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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 Winchester Endoscopy, LLC
Address 1870 W. Winchester Road, Suite 146
City Libertyville Zip Code 60048 County Lake County
Name of current licensed entity for the facility Winchester Endoscopy, 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. Daniel Duffy
State Senate District Number 26 Mailing address of the State Senator
111 North Avenue, Suite 211, Barrington, IL 60010
Illinois State Representative for the district where the facility is located: Rep. Ed Sullivan
State Representative District Number 51 Mailing address of the State Representative
700 North Lake Street, Suite 100, Mundelein, Illinois 60060

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 X No □. If yes, refer to Section 1130.520(f), and indicate the projects by Project # 14-025

3. NAME OF APPLICANT (complete this information for each co-applicant and insert after this page).
Exact Legal Name of Applicant SCA-Winchester, 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 Winchester Endoscopy, LLC
Address 1870 W. Winchester Road, Suite 146
City, State & Zip Code Libertyville, Illinois 60048
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 Winchester Medical Building, Ltd.
Address 1880 W. Winchester Road, Suite 201
City, State & Zip Code Libertyville, Illinois 60048
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
____ Limited Liability Company ____ Other, specify ____

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 ____________________
Address ____________________
City ____________ Zip Code ________ County ____________
Name of current licensed entity for the facility ____________________
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________ Not-for-Profit Corporation ________ For Profit Corporation ________ Partnership ________ Governmental
________ Limited Liability Company ________ Other, specify ____________________
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 ____________

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 SC 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
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 ____________________
Address ____________________
City, State & Zip Code ____________________
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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Exact Legal Name of Entity That Will Own the Site ____________________
Address ____________________
City, State & Zip Code ____________________
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 HEALTH FACILITIES AND SERVICES REVIEW BOARD
APPLICATION FOR EXEMPTION FOR THE
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1. INFORMATION FOR EXISTING FACILITY

Current Facility Name ______________________________
Address ______________________________
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_______ Not-for-Profit Corporation _______ For Profit Corporation _______ Partnership _______ Governmental
_______ Limited Liability Company _______ Other, specify ______________
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 ______________
____

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 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
__X__ Limited Liability Company _______ Other, specify ______________

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Exact Legal Name of Entity to be Licensed ______________________________
Address ______________________________
City, State & Zip Code ______________________________
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Exact Legal Name of Entity That Will Own the Site ______________________________
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City, State & Zip Code ______________________________
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_____ Not-for-Profit Corporation _______ For Profit Corporation _______ Partnership ______ Governmental
_______ Limited Liability Company _______ Other, specify ______________

ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD
APPLICATION FOR EXEMPTION FOR THE
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________ Not-for-Profit Corporation ________ For Profit Corporation ________ Partnership ________ Governmental
________ Limited Liability Company ________ Other, specify ____________
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 ____________

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 # ____________

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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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Exact Legal Name of Entity to be Licensed ____________
Address ____________
City, State & Zip Code ____________
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Address ____________
City, State & Zip Code ____________
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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

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______ Limited Liability Company ______ Other, specify ______
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 ______

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).
<u>Exact</u> Legal Name of Applicant Winchester Endoscopy, LLC
Address 1870 W. Winchester Road, Suite 146
City, State & Zip Code Libertyville, IL 60048
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.

<u>Exact</u> Legal Name of Entity to be Licensed ______
Address ______
City, State & Zip Code ______
Type of ownership of the current licensed entity (check one of the following:) ______ Sole Proprietorship
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<u>Exact</u> Legal Name of Entity That Will Own the Site ______
Address ______
City, State & Zip Code ______
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:** $ 21,477,956 for a fifty-one (51%) ownership interest in Winchester Endoscopy, LLC

10. **FAIR MARKET VALUE OF THE FACILITY:** $ 42,100,000
    (to determine fair market value, refer to 77 IAC 1130.140)

11. **DATE OF PROPOSED TRANSACTION:** December 1, 2015

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 ______

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 Plaza, Suite 1200
City, State & Zip Code: Chicago, IL 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
Kara Freidman, Polsinelli, 161 N. Clark Street, Suite 4200, Chicago, IL 60601

18. **CERTIFICATION** SCA-Winchester, 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 and Corporate Secretary

Address: 569 Brookwood Village, Suite 901

City, State & Zip Code: Birmingham, AL 35209

Telephone (205) 545-2572 Date: 9/15/15

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

THE STATE OF Alabama
COUNTY OF Jefferson

On this 15th day of September 2015, 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

KINESHIA RONAY COLLINS
My Commission Expires
September 22, 2018

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** SC Affiliates, 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 and Corporate Secretary

Address: 569 Brookwood Village, Suite 901

City, State & Zip Code: Birmingham, AL 35209

Telephone (205) 545-2572 Date: 9/15/15

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

THE STATE OF Alabama

COUNTY OF Jefferson

On this 15th day of September, 2015, 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

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, 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 [signature]

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

Title of Authorized Officer: Executive Vice President and Corporate Secretary

Address: 569 Brookwood Village, Suite 901

City, State & Zip Code: Birmingham, AL 35209

Telephone (205) 545-2572 Date: 9/15/15

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

THE STATE OF Alabama
COUNTY OF Jefferson

On this 15th day of September, 2015, 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.

[signature]
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

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: 569 Brookwood Village, Suite 901

City, State & Zip Code: Birmingham, AL 35209

Telephone (205) 545-2572 Date: 9/15/15

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

THE STATE OF Alabama
COUNTY OF Jefferson

On this 15th day of September, 2015, 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 NOTARY PUBLIC ALABAMA
KINESHIA RONAY COLLINS
My Commission Expires
September 22, 2018

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

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

18. **CERTIFICATION** Winchester Endoscopy, 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 [signature]

Typed or Printed Name of Authorized Officer Arkan Alrashid, M.D.

Title of Authorized Officer: Manager

Address: 1870 W. Winchester Road, Suite 146

City, State & Zip Code: Libertyville, IL 60048

Telephone (847) 247-0187 Date: 9/16/15

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

THE STATE OF Illinois
COUNTY OF Lake

On this 16 day of September 2015, before me, the undersigned officer, personally appeared Arkan Alrashid, 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.

[signature]
Notary Public/Commissioner of Oaths

(SEAL)
My Commission Expires: 4/16/2017

OFFICIAL SEAL
ELIZABETH SZOTT
Notary Public - State of Illinois
My Commission Expires Apr 16, 2017

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

SCA-Winchester, LLC ("SCA-Winchester") proposes to acquire, upon the Review Board's approval, fifty-one percent (51%) of the ownership interest in Winchester Endoscopy, LLC ("Winchester"). SCA-Winchester will use cash from internally available financial resources from its parent Surgical Care Affiliates, LLC ("SCA") to purchase such ownership interests for an aggregate purchase price of Twenty-One Million Four Hundred Seventy-Seven Thousand Nine Hundred Fifty-Six Dollars ($21,477,956).

SCA-Winchester is a newly formed entity and has no audited financial statements. The most recently audited financial statements of SCA, Inc., of which SCA-Winchester is a wholly owned indirect subsidiary, are included in Attachment 6 and show cash and cash equivalents in an amount sufficient to fund the purchase price. SCA-Winchester's financial statements will be consolidated with SCA, Inc.

Section 12, Narrative Description

Attachment 3

<u>Narrative Description</u>

The Review Board issued Winchester Endoscopy, LLC ("Winchester") a Permit ("Permit #14-025) to convert its existing physician office based endoscopy practice, located at 1870 W. Winchester Road, Suite 146, Libertyville, IL 60048, to a single specialty ambulatory surgical treatment center (ASTC) providing endoscopy (gastroenterology) services. The facility will have 2 procedure rooms and 4 recovery stations.

Winchester is presently owned by three (3) physicians ("Physician Owners"). No single Physician Owner has a controlling interest in Winchester.

Under the proposed transaction, SCA-Winchester would acquire, contingent upon the Review Board's approval, fifty-one percent (51%) of the ownership interest in Winchester.

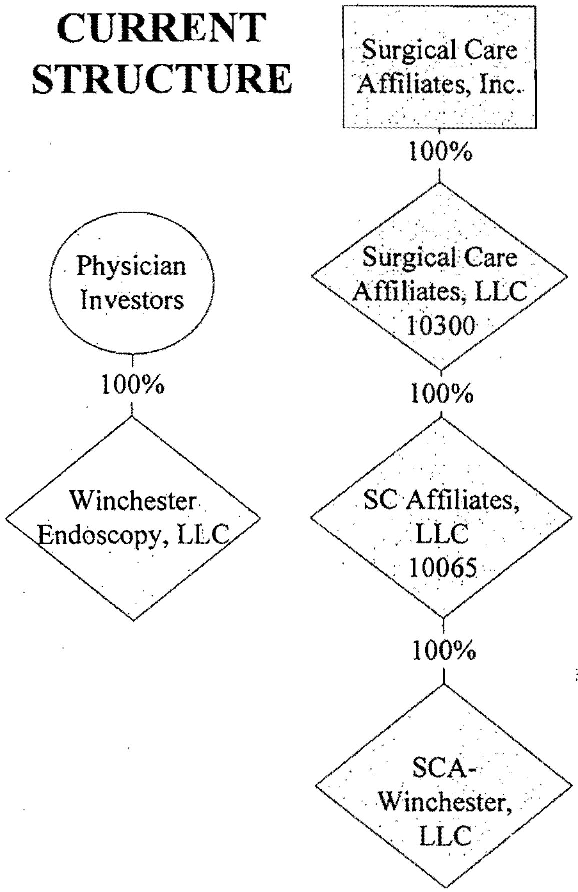
SCA-Winchester will use cash from internally available financial resources from its parent, Surgical Care Affiliates, LLC ("SCA"), to purchase such interests for an aggregate purchase price of Twenty-One Million Four Hundred Seventy-Seven Thousand Nine Hundred Fifty-Six Dollars ($21,477,956.00). Following the transaction, the Physician Owners will collectively own a forty-nine percent (49%) ownership interest in Winchester.

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

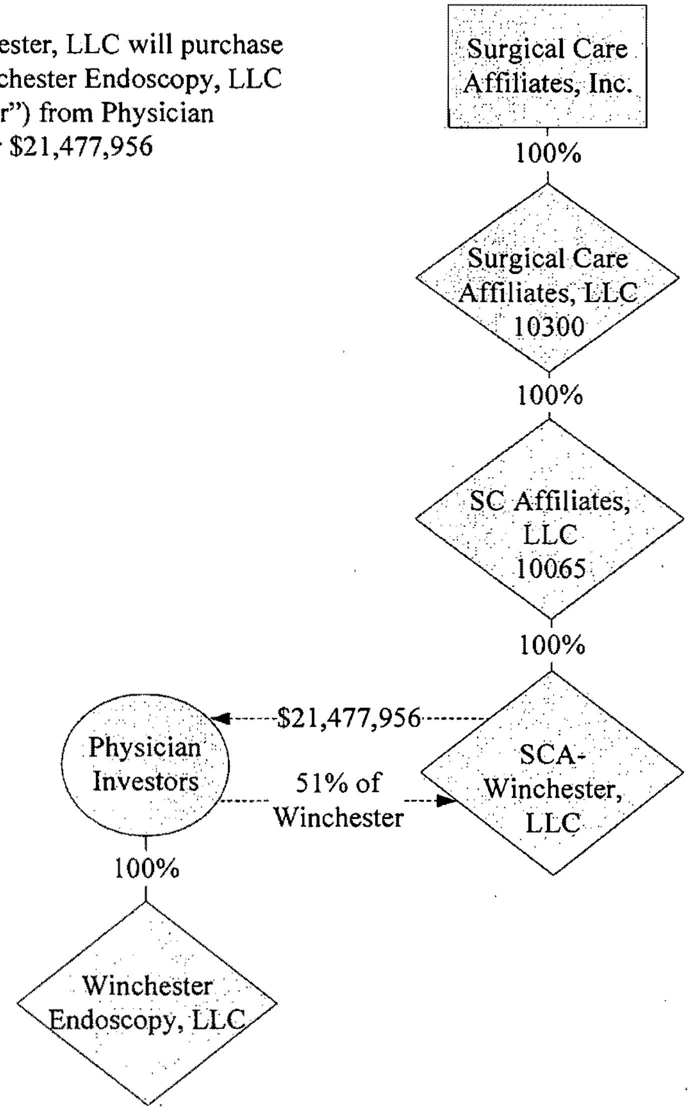
Winchester Endoscopy, LLC

1870 W. Winchester Road, Suite 146, Libertyville, IL 60048

CURRENT STRUCTURE



- SCA-Winchester, LLC will purchase 51% of Winchester Endoscopy, LLC ("Winchester") from Physician Investors for $21,477,956



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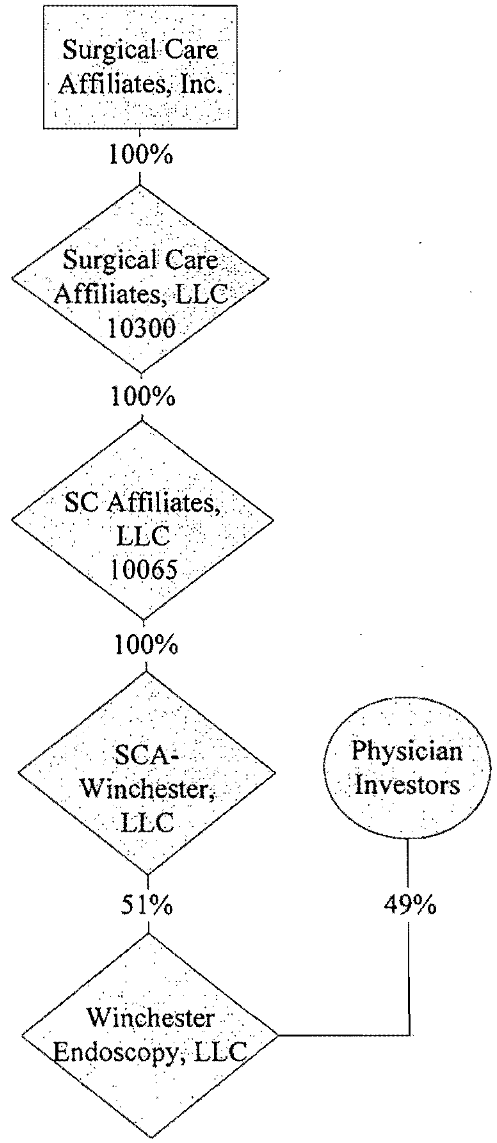
ATTACHMENT 3

Winchester Endoscopy, LLC

1870 W. Winchester Road, Suite 146, Libertyville, IL 60048

POST-CLOSING STRUCTURE



Section 13 Background of Applicant

Attachment 4

Background of Applicant

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

1. Winchester Endoscopy, LLC ("Winchester"): Winchester is an Illinois limited liability company, which is owned by three (3) physicians. A copy of Winchester's Illinois Good Standing Certificate is attached.

2. SCA-Winchester, LLC ("SCA-Winchester"): SCA-Winchester is a newly created Delaware limited liability company, whose sole member is SC Affiliates, LLC. A copy of SCA-Winchester's Delaware Good Standing Certificate and its Illinois Good Standing Certificate for a foreign limited liability company are attached.

3. SC Affiliates, LLC ("SC Affiliates"): 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 corporation is not applicable.

4. 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.

5. 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.

File Number 0482566-7

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

WINCHESTER ENDOSCOPY, LLC, HAVING ORGANIZED IN THE STATE OF ILLINOIS ON APRIL 30, 2014, 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* 15TH *day of* SEPTEMBER *A.D.* 2015 .

SEAL OF THE STATE OF ILLINOIS AUG. 26TH 1818

Authentication #: 1525802702 verifiable until 09/15/2016
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-WINCHESTER, 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 SIXTEENTH DAY OF SEPTEMBER, A.D. 2015.

Jeffrey W. Bullock, Secretary of State

SECRETARY'S OFFICE 1793 DELAWARE 1855

5825195 8300

SR# 20150141096

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

Authentication: 10071179

Date: 09-16-15

ATTACHMENT 4

File Number 0536370-5

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

SCA-WINCHESTER, LLC, A DELAWARE LIMITED LIABILITY COMPANY HAVING OBTAINED ADMISSION TO TRANSACT BUSINESS IN ILLINOIS ON SEPTEMBER 16, 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* 17TH *day of* SEPTEMBER *A.D.* 2015 .

Jesse White

SECRETARY OF STATE

Authentication #: 1526000853 verifiable until 09/17/2016.
Authenticate at: http://www.cyberdriveillinois.com

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 SEPTEMBER, A.D. 2015.

SECRETARY'S OFFICE 1793 DELAWARE 1853

Jeffrey W. Bullock, Secretary of State

2089674 8300

SR# 20150120794

Authentication: 10061269

Date: 09-15-15

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

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 NINTH DAY OF JULY, A.D. 2015.

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.

4289130 8300

151027271

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

Jeffrey W. Bullock, Secretary of State

AUTHENTICATION: 2539270

DATE: 07-09-15

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.* 2015 .

SEAL OF THE STATE OF ILLINOIS AUG. 26TH 1818

Authentication #: 1519600446 verifiable until 07/15/2016
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 NINTH DAY OF JULY, A.D. 2015.

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 ANNUAL REPORTS HAVE BEEN FILED TO DATE.

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

4322814 8300

151027271

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

SECRETARY OF STATE · 1776 · DELAWARE · 1976

Jeffrey W. Bullock, Secretary of State

AUTHENTICATION: 2539269

DATE: 07-09-15

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* 15TH *day of* JULY *A.D.* 2015 .

SEAL OF THE STATE OF ILLINOIS AUG. 26TH 1818

Authentication #: 1519600386 verifiable until 07/15/2016
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 Review Board issued Winchester Endoscopy, LLC ("Winchester") a Permit ("Permit #14-025) to convert its existing physician office based endoscopy practice, located at 1870 W. Winchester Road, Suite 146, Libertyville, IL 60048, to a single specialty ambulatory surgical treatment center (ASTC) providing endoscopy (gastroenterology) services.

Under the proposed transaction, SCA-Winchester, LLC ("SCA-Winchester") would acquire, contingent upon the Review Board's approval, fifty-one percent (51%) of the ownership interest in Winchester.

SCA-Winchester is a newly created Delaware limited liability company, whose sole member is 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. ("SCA, Inc."). SCA, Inc. is a Delaware corporation registered to do business in Illinois.

2. **Structure of the Transaction**

SCA-Winchester proposes to acquire a fifty-one percent (51%) ownership interest in Winchester. 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. SCA-Winchester will use cash from internally available financial resources from its parent, SCA, to purchase such interests for an aggregate purchase price of Twenty-One Million Four Hundred Seventy-Seven Thousand Nine Hundred Fifty-Six Dollars ($21,477,956.00). Following the transaction, the current owners will collectively own a forty-nine percent (49%) ownership interest in Winchester.

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

Winchester Endoscopy, LLC will be the licensed entity.

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

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

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

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

The fair market value of Winchester Endoscopy, LLC is estimated to be Forty-Two Million One Hundred Thousand Dollars ($42,100,000).

6. **Purchase Price and Other Consideration**

The purchase price for SCA-Winchester's acquisition of a fifty-one percent (51%) ownership interest in Winchester is Twenty-One Million Four Hundred Seventy-Seven Thousand Nine Hundred Fifty-Six Dollars ($21,477,956). The purchase price will be subject to typical adjustments such as cash on hand, accounts receivable, and accounts payable at the time of closing.

SCA-Winchester will use cash from internally available financial resources from its parent, SCA, to fund the purchase price.

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

<u>Financial Statements</u>

Attached are copies of the most recently audited consolidated financial statements for Surgical Care Affiliates, Inc. ("SCA, Inc."), of which SCA-Winchester, LLC ("SCA-Winchester") is a wholly owned indirect subsidiary, for the years ending December 31, 2014 and December 31, 2013. SCA-Winchester's audited financial statements will be consolidated with SCA, Inc.

These financial statements were taken from SCA, Inc.'s most recent 10-K for Fiscal Year end December 31, 2014; however, for space consideration reasons, we have only included the portion of the 10-K which includes the financial statements and notes.

SURGICAL CARE AFFILIATES, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands of U.S. dollars)

	DECEMBER 31, 2014	DECEMBER 31, 2013
Assets		
Current assets		
Cash and cash equivalents	$ 8,731	$ 85,829
Restricted cash	24,073	25,031
Accounts receivable, net of allowance for doubtful accounts (2014 — $10,448; 2013 — $10,393)	100,529	89,137
Receivable from nonconsolidated affiliates	72,030	12,331
Prepaids and other current assets	30,170	19,393
Current assets related to discontinued operations	1,959	2,295
Total current assets	237,492	234,016
Property and equipment, net of accumulated depreciation (2014 — $99,111; 2013 — $68,756)	209,642	189,959
Goodwill	902,391	745,036
Intangible assets, net of accumulated amortization (2014 — $35,270; 2013 — $25,715)	84,262	61,644
Deferred debt issue costs	5,383	8,321
Investment in and advances to nonconsolidated affiliates	194,610	168,824
Other long-term assets	4,311	2,141
Assets related to discontinued operations	9,344	12,565
Total assets (a)	$ 1,647,435	$ 1,422,506
Liabilities and Equity		
Current liabilities		
Current portion of long-term debt	$ 24,690	$ 22,617
Accounts payable	31,717	27,186
Accrued payroll	29,199	26,050
Accrued interest	234	446
Accrued distributions	29,134	27,601
Payable to nonconsolidated affiliates	104,519	68,455
Deferred income tax liability	855	477
Other current liabilities	26,747	21,063
Current liabilities related to discontinued operations	2,280	3,764
Total current liabilities	249,375	197,659
Long-term debt, net of current portion	665,119	648,834
Deferred income tax liability	130,165	116,221
Other long-term liabilities	19,683	20,631
Liabilities related to discontinued operations	683	1,288

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ATTACHMENT 6

Total liabilities (a)	1,065,025	984,633
Commitments and contingent liabilities (Note 16)		
Noncontrolling interests — redeemable (Note 9)	15,444	21,902
Equity		
Surgical Care Affiliates' equity		
Common stock, $0.01 par value, 180,000 shares authorized, 38,648 and 38,166 shares outstanding, respectively	386	382
Additional paid in capital	419,088	413,419
Accumulated deficit	(176,135)	(208,115)
Total Surgical Care Affiliates' equity	243,339	205,686
Noncontrolling interests — non-redeemable (Note 9)	323,627	210,285
Total equity	566,966	415,971
Total liabilities and equity	$ 1,647,435	$ 1,422,506

(a) Our consolidated assets as of December 31, 2014 and December 31, 2013 include total assets of a variable interest entity ("VIE") of $117.5 million and $49.5 million, respectively, which can only be used to settle the obligations of the VIE. Our consolidated total liabilities as of December 31, 2014 and December 31, 2013 include total liabilities of the VIE of $23.8 million and $12.2 million, respectively, for which the creditors of the VIE have no recourse to us, with the exception of $3.4 million and $4.0 million of debt guaranteed by us at December 31, 2014 and December 31, 2013, respectively. See further description in Note 3, *Summary of Significant Accounting Policies.*

See Notes to Consolidated Financial Statements.

SURGICAL CARE AFFILIATES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands of U.S. dollars, except per share data)

	YEAR-ENDED DECEMBER 31, 2014	2013	2012
Net operating revenues:			
Net patient revenues	$ 788,048	$ 731,584	$ 698,999
Management fee revenues	58,914	40,469	17,804
Other revenues	17,774	13,610	9,571
Total net operating revenues	864,736	785,663	726,374
Equity in net income of nonconsolidated affiliates	32,564	23,364	16,767
Operating expenses:			
Salaries and benefits	297,174	270,929	234,229
Supplies	177,853	170,174	164,791

000031

ATTACHMENT 6

Other operating expenses	124,870	127,701	112,773
Depreciation and amortization	52,663	41,450	39,953
Occupancy costs	29,390	25,544	25,326
Provision for doubtful accounts	14,051	14,208	12,736
Impairment of intangible and long-lived assets	610	—	435
(Gain) loss on disposal of assets	(232)	123	(307)
Total operating expenses	696,379	650,129	589,936
Operating income	200,921	158,898	153,205
Interest expense	32,785	60,202	58,642
Loss from extinguishment of debt	—	10,333	—
Interest income	(174)	(215)	(315)
(Gain) loss on sale of investments	(7,633)	12,330	7,100
Income from continuing operations before income tax expense	175,943	76,248	87,778
Provision for income tax expense	9,439	12,320	8,518
Income from continuing operations	166,504	63,928	79,260
Loss from discontinued operations, net of income tax expense	(9,355)	(9,330)	(4,895)
Net income	157,149	54,598	74,365
Less: Net income attributable to noncontrolling interests	(125,169)	(105,942)	(94,375)
Net income (loss) attributable to Surgical Care Affiliates	$ 31,980	$ (51,344)	$ (20,010)
Basic net income (loss) per share attributable to Surgical Care Affiliates:			
Continuing operations attributable to Surgical Care Affiliates	$ 1.07	$ (1.33)	$ (.50)
Discontinued operations attributable to Surgical Care Affiliates	$ (.24)	$ (.29)	$ (.16)
Net income (loss) per share attributable to Surgical Care Affiliates	$ .83	$ (1.62)	$ (.66)
Basic weighted average shares outstanding (in thousands)	38,477	31,688	30,340
Diluted net income (loss) per share attributable to Surgical Care Affiliates:			
Continuing operations attributable to Surgical Care Affiliates	$ 1.03	$ (1.33)	$ (.50)
Discontinued operations attributable to Surgical Care Affiliates	$ (.23)	$ (.29)	$ (.16)
Net income (loss) per share attributable to Surgical Care Affiliates	$ .80	$ (1.62)	$ (.66)
Diluted weighted average shares outstanding (in thousands)	39,958	31,688	30,340

See Notes to Consolidated Financial Statements.

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

000032

ATTACHMENT 6

	YEAR-ENDED DECEMBER 31, 2014	2013	2012
Net income	$ 157,149	$ 54,598	$ 74,365
Other comprehensive income:			
Unrealized income (loss) on interest rate swap	—	847	(5,177)
Amounts reclassified from accumulated other comprehensive loss	—	7,480	6,163
Total other comprehensive income	—	8,327	986
Comprehensive income	157,149	62,925	75,351
Comprehensive income attributable to noncontrolling interests	(125,169)	(105,942)	(94,375)
Comprehensive income (loss) attributable to Surgical Care Affiliates	$ 31,980	$ (43,017)	$ (19,024)

See Notes to Consolidated Financial Statements.

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

	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, 2011	—	$ —	$ —	$ 316,915	$ (9,313)	$ (137,299)	$ 170,303	$ 135,417	$ 305,720
Net (loss) income	—	—	—	—	—	(20,010)	(20,010)	69,759	49,749
Other comprehensive income	—	—	—	—	986	—	986	—	986
Stock compensation	—	—	—	1,719	—	—	1,719	—	1,719
Net change in equity related to purchase of ownership interests	—	—	—	(5,481)	—	—	(5,481)	37,730	32,249
Contributions from noncontrolling interests	—	—	—	—	—	—	—	22	22
Change in distribution accrual	—	—	—	—	—	—	—	(504)	(504)
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(69,930)	(69,930)
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

ATTACHMENT 6

000033

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 9)	—	—	—	—	—	—	—	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

See Notes to Consolidated Financial Statements.

SURGICAL CARE AFFILIATES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of U.S. dollars)

	YEAR-ENDED DECEMBER 31, 2014	2013	2012
Cash flows from operating activities			
Net income	$ 157,149	$ 54,598	$ 74,365
Loss from discontinued operations	9,355	9,330	4,895
Adjustments to reconcile net income to net cash provided by operating activities			
Provision for doubtful accounts	14,051	14,208	12,736

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Depreciation and amortization	52,663	41,450	39,953
Amortization of deferred issuance costs	2,954	3,891	2,980
Impairment of long-lived assets	610	—	435
Realized (gain) loss on sale of investments	(7,633)	12,330	7,100
(Gain) loss on disposal of assets	(232)	123	(307)
Equity in net income of nonconsolidated affiliates	(32,564)	(23,364)	(16,767)
Distributions from nonconsolidated affiliates	50,773	50,505	38,652
Deferred income tax	8,556	15,410	7,385
Stock compensation	4,126	2,724	1,719
Change in fair value and loss on de-designation of interest rate swap	485	8,314	—
Loss on extinguishment of debt	—	10,333	—
Payment of deferred interest	—	(14,785)	—
Debt call premium paid	—	(5,000)	—
(Increase) decrease in assets, net of business combinations			
Accounts receivable	(18,692)	(20,000)	(10,048)
Other assets	(66,709)	8,230	(24,314)
(Decrease) increase in liabilities, net of business combinations			
Accounts payable	4,709	3,679	(810)
Accrued payroll	2,404	6,143	(1,138)
Accrued interest	(213)	(13,263)	(560)
Other liabilities	34,261	9,064	33,849
Other, net	(722)	(251)	(1,767)
Net cash (used in) provided by operating activities of discontinued operations	(4,750)	(8,085)	2,834
Net cash provided by operating activities	210,581	165,584	171,192
Cash flows from investing activities			
Capital expenditures	(37,304)	(36,838)	(28,445)
Proceeds from sale of business	2,711	1,276	10,198
Proceeds from sale of investment	—	—	4,335
Proceeds from disposal of assets	1,302	5,880	474
Proceeds from sale of equity interests of nonconsolidated affiliates	2,344	4,587	14,980
Proceeds from sale of equity interests of consolidated affiliates in deconsolidation transactions	2,375	2,069	4,251
Decrease in cash related to conversion of consolidated affiliates to equity interests	(30)	(116)	(1,034)
Net change in restricted cash	1,062	1,886	(3,936)
Net settlements on interest rate swap	(1,539)	(2,921)	(6,081)
Business acquisitions, net of cash acquired 2014 - $2,527; 2013 - $6,131; 2012 - $4,386	(122,165)	(54,499)	(2,796)
Purchase of equity interests in nonconsolidated affiliates	(36,032)	(766)	(14,521)
Purchase of equity interests in deconsolidation transaction	—	—	(1,576)

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Return of equity method investments in nonconsolidated affiliates	2,555	2,592	—
Other	(3,791)	—	—
Net cash provided by investing activities of discontinued operations	—	16	2,347
Net cash used in investing activities	$ (188,512)	$ (76,834)	$ (21,804)

SURGICAL CARE AFFILIATES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of U.S. dollars)

	YEAR-ENDED DECEMBER 31, 2014	2013	2012
Cash flows from financing activities			
Borrowings under line of credit arrangements and long-term debt, net of issuance costs	$ 35,646	$ 417,678	$ 4,010
Payment of debt acquisition costs	—	(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	(31,083)	(527,634)	(8,865)
Principal payments under capital lease obligations	(8,225)	(7,552)	(6,189)
Distributions to noncontrolling interests of consolidated affiliates	(113,432)	(102,975)	(94,163)
Contributions from noncontrolling interests of consolidated affiliates	17,452	4,758	22
Proceeds from sale of equity interests of consolidated affiliates	5,593	7,864	7,596
Repurchase of equity interests of consolidated affiliates	(8,726)	(5,612)	(6,500)
Distributions to unit holders	—	(74,900)	—
Proceeds from teammate equity plans	5,820	453	—
Other	(2,189)	—	—
Net cash provided by financing activities of discontinued operations	—	—	2,004
Net cash used in financing activities	(99,144)	(121,743)	(102,085)
Change in cash and cash equivalents	(77,075)	(32,993)	47,303
Cash and cash equivalents at beginning of period	85,829	118,618	71,212
Cash and cash equivalents of discontinued operations at beginning of period	14	178	169
Less: Cash and cash equivalents of discontinued operations at end of period	(37)	26	(66)
Cash and cash equivalents at end of period	$ 8,731	$ 85,829	$ 118,618
Supplemental cash flow information			
Cash paid during the year for interest	$ 31,173	$ 62,167	$ 56,848
Cash paid during the year for income taxes	753	493	475
Supplemental schedule of noncash investing and financing activities			
Property and equipment acquired through capital leases and installment purchases	9,722	21,329	7,714

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Goodwill attributable to sale of surgery centers	752	10,062	9,066
Net investment in consolidated affiliates that became equity method facilities	1,848	5,356	712
Noncontrolling interest associated with conversion of consolidated affiliates to equity method affiliates	3,886	747	3,019
Contributions (non-cash) from noncontrolling interests of consolidated affiliates	5,225	—	—
Accrued capital expenditures at end of period	3,457	2,341	2,713
Conversion of equity method affiliate to consolidated affiliate financed through the issuance of debt	—	—	7,221
Equity interest purchase in nonconsolidated affiliates via withheld distributions	—	—	10,462
Debt to equity conversion of nonconsolidated affiliate	—	—	5,027

See Notes to Consolidated Financial Statements.

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SURGICAL CARE AFFILIATES, INC.
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, all outstanding restricted stock units of ASC Acquisition LLC were converted into one restricted share 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, 2014, the Company operated in 34 states and had an interest in and/or operated 179 ASCs, six surgical hospitals and one sleep center with 11 locations, with a concentration of facilities in California, Indiana, Texas, 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

We operate our facilities through strategic relationships with approximately 2,000 physician partners and often with healthcare systems that have strong local market positions that we also believe have strong reputations for clinical excellence. 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 the Company serves as the general partner, limited partner, managing member or member. We account for our 186 facilities as follows:

	AS OF DECEMBER 31, 2014
Consolidated facilities [1]	95
Equity method facilities	65
Managed-only facilities	26
Total facilities	186

(1) As of December 31, 2014, we consolidated ten facilities as a Variable Interest Entity ("VIE") (see Note 3).

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.

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NOTE 2 — TRANSACTIONS, DECONSOLIDATIONS, CLOSURES AND SALES

Acquisitions

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 JV (see Note 3) and are a VIE 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 2014 transactions is approximately $102.6 million.

In April 2014, the future JV (see Note 3) purchased a 51% controlling equity interest in Fort Worth Endoscopy Centers, LLC ("FWEC"), which owns and operates two ASCs in Fort Worth, Texas, for $24.8 million. In conjunction with the acquisition of such interest by the future JV, our promissory note due from the future JV was increased by $10.6 million. As with the other entities controlled by the future JV, we have determined that FWEC is a VIE for which we are the primary beneficiary. Accordingly, we consolidate FWEC. Prior to the transaction in 2014, these two ASCs were managed-only facilities. The amounts recognized as of the acquisition date for each major class of assets and liabilities assumed are as follows:

Assets		
Current assets		
Cash and cash equivalents	$	44
Accounts receivable		779
Other current assets		1,488
Total current assets		2,311
Property and equipment		1,954
Goodwill		33,807
Intangible assets		8,902
Total assets	$	46,974
Liabilities		
Current liabilities		
Accounts payable and other current liabilities	$	1,425
Total current liabilities		1,425
Other long-term liabilities		85
Total liabilities	$	1,510

In August 2014, an indirect wholly-owned subsidiary of SCA purchased a 59% controlling interest in, as well as the right to manage, the Surgery Center of Rockville, L.L.C., which owns and operates an ASC located in Rockville, Maryland, for $11.1 million. The amounts recognized as of the acquisition date for each major class of assets and liabilities assumed are as follows:

Assets		
Current assets		

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Cash and cash equivalents	$	19
Accounts receivable		284
Other current assets		26
Total current assets		329
Property and equipment		1,399
Goodwill		14,494
Intangible assets		2,655
Total assets	$	18,877
Liabilities		
Current liabilities		
Accounts payable and other current liabilities	$	65
Total current liabilities		65
Other long-term liabilities		91
Total liabilities	$	156

In September 2014, two indirect wholly-owned subsidiaries of SCA purchased a 51% controlling interest in an ASC located in Marina del Rey, California (the "Marina del Rey ASC") for $20.4 million and a 51% controlling interest in an ASC located in Newport Beach, California (the "Newport Beach ASC") for $6.5 million. In conjunction with the purchase of the two ASCs, SCA also purchased in September 2014 substantially all of the assets of two management entities for $5.3 million. Prior to closing, the entities provided management and billing services to the Marina del Rey ASC and the Newport Beach ASC, as well as to the two affiliated medical practices. SCA now provides management services at the two ASCs and the two affiliated medical practices. Both ASCs are consolidated facilities, and the medical practices are managed-only entities. The amounts recognized as of the acquisition date for each major class of assets and liabilities assumed are as follows:

Assets		
Current assets		
Cash and cash equivalents	$	861
Accounts receivable		2,504
Other current assets		525
Total current assets		3,890
Property and equipment		3,709
Goodwill		43,878
Intangible assets		8,640
Total assets	$	60,117
Liabilities		
Current liabilities		
Accounts payable and other current liabilities	$	474
Total current liabilities		474
Other long-term liabilities		990

Total liabilities	$	1,464

In December 2014, an indirect wholly-owned subsidiary of SCA purchased a 55% controlling interest in Specialty Surgical Center, LLC, which owns and operates an ASC located in Sparta Township, New Jersey, for $24.0 million. The amounts recognized as of the acquisition date for each major class of assets and liabilities assumed are as follows:

Assets		
Current assets		
Cash and cash equivalents	$	706
Accounts receivable		1,130
Other current assets		19
Total current assets		1,855
Property and equipment		1,002
Goodwill		36,865
Intangible assets		4,958
Total assets	$	44,680
Liabilities		
Current liabilities		
Accounts payable and other current liabilities	$	904
Total current liabilities		904
Other long-term liabilities		59
Total liabilities	$	963

The aggregate amounts recognized as of the acquisition date for each major class of assets and liabilities assumed in the remaining nine acquisitions closed in 2014 are as follows:

Assets		
Current assets		
Cash and cash equivalents	$	1,266
Accounts receivable		3,852
Other current assets		1,008
Total current assets		6,126
Property and equipment		11,628
Goodwill		48,682
Intangible assets		9,342
Total assets	$	75,778

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Liabilities		
Current liabilities		
Accounts payable and other current liabilities	$	3,113
Total current liabilities		3,113
Other long-term liabilities		14,106
Total liabilities	$	17,219

Intangible assets acquired in 2014, from the above acquisitions, include:

(in millions)	Estimated Fair Value on Acquisition Date	Estimated Useful Life
Licenses	$ 7.1	14.6*
Management agreements	13.2	14.6*
Noncompete agreements	14.3	4.8*
Total	$ 34.5	10.6*

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

The purchase price allocations above are preliminary. When all relevant information is obtained, resulting changes, if any, to our provisional purchase price allocation will be retrospectively 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.

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

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.

Also during the year-ended December 31, 2014, a wholly-owned indirect subsidiary of SCA loaned a wholly-owned subsidiary of a health system partner (the "Counterparty") $3.0 million in exchange for a promissory note that is convertible at the Counterparty's option into a 49% ownership interest in the Counterparty. On April 1, 2014, the Counterparty used the proceeds of the loan and other funds to purchase 100% of the ownership interests in an ASC in Costa Mesa, California for $5.2 million. This ASC is currently a managed-only facility of SCA in which we provide management services to the facility but hold no equity interest.

In June 2013, we acquired 100% of the interest in Health Inventures, LLC ("HI"), a surgical and physician services company, for total consideration of $20.4 million. $9.6 million of the consideration was paid to the sellers in cash, $8.9 million was placed into escrow as contingent consideration, and $1.9 million was payable to certain individuals. The contingent consideration has been settled for $8.8 million, as of the year-ended December 31, 2014. In the transaction, we acquired HI's ownership interests in four ASCs and one surgical hospital and management agreements with 19 affiliated facilities.

During the year-ended December 31, 2013, the Company also acquired a controlling interest in five additional ASCs for total consideration of $36.0 million. Two of the five ASCs were acquired through the future JV (see Note 3) and are a VIE for which we are the primary beneficiary. One of the ASCs acquired was previously held as an equity method investment. The aggregate amounts recognized as of the acquisition date for each major class of assets and liabilities assumed in the HI acquisition and the five additional consolidated acquisitions closed during the year-ended December 31, 2013 are as follows:

Assets		
Current assets		
Cash and cash equivalents	$	4,546
Accounts receivable		4,512
Other current assets		716
Total current assets		9,774
Property and equipment		5,890
Goodwill		50,436
Intangible assets		20,333
Investment in and advances to nonconsolidated affiliates		4,360
Total assets	$	90,793
Liabilities		
Current liabilities		
Accounts payable and other current liabilities	$	4,002
Total current liabilities		4,002
Other long term liabilities		677
Total liabilities	$	4,679

During the year-ended December 31, 2014, as a result of new information obtained about facts and circumstances that existed as of the acquisition date, the Company recorded certain measurement period adjustments to accounts receivable, accounts payable and other liabilities. These were customary adjustments that occurred during the normal course of reviewing and integrating the consolidated acquisitions. The net result of the measurement period adjustments recorded by the Company in relation to these acquisitions increased the acquisition date goodwill by approximately $0.9 million. This impact has been revised in the comparative consolidated balance sheet presented as of December 31, 2013. The Company has determined that the impact on amortization and other related amounts within the comparative interim and annual periods from that previously presented in the annual or interim

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consolidated statements of income is immaterial. The amounts presented in the above table related to these acquisitions have been retrospectively revised for the aforementioned measurement period adjustments.

Also during the year-ended December 31, 2013, we acquired a noncontrolling interest in a surgery center in Newport Beach, California, a noncontrolling interest in a surgery center in Redding, California and a management agreement with a surgery center in Fountain Valley, California for an immaterial amount of consideration.

Deconsolidations

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, see subsequent events footnote. 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 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.

During the year-ended December 31, 2012, we completed one deconsolidation transaction. In the transaction, we sold a controlling equity interest in an ASC and transferred certain control rights to a health system. We retained a noncontrolling interest in this affiliate. We received cash proceeds of approximately $4.3 million and recorded a pre-tax gain of approximately $2.0 million, which was primarily related to the revaluation of our remaining investment in this affiliate to fair value. The gain on this transaction is recorded in *(Gain) loss on sale of investments* 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. Our continuing involvement as an equity method investor and manager of the facilities precludes classification of these transactions as discontinued operations.

Closures and Sales

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 there operations were absorbed into two existing SCA nonconsolidated facilities. The losses related to these closures are immaterial.

During the year-ended December 31, 2013, we closed two 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, 2012, we closed two facilities. We recorded a pre-tax loss of approximately $3.2 million as a result of the closures. The loss on these transactions is recorded in the *Loss from discontinued operations, net of income tax* in the accompanying consolidated statements of operations. We also wrote off approximately $2.2 million of goodwill related to one closure.

During the year-ended December 31, 2014, we sold all of our interest in three 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 statements 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 three ASCs, 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 statements of operations. Our continuing involvement as manager of these facilities precludes classification of these transactions as discontinued operations.

During the year-ended December 31, 2012, we sold all of our interest in one ASC. We recorded a pre-tax gain of approximately $1.5 million as a result of the sale. The gain on this transaction is recorded in the *Loss from discontinued operations, net of income tax* in the accompanying consolidated statements of 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 2014 had been made on January 1, 2013, and for 2013 had been made on January 1, 2012. The pro forma information is based on the Company's consolidated results of operations for the years ended December 31, 2014, 2013 and 2012, 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, 2013 and 2012. 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.

In thousands	YEAR-ENDED DECEMBER 31, 2014	YEAR-ENDED DECEMBER 31, 2013	YEAR-ENDED DECEMBER 31, 2012

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Net operating revenues	$ 905,839	$ 888,290	$ 777,173
Income from continuing operations	178,568	86,964	84,970

Consolidated acquisitions closed during 2014 contributed *Net operating revenues* of $31.2 million and *Income from continuing operations* of $13.3 million for the year-ended December 31, 2014. Nonconsolidated acquisitions closed during 2014 contributed $0.6 million to *Equity in net income of nonconsolidated affiliates* for the year-ended December 31, 2014.

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.

In 2012, the Company entered into a transaction whereby we transferred our interest in two consolidated facilities and cash to an entity (the "future JV") wholly owned by a health system in exchange for a promissory note. Concurrently, the health system transferred its interest in a facility that it controlled to the future JV. The promissory note, which eliminates upon consolidation, has a fixed interest rate plus a variable component dependent on the earnings of the future JV. The promissory note contains a conversion feature that allows us to convert the promissory note to a 49% equity interest in the future JV at our option upon the occurrence of the renegotiation of certain contractual arrangements. We also entered into management services agreements with the facilities controlled by

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the future JV. As a result of the financial interest in the earnings of the future 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 JV is a VIE for which we are the primary beneficiary. We consolidated the future JV as of October 1, 2012.

The carrying amounts and classifications of the assets and liabilities of the future JV, which are included in our December 31, 2014 and 2013 consolidated balance sheets, were as follows:

	DECEMBER 31, 2014	DECEMBER 31, 2013
Assets		
Current assets		
Accounts receivable	$ 12,396	$ 5,362
Other current assets	2,236	3,423
Total current assets	14,632	8,785
Property and equipment	20,829	14,674
Goodwill	69,330	21,154
Intangible assets	12,663	4,931
Total assets	$ 117,454	$ 49,544
Liabilities		
Current liabilities		
Accounts payable and other current liabilities	$ 11,402	$ 6,172
Total current liabilities	11,402	6,172
Other long-term liabilities	12,403	5,984
Total liabilities	$ 23,805	$ 12,156

The assets of the consolidated VIE can only be used to settle the obligations of the VIE. The creditors of the VIE have no recourse to us, with the exception of $3.4 million and $4.0 million of debt guaranteed by us at December 31, 2014 and December 31, 2013, respectively.

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

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years. We do not believe that these corrections are material to either our 2014 annual financial statements or our previously issued financial statements.

The consolidated statements of operations for the years ended December 31, 2013 and 2012 include reclassifications totaling $0.7 million and $0.8 million, respectively, within *Supplies* and *Other operating expenses* to conform the December 31, 2013 and 2012 presentations to the December 31, 2014 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

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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 2015.

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 16, *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 insurance companies, 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, 2014, 2013 and 2012, approximately 62%, 61% and 62%, 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, 2014, 2013 and 2012, approximately 23%, 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, 2014, 2013 and 2012, approximately 10%, 11% and 11%, respectively, of our net patient revenues related to patients with workers' compensation coverage. Workers' compensation payors have typically paid surgical facilities a higher percentage of the surgical facilities' charges 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. 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 managing the facilities that we do not consolidate for financial reporting purposes. Management fee revenues are determined as dictated by management agreements between SCA and the facility, and the fee for 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. 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, 2014 and 2013, we had approximately $24.1 million and $25.0 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 insurance companies, 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,	
	2014	2013
Commercial health insurance payors	59%	59%
Medicare	14	14
Workers' compensation	14	13
Medicaid	3	3
Patients and other third-party payors	10	11
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 agencies.

Revenue and accounts receivable from commercial health insurance payors are also significant to our operations. Because the category of commercial health insurance payors 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.

Long-Lived Assets

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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. Interest of approximately $0.1 million was capitalized for the year-ended December 31, 2012; no interest was capitalized during the years-ended December 31, 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.

For 2014 and 2012, 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 Company is less than its carrying amount and, therefore, performing the two-step impairment test was unnecessary.

In 2013, we changed from one operating segment to six operating segments, which are aggregated into one reportable segment. Our six operating segments are generally organized geographically. As a result of this change, we ascribed goodwill to each reporting unit (same as our operating segments) using a relative fair value approach. In 2013, we evaluated our reporting units for goodwill impairment using a two-step process.

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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 unit 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 goodwill, an impairment loss is recognized in an amount equal to that excess.

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 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 net future 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, 2014, none of our definite useful lived intangible assets have an estimated residual value. As of December 31, 2014, 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, 2014, 2013 and 2012, we recorded on our consolidated statements of operations within *Equity in net income of nonconsolidated affiliates* amortization expense of $23.2 million, $25.9 million and $20.3 million, respectively, for definite-lived intangible assets attributable to equity method investments.

Investment in and Advances to Nonconsolidated Affiliates

Investments in entities that we do not control, but in which we have the ability to exercise significant influence over the operating and financial policies of the investee, 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 investees' 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.

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

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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, 2014 and 2013, 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 8, *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 form 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.

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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.

Additionally, HealthSouth Corporation ("HealthSouth") holds an unvested option to purchase equity securities constituting 5% of the equity securities issued and outstanding as of the closing of our acquisition by TPG in 2007 on a fully diluted basis, which option becomes exercisable upon certain customary liquidity events, including a public offering of shares of our common stock that results in 30% or more of our common stock being listed or traded on a national securities exchange. Once vested, the option is exercisable on a net exercise basis. Based on a closing stock price of $33.65 per share at December 31, 2014, the option would be exercisable, on a net exercise basis, for a number of shares equal to less than 1.0% of our currently outstanding shares of common stock, subject to adjustment as provided for in the terms of the option agreement governing the exercise price of the option.

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.

Assets and Liabilities Held for Sale and Results of Discontinued Operations

Components of an entity that have been disposed of or are classified as held for sale and have operations and cash flows that can be clearly distinguished from the rest of the entity are reported as assets held for sale and discontinued operations. In the period in which a component of an entity has been disposed of or classified as held for sale, 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.

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, 2014	YEAR-ENDED DECEMBER 31, 2013	YEAR-ENDED DECEMBER 31, 2012
Weighted average shares outstanding	38,477	31,688	30,340
Dilutive effect of equity-based compensation plans	1,481	—	—
Weighted-average shares outstanding, assuming dilution	39,958	31,688	30,340

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 excluded shares for the years-ended December 31 are as follows: 2013 — 216,682 and 2012 — 98,439.

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

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options by approximately $0.24 per unvested option. The cash bonus payment was recorded as compensation expense in the third quarter of 2013. We will record stock compensation expense over the remaining vesting periods related to the adjustment to unvested options.

Recent Revisions to Authoritative Guidance

In April 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 is effective for the Company on January 1, 2015. We do not believe that this ASU will have a material effect on our consolidated financial position, results of operations or cash flows.

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. The Company is currently assessing the impact that this ASU will have on our consolidated financial position, results of operation or cash flows.

In November 2014, the FASB issued ASU No. 2014-17, *Business Combination — Pushdown Accounting,* which provides an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity as compared to current GAAP which offers limited guidance for determining

whether and at what threshold pushdown accounting should be established in an acquired entity's separate financial statements. The ASU applies to the separate financial statements of an acquired entity and its subsidiaries that are a business or nonprofit activity (either public or nonpublic) upon the occurrence of an event in which an acquirer obtains control of the acquired entity and is effective on November 18, 2014. The ASU does not have a material impact on our consolidated financial position, results of operation 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. Early adoption is permitted. The company is currently evaluating the potential impact of this standard on our consolidated financial position, results of operation or 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 — ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	AS OF DECEMBER 31, 2014	AS OF DECEMBER 31, 2013
Accounts receivable	$ 110,977	$ 99,530
Less: Allowance for doubtful accounts	(10,448)	(10,393)
Accounts receivable, net	$ 100,529	$ 89,137

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

	YEAR-ENDED DECEMBER 31, 2014	YEAR-ENDED DECEMBER 31, 2013	YEAR-ENDED DECEMBER 31, 2012
Balance at beginning of period	$ 10,393	$ 5,698	$ 9,190
Provision for doubtful accounts	14,051	14,208	12,736
Deductions and accounts written off	(13,996)	(9,513)	(16,228)
Balance at end of period	$ 10,448	$ 10,393	$ 5,698

NOTE 5 — PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	AS OF DECEMBER 31, 2014	AS OF DECEMBER 31, 2013
Land	$ 17,081	$ 17,955
Buildings	42,667	31,878
Leasehold improvements	53,890	41,724
Furniture, fixtures and equipment	180,270	150,670
	293,908	242,227
Less: Accumulated depreciation	(99,111)	(68,756)
	194,797	173,471
Construction in progress	14,845	16,488
Property and equipment, net	$ 209,642	$ 189,959

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:

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	DECEMBER 31, 2014	DECEMBER 31, 2013	DECEMBER 31, 2012
Depreciation expense	$ 34,796	$ 28,808	$ 29,706
Assets under capital lease obligations:			
Buildings	$ 19,279	$ 17,062	$ 13,004
Equipment	31,898	28,484	16,768
	51,177	45,546	29,772
Accumulated depreciation	(22,930)	(16,588)	(15,498)
Assets under capital lease obligations, net	$ 28,247	$ 28,958	$ 14,274
Amortization expense	$ 7,753	$ 5,991	$ 5,432
Rent Expense:			
Minimum rent payments	$ 24,419	$ 21,986	$ 21,489
Contingent and other rents	10,727	9,596	10,430
Total rent expense	$ 35,146	$ 31,582	$ 31,919

Leases

We lease certain land, buildings and equipment under non-cancelable operating leases expiring at various dates through 2031. We also lease certain buildings and equipment under capital leases expiring at various dates through 2026. Operating leases generally have 3 to 22 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 $0.5 million, $0.6 million and $0.9 million for the years-ended December 31, 2014, 2013 and 2012, 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, will expire on March 31, 2015. We do not intend to renew this lease upon expiration.

Future minimum lease payments at December 31, 2014 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
2015	$ 24,536	$ 8,226	$ 32,762
2016	20,091	6,505	26,596
2017	15,485	5,091	20,576

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2018	13,506	3,620	17,126
2019	10,732	2,016	12,748
2020 and thereafter	41,106	9,132	50,238
	$ 125,456	34,590	$ 160,046
Less: interest portion		(5,337)	
Obligations under capital leases		$ 29,253	

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. The amount remaining on these guarantees is not material to our financial statements. These guarantees are not secured by any assets under the leases. As of December 31, 2014, 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 $20.1 million as of December 31, 2014.

Impairment of Long-Lived Assets

During 2014, 2013 and 2012, 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, $0.7 million and $0.4 million of impairment charges were recorded for the years-ended December 31, 2014 and December 31, 2012, respectively. 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 techniques that included discounted future cash flows.

NOTE 6 — 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, 2014 or December 31, 2013.

The following tables show changes in the carrying amount of goodwill for the years-ended December 31, 2014 and December 31, 2013:

	YEAR-ENDED DECEMBER 31,	YEAR-ENDED DECEMBER 31,

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	2014	2013
Balance at beginning of period	$ 745,036	$ 706,495
Acquisitions (Note 2)	177,726	49,286
Deconsolidations (Note 2)	(22,018)	(7,351)
Sales	(454)	(10,062)
Closure and other	2,101	(515)
VIE related (Note 3)	—	4,104
Conversion of equity method investment to consolidated	—	3,079
Balance at end of period	$ 902,391	$ 745,036

We performed impairment reviews as of October 1, 2014, 2013 and 2012, and concluded that no goodwill impairment existed.

The following table provides information regarding our other intangible assets:

	AS OF DECEMBER 31, 2014	2013
Certificates of need		
Gross carrying amount	$ 18,250	$ 20,097
Accumulated amortization	(9,237)	(8,073)
Net	$ 9,013	$ 12,024
Management agreements		
Gross carrying amount	$ 61,905	$ 49,879
Accumulated amortization	(19,231)	(15,334)
Net	$ 42,674	$ 34,545
Licenses		
Gross carrying amount	$ 15,338	$ 7,429
Accumulated amortization	(2,091)	(1,278)
Net	$ 13,247	$ 6,151
Noncompete agreements		
Gross carrying amount	$ 24,039	$ 9,954
Accumulated amortization	(4,711)	(1,030)
Net	$ 19,328	$ 8,924
Total other intangible assets		
Gross carrying amount	$ 119,532	$ 87,359
Accumulated amortization	(35,270)	(25,715)

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Net	$ 84,262	$ 61,644

During 2014, 2013 and 2012, 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, 2014, December 31, 2013 and December 31, 2012, we recorded $23.2 million, $25.9 million and $20.3 million, respectively, of amortization expense for definite-lived intangible assets attributable to equity 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, 2014	YEAR-ENDED DECEMBER 31, 2013	YEAR-ENDED DECEMBER 31, 2012
Amortization expense	$ 10,114	$ 6,651	$ 4,815

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

YEAR ENDING DECEMBER 31,	ESTIMATED AMORTIZATION EXPENSE
2015	$ 12,537
2016	12,113
2017	11,326
2018	11,207
2019	8,576

NOTE 7 — RESULTS OF OPERATIONS OF NONCONSOLIDATED AFFILIATES

As of December 31, 2014, *Investment in and advances to nonconsolidated affiliates* represents Surgical Care Affiliates' investment in 65 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, 2014. Our investment in these affiliates is an integral part of our operations.

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, see subsequent event footnote. In conjunction with this transaction, the operating agreement of this affiliate was amended on October 1, 2014 to remove

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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, 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.

During the year ended December 31, 2012, we completed one deconsolidation transaction. In the transaction, we sold a controlling equity interest in an ASC and transferred certain control rights to a health system. We retained a noncontrolling interest in this affiliate. We received cash proceeds of approximately $4.3 million and recorded a pre-tax gain of approximately $2.0 million, which was primarily related to the revaluation of our remaining investment in this affiliate to fair value. The gain on this transaction is recorded in *(Gain) loss on sale of investments* in the accompanying consolidated statement of operations.

Also during 2012, the Company completed a transaction whereby we contributed our interest in two consolidated facilities ("Surgical Care Affiliates facilities") and $1.6 million to a newly formed entity that is jointly owned by us and a California health system (the "JV"). Concurrently, the California health system contributed its controlling interest in a facility ("Health System facility") to the JV. We also entered into management services agreements with the facilities contributed to the JV. As a result of the transaction, the operations of one of the contributed Surgical Care Affiliates facilities were merged with and into the operations of the Health System facility; the Health System facility was the surviving entity. Accordingly, two facilities remain as a result of the transaction. We have a noncontrolling interest in the surviving facilities, which are presented under the equity method of accounting. The net effect of these contributions resulted in the Company recording a loss of approximately $3.3 million related to the conversion of the two Surgical Care Affiliates facilities into an equity method investment. The loss on this transaction is recorded in *(Gain) loss on sale of investments* in the accompanying consolidated statement 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. Our continuing involvement as an equity method investor and manager of the facilities precludes classification of these transactions as discontinued operations.

During 2014, we recorded $0.3 million of impairment to our investments in nonconsolidated affiliates due to a decline in the expected future cash flows of one nonconsolidated affiliate that we determined to be other than temporary. This impairment is included in *Equity in net income of nonconsolidated affiliates*.

During 2013, we recorded $6.1 million of impairment to our investments in nonconsolidated affiliates due to declines in the expected future cash flows of five nonconsolidated affiliates that we determined to be other than temporary. This impairment is included in *Equity in net income of nonconsolidated affiliates*. This decline in the expected future cash flows was caused by events specific to each impacted facility, as further described below. The impairments included:

- a $1.5 million impairment on our investment in Wausau Surgery Center, L.P. related to an offer received to purchase our interest in the facility;
- a $2.3 million impairment on our investment in Premier Surgery Center of Louisville, L.P. related to insufficient forecasted growth at the facility;

- a $0.9 million impairment on our investment in Kerlan-Jobe Surgery Center, LLC related to a buy-out agreement for the facility;
- a $0.8 million impairment on our investment in Surgery Center of Fort Collins, LLC related to insufficient forecasted growth at the facility; and
- a $0.6 million impairment on our investment in Surgery Center of Lexington, LLC related to insufficient forecasted growth at the facility.

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 $67.7 million and $76.9 million at December 31, 2014 and 2013, 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, 2014	2013
Beginning balance	$ 168,824	$ 194,299
Share of income (1)	32,564	23,364
Share of distributions	(53,328)	(53,097)
Acquisitions	36,021	5,126
Conversion to/from investments in nonconsolidated affiliates	8,238	186
Sale/closure of investments in nonconsolidated affiliates	(1,947)	(2,133)
Other	4,238	1,079
Total investment in and advances to nonconsolidated affiliates	$ 194,610	$ 168,824

(1) Includes $0.3 million and $6.1 million of impairments at December 31, 2014 and 2013, respectively, as previously noted.

Included in the 2014 and 2013 *Share of income* amount above is amortization expense of $23.2 million and $25.9 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, 2014	DECEMBER 31, 2013
Assets		
Current	$ 205,917	$ 191,765
Noncurrent	183,311	138,238
Total assets	$ 389,228	$ 330,003
Liabilities		

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	2014	2013
Current	$ 54,863	$ 45,523
Noncurrent	58,800	38,665
Total liabilities	113,663	84,188
Partners' capital and shareholders' equity		
Surgical Care Affiliates	126,425	91,952
Outside parties	149,140	153,863
Total partners' capital and shareholders' equity	275,565	245,815
Total liabilities and partners' capital and shareholders' equity	$ 389,228	$ 330,003

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

	YEAR-ENDED DECEMBER 31, 2014	YEAR-ENDED DECEMBER 31, 2013	YEAR-ENDED DECEMBER 31, 2012
Net operating revenues:			
Net patient revenues	$ 659,367	$ 600,600	$ 474,354
Other revenues	5,884	5,166	3,153
Total net operating revenues	665,251	605,766	477,507
Operating expenses:			
Salaries and benefits	140,365	128,892	108,803
Supplies	111,833	99,299	78,531
Other operating expenses	141,872	123,052	96,202
Depreciation and amortization	21,765	17,281	14,045
Total operating expenses	415,835	368,524	297,581
Operating income	249,416	237,242	179,926
Interest expense, net of interest income	2,254	1,627	1,501
Loss on sale of investments	—	22	—
Income from continuing operations before income tax expense	$ 247,162	$ 235,593	$ 178,425
Net income	$ 247,097	$ 235,522	$ 178,365

NOTE 8 — LONG-TERM DEBT

Our long-term debt outstanding consists of the following:

	AS OF DECEMBER 31, 2014	2013
Credit Facility debt payable:		
Advances under $132.3 million Class B Revolving Credit Facility	$ —	$ —

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(excluding letters of credit issued thereunder)		
Class B Term Loan due 2017	212,224	214,429
Class C Term Loan due 2018	384,150	388,050
Discount of Class C Term Loan	(452)	(784)
Notes payable to banks and others	64,634	44,023
Capital lease obligations	29,253	25,733
	689,809	671,451
Less: Current portion	(24,690)	(22,617)
Long-term debt, net of current portion	$ 665,119	$ 648,834

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,	
2015	$ 24,690
2016	22,776
2017	227,180
2018	382,954
2019	7,750
Thereafter	24,459
Total	$ 689,809

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, 2014	YEAR-ENDED DECEMBER 31, 2013	YEAR-ENDED DECEMBER 31, 2012
Continuing operations:			
Interest expense	$ 29,831	$ 56,311	$ 55,662
Amortization of bond issue costs	2,954	3,891	2,980
Total interest expense and amortization of bond issue costs for continuing operations	32,785	60,202	58,642
Discontinued operations:			
Interest expense	280	414	442
Total interest expense for discontinued operations	280	414	442
Total interest expense and amortization of bond issue costs	$ 33,065	$ 60,616	$ 59,084

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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 2.2% to 12.2% 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.

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.

Credit Facility

With respect to the 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 must 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 noted above.

Borrowings under each portion of the Credit Facility bear 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 is 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 is 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, are made at the end of each quarter. The following table outlines the applicable margin for each portion of the 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

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There was no outstanding balance under the 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 such revolving credit facility.

Any utilization of the Class B Revolving Credit Facility (other than issuances of up to an aggregate of $5.0 million of letters of credit) will be subject to compliance with a total leverage ratio test. At December 31, 2014, we had approximately $2.9 million in such letters of credit outstanding.

2013 Amendment to the Credit Facility

In the second quarter of 2013, we amended our credit agreement (the "Amended Credit Agreement"). The Amended Credit Agreement provides 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 will 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 is (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. Until maturity, quarterly amortization payments will be 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 Credit Facility is guaranteed by the Company and certain of SCA's direct 100% owned domestic subsidiaries (the "Guarantors"), subject to certain exceptions, and borrowings under the Credit Facility are 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 restricts 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.

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The Company believes that it and SCA were in compliance with these covenants as of December 31, 2014. The Amended 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 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 that 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, 2014, interest rate swaps of $190.0 million remained outstanding. As a result of the amendment to the Credit Facility, we de-designated the cash flow hedging 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*.

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, 2014, $1.4 million was included in *Other current liabilities* in the

consolidated balance sheet 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 and December 31, 2013, $0.8 million and $3.1 million, respectively, were included in *Other long-term liabilities* in the consolidated balance sheet 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, 2014, the liability related to the swaps decreased by $0.9 million due to $1.5 million of swap settlements and a $0.5 million change in fair value. During the year-ended December 31, 2014, the Company recorded losses of approximately $0.5 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. The Company previously designated its interest rate swaps as a cash flow hedge; however, as noted above, 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 us 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, we evaluate our 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

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the counterparty to our interest rate swaps using publicly available information, as well as qualitative inputs, as of December 31, 2014. Based on this review, we do not believe that 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 2.8% to 8.5%

NOTE 9 — 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, 2014	YEAR-ENDED DECEMBER 31, 2013	YEAR-ENDED DECEMBER 31, 2012
Net income (loss) from continuing operations, net of tax, attributable to Surgical Care Affiliates	$ 41,335	$ (42,014)	$ (15,115)
Net loss from discontinued operations, net of tax, attributable to Surgical Care Affiliates	(9,355)	(9,330)	(4,895)
Net income (loss), net of tax, attributable to Surgical Care Affiliates	$ 31,980	$ (51,344)	$ (20,010)

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, 2014	YEAR-ENDED DECEMBER 31, 2013	YEAR-ENDED DECEMBER 31, 2012
Net income (loss) attributable to Surgical Care Affiliates	$ 31,980	$ (51,344)	$ (20,010)
(Decrease) increase in equity due to sales to noncontrolling interests	(1,121)	2,056	(4,243)
Increase (decrease) in equity due to purchases from noncontrolling interests	798	(1,394)	(1,738)
Change from net loss attributable to Surgical Care Affiliates and transfers to/from noncontrolling interests	$ 31,657	$ (50,682)	$ (25,991)

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, 2014	YEAR-ENDED DECEMBER 31, 2013	YEAR-ENDED DECEMBER 31, 2012
Balance at beginning of period	$ 21,902	$ 21,709	$ 20,215
Net income attributable to noncontrolling interests-redeemable	22,605	24,138	24,616
Net change in equity related to amendments in agreements with noncontrolling interests	—	(1,050)	—
Net change related to purchase of ownership interests	(4,150)	581	1,800
Contributions from noncontrolling interests	—	1,622	—
Change in distribution accrual	(1,300)	(433)	(689)
Distributions to noncontrolling interests-redeemable	(23,613)	(24,665)	(24,233)
Balance at end of period	$ 15,444	$ 21,902	$ 21,709

NOTE 10 — FAIR VALUE OF FINANCIAL INSTRUMENTS

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).

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

	December 31, 2014				
	Fair Value Measurements Using			Total	
	Level 1	Level 2	Level 3	Assets/Liabilities at Fair Value	Valuation Technique(1)
Assets					
Other long-term assets	$ —	$ —	$ —	$ —	

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	Level 1	Level 2	Level 3	Total Assets/Liabilities at Fair Value	Valuation Technique(1)
Total assets	$ —	$ —	$ —	$ —	
Liabilities					
Other current liabilities	$ —	$ 1.4	$ —	$ 1.4	I
Other long-term liabilities	—	0.8	$ —	0.8	I
Total liabilities	$ —	$ 2.2	$ —	$ 2.2	

	December 31, 2013				
	Fair Value Measurements Using			Total Assets/Liabilities at Fair Value	Valuation Technique(1)
	Level 1	Level 2	Level 3		
Assets					
Other long-term assets	$ —	$ —	$ 0.3	$ 0.3	I
Total assets	$ —	$ —	$ 0.3	$ 0.3	
Liabilities					
Other current liabilities	$ —	$ —	$ —	$ —	
Other long-term liabilities	—	3.1	$ —	3.1	I
Total liabilities	$ —	$ 3.1	$ —	$ 3.1	

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

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 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 December 31, 2014 and December 31, 2013.

Contingent Consideration

As further described in Note 2, $8.9 million of the HI consideration was placed into escrow as contingent consideration. The amount payable as contingent consideration depends upon the successful continuation and/or renewal of certain management agreement contracts held by HI and, in the case of renewals, will be determined by comparing the contract revenue prior to renewal against the expected contract revenue after renewal. As of the acquisition date and December 31, 2013, approximately $8.6 million of contingent consideration was recognized.

The following table provides quantitative information associated with the fair value measurement of our recurring Level 3 inputs:

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Level 3 Contingent Consideration	Level 3 Assets as of December 31, 2013 (in millions)	Significant Unobservable Input	Range of Inputs	Weighted Average
Income Approach	$ 0.3	Probabilities of retention of management contracts (a)	75% - 100%	98%

(a) The fair value of adjustment to the contingent consideration is based on a formula driven threshold contract value set at the time of the HI transaction. The threshold contract value is a function of revenue and probability of retention of each contract over 12 to 18 months from the transaction date. Significant increases or decreases in any of the probabilities of renewal would result in a significantly lower or higher fair value measurement, respectively.

There was no contingent consideration as of December 31, 2014.

The following table provides a roll-forward of the recurring fair value balance that used Level 3 inputs (in millions):

	Contingent Consideration
Beginning balance as of December 31, 2013	$ 0.3
Net change	(0.3)
Ending balance as of December 31, 2014	$ —

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 2014, we recorded $0.3 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*.

An impairment charge of $1.5 million was recorded 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.

Also, 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 is 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 affiliate	$ 6.4	—	—	$ 6.4	$ 4.6
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 affiliate* may include the 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.

Level 3 Investment in nonconsolidated affiliate	Level 3 Assets as of December 31, 2013 (in millions)	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 (in millions)	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.

An impairment charge of $0.7 million was recorded during the year-ended December 31, 2014 for intangible and long-lived assets. The 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.

Assets related to discontinued operations measured at fair value on a nonrecurring basis are as follows (in millions):

		Fair Value Measurements Using			
June 30, 2014	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
Assets related to discontinued operations	$ —	—	—	$ —	$ 0.7

The inputs used by the Company in estimating the value of Level 3 *Assets related to discontinued operations* include the expected proceeds from the sale of the facility. 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 significant unobservable inputs used in the estimation of Level 3 fair value measurement (in millions).

Level 3 Property and equipment	Level 3 Assets as of June 30, 2014 (in millions)	Significant Unobservable Input	Range of Inputs	Weighted Average
Income Approach	$ —	Expected proceeds from sale	$ —	$ —

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. 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, 2014		As of December 31, 2013	
	Carrying Amount	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Interest rate swap agreements (includes short-term component)	$ 2,192	$ 2,192	$ 3,126	$ 3,126
Long-term debt:				

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Advances under $132.3 million Class B Revolving Credit Facility	$ —	$ —	$ —	$ —
Class B Term Loan due 2017	212,224	206,786	214,429	214,563
Class C Term Loan due 2018	384,150	371,905	388,050	389,020
Notes payable to banks and others	64,634	64,634	44,023	44,023
Financial commitments	$ —	$ —	$ —	$ —

NOTE 11 — 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, 2014, 3,160,016 stock-based awards were outstanding (of which 3,079,616 are awards under the Plans) and 1,568,173 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 equity share 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 will record stock-based compensation expense over the remaining vesting periods related to the adjustment to unvested options.

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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, 2014	YEAR-ENDED DECEMBER 31, 2013	YEAR-ENDED DECEMBER 31, 2012
Equity-based compensation expense	$ 4,126	$ 2,724	$ 1,719
Cash received from option exercises	3,887	453	—

As of December 31, 2014, the Company had total unrecognized compensation cost of approximately $17,706 related to non-vested awards, which the Company expects to recognize through 2018 and over a weighted-average period of 3.2 years.

Option Awards

A summary of option activity under the Plans as of December 31, 2014, and changes during the year-ended December 31, 2014 are presented below:

	UNITS (IN 000'S)	WEIGHTED-AVERAGE EXERCISE PRICE	REMAINING CONTRACTUAL LIFE (YEARS)	AGGREGATE INTRINSIC VALUE
Outstanding, December 31, 2013	3,007	$ 11.42	0.6 – 10.0	$ 70,117
Granted	417	$ 29.46	9.72 – 9.18	—
Exercised	(633)	$ 10.93		—
Forfeitures	(74)	$ 16.16		—
Expirations	(2)	$ 14.05		—
Outstanding, December 31, 2014	2,715	$ 14.23	0.6 – 10.0	$ 52,488
Exercisable, December 31, 2014	1,624	$ 11.26		

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 weighted average grant-date fair value per option of all options granted during the year-ended December 31, 2012 was $3.79.

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. 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.

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	YEAR-ENDED DECEMBER 31, 2014	YEAR-ENDED DECEMBER 31, 2013	YEAR-ENDED DECEMBER 31, 2012
Expected volatility	40%	35% -40%	37% -39%
Risk-free interest rate	1.0% -1.35%	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 performance-based options 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. 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 during 2014 is presented below:

	UNITS (IN 000'S)	GRANT DATE FAIR VALUE PER UNIT
Nonvested RSUs at December 31, 2013	80	$ 24.58
Granted	318	$ 29.55
Vested	(17)	$ 29.62
Forfeited	(14)	n/a
Nonvested RSUs at December 31, 2014	367	

	UNITS (IN 000'S)	GRANT DATE FAIR VALUE PER UNIT
Total RSUs at December 31, 2013	151	$ 17.71
Granted	318	$ 29.55
Vested	(17)	$ 29.62
Forfeited	(7)	n/a
Total RSUs at December 31, 2014	445	

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NOTE 12 — 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; and
- The Senior Management Bonus Program.

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 $23.3 million, $20.5 million and $16.3 million for the years-ended December 31, 2014, 2013 and 2012, 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 $2.7 million, $2.9 million and $2.7 million during the years-ended December 31, 2014, 2013 and 2012, 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 $9.0 million, $8.5 million and $4.8 million under the Senior Management Bonus Program for the years-ended December 31, 2014, 2013 and 2012, respectively.

The Company's Teammate Stock Purchase Plan (the "TSPP") enables eligible employees 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 statement 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, 2014, the Company issued 16,000 shares under the TSPP and received cash totaling $0.5 million.

NOTE 13 — 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, 2014	YEAR-ENDED DECEMBER 31, 2013	YEAR-ENDED DECEMBER 31, 2012
Income from continuing operations before income tax expense	$ 175,943	$ 76,248	$ 87,778

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

	YEAR-ENDED DECEMBER 31, 2014	YEAR-ENDED DECEMBER 31, 2013	YEAR-ENDED DECEMBER 31, 2012
Current:			
Federal	$ (6)	$ 200	$ —
State and local	846	610	416
Total current expense	840	810	416
Deferred:			
Federal	6,916	9,217	6,533
State and local	1,683	2,293	1,569
Total deferred expense	8,599	11,510	8,102
Total income tax expense related to continuing operations	$ 9,439	$ 12,320	$ 8,518

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, 2014	YEAR-ENDED DECEMBER 31, 2013	YEAR-ENDED DECEMBER 31, 2012
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	(24.9)	(48.6)	(37.6)
Change in valuation allowance	(6.6)	27.4	12.2
State income taxes, net of federal tax benefit	1.8	(1.5)	(0.1)
Non-deductible stock issuance costs	—	3.7	—
Other, net	0.1	0.2	0.2
Income tax expense	5.4%	16.2%	9.7%

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, 2014, 2013 and 2012, due to a valuation allowance and goodwill amortization related to indefinite-lived intangible assets. After consideration of all evidence, both positive and negative, management concluded that it is more-likely-than-not that the Company will not realize its net deferred tax assets. Therefore, a valuation allowance has been established on our net deferred tax assets. The deferred tax liability resulting from goodwill amortization is considered an indefinite-lived intangible and cannot be looked upon as a source of future taxable income to support the realization of deferred tax assets for purposes of establishing a valuation allowance.

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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, 2014	AS OF DECEMBER 31, 2013
Current		
Deferred income tax assets:		
Allowance for doubtful accounts	$ 2,208	$ 2,760
Accrued liabilities	9,154	11,148
Valuation allowance	(10,444)	(12,824)
Deferred income tax liabilities:		
Prepaid expenses	(1,773)	(1,561)
Net current deferred income tax liability	(855)	(477)
Non-current		
Deferred income tax assets:		
Net operating loss	106,504	112,795
Capital loss	33,524	30,604
Investment in nonconsolidated affiliates	18,645	16,554
Interest rate swaps	849	1,254
Other	5,201	6,843
Valuation allowance	(153,084)	(153,321)
Deferred income tax liabilities:		
Goodwill and other indefinite-lived intangibles	(131,020)	(116,698)
Property, net	(6,241)	(7,391)
Intangible assets	(4,543)	(6,861)
Net non-current deferred income tax liability	(130,165)	(116,221)
Total deferred income tax liability	$ (131,020)	$ (116,698)

We reduce our deferred income tax assets by a valuation allowance if, based on the weight of the available evidence, it is more-likely-than-not that all or a portion of a deferred tax asset will not be realized. We assess the likelihood of realization of our deferred tax assets considering all available evidence, both positive and negative. Our most recent operating performance, the scheduled reversal of temporary differences and our forecast of taxable income in future periods are important considerations in our assessment. We recognize our recent earnings is an example of positive evidence to be considered in our assessment. Management has considered all positive and negative evidence available at this time and has concluded that a full valuation allowance continues to be appropriate as of December 31, 2014. We continue to closely monitor actual and forecasted earnings and, if there are continued profitable results, we expect that reversal of all, or a portion of, the valuation allowance will be appropriate in the future. The valuation allowance is recorded against net deferred tax assets other than the deferred tax liability resulting from goodwill amortization which is considered an indefinite-lived intangible. The valuation allowance as of December 31, 2014, 2013 and 2012 was $163.5 million, $166.1 million and $151.8 million, respectively. For the years-ended December 31, 2014, 2013 and 2012, the changes in the valuation allowance were $(2.6) million, $14.3 million and $9.4 million, respectively. The $(2.6) million decrease in the valuation allowance from December 31, 2013 to December 31, 2014, includes a $(6.4) million decrease due to reduction of Deferred Tax Assets associated with net operating loss carryforwards, a $3.0 million increase in Deferred Tax Assets associated with capital loss carryforwards and a $0.8 million increase in Deferred Tax Assets associated with temporary differences not attributable to indefinite-lived intangible assets. The $14.3 million increase in the valuation allowance from December 31, 2012 to December 31, 2013, included a $9.6 million increase in Deferred Tax Assets associated with net operating and capital loss carryforwards, an $8.0 million increase in Deferred Tax Assets associated with temporary differences not attributable to indefinite-lived intangible assets, offset by a $(3.3) million decrease in Deferred Tax Assets due to the change in reporting methodology for Other Comprehensive Income. The $9.4 million increase in the valuation allowance from December 31, 2011 to December 31, 2012, included a $14.9 million increase in Deferred Tax Assets associated with net operating and capital loss carryforwards, offset by a $5.5 million increase in Deferred Tax Liabilities associated with temporary differences not attributable to indefinite-lived intangible assets.

At December 31, 2014, we had federal net operating loss carryforwards ("NOLs") of approximately $248.3 million. Such losses expire in various amounts at varying times beginning in 2027. These NOL carryforwards are subject to a valuation allowance. At December 31, 2013, we had federal NOL carryforwards of $263.7 million. At this time, we do not believe that the limitations imposed by Internal Revenue Code Section 382 will restrict our ability to use any NOLs before they expire. However, we cannot make any assurances that this will be the case.

The Company had no tax liability for uncertain tax positions as of December 31, 2014 or December 31, 2013.

NOTE 14 — ASSETS AND LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATIONS

The Company has 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, 2014 and December 31, 2013 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, 2014	YEAR-ENDED DECEMBER 31, 2013	YEAR-ENDED DECEMBER 31, 2012
Net operating revenues	$ 15,507	$ 20,449	$ 35,327
Costs and expenses	(18,690)	(23,349)	(38,392)
Gain (loss) on sale of investments	294	(2,493)	(1,773)
Impairments	(700)	—	(664)
Loss from discontinued operations	(3,589)	(5,393)	(5,502)
Income tax (expense) benefit	(5,766)	(3,937)	607
Net loss from discontinued operations	$ (9,355)	$ (9,330)	$ (4,895)

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

	DECEMBER 31, 2014	DECEMBER 31, 2013
Assets		
Current assets		
Accounts receivable, net	$ 1,788	$ 1,995
Other current assets	171	300
Total current assets	1,959	2,295
Property and equipment, net	9,153	12,049
Other long term assets	191	516
Total assets	$ 11,303	$ 14,860
Liabilities		
Current liabilities		
Accounts payable and other current liabilities	$ 2,280	$ 3,764
Total current liabilities	2,280	3,764
Other long-term liabilities	683	1,288
Total liabilities	$ 2,963	$ 5,052

NOTE 15 — RELATED PARTY TRANSACTIONS

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 and $2.0 million during the year-ended December 31, 2012. 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 our Amended Credit Agreement 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.

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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, 2014, 2013 and 2012.

The law firm of Bradley Arant Boult Cummings LLP provides certain legal services to us. We paid approximately $1.8 million, $1.8 million and $1.0 million to this law firm in 2014, 2013 and 2012, respectively, for such legal services. The spouse of one of our executive officers, Richard Sharff, is a partner of this law firm.

NOTE 16 — 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.

Litigation

On May 5, 2006, Dr. Hansel DeBartolo filed a lawsuit captioned *DeBartolo, et al. v. HealthSouth Corporation et al,* in the United States District Court for the Northern District of Illinois, Eastern Division, against Joliet Surgery Center Limited Partnership (the "Partnership"), the general partner of that Partnership, Surgicare of Joliet, Inc., and its then-parent, HealthSouth Corporation, for a declaratory judgment and an injunction relating to the forced repurchase of his partnership interest (the "Federal Court Action"). We agreed to take responsibility from HealthSouth Corporation (our parent until SCA was purchased by ASC Acquisition LLC in 2007) regarding this matter. Dr. DeBartolo claimed that the partnership agreement's requirement that an investor in a surgical center perform one-third of his surgical procedures at the center violates the federal Anti-Kickback Statute and its underlying federal policy, and he sought an order prohibiting the repurchase of his partnership interest. After the trial court dismissed the case by holding that no private cause of action exists under the Anti-Kickback Statute, Dr. DeBartolo appealed to the Seventh Circuit Court of Appeals, which directed the trial court to dismiss the case because the Federal courts did not have jurisdiction over the subject matter involved. On February 8, 2010, Dr. DeBartolo filed a lawsuit in the Twelfth Judicial Circuit Court, Will County, Illinois

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making the same claim and seeking the same relief as he sought in the Federal Court Action. On February 5, 2014, the Circuit Court entered an Order granting summary judgment in favor of the Defendants. On March 4, 2014, Plaintiff filed a Notice of Appeal in the Appellate Court of Illinois, Third District (the "Appellate Court") seeking reversal of the Circuit Court's Order. In June 2014, Plaintiff filed a motion to withdraw the Appeal and the Appellate Court accepted the motion and dismissed the appeal with prejudice.

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 $6.4 million and $6.3 million at December 31, 2014 and December 31, 2013, and are included in *Other long-term liabilities* in the consolidated balance sheets. Expenses related to professional and general liability risks were $4.3 million, $4.5 million and $3.3 million for the years-ended December 31, 2014, 2013 and 2012, respectively, and are classified in *Other operating expenses* in our consolidated statements of operations. Expenses associated with workers' compensation were $2.0 million, $2.1 million and $2.1 million for the years-ended December 31, 2014, 2013 and 2012, 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 2031. We also lease certain buildings and equipment under capital leases expiring at various dates through 2026. Operating leases generally have 3 to 22 year terms with one or more renewal options and with terms to be negotiated at the time of renewal.

NOTE 17 — SUBSEQUENT EVENTS

Effective January 1, 2015, we sold our entire ownership interest in an ASC in Santa Monica, California for $7.6 million. As a result of the transaction, we continue to provide management services to the facility.

Effective January 1, 2015, we converted two ASCs in Louisville, Kentucky and one ASC in Lexington, Kentucky to consolidated facilities. All three ASCs are jointly owned with a health system partner and were previously accounted for as equity method investments.

Effective February 1, 2015, as a result of one our partners exercising their option to purchase an additional membership interest in a jointly owned surgical hospital in Phoenix, Arizona (the "Hospital"), we sold a 19.12% membership interest in the Hospital to our partner for $3.6 million. We received on March 2, 2015, a notice from our partner of their intent to exercise their second option to purchase from us an additional 19.5% membership interest in the Hospital for $3.7 million. This partner also has a final option, which expires on June 30, 2015, to purchase an additional 6.5% membership interest in the Hospital.

Effective February 1, 2015, an indirect wholly-owned subsidiary of SCA purchased a 67% controlling interest in Surgery Center of Wilson, LLC, which owns and operates an ASC in Wilson, North Carolina, for $3.8 million. In addition, SCA purchased the management agreement rights of the facility for $0.2 million. This ASC is a consolidated facility.

Effective February 1, 2015, a joint venture entity owned by SCA and a health system purchased a 51.0% controlling interest in Clinton Partners, LLC, which owns and operates an ASC in Clinton Township, Michigan, for total consideration of $4.1 million. In addition, SCA purchased its pro rata portion of the management agreement rights of the facility for $0.7 million. This ASC is a consolidated facility.

Effective March 1, 2015, the future JV, as further described in Note 3, purchased a 61.0% controlling interest in NovaMed Surgery Center of Dallas, LP, which owns and operates an ASC in Dallas, Texas, for $6.8 million. In addition, SCA purchased its pro rata portion of the management agreement rights of the facility for $1.2 million. This ASC is a consolidated facility.

Effective March 1, 2015, Multi-Specialty Surgery Center, LLC ("Multi-Specialty"), which owns and operates an ASC in Indianapolis, Indiana, contributed substantially all of its assets to Beltway Surgery Centers, L.L.C. ("Beltway"), in exchange for $15.9 million in cash and 13.75 units, or 3.8% membership interests, of Beltway valued at $6.1 million. Beltway is a nonconsolidated SCA entity, which is a joint venture among a subsidiary of SCA, physicians and a health system, and owns and operates multiple ASCs in Indiana. As a result of the transaction, the Multi-Specialty location became an additional location of Beltway and is an equity method investment for us.

NOTE 18 — 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, 2014 and 2013 and the results of its operations and cash flows for the years-ended December 31, 2014, 2013 and 2012.

Surgical Care Affiliates, Inc.
Condensed Balance Sheets
(In thousands of U.S. dollars)

	DECEMBER 31, 2014	DECEMBER 31, 2013
Assets		
Cash and cash equivalents	$ 162	$ 16,193
Investment in SCA	243,339	205,686

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Total assets	$ 243,501	$ 221,879
Liabilities		
Due to SCA	$ 162	$ 16,193
Total liabilities	162	16,193
Equity		
Common stock	386	382
Additional paid in capital	419,088	413,419
Contributed capital	—	—
Accumulated deficit	(176,135)	(208,115)
Total equity	243,339	205,686
Total liabilities and equity	$ 243,501	$ 221,879

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

	YEAR-ENDED DECEMBER 31, 2014	YEAR-ENDED DECEMBER 31, 2013	YEAR-ENDED DECEMBER 31, 2012
Equity in net income (loss) of SCA	$ 36,137	$ (48,620)	$ (18,291)
Stock compensation expense	4,126	2,724	1,719
Other expenses	31	-	-
Income (loss) before income taxes	31,980	(51,344)	(20,010)
Provision for income taxes	—	—	—
Net income (loss)	31,980	(51,344)	(20,010)
Equity in comprehensive income of SCA	—	8,327	986
Comprehensive income (loss)	$ 31,980	$ (43,017)	$ (19,024)
Basic net income (loss) per share	$ 0.83	$ (1.62)	$ (0.66)
Basic average shares outstanding	38,477	31,688	30,340
Diluted net income (loss) per share	$ 0.80	$ (1.62)	$ (0.66)
Diluted average shares outstanding	39,958	31,688	30,340

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

	YEAR-ENDED DECEMBER 31, 2014	YEAR-ENDED DECEMBER 31, 2013	YEAR-ENDED DECEMBER 31, 2012
Net income (loss)	$ 31,980	$ (51,344)	$ (20,010)
Adjustment to reconcile net loss to net cash from operating activities			
Equity in net (income) loss of SCA	(36,137)	48,620	18,291
Stock compensation expense	4,126	2,724	1,719
Net cash from operating activities	(31)	—	—
Investing activities:			
Investment in SCA	(16,000)	(160,793)	—
Distributions from SCA	—	74,900	—
Net cash used in investing activities	(16,000)	(85,893)	—
Financing activities:			
Member contributions	—	—	—
Proceeds from issuance of shares pursuant to IPO	—	176,786	—
Distributions to unitholders	—	(74,900)	—
Net cash provided by financing activities	—	101,886	—
Net change in cash and cash equivalents	(16,031)	15,993	—
Cash and cash equivalents at beginning of period	16,193	200	200
Cash and cash equivalents at end of period	$ 162	$ 16,193	$ 200
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, 2014 and 2013. 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.

	2014				2013			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	(In thousands, except per share data)							
Net operating revenues	$ 192,651	$ 208,720	$ 216,196	$ 247,169	$ 187,488	$ 193,368	$ 190,983	$213,824
Income from continuing operations before income taxes	24,756	38,562	46,341	66,284	31,429	20,097	16,198	8,524
Income from continuing operations	23,007	37,197	43,511	62,789	28,077	19,033	10,774	6,044

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Gain (loss) from discontinued operations, net of income tax	163	(2,716)	(5,052)	(1,750)	(1,603)	(2,687)	(1,336)	(3,704)
Net income	23,170	34,481	38,459	61,039	26,474	16,346	9,438	2,340
Less: Net income attributable to noncontrolling interests	(22,936)	(28,452)	(30,627)	(43,154)	(27,910)	(26,109)	(22,146)	(29,777)
Net income (loss) attributable to Surgical Care Affiliates	$ 234	$ 6,029	$ 7,832	$ 17,885	$ (1,436)	$ (9,763)	$ (12,708)	$ (27,437)
Basic net earnings (loss) from continuing operations per common share	$ 0.00	$ 0.23	$ 0.33	$ 0.51	$ 0.01	$ (0.23)	$ (0.37)	$ (0.67)
Basic net income (loss) per common share	$ 0.01	$ 0.16	$ 0.20	$ 0.46	$ (0.05)	$ (0.32)	$ (0.42)	$ (0.77)
Diluted net earnings (loss) from continuing operations per common share	$ 0.00	$ 0.22	$ 0.32	$ 0.49	$ 0.01	$ (0.23)	$ (0.37)	$ (0.67)
Diluted net earnings (loss) per common share	$ 0.01	$ 0.15	$ 0.20	$ 0.45	$ (0.05)	$ (0.32)	$ (0.42)	$ (0.77)

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Attachment 7

<u>Section 1130.520, Information Requirements for Change of Ownership of a Health Care Facility</u>

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

    a. The transaction documents will contain a provision that execution 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. **<u>Statement as to the anticipated benefits of the proposed changes in ownership to the community.</u>**

    By partnering with SCA-Winchester, LLC ("SCA-Winchester"), Winchester Endoscopy, LLC ("Winchester") 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 Winchester under a management agreement. SCA is a leading developer of ambulatory surgical centers nationwide. Based on this affiliation, Winchester 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. **<u>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</u>.**

Alignment with SCA-Winchester will likely result in cost savings to Winchester 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 Winchester'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. **<u>Description of the facility's quality improvement program mechanism that will be utilized to assure quality control</u>.**

As a part of its administrative services, SCA will monitor Winchester'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 Winchester 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. **<u>Description of the applicant's organizational structure, including a listing of controlling or subsidiary persons</u>.**

Winchester is currently owned by three (3) physicians ("Physician Owners").

SCA-Winchester, LLC is a wholly-owned subsidiary of SCA, which is in turn a wholly-owned subsidiary of SCA, Inc.

The proposed transaction will result in the transfer of fifty-one percent (51%) ownership interest of Winchester to SCA-Winchester and retention of forty-nine percent (49%) ownership of Winchester by the Physician Owners.

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

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

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

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

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 Winchester 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 prepared 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 acquisition.