accordance with 77 Ill. Adm. Code §1130.520, the Applicants affirm the following:

    a. The transaction documents will contain a provision that closing is subject to the Review Board's approval;

    b. No adverse action has been taken against any of the Applicants by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois against any health care facility owned or operated by any of the Applicants, directly or indirectly, within the past three years;

    c. Any projects for which permits have been issued have been completed or will be completed or altered in accordance with the provisions of 77 Ill. Adm. Code §1130.520; and

    d. The Applicants understand that failure to complete the project in accordance with the applicable provisions of Section 1130.500(d) no later than 24 months from the date of exemption approval and failure to comply with the material change requirements of this Section will invalidate the exemption.

2. **Statement as to the anticipated benefits of the proposed changes in ownership to the community.**

    By partnering with Advocate-SCA Partners, LLC ("Advocate-SCA"), Midwest Center for Day Surgery, LLC ("Midwest") will have a strategic opportunity to lower operating costs and increase efficiency thereby providing more efficient cost effective care to its patients.

    In connection with the proposed transaction, Surgical Care Affiliates, LLC ("SCA") will provide administrative services to Midwest under a management agreement. SCA is a leading developer of ambulatory surgical centers nationwide. Based on this affiliation, Midwest will have an opportunity to enhance the quality of care due to implementation of SCA's performance improvement programs, quality metrics, and capacity to contract lower costs with suppliers. SCA offers a comprehensive suite of services that alleviates the administrative burden on physicians, which allows them to focus on providing quality patient care.

3. **Statement as to the anticipated or potential cost savings, if any, that will result for the community and the facility as a result of the change in ownership.**

Alignment with Advocate-SCA will likely result in cost savings to Midwest as SCA identifies inefficiencies within ambulatory surgical centers with which it works. Achieving such cost savings is consistent with the Illinois Health Facilities Planning Act, which encourages health care facilities to maximize the use of scarce health care dollars. Cost savings that are realized will be directed towards patient care and other activities that are beneficial to Midwest's patients.

SCA's experience with managing and/or owning surgery centers nationwide allows it to create efficiencies by benchmarking cost-per-case performance for each facility. Typically, when managing newly acquired facilities, SCA is able to reduce costs by up to twenty percent (20%) using its benchmarking experience, particularly by optimizing the supplies and products used in each procedure to reflect best in class approaches and leveraging SCA's scale of purchasing power to contract for lower costs with suppliers. However, all patient treatment decisions are made strictly by the patient's physician and any cost reductions are only implemented when they will simultaneously ensure excellent patient outcomes.

4. **Description of the facility's quality improvement program mechanism that will be utilized to assure quality control.**

As a part of its administrative services, SCA will monitor Midwest's performance against several quality metrics. These metrics include frequency of patient burns, patient falls, transfer or admissions to hospitals, wrong site, medication events, sentinel events, and responses to patient satisfaction surveys. These metrics are benchmarked against similar surgery centers within SCA's network of ambulatory surgical centers.

A dedicated, independent team of clinicians within SCA will monitor the performance of Midwest against these metrics, as well as other quality initiatives. As necessary, the clinicians will provide consulting and support, training and education, clinical education, and other services to ensure high quality.

5. **Description of the applicant's organizational structure, including a listing of controlling or subsidiary persons.**

Midwest is currently owned (51%) by multiple physicians and (49%) by Evangelical Services Corp., an Illinois corporation, which is a wholly-owned subsidiary of Advocate Health Care Network.

The proposed transaction will result in the transfer of 51% of the ownership interests of Midwest to Advocate-SCA and the retention of 49% of the ownership interests of Midwest by various physician owners.

Under the Review Board's definitions, Advocate-SCA will have control of Midwest and SCA, Inc. will have ultimate control of Advocate-SCA.

Diagrams illustrating the ownership structure of these entities, both current and post-transaction, are provided in Attachment 3.

6. **Description of the selection process that the acquiring entity will use to select the facility's governing body.**

As currently contemplated, following the proposed transaction, Midwest's members will enter into an amended and restated operating agreement ("Operating Agreement").

The business and affairs of Midwest will be managed by a board of seven (7) managers ("Board of Managers"). Four (4) of the managers will be appointed by Advocate-SCA and the remaining three (3) managers on the Board of Managers will be appointed by the physician owners.

Managers are not required to be a resident of any particular state. The managers shall only act collectively as the Board of Managers and no individual manager shall have the right or authority to act independently on behalf of Midwest unless prior approval or authorization has been given by the Board of Managers.

7. **<u>Statement that the applicant has prepared a written response addressing the review criteria contained in 77 Ill. Adm. Code 1110.240 and that the response is available for public review on the premises of the health care facility</u>.**

The Applicants have or will prepare a written response addressing the review criteria contained in 77 Ill. Adm. Code 1110.240 that will be available for public review on the premises of the facility.

8. **<u>Description or summary of any proposed changes to the scope of services or levels of care currently provided at the facility that are anticipated to occur within twenty-four (24) months after acquisition</u>.**

There are no proposed changes to the scope of services or levels of care currently provided at the facility that are anticipated to occur within twenty-four (24) months after the change of ownership.