
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2019

or

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

Commission file number: 001-37576

Surgery Partners, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

47-3620923

(I.R.S. Employer
Identification No.)

310 Seven Springs Way, Suite 500

Brentwood, Tennessee 37027

(Address of principal executive offices and zip code)

(615) 234-5900

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	SGRY	The Nasdaq Global Select Market

As of May 8, 2019, there were 49,428,103 shares of the registrant's common stock outstanding.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

SURGERY PARTNERS, INC.
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Unaudited, dollars in millions, except per share amounts)

	March 31, 2019	December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 142.5	\$ 184.3
Accounts receivable	294.9	307.6
Inventories	43.8	43.4
Prepaid expenses and other current assets	54.1	53.0
Total current assets	535.3	588.3
Property and equipment, net of accumulated depreciation of \$59.9 and \$56.1, respectively	400.1	426.3
Intangible assets, net	54.3	54.3
Goodwill	3,393.0	3,382.8
Investments in and advances to affiliates	78.5	78.5
Long-term deferred tax assets	100.9	109.2
Other long-term assets	318.8	36.9
Total assets	\$ 4,880.9	\$ 4,676.3
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 69.7	\$ 83.3
Accrued payroll and benefits	41.0	55.2
Other current liabilities	191.8	155.2
Current maturities of long-term debt	57.1	55.6
Total current liabilities	359.6	349.3
Long-term debt, less current maturities	2,384.6	2,270.9
Other long-term liabilities	370.0	271.3
Non-controlling interests—redeemable	314.6	326.6
Redeemable preferred stock - Series A; shares authorized, issued and outstanding - 310,000; redemption value - \$367.8 and \$359.3, respectively	367.8	359.3
Stockholders' equity:		
Preferred stock, \$0.01 par value; shares authorized - 20,000,000; shares issued or outstanding - none	—	—
Common stock, \$0.01 par value; shares authorized - 300,000,000; shares issued and outstanding - 49,385,974 and 48,869,204, respectively	0.5	0.5
Additional paid-in capital	673.9	673.5
Accumulated other comprehensive loss	(33.9)	(22.4)
Retained deficit	(249.1)	(247.0)
Total Surgery Partners, Inc. stockholders' equity	391.4	404.6
Non-controlling interests—non-redeemable	692.9	694.3
Total stockholders' equity	1,084.3	1,098.9
Total liabilities and stockholders' equity	\$ 4,880.9	\$ 4,676.3

See notes to unaudited condensed consolidated financial statements.

SURGERY PARTNERS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, dollars in millions, except per share amounts, shares in thousands)

	Three Months Ended March 31,	
	2019	2018
Revenues	\$ 416.8	\$ 411.3
Operating expenses:		
Salaries and benefits	129.2	129.7
Supplies	115.0	114.4
Professional and medical fees	35.1	35.7
Lease expense	20.6	21.4
Other operating expenses	26.2	26.1
Cost of revenues	326.1	327.3
General and administrative expenses	21.7	24.2
Depreciation and amortization	18.8	15.7
Income from equity investments	(2.0)	(1.9)
Loss on disposals and deconsolidations, net	0.6	—
Transaction and integration costs	2.0	5.0
Other income	—	(0.2)
Total operating expenses	367.2	370.1
Operating income	49.6	41.2
Tax receivable agreement expense	(2.4)	—
Interest expense, net	(42.0)	(34.3)
Income before income taxes	5.2	6.9
Income tax expense	1.7	1.8
Net income	3.5	5.1
Less: Net income attributable to non-controlling interests	(23.6)	(22.6)
Net loss attributable to Surgery Partners, Inc.	(20.1)	(17.5)
Less: Amounts attributable to participating securities	(8.5)	(7.8)
Net loss attributable to common stockholders	\$ (28.6)	\$ (25.3)
Net loss per share attributable to common stockholders		
Basic	\$ (0.60)	\$ (0.53)
Diluted ⁽¹⁾	\$ (0.60)	\$ (0.53)
Weighted average common shares outstanding		
Basic	48,047	48,007
Diluted ⁽¹⁾	48,047	48,007

⁽¹⁾ The impact of potentially dilutive securities for all periods presented was not considered because the effect would be anti-dilutive in those periods.

See notes to unaudited condensed consolidated financial statements.

SURGERY PARTNERS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited, dollars in millions)

	Three Months Ended March 31,	
	2019	2018
Net income	\$ 3.5	\$ 5.1
Other comprehensive income, net of tax:		
Derivative activity	(11.5)	—
Comprehensive (loss) income	\$ (8.0)	\$ 5.1
Less: Comprehensive income attributable to non-controlling interests	(23.6)	(22.6)
Comprehensive loss attributable to Surgery Partners, Inc.	\$ (31.6)	\$ (17.5)

See notes to unaudited condensed consolidated financial statements.

SURGERY PARTNERS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited, dollars in millions, shares in thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Deficit	Non-Controlling Interests— Non-Redeemable	Total
	Shares	Amount					
Balance at December 31, 2017	48,687	\$ 0.5	\$ 695.5	\$ —	\$ (41.3)	\$ 681.9	\$ 1,336.6
Net (loss) income	—	—	—	—	(17.5)	15.9	(1.6)
Equity-based compensation	—	—	2.0	—	—	—	2.0
Preferred dividends	—	—	(7.8)	—	—	—	(7.8)
Issuance of restricted and unrestricted shares	440	—	—	—	—	—	—
Cancellation of restricted shares	(72)	—	(0.7)	—	—	—	(0.7)
Repurchase of shares	(157)	—	(2.0)	—	—	—	(2.0)
Acquisition and disposal of shares of non-controlling interests, net ⁽¹⁾	—	—	2.0	—	—	(1.2)	0.8
Distributions to non-controlling interests—non-redeemable holders	—	—	—	—	—	(22.5)	(22.5)
Balance at March 31, 2018	<u>48,898</u>	<u>\$ 0.5</u>	<u>\$ 689.0</u>	<u>\$ —</u>	<u>\$ (58.8)</u>	<u>\$ 674.1</u>	<u>\$ 1,304.8</u>
Balance at December 31, 2018	48,869	\$ 0.5	\$ 673.5	\$ (22.4)	\$ (247.0)	\$ 694.3	\$ 1,098.9
Net (loss) income	—	—	—	—	(20.1)	16.0	(4.1)
Equity-based compensation	—	—	1.9	—	—	—	1.9
Preferred dividends	—	—	(8.5)	—	—	—	(8.5)
Other comprehensive loss	—	—	—	(11.5)	—	—	(11.5)
Issuance of restricted and unrestricted shares	593	—	—	—	—	—	—
Cancellation of restricted shares	(76)	—	(1.0)	—	—	—	(1.0)
Net effect of adoption of new accounting standard (see Note 1)	—	—	—	—	18.0	—	18.0
Acquisition and disposal of shares of non-controlling interests, net ⁽¹⁾	—	—	8.0	—	—	6.1	14.1
Distributions to non-controlling interests—non-redeemable holders	—	—	—	—	—	(23.5)	(23.5)
Balance at March 31, 2019	<u>49,386</u>	<u>\$ 0.5</u>	<u>\$ 673.9</u>	<u>\$ (33.9)</u>	<u>\$ (249.1)</u>	<u>\$ 692.9</u>	<u>\$ 1,084.3</u>

⁽¹⁾ Includes post acquisition date adjustments.

See notes to unaudited condensed consolidated financial statements.

SURGERY PARTNERS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, dollars in millions)

	Three Months Ended March 31,	
	2019	2018
Cash flows from operating activities:		
Net income	\$ 3.5	\$ 5.1
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	18.8	15.7
Non-cash interest income, net	(0.3)	(0.1)
Non-cash lease expense	10.1	—
Equity-based compensation	1.9	2.0
Loss on disposals and deconsolidations, net	0.6	—
Deferred income taxes	1.3	1.4
Income from equity investments, net of distributions received	0.2	0.3
Changes in operating assets and liabilities, net of acquisitions and divestitures:		
Accounts receivable	13.4	14.1
Other operating assets and liabilities	(29.0)	(8.5)
Net cash provided by operating activities	<u>20.5</u>	<u>30.0</u>
Cash flows from investing activities:		
Purchases of property and equipment	(11.8)	(10.0)
Payments for acquisitions, net of cash acquired	(7.6)	(25.6)
Proceeds from disposals of facilities and other assets	1.2	—
Other investing activities	(0.2)	(0.8)
Net cash used in investing activities	<u>(18.4)</u>	<u>(36.4)</u>
Cash flows from financing activities:		
Principal payments on long-term debt	(12.9)	(16.3)
Borrowings of long-term debt	2.4	0.4
Payments of preferred dividends	—	(3.9)
Distributions to non-controlling interest holders	(33.8)	(30.9)
Receipts (payments) related to ownership transactions with non-controlling interest holders	1.5	(0.8)
Repurchase of shares	—	(2.0)
Other financing activities	(1.1)	(2.2)
Net cash used in financing activities	<u>(43.9)</u>	<u>(55.7)</u>
Net decrease in cash, cash equivalents and restricted cash	(41.8)	(62.1)
Cash, cash equivalents and restricted cash at beginning of period	184.6	175.2
Cash, cash equivalents and restricted cash at end of period	<u>\$ 142.8</u>	<u>\$ 113.1</u>

See notes to unaudited condensed consolidated financial statements.

SURGERY PARTNERS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Organization and Summary of Accounting Policies

Organization

Surgery Partners, Inc., a Delaware corporation, acting through its subsidiaries, owns and operates a national network of surgical facilities and ancillary services. The surgical facilities, which include ambulatory surgery centers ("ASCs") and surgical hospitals, primarily provide non-emergency surgical procedures across many specialties, including, among others, gastroenterology, general surgery, ophthalmology, orthopedics and pain management. The Company's surgical hospitals also provide services such as diagnostic imaging, laboratory, obstetrics, oncology, pharmacy, physical therapy and wound care. Ancillary services are comprised of a diagnostic laboratory, multi-specialty physician practices, urgent care facilities, anesthesia services and optical services. Unless the context otherwise indicates, Surgery Partners, Inc. and its subsidiaries are referred to herein as "Surgery Partners," "we," "us," "our" or the "Company."

As of March 31, 2019, the Company owned or operated a portfolio of 123 surgical facilities, comprised of 108 ASCs and 15 surgical hospitals in 31 states. The Company owns these facilities in partnership with physicians and, in some cases, healthcare systems in the markets and communities it serves. The Company owned a majority interest in 84 of the surgical facilities and consolidated 106 of these facilities for financial reporting purposes.

Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for fair presentation of the Company's financial position and results of operations have been included. The Company's fiscal year ends on December 31 and interim results are not necessarily indicative of results for a full year or any other interim period. The information contained in these condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, as well as interests in partnerships and limited liability companies controlled by the Company through its ownership of a majority voting interest or other rights granted to the Company by contract to manage and control the affiliate's business. All significant intercompany balances and transactions are eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and footnotes. Examples include, but are not limited to, estimates of accounts receivable allowances, professional and general liabilities and the estimate of deferred tax assets or liabilities. Actual results could differ from those estimates.

Variable Interest Entities

The condensed consolidated financial statements include the accounts of variable interest entities ("VIE") in which the Company is the primary beneficiary under the provisions of the Financial Accounting Standards Boards ("FASB") Accounting Standards Codification 810, *Consolidation*. The Company has the power to direct the activities that most significantly impact a VIE's economic performance. Additionally, the Company would absorb the majority of the expected losses from any of these entities should such expected losses occur. As of both March 31, 2019 and December 31, 2018, the consolidated VIEs include four surgical facilities, three anesthesia practices and four physician practices.

The total assets (excluding goodwill and intangible assets, net) of the consolidated VIEs included in the accompanying condensed consolidated balance sheets as of March 31, 2019 and December 31, 2018, were \$11.0 million and \$11.2 million, respectively, and the total liabilities of the consolidated VIEs were \$3.4 million and \$3.6 million, respectively.

Fair Value of Financial Instruments

The fair value of a financial instrument is the amount at which the instrument could be exchanged in an orderly transaction between market participants to sell the asset or transfer the liability. The Company uses fair value measurements based on quoted prices in active markets for identical assets or liabilities (Level 1), inputs other than quoted prices in active markets that are either directly or indirectly observable (Level 2), or unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions (Level 3), depending on the nature of the item being valued.

The carrying amounts reported in the condensed consolidated balance sheets for cash and cash equivalents, accounts receivable, restricted invested assets and accounts payable approximate their fair values under Level 3 calculations.

SURGERY PARTNERS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

A summary of the carrying amounts and fair values of the Company's long-term debt follows (in millions):

	Carrying Amount		Fair Value	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
Term Loan	\$ 1,444.4	\$ 1,447.9	\$ 1,417.3	\$ 1,382.8
Senior Unsecured Notes due 2021	\$ 406.1	\$ 406.7	\$ 411.2	\$ 407.2
Senior Unsecured Notes due 2025	\$ 370.0	\$ 370.0	\$ 333.0	\$ 320.5

The fair values of the Term Loan, Senior Unsecured Notes due 2021 and the Senior Unsecured Notes due 2025 were based on a Level 2 inputs using quoted prices for identical liabilities in inactive markets. The carrying amounts related to the Company's other long-term debt obligations approximate their fair values under Level 3 calculations.

In 2018, the Company entered into certain interest rate swap agreements (see Note 6. "Derivatives and Hedging Activity"). The fair value of these derivative instruments was \$33.9 million and \$22.4 million at March 31, 2019 and December 31, 2018, respectively, and was included in other long-term liabilities in the condensed consolidated balance sheets. The fair value of these derivative financial instruments was based on a quoted market price, or a Level 2 computation.

The Company maintains a supplemental executive retirement savings plan (the "SERP") for certain executive officers. The SERP is a non-qualified deferred compensation plan for eligible executive officers and other key employees of the Company that allows participants to defer portions of their compensation. The fair value of the SERP asset and liability was based on a quoted market price, or a Level 1 computation. As of March 31, 2019 and December 31, 2018, the fair value of both the assets and liabilities in the SERP were \$1.3 million and \$1.4 million, respectively, and were included in other long-term assets and other long-term liabilities in the condensed consolidated balance sheets.

Revenues

The Company's revenues generally relate to contracts with patients in which the performance obligations are to provide healthcare services. The Company recognizes revenues in the period in which our obligations to provide health care services are satisfied and reports the amount that reflects the consideration the Company expects to be entitled to. The Company's performance obligations are generally satisfied over a period of less than one day. The contractual relationships with patients, in most cases, also involve a third-party payor (e.g., Medicare, Medicaid, managed care health plans, employers and commercial insurance companies, including plans offered through the health insurance exchanges) and the transaction prices for the services provided are dependent upon the terms provided by or negotiated with the third-party payors. The payment arrangements with third-party payors for the services provided to the related patients typically specify payments at amounts less than the Company's standard charges. The Company continually reviews the contractual estimation process to consider and incorporate updates to laws and regulations and the frequent changes in managed care contractual terms resulting from contract renegotiations and renewals.

A summary of revenues by service type as a percentage of total revenues follows:

	Three Months Ended March 31,	
	2019	2018
Patient service revenues:		
Surgical facilities revenues	93.8%	93.5%
Ancillary services revenues	4.7%	4.9%
	98.5%	98.4%
Other service revenues:		
Optical services revenues	0.3%	0.7%
Other revenues	1.2%	0.9%
	1.5%	1.6%
Total revenues	100.0%	100.0%

Patient service revenues. This includes revenue related to charging facility fees in exchange for providing patient care. The fee charged for healthcare procedures performed in surgical facilities varies depending on the type of service provided, but usually includes all charges for usage of an operating room, a recovery room, special equipment, medical supplies, nursing staff and medications. The fee does not normally include professional fees charged by the patient's surgeon, anesthesiologist or other attending physician, which are billed directly by such physicians to the patient or third-party payor. However, in several surgical facilities, the Company charges for anesthesia services. Ancillary service revenues include fees for patient visits to the Company's physician practices, pharmacy services and diagnostic tests ordered by physicians.

SURGERY PARTNERS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Patient service revenues are recognized as performance obligations are satisfied. Performance obligations are based on the nature of services provided. Typically, the Company recognizes revenue at a point in time in which services are rendered and the Company has no obligation to provide further patient services. As the Company primarily performs outpatient procedures, performance obligations are generally satisfied same day and revenue is recognized on the date of service.

The Company determines the transaction price based on gross charges for services provided, net of estimated contractual adjustments and discounts from third-party payors. The Company estimates its contractual adjustments and discounts based on contractual agreements, its discount policies and historical experience. Changes in estimated contractual adjustments and discounts are recorded in the period of change.

Other service revenues. Optical service revenues consist of handling charges billed to the members of the Company's optical products purchasing organization. The Company's optical products purchasing organization negotiates volume buying discounts with optical products manufacturers. The buying discounts and any handling charges billed to the members of the buying group represent the revenue recognized for financial reporting purposes. The Company satisfies the performance obligation and recognizes revenue when the orders are shipped to members. The Company bases its estimates for sales returns and discounts on historical experience and has not experienced significant fluctuations between estimated and actual return activity and discounts given.

Other revenues include management and administrative service fees derived from the non-consolidated facilities that the Company accounts for under the equity method, management of surgical facilities in which it does not own an interest, and management services provided to physician practices for which the Company is not required to provide capital or additional assets. These agreements typically require the Company to provide recurring management services over a multi-year period which are billed and collected on a monthly basis. The fees derived from these management arrangements are based on a predetermined percentage of the revenues of each facility or practice and are recognized in the period in which management services are rendered and billed.

The following table sets forth patient service revenues by type of payor and as a percentage of total patient service revenues for the Company's consolidated surgical facilities (dollars in millions):

	Three Months Ended March 31,			
	2019		2018	
	Amount	%	Amount	%
Patient service revenues:				
Private insurance	\$ 215.3	52.4%	\$ 216.5	53.5%
Government	164.9	40.2%	156.9	38.8%
Self-pay	10.8	2.6%	12.8	3.1%
Other ⁽¹⁾	19.8	4.8%	18.5	4.6%
Total patient service revenues	410.8	100.0%	404.7	100.0%
Other service revenues:				
Optical services revenues	1.1		2.9	
Other revenues	4.9		3.7	
Total revenues	<u>\$ 416.8</u>		<u>\$ 411.3</u>	

(1) Other is comprised of anesthesia service agreements, auto liability, letters of protection and other payor types.

Cash, Cash Equivalents and Restricted Cash

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Company maintains its cash and cash equivalent balances at high credit quality financial institutions.

Cash, cash equivalents and restricted cash reported within the consolidated statement of cash flows includes \$0.3 million of restricted investments, which are reflected in other long-term assets in the consolidated balance sheet at both March 31, 2019 and December 31, 2018. These restricted investments represents restricted cash held in accordance with the provisions of a long-term operating lease agreement held as security for performance under the Company's covenants and obligations within the agreement through January 2024.

Accounts Receivable and Allowances for Contractual Adjustments and Doubtful Accounts

Accounts receivable from third-party payors are recorded net of estimated implicit price concessions which are estimated based on the historical trend of the Company's surgical facilities' cash collections and contractual write-offs, established fee schedules, relationships with payors and procedure statistics. While changes in estimated reimbursement from third-party payors remain a possibility, the Company expects that any such changes would be minimal and, therefore, would not have a material effect on its financial condition or results of operations.

Accounts receivable consists of receivables from federal and state agencies (under the Medicare and Medicaid programs), managed care health plans, commercial insurance companies, employers and patients. Management recognizes that revenues and receivables from government agencies are significant to the Company's operations, but it does not believe that there is significant credit risk associated with these government

SURGERY PARTNERS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

agencies. Concentration of credit risk with respect to other payors is limited because of the large number of such payors. As of March 31, 2019 and December 31, 2018, the Company had a net third-party Medicaid settlements liability of \$7.6 million and \$4.8 million, respectively, included in other current liabilities in the condensed consolidated balance sheets.

The Company recognizes that final reimbursement of accounts receivable is subject to final approval by each third-party payor. However, because the Company has contracts with its third-party payors and also verifies insurance coverage of the patient before medical services are rendered, the amounts that are pending approval from third-party payors are not considered significant. Amounts are classified outside of self-pay if the Company has an agreement with the third-party payor or has verified a patient's coverage prior to services rendered. The Company's policy is to collect co-payments and deductibles prior to providing medical services. It is also the Company's policy to verify a patient's insurance prior to the patient's procedure. Patient services of the Company are primarily non-emergency, which allows the surgical facilities to control the procedures for which third-party reimbursement is sought and obtained. The Company does not require collateral from self-pay patients.

The Company's collection policies and procedures are based on the type of payor, size of claim and estimated collection percentage for each patient account. The operating systems used to manage patient accounts provide for an aging schedule in 30-day increments, by payor, physician and patient. The Company analyzes accounts receivable at each of its surgical facilities to ensure the proper collection and aged category. The operating systems generate reports that assist in the collection efforts by prioritizing patient accounts. Collection efforts include direct contact with insurance carriers or patients, written correspondence and the use of legal or collection agency assistance, as required.

The receivables related to the Company's optical products purchasing organization are recognized separately from patient accounts receivable, as discussed above, and are included in other current assets in the condensed consolidated balance sheets. Such receivables were \$10.6 million and \$8.5 million at March 31, 2019 and December 31, 2018, respectively.

Goodwill

Goodwill represents the fair value of the consideration provided in an acquisition over the fair value of net assets acquired and is not amortized. Additions to goodwill include amounts resulting from new business combinations and incremental ownership purchases in the Company's subsidiaries. A summary of the Company's acquisitions for the three months ended March 31, 2019 is included in Note 2. "Acquisitions."

A summary of activity related to goodwill for the three months ended March 31, 2019 is as follows (in millions):

Balance at December 31, 2018	\$	3,382.8
Acquisitions, including post acquisition adjustments		10.2
Divestitures and deconsolidations		—
Balance at March 31, 2019	\$	<u>3,393.0</u>

Derivative Instruments and Hedging Activities

In accordance with Accounting Standards Codification 815, *Derivatives and Hedging*, the Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of its risk, even though hedge accounting does not apply or the Company elects not to apply hedge accounting.

In accordance with the fair value measurement guidance issued by the FASB in Accounting Standards Update ("ASU") 2011-04, the Company made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

Non-Controlling Interests—Redeemable

Each partnership and limited liability company through which the Company owns and operates its surgical facilities is governed by a partnership or operating agreement, respectively. In certain circumstances, the applicable partnership or operating agreements for the Company's surgical facilities provide that the facilities will purchase all of the physician limited partners' or physician minority members', as applicable, ownership if certain adverse regulatory events occur, such as it becoming illegal for the physician(s) to own an interest in a surgical facility, refer patients to a surgical facility or receive cash distributions from a surgical facility. The non-controlling interests—redeemable are reported outside of stockholders' equity in the condensed consolidated balance sheets.

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A summary of activity related to the non-controlling interests—redeemable is as follows (in millions):

Balance at December 31, 2018	\$	326.6
Net income attributable to non-controlling interests—redeemable		7.6
Acquisition and disposal of shares of non-controlling interests, net—redeemable ⁽¹⁾		(9.3)
Distributions to non-controlling interest—redeemable holders		(10.3)
Balance at March 31, 2019	\$	314.6

(1) Includes post acquisition date adjustments.

Income Taxes

The Company uses the asset and liability method to account for income taxes. Under this method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. If a carryforward exists, the Company makes a determination as to whether the carryforward will be utilized in the future. A valuation allowance is established for certain carryforwards when their recoverability is deemed to be uncertain. The carrying value of the net deferred tax assets assumes that the Company will be able to generate sufficient future taxable income in certain tax jurisdictions, based on estimates and assumptions. If our expectations for future operating results on a consolidated basis or at the state jurisdiction level vary from actual results due to changes in healthcare regulations, general economic conditions, or other factors, we may need to adjust the valuation allowance, for all or a portion of our deferred tax assets. Our income tax expense in future periods will be reduced or increased to the extent of offsetting decreases or increases, respectively, in our valuation allowance in the period when the change in circumstances occurs. These changes could have a significant impact on our future earnings.

The Company and certain of its subsidiaries file a consolidated federal income tax return. The partnerships, limited liability companies, and certain non-consolidated physician practice corporations also file separate income tax returns. The Company's allocable portion of each partnership's and limited liability company's income or loss is included in taxable income of the Company. The remaining income or loss of each partnership and limited liability company is allocated to the other owners.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, "Leases," (the "Lease Accounting Standard"). The core principal of the Lease Accounting Standard is to increase transparency and comparability among organizations by requiring the recognition of right-of-use lease assets and liabilities on the balance sheet and disclosing key information. The most prominent among the changes from this ASU is the recognition of right-of-use assets and lease liabilities by lessees for those leases classified as operating leases. The Company's accounting for finance leases remained substantially unchanged from its prior accounting for capital leases. The disclosure objective is to enable users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Company adopted the Lease Accounting Standard effective January 1, 2019, using a modified retrospective transition approach. Under this approach, the Company elected to recognize and measure leases under the new standard in the period of adoption, with a cumulative-effect adjustment recorded to equity on its condensed consolidated balance sheets, along with the application of certain available practical expedients including an exclusion for short-term leases and accounting for leases at the portfolio level where appropriate. The cumulative effect of the accounting change recognized upon adoption was \$18.0 million reflected as an adjustment to retained deficit in our condensed consolidated balance sheets.

The Company has implemented internal controls and key system functionality to establish governance and oversight over the implementation, and to ensure the Company's financial statements and related footnotes are complete and accurate and are adequately reviewed by members of management. The newly implemented internal control changes related to leases include new systems and software implementation, updated accounting and disclosure policies, and redesigned financial reporting internal controls over governance, oversight and reviews. Additionally, the Company has expanded data gathering procedures to comply with the additional disclosure requirements and ongoing contract review requirements.

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2. Acquisitions

During the three months ended March 31, 2019, the Company paid cash consideration of \$7.6 million for acquisitions, which primarily consisted of a physician practice. The acquisition was funded through cash from operations. The total consideration was allocated to the assets acquired and liabilities assumed based upon the respective acquisition date fair values. The aggregate amounts preliminarily recognized for each major class of assets acquired and liabilities assumed for the acquisitions are as follows (in millions):

Cash consideration	\$	7.6
Fair value of non-controlling interests		3.7
Aggregate acquisition date fair value	\$	<u>11.3</u>
Net assets acquired:		
Current Assets	\$	0.6
Property and equipment		0.2
Goodwill		10.6
Current liabilities		(0.1)
Aggregate acquisition date fair value	\$	<u>11.3</u>

The fair values assigned to certain assets acquired and liabilities assumed by the Company have been estimated on a preliminary basis and are subject to change as new facts and circumstances emerge that were present at the date of acquisition. During the three months ended March 31, 2019, no significant changes were made to the purchase price allocation of assets and liabilities, existing at the date of acquisition, related to individual acquisitions completed in 2018. The goodwill acquired was primarily allocated to the Company's ancillary services reportable segment. The results of operations of the acquisitions are included in the Company's results of operations beginning on the dates of acquisition, and were not considered significant for the three months ended March 31, 2019.

3. Long-Term Debt

A summary of long-term debt is as follows (in millions):

	<u>March 31, 2019</u>	<u>December 31, 2018</u>
Revolver	\$ —	\$ —
Term Loan ⁽¹⁾	1,444.4	1,447.9
Senior Unsecured Notes due 2021 ⁽²⁾	406.1	406.7
Senior Unsecured Notes due 2025	370.0	370.0
Notes payable and secured loans	79.3	79.4
Finance lease obligations ⁽³⁾	144.6	25.4
Less: unamortized debt issuance costs and original issue discount	(2.7)	(2.9)
Total debt	<u>2,441.7</u>	<u>2,326.5</u>
Less: Current maturities	57.1	55.6
Total long-term debt	<u>\$ 2,384.6</u>	<u>\$ 2,270.9</u>

(1) Includes unamortized fair value discount of \$5.4 million and \$5.5 million as of March 31, 2019 and December 31, 2018, respectively.

(2) Includes unamortized fair value premium of \$6.1 million and \$6.7 million as of March 31, 2019 and December 31, 2018, respectively.

(3) In connection with the adoption of the Lease Accounting Standard, the Company's capital lease obligations that existed as of December 31, 2018 were derecognized and included as a component of the finance lease obligations included in the table shown above. See Note 4, "Leases" for further discussion on the adoption of the Lease Accounting Standard. The increase in finance lease obligations upon adoption of the Lease Accounting Standard is due to the inclusion of certain financing obligations that were previously recognized as a component of other current and long-term liabilities as discussed further in Note 8, "Other Assets and Liabilities."

4. Leases

On January 1, 2019, the Company adopted the Lease Accounting Standard using the modified retrospective transition approach by applying the new standard to all leases existing at that date. Results and disclosure requirements for reporting periods beginning after January 1, 2019 are presented under the new guidance, while prior period amounts have not been adjusted.

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The Company elected the package of practical expedients permitted under the transition guidance, which allowed the Company to carryforward its historical lease identification, lease classification and initial direct costs for any leases that existed prior to January 1, 2019. The Company also elected the practical expedient to use hindsight to determine the lease term for its leases at transition and the accounting policy practical expedient to exclude leases with an initial term of twelve months or less from the balance sheet. Additionally, for certain leases, the Company applied a portfolio approach to effectively account for the operating lease right-of-use assets and liabilities.

The Company determines if an arrangement is a lease at inception. Right-of-use assets and liabilities are recognized at commencement date based on the present value of remaining lease payments over the lease term. For this purpose, the Company considers only payments that are fixed and determinable at the time of commencement. Variable components of lease payments fluctuating with a future index or rate, as well as those related to common area maintenance costs, are not included in determining lease payments and are expensed as incurred. As most leases do not provide an implicit rate, the Company uses an incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The incremental borrowing rate is a hypothetical rate based on the Company's understanding of what its credit rating would be. The right-of-use asset also includes any lease payments made prior to commencement and is recorded net of any lease incentives received. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise such options.

The Company's operating leases are primarily for real estate, including medical office buildings, and corporate and other administrative offices. The Company's finance leases are primarily for medical equipment and information technology and telecommunications assets. Real estate lease agreements typically have initial terms of ten years, and may include one or more options to renew. Certain leases also include options to purchase the leased property. The useful life of assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise. The majority of the Company's medical equipment leases have a bargain purchase option that is reasonably certain of exercise, so these assets are depreciated over their useful life, typically ranging from five to seven years.

The following table presents the components of the Company's right-of-use assets and liabilities related to leases and their classification in the condensed consolidated balance sheets at March 31, 2019 (in millions):

Component of Lease Balances	Classification in Condensed Consolidated Balance Sheets	March 31, 2019
Assets:		
Operating lease assets	Other long-term assets	\$ 288.3
Finance lease assets	Property and equipment, net of accumulated depreciation	144.0
Total leased assets		\$ 432.3
Liabilities:		
Operating lease liabilities:		
Current	Other current liabilities	\$ 36.6
Long-term	Other long-term liabilities	255.7
Total operating lease liabilities		292.3
Finance lease liabilities:		
Current	Current maturities of long-term debt	10.2
Long-term	Long-term debt, less current maturities	134.4
Total finance lease liabilities		144.6
Total lease liabilities		\$ 436.9

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The following table presents the components of the Company's lease expense and their classification in the condensed consolidated statement of operations for the three months ended March 31, 2019 (in millions):

Component of Lease Balances	Classification in Condensed Consolidated Statement of Operations	March 31, 2019
Operating lease costs	Lease expense and general and administrative expenses	\$ 17.5
Finance lease costs		
Amortization of leased assets	Depreciation and amortization	4.5
Interest on lease liabilities	Interest expense, net	3.8
Total finance lease costs		8.3
Variable and short term lease costs	Lease expense and general and administrative expenses	2.4
Total lease costs		\$ 28.2

During the three months ended March 31, 2019, the Company incurred lease expense of \$5.2 million under operating lease agreements with physician investors who are related parties. During the three months ended March 31, 2019, the Company paid rent of \$1.6 million under a finance lease agreement with a lessor who is a related party. One of the Company's surgical facilities has a non-controlling ownership interest in the lessor. Payments are allocated to principal adjustments of the finance lease liability and interest expense.

The weighted-average lease terms and discount rates and cash flow information for operating and finance leases are presented in the following table (dollars in millions):

	March 31, 2019
Weighted-average remaining lease term (years)	
Operating leases	8.4
Finance leases	13.4
Weighted-average discount rate	
Operating leases	10.2%
Finance leases	10.8%
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash outflows from operating leases	\$ 16.8
Operating cash outflows from finance leases	\$ 3.8
Financing cash outflows from finance leases	\$ 2.3
Right-of-use assets obtained in exchange for lease obligations:	
Operating leases	\$ 1.2
Finance leases	\$ 2.3

Future maturities of lease liabilities at March 31, 2019 are presented in the following table (in millions):

	Operating Leases	Finance Leases
2019	\$ 51.2	\$ 20.4
2020	60.6	24.8
2021	52.9	22.9
2022	48.5	20.3
2023	45.1	18.4
Thereafter	187.5	187.4
Total lease payments	445.8	294.2
Less: imputed interest	(153.5)	(149.6)
Total lease obligations	\$ 292.3	\$ 144.6

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Future maturities of lease liabilities at December 31, 2018, prior to the adoption of the Lease Accounting Standard, are presented in the following table (in millions):

	<u>Operating Leases ⁽¹⁾</u>	<u>Capital Leases</u>
2019	\$ 81.5	\$ 8.8
2020	75.6	6.7
2021	66.7	4.7
2022	61.3	2.9
2023	57.2	1.5
Thereafter	470.2	4.3
Total lease payments	<u>\$ 812.5</u>	<u>28.9</u>
Less: imputed interest		(3.5)
Capital lease obligations		<u>\$ 25.4</u>

(1) Includes financing obligation payments to the lessors of certain financing obligations payable to the lessors of certain land, buildings and improvements. As of December 31, 2018, the current portion of the financing obligations was \$7.0 million and was included in other current liabilities in the consolidated balance sheets. The long-term portions of the finance obligations were \$149.8 million and was included as other long-term liabilities in the consolidated balance sheets.

5. Redeemable Preferred Stock

On August 31, 2017, the Company issued 310,000 shares of Series A Preferred Stock to Bain at a purchase price of \$1,000 per share for an aggregate purchase price of \$310.0 million (the "Preferred Private Placement").

A summary of activity related to the redeemable preferred stock follows (in millions):

Balance at December 31, 2018	\$ 359.3
Dividends accrued	8.5
Cash dividends declared	—
Balance at March 31, 2019	<u>\$ 367.8</u>

There were no unpaid cash dividends declared at both March 31, 2019 and December 31, 2018. The aggregate and per share amounts of unpaid cumulative preferred dividends as of March 31, 2019 was \$42.3 million and \$136.31, respectively.

6. Derivatives and Hedging Activities

Cash Flow Hedges of Interest Rate Risk

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. During the first quarter of 2019, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt.

For derivatives designated and that qualify as cash flow hedges of interest rate risk, the gain or loss on the derivative is recorded in accumulated other comprehensive income and subsequently reclassified into interest expense in the same period(s) during which the hedged transaction affects earnings, as documented at hedge inception in accordance with the Company's accounting policy election. Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. Over the next 12 months, the Company estimates that an additional \$6.6 million will be reclassified as a reduction to interest expense.

As of both March 31, 2019 and December 31, 2018, the Company had three interest rate swaps with a current notional amount of \$900.0 million and a termination date of November 30, 2023. The Company classifies its derivative financial instruments as a long-term liability included in other long-term liabilities in the condensed consolidated balance sheets.

For the three months ended March 31, 2019, the Company incurred losses related to the effective portion of derivatives, which were recognized in accumulated other comprehensive income, gross of tax effect, of \$12.8 million. For the three months ended March 31, 2019, the Company reclassified \$1.3 million of losses from accumulated other comprehensive income to interest expense, gross of tax effect. The Company held no derivative financial instruments during the three months ended March 31, 2018.

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7. Earnings Per Share

Basic and diluted earnings per share are calculated in accordance with ASC 260, *Earnings Per Share*, based on the weighted-average number of shares outstanding in each period and dilutive stock options, unvested shares and warrants, to the extent such securities exist and have a dilutive effect on earnings per share. The Company computes basic and diluted earnings per share using the two-class method. The two-class method of computing earnings per share is an earnings allocation method that determines earnings per share for common shares and participating securities according to their participation rights in dividends and undistributed earnings.

A reconciliation of the numerator and denominator of basic and diluted earnings per share follows (dollars in millions, except per share amounts, shares in thousands):

	Three Months Ended March 31,	
	2019	2018
Numerator:		
Net loss attributable to Surgery Partners, Inc.	\$ (20.1)	\$ (17.5)
Less: amounts allocated to participating securities ⁽¹⁾	(8.5)	(7.8)
Net loss attributable to common stockholders	<u>\$ (28.6)</u>	<u>\$ (25.3)</u>
Denominator:		
Weighted average shares outstanding- basic	48,047	48,007
Effect of dilutive securities ⁽²⁾	—	—
Weighted average shares outstanding- diluted	<u>48,047</u>	<u>48,007</u>
Loss per share:		
Basic	\$ (0.60)	\$ (0.53)
Diluted ⁽²⁾	\$ (0.60)	\$ (0.53)
Dilutive securities outstanding not included in the computation of loss per share as their effect is antidilutive:		
Stock options	—	123
Restricted shares	18	58
Convertible preferred stock	N/A	N/A

(1) Includes dividends accrued during all periods for the Series A Preferred Stock. The Series A Preferred Stock does not participate in undistributed losses.

(2) The impact of potentially dilutive securities for all periods presented was not considered because the effect would be anti-dilutive in each period.

Share Repurchase Transactions

On December 15, 2017, the Company's Board of Directors authorized a share repurchase program of up to \$50.0 million of the Company's issued and outstanding common stock from time to time. The timing and size of repurchases will be determined based on market conditions and other factors. The authorization does not obligate the repurchase of any shares and the Company may repurchase shares of common stock at any time without prior notice. The share repurchases will be made in accordance with applicable securities laws in open market or privately negotiated transactions. The authorization does not have a specified expiration date, and the share repurchase program may be suspended, recommenced or discontinued at any time or from time to time without prior notice.

There were no share repurchases under the share repurchase program during the three months ended March 31, 2019. During the three months ended March 31, 2018, the Company repurchased 156,818 shares of its common stock at an average price of \$12.64 per share through market purchases. At March 31, 2019, the Company had \$46.0 million of repurchase authorization available under the December 2017 authorization.

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8. Other Assets and Liabilities**Other Long-Term Assets**

A summary of other long-term assets is as follows (in millions):

	March 31, 2019	December 31, 2018
Right-of-use operating lease assets	\$ 288.3	\$ —
Other	30.5	36.9
Total	<u>\$ 318.8</u>	<u>\$ 36.9</u>

Other Current Liabilities

A summary of other current liabilities is as follows (in millions):

	March 31, 2019	December 31, 2018
Accrued legal settlement	\$ 42.2	\$ 42.3
Right-of-use operating lease liabilities	36.6	—
Interest payable	23.1	20.8
Amounts due to patients and payors	19.4	20.0
Accrued expenses and other	70.5	72.1
Total	<u>\$ 191.8</u>	<u>\$ 155.2</u>

Other Long-Term Liabilities

A summary of other long-term liabilities is as follows (in millions):

	March 31, 2019	December 31, 2018
Right-of-use operating lease liabilities	\$ 255.7	\$ —
Facility lease obligations	—	149.8
Other	114.3	121.5
Total	<u>\$ 370.0</u>	<u>\$ 271.3</u>

At December 31, 2018, the Company had financing obligations payable to the lessors of certain land, buildings and improvements that arose due to the Company's continued involvement with the leased assets under the sale-leaseback guidance in effect prior to the adoption of the Lease Accounting Standard. These obligations were included as facility lease obligations in other long-term liabilities at December 31, 2018 in the table above. Upon adoption of the Lease Accounting Standard on January 1, 2019, the Company reevaluated the classification of these financing arrangements utilizing the new accounting requirements for sale-leasebacks, and concluded that each of these financing arrangements continue to not qualify for sale treatment and therefore should continue to be recognized on the balance sheet as finance leases under the new guidance. Further, the Company has an ongoing development agreement to construct a new hospital, which costs were recognized as incurred as a deferred financing obligation included in facility lease obligations at December 31, 2018. Upon reevaluation, the Company concluded that it does not control the assets under construction and therefore the obligation and related asset were derecognized from the balance sheets upon adoption of the Lease Accounting Standard. The lease related to this new hospital is expected to commence in late 2019 when construction is completed.

9. Commitments and Contingencies**Professional, General and Workers' Compensation Liability Risks**

The Company is subject to claims and legal actions in the ordinary course of business, including claims relating to patient treatment, employment practices and personal injuries. The Company maintains general liability and professional liability insurance in excess of self-insured retentions, on a claims-made basis through third party commercial insurance carriers. Although management believes the coverage is sufficient for the Company's operations, some claims may potentially exceed the scope of coverage in effect. The Company also maintains

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workers' compensation insurance, subject to a deductible. Plaintiffs in these matters may request punitive or other damages that may not be covered by insurance. The Company is not aware of any such proceedings that are reasonably possible to have a material adverse effect on the Company's business, financial position, results of operations or liquidity.

Insurance Reserves

The Company expenses the costs under the self-insured retention exposure for general and professional liability and workers' compensation claims which relate to (i) claims made during the policy period, which are offset by insurance recoveries and (ii) an estimate of claims incurred but not yet reported that are expected to be reported after the policy period expires. Reserves and provisions are based upon periodic actuarially determined estimates. The reserves are estimated using individual case-basis valuations and actuarial analysis. Reserves for professional, general and workers' compensation claim liabilities are determined with no regard for expected insurance recoveries and are presented gross on the condensed consolidated balance sheets. Total professional, general and workers' compensation claim liabilities as of March 31, 2019 and December 31, 2018 were \$18.5 million and \$18.2 million, respectively. The balances include expected insurance recoveries of \$12.0 million at each of March 31, 2019 and December 31, 2018.

Laws and Regulations

Laws and regulations governing the Company's business, including those relating to the Medicare and Medicaid programs, are complex and subject to interpretation. These laws and regulations govern every aspect of how the Company's surgical facilities conduct their operations, from licensing requirements to how and whether the Company's facilities may receive payments pursuant to the Medicare and Medicaid programs. Compliance with such laws and regulations can be subject to future government agency review and interpretation as well as legislative changes to such laws. Noncompliance with such laws and regulations may subject the Company to significant regulatory action including fines, penalties, and exclusion from the Medicare, Medicaid and other federal healthcare programs. From time to time, governmental regulatory agencies will conduct inquiries of the Company's practices, including, but not limited to, the Company's compliance with federal and state fraud and abuse laws, billing practices and relationships with physicians.

On October 23, 2017, the Company received several civil investigative demands ("CIDs") from the federal government under the False Claims Act ("FCA") for documents and information dating back to January 1, 2010 relating to the medical necessity of certain drug tests conducted by the Company's physicians and submitted to laboratories owned and operated by the Company. In addition, the Company has been informed by CMS that payments to its diagnostic laboratory, Logan Laboratories, have been suspended pending further investigation by CMS. The Company has been providing information to the government in response to the CIDs and currently has a non-binding agreement in principle with the DOJ on the financial terms of a settlement with the goal of resolving these matters. Based on those discussions, which are still ongoing, the Company recorded a litigation-related charge of \$46.0 million relating to these matters on the consolidated statements of operations for the year ended December 31, 2018. The Company believes that this reserve is sufficient to cover a potential resolution with the government relating to these matters, including legal expenses relating to the settlement that have not previously been recorded in operating expenses. The ultimate timing, amount and/or final terms of any such resolution may differ materially from those anticipated or the Company may not be able to reach a resolution at all. It is reasonably possible that the Company will incur additional losses above the amount reserved, but the Company is not able to estimate such amounts at this time. See Item 1A "Risk Factors" in the Company's Annual Report on Form 10-K for the period ended December 31, 2018 under the heading "Risk Factors - Risks Related to Government Regulation - Companies within the healthcare industry; including us, continue to be the subject of federal and state audits and investigations, including actions for false and other improper claims."

Acquired Facilities

The Company, through its wholly-owned subsidiaries or controlled partnerships and limited liability companies, has acquired and will continue to acquire surgical facilities with prior operating histories. Such facilities may have unknown or contingent liabilities, including liabilities for failure to comply with healthcare laws and regulations, such as billing and reimbursement, fraud and abuse and similar anti-referral laws. Although the Company attempts to assure that no such liabilities exist, obtain indemnification from prospective sellers covering such matters and institute policies designed to conform centers to its standards following completion of acquisitions, there can be no assurance that the Company will not become liable for past activities that may later be asserted to be improper by private plaintiffs or government agencies. There can be no assurance that any such matter will be covered by indemnification or, if covered, that the liability sustained will not exceed contractual limits or the financial capacity of the indemnifying party.

The Company cannot predict whether federal or state statutory or regulatory provisions will be enacted that would prohibit or otherwise regulate relationships which the Company has established or may establish with other healthcare providers or have materially adverse effects on its business or revenues arising from such future actions. Management believes, however, that it will be able to adjust the Company's operations so as to be in compliance with any statutory or regulatory provision as may be applicable.

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Potential Physician Investor Liability

A majority of the physician investors in the partnerships and limited liability companies which operate the Company's surgical facilities carry general and professional liability insurance on a claims-made basis. Each partnership or limited liability company may, however, be liable for damages to persons or property arising from occurrences at the surgical facilities. Although the various physician investors and other surgeons generally are required to obtain general and professional liability insurance with tail coverage that extends beyond the period of any claims-made policies, such individuals may not be able to obtain coverage in amounts sufficient to cover all potential liability. Since most insurance policies contain exclusions, the physician investors will not be insured against all possible occurrences. In the event of an uninsured or underinsured loss, the value of an investment in the partnership interests or limited liability company membership units and the amount of distributions could be adversely affected.

Tax Receivable Agreement

On May 9, 2017, the Company entered into an agreement to amend that certain Income Tax Receivable Agreement, dated September 30, 2015 (as amended, the "TRA"), by and between the Company, and the other parties referred to therein, which amendment became effective on August 31, 2017. Pursuant to the amendment to the TRA, the Company agreed to make payments to H.I.G., the Company's former controlling shareholder, in its capacity as the stockholders representative pursuant to a fixed payment schedule. The amounts payable under the TRA are calculated as the product of (i) an annual base amount and (ii) the maximum corporate federal income tax rate for the applicable year plus three percent. The amounts payable under the TRA are related to the Company's projected realized tax savings over the next six years and are not dependent on the Company's actual tax savings over such period. The calculation of amounts payable pursuant to the TRA is thus dependent on the maximum corporate federal income tax rate. To the extent that the Company is unable to make payments under the TRA and such inability is a result of the terms of credit agreements and other debt documents that are materially more restrictive than those existing as of September 30, 2015, such payments will be deferred and will accrue interest at a rate of LIBOR plus 500 basis points until paid. If the terms of such credit agreements and other debt documents cause the Company to be unable to make payments under the TRA and such terms are not materially more restrictive than those existing as of September 30, 2015, such payments will be deferred and will accrue interest at a rate of LIBOR plus 300 basis points until paid.

Assuming the Company's effective tax rate is 24%, calculated as the maximum corporate federal tax rate plus three percent, throughout the remaining term of the TRA, the Company estimates that the total remaining amounts payable under the TRA was approximately \$68.2 million and \$64.6 million as of March 31, 2019 and December 31, 2018, respectively. As a result of the amendment to the TRA, the Company was required to value the liability under the TRA by discounting the fixed payment schedule using the Company's incremental borrowing rate. The carrying value of the liability under the TRA, reflecting the discount, was \$52.6 million and \$48.5 million as of March 31, 2019 and December 31, 2018, respectively. The current portion of the liability was \$8.1 million and \$7.6 million as of March 31, 2019 and December 31, 2018, respectively, and was included as a component of other current liabilities in the condensed consolidated balance sheet. The long-term portion was included as a component of other long-term liabilities in the condensed consolidated balance sheets.

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10. Segment Reporting

The Company operates in three major lines of business that are also the Company's reportable operating segments - the operation of surgical facilities, the operation of ancillary services and the operation of optical services. The surgical facility services segment consists of the operation of ASCs and surgical hospitals, and includes anesthesia services. The ancillary services segment consists of a diagnostic laboratory and multi-specialty physician practices. The optical services segment consists of an optical products group purchasing organization. "All other" primarily consists of the Company's corporate general and administrative functions.

The following tables present financial information for each reportable segment (in millions):

	Three Months Ended March 31,	
	2019	2018
Revenues:		
Surgical facility services	\$ 395.8	\$ 388.2
Ancillary services	19.9	20.1
Optical services	1.1	3.0
Total	\$ 416.8	\$ 411.3
Adjusted EBITDA:		
Surgical facility services	\$ 68.4	\$ 66.5
Ancillary services	1.2	1.1
Optical services	0.5	0.8
All other	(19.4)	(21.3)
Total	\$ 50.7	\$ 47.1
Cash purchases of property and equipment, net:		
Surgical facility services	\$ 10.9	\$ 7.9
Ancillary services	0.1	0.2
Optical services	—	—
All other	0.8	1.9
Total	\$ 11.8	\$ 10.0

A reconciliation of Adjusted EBITDA to income before income taxes included in the condensed consolidated statement of operations is as follows (in millions):

	Three Months Ended March 31,	
	2019	2018
Adjusted EBITDA	\$ 50.7	\$ 47.1
Net income attributable to non-controlling interests	23.6	22.6
Depreciation and amortization	(18.8)	(15.7)
Interest expense, net	(42.0)	(34.3)
Equity-based compensation	(1.9)	(2.0)
Contingent acquisition compensation expense	—	(0.5)
Transaction, integration and acquisition costs ⁽¹⁾	(3.4)	(5.5)
Reserve adjustments ⁽²⁾	—	(4.8)
Loss on disposals and deconsolidations, net	(0.6)	—
Tax receivable agreement expense	(2.4)	—
Income before income taxes	\$ 5.2	\$ 6.9

(1) This amount includes transaction and integration costs of \$2.0 million and \$5.0 million for three months ended March 31, 2019 and 2018, respectively. This amount includes acquisition costs of \$0.2 million and \$0.5 million for three months ended March 31, 2019 and 2018, respectively. This amount includes start-up costs related to a de novo surgical hospital of \$1.2 million for the three months ended March 31, 2019. There were no comparable costs in the 2018 period.

SURGERY PARTNERS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(2) This amount represents adjustments to revenue in connection with applying consistent policies across the combined company as a result of the integration of Surgery Partners and NSH Holdco, Inc.

	March 31, 2019	December 31, 2018
Assets:		
Surgical facility services	\$ 4,417.8	\$ 4,204.3
Ancillary services	82.3	52.7
Optical services	22.3	20.1
All other	358.5	399.2
Total assets	<u>\$ 4,880.9</u>	<u>\$ 4,676.3</u>

11. Subsequent Events

As previously disclosed in a Current Report on Form 8-K filed on April 12, 2019, on April 11, 2019, the Company completed the issuance and sale of \$430.0 million in gross proceeds of senior unsecured notes due 2027 (the "2027 Unsecured Notes"). The 2027 Unsecured Notes bear interest at the rate of 10.000% per year, payable semi-annually on April 15 and October 15 of each year, beginning on October 15, 2019. The 2027 Unsecured Notes are senior unsecured obligations of Surgery Center Holdings, Inc. and are guaranteed on a senior unsecured basis by each of Surgery Center Holdings, Inc.'s existing and future domestic wholly-owned restricted subsidiaries that guarantees the existing 2017 Senior Secured Credit Facilities (subject to certain exceptions). In connection with issuance of the 2027 Unsecured Notes, the Company redeemed in whole the existing 2021 Unsecured Notes. The redemption price was equal to 104.438% of the outstanding principal amount plus accrued and unpaid interest. Additionally, as previously announced, on March 25, 2019, the Company entered into an amendment to the credit agreement governing its revolving credit facility. On April 11, 2019, in connection with the completion of the issuance of the 2027 Unsecured Notes, the outstanding commitments under the Company's revolving credit facility were increased by \$45.0 million.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the condensed consolidated financial statements and related notes included elsewhere in this report and included in our Annual Report on Form 10-K for the year ended December 31, 2018. Unless the context otherwise indicates, the terms "Surgery Partners," "we," "us," "our" or the "Company," as used herein, refer to Surgery Partners, Inc. and its subsidiaries. Unless the context implies otherwise, the term "affiliates" means direct and indirect subsidiaries of Surgery Partners, Inc., and partnerships and joint ventures in which such subsidiaries are partners. The terms "facilities" or "hospitals" refer to entities owned and operated by affiliates of Surgery Partners, Inc. and the term "employees" refers to employees of affiliates of Surgery Partners, Inc.

Cautionary Note Regarding Forward-Looking Statements

This report contains forward-looking statements, which are based on our current expectations, estimates and assumptions about future events. All statements other than statements of current or historical fact contained in this report are forward-looking statements. These statements include, but are not limited to, statements regarding our future financial position, business strategy, budgets, effective tax rate, projected costs and plans and objectives of management for future operations. The words "projections," "believe," "continue," "drive," "estimate," "expect," "intend," "may," "plan," "will," "could," "would" and similar expressions are generally intended to identify forward-looking statements. These statements involve risks, uncertainties and other factors that may cause actual results to differ from the expectations expressed in the statements. Many of these factors are beyond our ability to control or predict. These factors include, without limitation, our ability to execute on our operational and strategic initiatives, the timing and impact of our portfolio optimization efforts, our ability to continue to improve same-facility volume and revenue growth on the timeline anticipated, if at all, our ability to successfully integrate acquisitions, the anticipated impact and timing of our ongoing efficiency efforts, including insurance consolidations and completed headcount actions, as well as our ongoing procurement and revenue cycle efforts, the impact of adverse weather conditions and other events outside of our control, whether or not a settlement is reached with the government relating to the previously disclosed investigation, the terms of any such settlement and the ongoing cost of complying with the terms of any such settlement, and the risks and uncertainties set forth under the heading "Risk Factors" in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 15, 2019 and discussed from time to time in our reports filed with the SEC.

In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this report may not occur, and actual results could differ materially from those anticipated or implied in the forward-looking statements. When you consider these forward-looking statements, you should keep in mind these risk factors and other cautionary statements in this report.

These forward-looking statements speak only as of the date made. Other than as required by law, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Executive Overview

We continue to focus on improving our same-facility performance, selectively acquiring established facilities and developing new facilities. During the three months ended March 31, 2019, we completed the acquisition of a physician practice and other assets for an investment of \$7.6 million.

Revenues

Our revenues consist of patient service revenues and other service revenues. Patient service revenues consist of revenue from our surgical facility services and ancillary services segments. Specifically, patient service revenues include fees for surgical or diagnostic procedures performed at surgical facilities that we consolidate for financial reporting purposes, as well as for patient visits to our physician practices, anesthesia services, pharmacy services and diagnostic screens ordered by our physicians. Other service revenues consist of discounts and handling charges billed to the members of our optical products purchasing organization. Other service revenues also include management and administrative service fees derived from our non-consolidated facilities that we account for under the equity method, management of surgical facilities and physician practices in which we do not own an interest and management services we provide to physician practices for which we are not required to provide capital or additional assets.

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The following table summarizes our revenues by service type as a percentage of total revenues for the periods indicated:

	Three Months Ended March 31,	
	2019	2018
Patient service revenues:		
Surgical facilities revenues	93.8%	93.5%
Ancillary services revenues	4.7%	4.9%
	98.5%	98.4%
Other service revenues:		
Optical services revenues	0.3%	0.7%
Other	1.2%	0.9%
	1.5%	1.6%
Total revenues	100.0%	100.0%

Payor Mix

The following table sets forth by type of payor the percentage of our patient service revenues generated at the surgical facilities which we consolidate for financial reporting purposes in the periods indicated:

	Three Months Ended March 31,	
	2019	2018
Private insurance payors	52.4%	53.5%
Government payors	40.2%	38.8%
Self-pay payors	2.6%	3.1%
Other payors ⁽¹⁾	4.8%	4.6%
Total	100.0%	100.0%

(1) Other is comprised of anesthesia service agreements, auto liability, letters of protection and other payor types.

Surgical Case Mix

We primarily operate multi-specialty surgical facilities where physicians perform a variety of procedures in various specialties. We believe this diversification helps to protect us from adverse pricing and utilization trends in any individual procedure type and results in greater consistency in our case volume.

The following table sets forth the percentage of cases in each specialty performed at the surgical facilities which we consolidate for financial reporting purposes for the periods indicated:

	Three Months Ended March 31,	
	2019	2018
Gastrointestinal	21.1%	21.1%
General surgery	3.1%	3.1%
Ophthalmology	23.7%	25.8%
Orthopedic and pain management	37.4%	37.6%
Other	14.7%	12.4%
Total	100.0%	100.0%

Case Growth

Same-facility Information

Same-facility information includes cases and revenues from our consolidated and non-consolidated surgical facilities (excluding facilities acquired in new markets or divested during the current and prior period).

	Three Months Ended March 31,	
	2019	2018
Cases	131,794	130,962
Case growth	0.6%	N/A
Revenue per case	\$ 3,239	\$ 3,104
Revenue per case growth	4.3%	N/A
Number of work days in the period	63	64
Case growth (days adjusted)	2.2%	N/A
Revenue growth (days adjusted)	6.7%	N/A
Number of facilities	110	N/A

Accounts Receivable

Our patient service revenues and other receivables from third-party payors are recorded net of estimated implicit price concessions which are estimated based on the historical trend of our surgical facilities' cash collections and contractual write-offs, established fee schedules, relationships with payors and procedure statistics. While changes in estimated reimbursement from third-party payors remain a possibility, we expect that any such changes would be minimal and, therefore, would not have a material effect on our financial condition or results of operations.

Our collection policies and procedures are based on the type of payor, size of claim and estimated collection percentage for each patient account. The operating systems used to manage our patient accounts provide for an aging schedule in 30-day increments, by payor, physician and patient. We analyze accounts receivable at each of our surgical facilities to ensure the proper collection and aged category. The operating systems generate reports that assist in the collection efforts by prioritizing patient accounts. Collection efforts include direct contact with insurance carriers or patients, written correspondence and the use of legal or collection agency assistance, as required. Our days sales outstanding were 63 days for both the three months ended March 31, 2019 and the year ended December 31, 2018.

Critical Accounting Policies

A summary of significant accounting policies is disclosed in our 2018 Annual Report on Form 10-K under the caption "Critical Accounting Policies" in Management's Discussion and Analysis of Financial Condition and Results of Operations. There have been no material changes in the nature of our critical accounting policies or the application of those policies since December 31, 2018.

Results of Operations

Three Months Ended March 31, 2019 Compared to Three Months Ended March 31, 2018

The following table summarizes certain results from the statements of operations for the three months ended March 31, 2019 and 2018. The table also shows the percentage relationship to revenues for the periods indicated (dollars in millions):

	Three Months Ended March 31,	
	2019	2018
Revenues	\$ 416.8	\$ 411.3
Operating expenses:		
Cost of revenues	326.1	327.3
General and administrative expenses	21.7	24.2
Depreciation and amortization	18.8	15.7
Income from equity investments	(2.0)	(1.9)
Loss on disposals and deconsolidations, net	0.6	—
Transaction and integration costs	2.0	5.0
Other income	—	(0.2)
Total operating expenses	367.2	370.1
Operating income	49.6	41.2
Tax receivable agreement expense	(2.4)	—
Interest expense, net	(42.0)	(34.3)
Income before income taxes	5.2	6.9
Income tax expense	1.7	1.8
Net income	3.5	5.1
Less: Net income attributable to non-controlling interests	(23.6)	(22.6)
Net loss attributable to Surgery Partners, Inc.	\$ (20.1)	\$ (17.5)

Overview. During the three months ended March 31, 2019, our revenues increased 1.3% to \$416.8 million compared to \$411.3 million for the three months ended March 31, 2018. We incurred a net loss attributable to Surgery Partners, Inc. of \$20.1 million for the 2019 period, compared to \$17.5 million for the 2018 period.

Revenues. Revenues for the three months ended March 31, 2019 compared to the three months ended March 31, 2018 were as follows (dollars in millions):

	Three Months Ended March 31,	
	2019	2018
Patient service revenues	\$ 410.8	\$ 404.7
Optical service revenues	1.1	2.9
Other service revenues	4.9	3.7
Total revenues	\$ 416.8	\$ 411.3

Patient service revenues increased 1.5% to \$410.8 million for the three months ended March 31, 2019 compared to \$404.7 million for the three months ended March 31, 2018.

Cost of Revenues. Cost of revenues were \$326.1 million for the three months ended March 31, 2019 compared to \$327.3 million for the three months ended March 31, 2018. As a percentage of revenues, cost of revenues were 78.2% for the 2019 period and 79.6% for the 2018 period.

General and Administrative Expenses. General and administrative expenses were \$21.7 million for the three months ended March 31, 2019 compared to \$24.2 million for the three months ended March 31, 2018. The decrease is primarily due to a decrease in contingent acquisition compensation expense. As a percentage of revenues, general and administrative expenses decreased to 5.2% for the 2019 period compared to 5.9% for the 2018 period.

Depreciation and Amortization. Depreciation and amortization was \$18.8 million and \$15.7 million for the three months ended March 31, 2019 and 2018, respectively. As a percentage of revenues, depreciation and amortization expenses increased to 4.5% for the 2019 period compared to 3.8% for the 2018 period.

Income from Equity Investments. Income from equity investments was \$2.0 million and \$1.9 million for the three months ended March 31, 2019 and 2018, respectively.

Transaction and Integration Costs. We incurred \$2.0 million of transaction and integration costs for the three months ended March 31, 2019 compared to \$5.0 million for the three months ended March 31, 2018. The decrease is primarily relates to reduced reorganization costs as we complete our planned investment in our infrastructure and the integration of acquisitions Surgery Partners completed in 2017.

Interest Expense, Net. Interest expense, net, increased 22.4%, to \$42.0 million for the three months ended March 31, 2019 compared to \$34.3 million for the three months ended March 31, 2018. The increase primarily relates to the \$180.0 million senior secured incremental term loan, which was fully funded on October 23, 2018. As a percentage of revenues, interest expense, net increased to 10.1% for the 2019 period compared to 8.3% for the 2018 period.

Income Tax Expense. The income tax expense was \$1.7 million and \$1.8 million for the three months ended March 31, 2019 and 2018, respectively. The effective tax rate was 32.7% for the three months ended March 31, 2019 compared to 26.1% for the three months ended March 31, 2018. Based upon the application of interim accounting guidance, the tax rate as a percentage of net income after income attributable to non-controlling interests will vary based upon the relative net income from period to period.

Net Income Attributable to Non-Controlling Interests. Net income attributable to non-controlling interests was \$23.6 million for the three months ended March 31, 2019 compared to \$22.6 million for the three months ended March 31, 2018. As a percentage of revenues, net income attributable to non-controlling interests was 5.7% in the 2019 period and 5.5% for the 2018 period.

Liquidity and Capital Resources

Operating Activities

The primary source of our operating cash flow is the collection of accounts receivable from federal and state agencies (under the Medicare and Medicaid programs), managed care health plans, commercial insurance companies and individuals. During the three months ended March 31, 2019, our cash flow provided by operating activities was \$20.5 million compared to \$30.0 million in the three months ended March 31, 2018 primarily due to the timing of certain payroll and trade payable payments.

Investing Activities

Net cash used in investing activities during the three months ended March 31, 2019 was \$18.4 million, which included \$11.8 million related to purchases of property and equipment. We additionally paid \$7.6 million in cash for acquisitions, which primarily included a physician practice.

Net cash used in investing activities during the three months ended March 31, 2018 was \$36.4 million, which included \$10.0 million related to purchases of property and equipment. Additionally, we purchased two surgical facilities and a physician practice for an aggregate purchase price of approximately \$25.6 million (net of cash acquired).

Financing Activities

Net cash used in financing activities during the three months ended March 31, 2019 was \$43.9 million. During this period, we made distributions to non-controlling interest holders of \$33.8 million and received cash related to ownership transactions with consolidated affiliates of \$1.5 million. Further, we made repayments on our long-term debt of \$12.9 million, which was offset by borrowings of \$2.4 million.

Net cash used in financing activities during the three months ended March 31, 2018 was \$55.7 million. During this period, we made distributions to non-controlling interest holders of \$30.9 million and paid cash related to ownership transactions with consolidated affiliates of \$0.8 million. Further, we made repayments on our long-term debt of \$16.3 million offset by borrowings of \$0.4 million. In addition, we made preferred dividend payments of \$3.9 million and repurchased \$2.0 million of our common stock pursuant to our \$50 million repurchase program announced on December 15, 2017.

Debt

As of March 31, 2019, the carrying value of our total indebtedness, was \$2.442 billion, which includes net unamortized fair value premium of \$0.7 million and unamortized deferred financing costs of \$2.7 million.

2017 Senior Secured Credit Facilities

We have term loan borrowings with a carrying value of \$1.444 billion, consisting of outstanding aggregate principal of \$1.450 billion and unamortized fair value discount of \$5.4 million (the "Term Loan"). The Term Loan matures on August 31, 2024. The Term Loan amortizes in equal quarterly installments of 0.25% of the aggregate original principal amount of the Term Loan.

We have a revolving credit facility providing for revolving borrowings of up to \$75.0 million (the "Revolver" and, together with the Term Loan, the "2017 Senior Secured Credit Facilities"). The Revolver will mature on August 31, 2022. As of March 31, 2019, our availability on

the Revolver was \$70.9 million (including outstanding letters of credit of \$4.1 million). As disclosed in Note 11. "Subsequent Events" included in the Notes to the Condensed Consolidated Financial Statements elsewhere in this report, on April 11, 2019, in connection with the completion of the issuance of the 2027 Unsecured Notes (defined below), the outstanding commitments under the Company's revolving credit facility were increased by \$45.0 million.

The Revolver may be utilized for working capital, capital expenditures and general corporate purposes. Subject to certain conditions and requirements set forth in the credit agreement, we may request one or more additional incremental term loan facilities or one or more increases in the commitments under the Revolver.

The 2017 Senior Secured Credit Facilities bear interest at a rate per annum equal to (x) LIBOR plus a margin ranging from 3.00% to 3.25% per annum, depending on our first lien net leverage ratio or (y) an alternate base rate (which will be the highest of (i) the prime rate, (ii) 0.5% per annum above the federal funds effective rate and (iii) one-month LIBOR plus 1.00% per annum (solely with respect to the Term Loan, the alternate base rate shall not be less than 2.00% per annum)) plus a margin ranging from 2.00% to 2.25% per annum. In addition, we are required to pay a commitment fee of 0.50% per annum in respect of unused commitments under the Revolver.

Senior Unsecured Notes

We have senior unsecured notes due April 15, 2021 with a carrying value of \$406.1 million, consisting of outstanding aggregate principal of \$400.0 million and unamortized fair value premium of \$6.1 million (the "2021 Unsecured Notes"). The 2021 Unsecured Notes bear interest at the rate of 8.875% per year, payable semi-annually on April 15 and October 15 of each year.

As disclosed in Note 11. "Subsequent Events" to the Condensed Consolidated Financial Statements elsewhere in this report, on April 11, 2019, the Company completed the issuance and sale of \$430.0 million in gross proceeds of senior unsecured notes due 2027 (the "2027 Unsecured Notes"). In connection with issuance of the 2027 Unsecured Notes, the Company redeemed in whole the existing 2021 Unsecured Notes. The redemption price was equal to 104.438% of the outstanding principal amount plus accrued and unpaid interest.

We have \$370.0 million aggregate principal amount of senior unsecured notes due July 1, 2025 outstanding (the "2025 Unsecured Notes"). The 2025 Unsecured Notes bear interest at the rate of 6.750% per year, payable semi-annually on January 1 and July 1 of each year.

Other Debt

We and certain of our subsidiaries have other debt consisting of outstanding bank indebtedness of \$79.3 million, which is collateralized by the real estate and equipment owned by the surgical facilities to which the loans were made, and right-of-use finance lease obligations of \$144.6 million for which we are liable to various vendors for several property and equipment leases classified as finance leases.

Summary

Based on our current level of operations, we believe cash flow from operations and available cash, together with available borrowings under the Revolver, will be adequate to meet our short-term (12 months or less) liquidity needs.

Certain Non-GAAP Metrics

Adjusted EBITDA is not a measurement of financial performance under GAAP, and should not be considered in isolation or as a substitute for net income, operating income or any other measure calculated in accordance with GAAP. The items excluded from this non-GAAP metric are significant components in understanding and evaluating our financial performance. We believe such adjustments are appropriate, as the magnitude and frequency of such items can vary significantly and are not related to the assessment of normal operating performance. Our calculation of Adjusted EBITDA may not be comparable to similarly titled measures reported by other companies.

When we use the term "Adjusted EBITDA," we are referring to income before income taxes, adjusted for net income attributable to non-controlling interests, depreciation and amortization, interest expense, net, equity-based compensation expense, contingent acquisition compensation expense, transaction, integration and acquisition costs, reserve adjustments, net loss on disposals and deconsolidations and tax receivable agreement expense. We use Adjusted EBITDA as a measure of financial performance. Adjusted EBITDA is a key measure used by our management to assess operating performance, make business decisions and allocate resources.

The following table reconciles EBITDA and Adjusted EBITDA to income before income taxes, the most directly comparable GAAP financial measure (in millions and unaudited):

	Three Months Ended March 31,	
	2019	2018
Condensed Consolidated Statements of Operations Data:		
Income before income taxes	\$ 5.2	\$ 6.9
<i>Plus (minus):</i>		
Net income attributable to non-controlling interests	(23.6)	(22.6)
Depreciation and amortization	18.8	15.7
Interest expense, net	42.0	34.3
Equity-based compensation	1.9	2.0
Contingent acquisition compensation expense	—	0.5
Transaction, integration and acquisition costs ⁽¹⁾	3.4	5.5
Reserve adjustments ⁽²⁾	—	4.8
Loss on disposals and deconsolidations, net	0.6	—
Tax receivable agreement expense	2.4	—
Adjusted EBITDA	\$ 50.7	\$ 47.1

(1) This amount includes transaction and integration costs of \$2.0 million and \$5.0 million for three months ended March 31, 2019 and 2018, respectively. This amount includes acquisition costs of \$0.2 million and \$0.5 million for three months ended March 31, 2019 and 2018, respectively. This amount includes start-up costs related to a de novo surgical hospital of \$1.2 million for the three months ended March 31, 2019. There were no comparable costs in the 2018 period.

(2) This amount represents adjustments to revenue in connection with applying consistent policies to businesses acquired by Surgery Partners in prior periods.

We use Credit Agreement EBITDA as a measure of liquidity and to determine our compliance under certain covenants pursuant to our credit facilities. Credit Agreement EBITDA is determined on a trailing twelve-month basis. We have included it because we believe that it provides investors with additional information about our ability to incur and service debt and make capital expenditures. Credit Agreement EBITDA is not a measurement of liquidity under GAAP, and should not be considered in isolation or as a substitute for any other measure calculated in accordance with GAAP. The items excluded from Credit Agreement EBITDA are significant components in understanding and evaluating our liquidity. Our calculation of Credit Agreement EBITDA may not be comparable to similarly titled measures reported by other companies.

When we use the term “Credit Agreement EBITDA,” we are referring to Adjusted EBITDA, as defined above, further adjusted for other items related to our historical financial performance during the trailing twelve month period, including loss on litigation settlement. Also included are adjustments for acquisitions and non-cash expenses. These adjustments do not relate to our historical financial performance and instead relate to estimates compiled by our management and calculated in conformance with the definition of “Consolidated EBITDA” used in the credit agreements governing our credit facilities.

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The following table reconciles Credit Agreement EBITDA to cash flows from operating activities, the most directly comparable GAAP financial measure (in millions and unaudited):

	Twelve Months Ended March 31, 2019
Cash flows from operating activities	\$ 135.1
<i>Plus (minus):</i>	
Non-cash interest income, net	1.6
Non-cash lease expense	(10.1)
Deferred income taxes	(25.2)
Income from equity investments, net of distributions received	(0.1)
Changes in operating assets and liabilities, net of acquisitions and divestitures	(12.0)
Income tax expense	26.4
Net income attributable to non-controlling interests	(111.1)
Interest expense, net	154.7
Transaction, integration and acquisition costs	31.8
Loss on litigation settlements	46.0
Reserve adjustments	(2.1)
Contingent acquisition compensation expense	1.0
Tax receivable agreement expense	2.4
Acquisitions ⁽¹⁾	38.0
Credit Agreement EBITDA	\$ 276.4

(1) Represents impact of acquired anesthesia entities, physician practices and surgical facilities as if each acquisition had occurred on April 1, 2018 including cost savings from reductions in corporate overhead, supply chain rationalization, enhanced physician engagement, improved payor contracting and revenue synergies associated with the NSH Holdco, Inc. acquisition. Further, this includes revenue synergies from other business initiatives and an adjustment for the effects of adopting the new lease accounting standard, as defined in the Credit Agreement.

Recent Accounting Pronouncements

Please refer to Note 1 to our condensed consolidated financial statements included elsewhere in this report for a discussion of the impact of the adoption of recently issued accounting standards.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are subject to market risk primarily from exposure to changes in interest rates based on our financing, investing and cash management activities. We utilize a balanced mix of maturities along with both fixed rate and variable rate debt to manage our exposures to changes in interest rates. Additionally, we periodically enter into interest rate swap agreements to manage our exposure to interest rate fluctuations. Our interest rate swap agreements involve the exchange of fixed and variable rate interest payments between two parties, based on common notional principal amounts and maturity dates. The notional amounts of the swap agreements represent balances used to calculate the exchange of cash flows and are not our assets or liabilities. Our credit risk related to these agreements is considered low because the swap agreements are with creditworthy financial institutions. The interest payments under these agreements are settled on a net basis. These derivatives have been recognized in the financial statements at their respective fair values. Changes in the fair value of these derivatives, which are designated as cash flow hedges, are included in other comprehensive income.

Our variable rate debt instruments are primarily indexed to the prime rate or LIBOR. Interest rate changes would result in gains or losses in the market value of our fixed rate debt portfolio due to differences in market interest rates and the rates at the inception of the debt agreements. At March 31, 2019, we had outstanding principal amount of debt of \$1.454 billion in variable rate instruments. Assuming a hypothetical 100 basis points increase in LIBOR on our debt as of March 31, 2019, our quarterly interest expense would increase by approximately \$3.6 million. Although there can be no assurances that interest rates will not change significantly, we do not expect changes in interest rates to have a material effect on our net earnings or cash flows in 2019 based on our indebtedness at March 31, 2019.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of our management, including the chief executive officer and the chief financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e))

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under the Securities and Exchange Act of 1934, as amended) as of March 31, 2019. Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. *Legal Proceedings*

Stockholder Litigation. On December 4, 2017, a purported Company stockholder filed an action in the Delaware Court of Chancery (the “Delaware Action”). That action is captioned *Klein v. H.I.G. Capital, L.L.C., et al.*, C.A. No. 2017-0862. The plaintiff in the Delaware Action asserted claims against (i) certain current and former members of the Company’s Board of Directors (together, the “Directors”); (ii) H.I.G. Capital, LLC and certain of its affiliates (collectively, “H.I.G.”); and (iii) Bain Capital Private Equity, L.P. and certain of its affiliates (collectively, “Bain Capital” and, together with the Directors and H.I.G., the “Defendants”). The plaintiff asserted derivative claims on behalf of the Company, which is a nominal defendant in the Delaware Action, as well as putatively direct claims on behalf of a purported class of Company stockholders. The plaintiff in the Delaware Action asserted that the Defendants breached their fiduciary duties in connection with the transactions in which (i) the Company acquired National Surgical Healthcare; (ii) Bain Capital acquired preferred equity in the Company; and (iii) Bain Capital acquired H.I.G.’s equity stake in the Company (collectively, the “Transactions”), and that, in the alternative, Bain Capital aided and abetted those purported breaches. The plaintiff also asserted an unjust enrichment claim against Bain Capital.

On January 2, 2018, the Defendants moved to dismiss the plaintiff’s complaint. On December 19, 2018, the Court of Chancery issued a decision on that motion. Following that decision, all of the Directors have been dismissed from the Delaware Action. The Court did not dismiss the plaintiff’s breach of fiduciary duty claim against H.I.G. or the aiding and abetting claim asserted against Bain Capital. However, the Court dismissed the plaintiff’s breach of fiduciary duty and unjust enrichment claims against Bain Capital. In addition, the Court dismissed all of the plaintiff’s claims that were asserted on behalf of a putative class of Company stockholders. Accordingly, all of the plaintiff’s remaining claims in the Delaware Action are asserted derivatively on the Company’s behalf.

Government Investigation. On October 23, 2017, the Company received several civil investigative demands (“CIDs”) from the federal government under the False Claims Act (“FCA”) for documents and information dating back to January 1, 2010 relating to the medical necessity of certain drug tests conducted by the Company’s physicians and submitted to laboratories owned and operated by the Company. In addition, the Company has been informed by CMS that payments to its diagnostic laboratory, Logan Laboratories, have been suspended pending further investigation by CMS.

The Company has been providing information to the government in response to the CIDs and currently has a non-binding agreement in principle with the DOJ on the financial terms of a settlement with the goal of resolving these matters. Based on those discussions, which are still ongoing, we recorded a litigation-related charge of \$46.0 million relating to these matters on the consolidated statements of operations for the year ended December 31, 2018. We believe that this reserve is sufficient to cover a potential resolution of the investigation relating to these matters, including legal expenses relating to the settlement that have not previously been recorded in our operating expenses. The ultimate timing, amount and/or final terms of any such resolution may differ materially from those anticipated or we may not be able to reach a resolution at all. It is reasonably possible that we will incur additional losses above the amount reserved, but we are not able to estimate such amounts at this time. See Item 1A “Risk Factors” in our Annual Report on Form 10-K for the period ended December 31, 2018 under the heading “Risk Factors - Risks Related to Government Regulation - *Companies within the healthcare industry, including us, continue to be the subject of federal and state audits and investigations, including actions for false and other improper claims.*”

Other Litigation. In addition, we are, from time to time, subject to claims and suits, or threats of claims or suits, relating to our business, including claims for damages for personal injuries, breach of management contracts and employment related claims. In certain of these actions, plaintiffs request payment for damages, including punitive damages, which may not be covered by insurance or may otherwise have a material adverse effect on our business or results of operations.

See Note 9. “Commitments and Contingencies” for additional information regarding pending legal proceedings, which information is incorporated herein by reference.

Item 1A. *Risk Factors*

There have been no material changes with respect to the risk factors discussed in the Annual Report on Form 10-K for the period ended December 31, 2018.

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

The following table presents information related to our repurchases of common stock for the periods indicated:

	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs (2)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
<i>(dollars in millions, except per share amounts)</i>				
January 1, 2019 to January 31, 2019	27,775	\$ 12.09	—	\$ 46.0
February 1, 2019 to February 28, 2019	32,184	\$ 13.47	—	\$ 46.0
March 1, 2019 to March 31, 2019	39,641	\$ 12.66	—	\$ 46.0
Total	<u>99,600</u>	\$ 12.76	<u>—</u>	\$ 46.0

(1) Includes shares delivered to or withheld by us in connection with employee payroll tax withholding upon exercise or vesting of stock awards.

(2) Made pursuant to the \$50 million share repurchase program authorized by our Board of Directors on December 15, 2017. The authorization does not have a specified expiration date, and the share repurchase program may be suspended, recommenced or discontinued at any time or from time to time without prior notice.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

No.	Description
4.1	Indenture, dated April 11, 2019, among Surgery Center Holdings, Inc., the Guarantors from time to time party thereto and Wilmington Trust, National Association, as Trustee (incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed April 12, 2019).
10.1	Incremental Revolving Loan Amendment, dated as of March 25, 2019, by and among SP Holdco I, Inc., Surgery Center Holdings, Inc., Jefferies Finance LLC and the other guarantors and lenders party thereto (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed March 25, 2019).
10.2	Employment Agreement, dated February 11, 2019, by and between Surgery Partners, Inc., Surgery Partners, LLC and Eric Evans (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed February 12, 2019).
10.3	Employment Agreement, dated February 22, 2018, by and between Surgery Partners, Inc. and Angela Justice.
10.4	Employment Agreement, dated June 13, 2014, by and between Symbion, Inc. and George M. Goodwin.
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

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

SURGERY PARTNERS, INC.

By: /s/ Thomas F. Cowhey
Thomas F. Cowhey
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: May 10, 2019

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement") is hereby entered into effective as of February 22, 2018 (the "Effective Date"), between Surgery Partners, Inc. (the "Company") and Angela Justice ("Executive").

1. Employment. The Company shall employ Executive, and Executive hereby accepts continued employment with the Company, upon the terms and conditions set forth in this Agreement for the period beginning on March 12, 2018 (the "Commencement Date") and ending on the Termination Date, as provided for in Section 4 (the "Employment Period").

2. Position and Duties.

(a) During the Employment Period, Executive shall serve as the Chief Human Resources Officer. Executive shall have such responsibilities, duties and authorities, and will render such services for the Company and its Subsidiaries or Affiliates as the Board of Directors of the Company (the "Board") may from time to time reasonably direct consistent with Executive's role. At all times Executive will report directly to the CEO. Executive will devote her best efforts, energies and abilities and substantially all her business time, skill and attention to the business and affairs of the Company and its Subsidiaries, and shall perform her duties and responsibilities to the best of her ability, in a diligent, trustworthy, businesslike and efficient manner for the purpose of advancing the businesses of Company and its Subsidiaries. Executive acknowledges that her duties and responsibilities will require substantially all her business time and agrees that during the Employment Period she will not engage in any other business activity or have any business pursuits that interfere with Executive's duties and responsibilities under this Agreement or are competitive with the businesses of the Company. Notwithstanding the foregoing, Executive shall be permitted to devote a reasonable amount of time and effort to (i) providing service to, or serving on governing boards of other companies and organizations that are not competitive with the Company, and/or (ii) personally investing and managing personal and family investments in real estate and in any corporation, partnership or other entity; but in each case, only to the extent that any of the activities described in clauses (i) or (ii), individually or as a whole, do not interfere with the execution of Executive's duties hereunder, or (B) otherwise violate any provision of this Agreement.

(b) For purposes of this Agreement, (i) "Subsidiaries" means any corporation or other entity (A) of which the securities or other ownership interests having the voting power to elect a majority of the board of directors or other governing body are, at the time of determination, owned by the Company, directly or through one or more subsidiaries or (B) to which the Company or any of its Affiliates provide management services, and (ii) "Affiliate" of an entity means any other person or entity, directly or indirectly controlling, controlled by or under common control with an entity.

3. Compensation and Benefits.

(a) During the Employment Period, Executive's starting base salary shall be \$350,000 per annum, payable by the Company in regular installments in accordance with the Company's general payroll practices, less taxes and other applicable withholdings, and subject to at least annual review and possible upward adjustment from time to time by the Board or the Compensation Committee thereof (the "Committee"), in either case, in its discretion (as modified from time to time, the "Base Salary").

(b) In addition, during the Employment Period, Executive shall be entitled to participate in all of the Company's benefit programs for which employees of the Company are generally eligible, subject to the eligibility and participation requirements thereof, including, but not limited to, the following:

- (i) medical, dental, vision, life and disability insurance, as is generally provided to other employees of the Company;
- (ii) rights to indemnification and defense under a separate Indemnification Agreement and
- (iii) eligibility for vacation time in accordance with the policies of the Company as from time to time in effect; provided, however, that Executive shall not have less than 20 days of vacation time per calendar year.

(c) During the Employment Period, the Company shall reimburse Executive for all reasonable out-of-pocket expenses incurred by her in the course of performing her duties and responsibilities under this Agreement which are consistent with the Company's policies in effect from time to time with respect to travel, entertainment and other business expenses, subject to the Company's requirements with respect to reporting and documentation of such expenses. Executive's right to payment or reimbursement for business expenses hereunder will be subject to the following additional rules: (i) no reimbursement of any expense shall affect Executive's right to reimbursement of any other expense in any other taxable year; (ii) the amount of expenses eligible for payment or reimbursement during any calendar year will not affect the expenses eligible for payment or reimbursement in any other taxable year; (iii) payment or reimbursement will be made not later than December 31 of the calendar year following the calendar year in which the expense was incurred or paid, and (iv) the right to payment or reimbursement is not subject to liquidation or exchange for any other benefit.

(d) In addition to the Base Salary, Executive will be eligible to receive an annual bonus of fifty percent (50%) of the Base Salary, with the actual amount of any such bonus being determined by the Board or the Committee, in either case, in its discretion, based on the achievement of reasonable performance goals established annually by the Board or the Committee, as applicable. Any annual bonus payable under this Section 3(d) will be paid no later than March 15th following the close of the year for which the bonus is earned. For 2018, the performance goals will be established during the first month of Executive's employment.

(e) Executive shall be eligible to participate in the Surgery Partners, Inc. 2015 Omnibus Incentive Plan (as amended from time to time) ("Plan") on terms and conditions set forth therein and in the relevant award agreement unless specifically stated otherwise in this Agreement. Specifically with regard to 2018, on the date on which the Company makes its annual equity award grants for 2018, and subject to approval by the Board of Directors of the Company (or an authorized committee thereof), the Company shall grant to Executive equity in an amount representing \$200,000 as follows: (i) a restricted stock award, with the number of shares subject to the award determined by dividing \$100,000 by the closing price of a share of Company common stock on the date of grant and with such shares vesting in three equal annual installments following the grant date on the terms and conditions set forth in the Equity Plan and the applicable award agreement, the execution of which shall be a condition to the award, and (ii) a performance stock unit award, with the number of shares subject to the award determined by dividing \$100,000 by the closing price of a share of Company common stock on the date of grant and such units shall be earning and vest on the terms and conditions set forth in the Equity Plan and the applicable award agreement, the execution of which shall be a condition to the award. Furthermore, on or as soon as reasonably practicable following the Commencement Date, and subject to approval by the Board (or an authorized committee thereof), the Company shall grant to Executive a leveraged performance unit award, with a target number of units equal to 11,990 shares of Company common stock under the Plan,

(f) Within ten (10) days of the Effective Date, Company shall pay Executive an amount equal to \$56,859, which such amount is meant to cover Executive's reasonable out-of-pocket expenses incurred in connection with her relocation to the Brentwood, Tennessee area.

(g) All amounts payable to Executive hereunder shall be subject to all required withholdings by the Company. If additional guidance is issued under, or modifications are made to, Section 409A of the Internal Revenue Code of the Internal Revenue Code and the regulations and other interpretive guidance issued thereunder (collectively, "Section 409A"), or any other law affecting payments to be made under this Agreement, Executive agrees that the Company may take such reasonable actions and adopt such reasonable amendments as the Company believes are necessary to ensure continued compliance with the Internal Revenue Code, including Section 409A. However, the Company does not hereby or otherwise represent or warrant that any payments hereunder are or will be in compliance with Section 409A, and Executive shall be responsible for obtaining her own tax advice with regard to such matters.

4. Termination.

(a) Termination by Executive or the Company. The Employment Period (i) shall terminate upon Executive's resignation with Good Reason (as defined below) or without Good Reason, death or Disability (as defined below) or (ii) may be terminated by the Company at any time for Cause (as defined below) or without Cause.

(b) "Good Reason" shall mean without the written consent of Executive:

(i) without the express written consent of Executive, a material diminution or change of her position, title, duties, responsibilities, and/or status with the Company as in effect as of the Commencement Date or a material reduction of Executive's resources as in effect on the Commencement Date;

(ii) a material reduction in Executive's Base Salary or annual bonus target percentage;

(iii) a material reduction in the level of benefits available or awarded to Executive, other than any reduction in connection with a Company-wide reduction applicable generally to similarly situated executive officers of the Company;

(iv) a relocation by the Company of Executive's primary employment location to a location which is more than 50 miles from Executive's primary employment location on the date hereof; or

(v) a material breach by the Company of the terms of this Agreement;

but only if (x) Executive notifies the Company in writing within 90 days after the initial existence or occurrence of any of these conditions which notice describes in reasonable detail the basis for Executive's belief that Good Reason exists and that Executive intends to resign for Good Reason and the Company, within 30 days after receipt of such notice, either fails to cure the condition or delivers a written notice to Executive that the Company intends not to cure such condition and (y) Executive actually resigns prior to 15 business days after the earlier to occur of either the end of such 30-day cure period or delivery of such written notice by the Company.

(c) "Disability" as used herein shall mean that Executive is unable to perform, with or without reasonable accommodation, by reason of physical or mental incapacity, the essential duties, responsibilities

and functions of her position for a period of 180 consecutive days. A medical examination by a physician selected by the Executive or her duly appointed guardian, if any, and to whom the Company has no reasonable objection, shall determine, according to the facts then available, whether and when a Disability has occurred. Such determination shall not be arbitrary or unreasonable, and shall be final and binding on the parties hereto.

(d) "Cause" as used herein means the occurrence of any of the following events:

(i) a material breach by Executive of any of the terms and conditions (other than paragraph 2(a)) of this Agreement; provided that, if curable, Executive shall have a reasonable period of time (which in no event shall exceed 45 days) during which to cure such material breach following the date on which Executive receives the Company's written notice of such material breach;

(ii) Executive's reporting to work (A) intoxicated (other than Executive's reasonable use of alcohol in connection with business entertainment, provided, that such use of alcohol does not cause the Company or any of its Subsidiaries or Affiliates substantial public disgrace or disrepute or economic harm) or (B) under the influence of illegal drugs;

(iii) Executive's use of illegal drugs (whether or not at the workplace) or other conduct causing the Company or any of its Subsidiaries or Affiliates substantial public disgrace or disrepute or economic harm;

(iv) breach of fiduciary duty, gross negligence or willful misconduct with respect to the Company or any of its Subsidiaries or Affiliates;

(v) Executive's material failure or willful refusal to substantially perform her duties, responsibilities and functions unrelated to illness or Disability; provided that, if curable, Executive shall have a reasonable period of time (which in no event shall exceed 45 days) during which to cure such failure following the date on which Executive receives the Company's written notice of such failure;

(vi) Executive's material failure to comply with any of the Company's or any of its Subsidiaries' written guidelines or procedures promulgated by the Company or any such Subsidiary and furnished to Executive; provided that, if curable, Executive shall have a reasonable period of time (which in no event shall exceed 45 days) during which to cure such failure following the date on which Executive receives the Company's written notice of such material failure; or

(vii) Executive has committed an act or acts constituting a felony or any other act or omission involving theft, or fraud against the Company or any of its Subsidiaries or any of their respective customers or suppliers or other business relationships.

(e) A "Change in Control" shall be deemed to have occurred upon any of the following events, provided that, to the extent required by Section 409A, such events would also qualify as a "change in control event" under Treas. Reg. §1.409A-3(i)(5):

(i) Upon the closing of a reorganization, merger, share exchange or consolidation, other than a reorganization, merger, share exchange or consolidation with respect to which those persons who were the beneficial owners, immediately prior to such reorganization, merger, share exchange or consolidation, of outstanding securities of the Company ordinarily having the right to vote in the election of directors own, immediately after the closing of such transaction, more than

51% of the outstanding securities of the resulting corporation ordinarily having the right to vote in the election of directors; or

(ii) Upon approval by the stockholders of a complete liquidation and dissolution of the Company or the sale or other disposition of all or substantially all of the assets of the Company other than to a Subsidiary or Affiliate.

(f) Termination by Executive. Executive has the right to terminate her employment under this Agreement at any time, for any or no reason, but only after giving the Company (i) 30 days prior written notice with respect to any termination without Good Reason or (ii) the number of days prior written notice set forth in the last sentence of Section 4(b) with respect to any termination with Good Reason.

(g) Compensation after Termination.

(i) If the Employment Period is terminated pursuant to Executive's resignation without Good Reason, death or Disability, Executive shall only be entitled to receive her Base Salary through the date of termination and her earned but unpaid Bonus for the previous calendar year and shall not be entitled to any other salary, bonus, compensation or benefits from the Company or its Subsidiaries, except as may be required by applicable law.

(ii) If the Employment Period is terminated by the Company for Cause, Executive shall only be entitled to her Base Salary through the date of termination and shall not be entitled to any other salary, bonus, compensation or benefits from the Company or its Subsidiaries, except as may be required by applicable law. In addition, in such event, Executive shall automatically forfeit any rights to any unvested equity owned by Executive in the Company or any Subsidiary.

(iii) If the Employment Period is terminated by the Company without Cause or by Executive for Good Reason, then subject to the conditions described in Section 4(g)(v) below, Executive shall be entitled to receive in addition to 4(g)(i) above as severance compensation the following (collectively, "Severance Pay"): (A) an amount equal to twelve (12) months of Executive's then-current annual Base Salary, payable in regular installments beginning within 30 days following the Termination Date in accordance with the Company's general payroll practices for salaried employees; (B) continuation of the welfare benefits described in Section 3(b) for twelve (12) months to the extent permissible under the terms of the relevant benefit plans at the same cost to Executive as if Executive were an active employee of the Company or an equivalent COBRA payments if such continuation is not permissible; (C) the Bonus for the current calendar year payable to Executive within 2 and 1/2 months after the end of the applicable year (to the extent not previously paid), paid in a lump sum at the time that bonuses are regularly paid to employees; (D) with respect to the portion of each restricted stock award held by Executive as of date on which the Employment Period is terminated that is subject to time-based vesting (the "Time-Based RSA"), accelerated vesting of the Time-Based RSA to the vesting event next following the date on which the Employment Period is terminated; and (E) with respect to the portion of each performance stock unit award held by the Executive as of the date on which the Employment Period is terminated that has been converted into "earned shares" (the "Earned PSUs"), accelerated vesting of the Earned PSUs to the vesting event next following the date on which the Employment Period is terminated. For purposes of this Section 4(g)(iii), "Bonus" shall mean an amount equal to Executive's then current annual Base Salary, multiplied by the percentage contained in Section 3(d) hereof. For the avoidance of doubt, the unvested portion of any restricted stock awards and performance share unit awards held by Executive as of the date on which the Employment Period ends (after giving effect to the acceleration provisions set forth in subsections (D) and (E) herein and the terms and conditions of the applicable award agreements and the Surgery Partners, Inc. 2015 Omnibus

Incentive Plan (as amended from time to time) shall be forfeited and of no further force and effect. Further, for purposes of clarity, the acceleration of vesting stated in subsections (D) and (E) control despite any language to the contrary in the Plan and applicable award agreements.

(iv) If, within 90 days before or within 12 months following a Change in Control, either (A) the Company terminates the employment of Executive hereunder without Cause under Section 4(a) above, or (B) Executive terminates her employment for Good Reason under Section 4(b) above, then, in lieu of any other compensation that may be specified in this Agreement, the Company will pay Executive (A) an amount equal to twelve (12) months of Executive's then current annual Base Salary, payable in a lump sum no later than 60-days after the Termination Date; (B) continuation of the welfare benefits described in Section 3(b) for twelve (12) months to the extent permissible under the terms of the relevant benefit plans at the same cost to Executive as if Executive were an active employee of the Company or an equivalent COBRA payments if such continuation is not permissible; (C) the Bonus for the current calendar year payable to Executive within 2 and 1/2 months after the end of the applicable year (to the extent not previously paid), paid in a lump sum at the time that bonuses are regularly paid to employees ("Change in Control Severance Pay") as well as comply with the obligations set out in the Plan and applicable award agreements. If any payment obligation under this Section 4(g) arises, no compensation received from other employment (or otherwise) will reduce the Company's obligation to make the payment(s) described in this Section 4 (g).

(v) Notwithstanding Sections 4(g)(iii) or (iv), Executive's right to receive Severance Pay or Change in Control Severance Pay hereunder is conditioned upon: (A) Executive executing, and not revoking, a written and mutually acceptable separation agreement and general release of all claims against the Company, its Subsidiaries and Affiliates and their respective managers, directors, officers, shareholders, members, representatives, agents, attorneys, predecessors, successors and assigns (other than a claim for the severance payments described in Section 4(g)(iii) or (iv) and Executive's rights to future distributions and payments related to the continued ownership of any equity securities in the Company that Executive will continue to own after such termination), in form and substance acceptable to the Company, which shall among other things, contain a general release by Executive of all claims, but not Executive's rights to vested benefits and equity, rights to indemnification and defense, arising out of her employment and termination of employment by the Company (a "Release Agreement") within 30 days of Executive's Termination Date; and (B) Executive's material compliance with all of her obligations which survive termination of this Agreement. However, under no circumstances will Executive be required to be bound to additional restrictive covenant obligations. The Severance Pay is intended to be in lieu of all other payments to which Executive might otherwise be entitled by the Company in respect of her termination without Cause or resignation with Good Reason. If the Executive executes the Release Agreement stated herein, the Company and its Subsidiaries and Affiliates shall have no further obligations hereunder or otherwise with respect to Executive's employment from and after the date of termination of employment with the Company (the "Termination Date"), and the Company and its Subsidiaries and Affiliates shall continue to have all other rights available hereunder (including without limitation, all rights hereunder at law or in equity). The Release Agreement will be provided to Executive no later than her Termination Date,

(vi) Except as otherwise expressly provided herein, all of Executive's rights to salary, bonuses, benefits and other compensation hereunder which might otherwise accrue or become payable after the termination of the Employment Period shall cease upon such termination, other than those expressly required under applicable law (such as COBRA). All amounts payable to Executive as severance hereunder shall be subject to all required withholdings by the Company.

(h) The Company may offset any amount Executive owes the Company or its Subsidiaries or Affiliates against any amount they or their Subsidiaries or Affiliates owe Executive hereunder.

5. Confidential Information. Other than in the performance of her duties hereunder, during the Restrictive Period (as defined below) and thereafter, Executive shall keep secret and retain in strictest confidence, and shall not, without the prior written consent of the Company, furnish, make available or disclose to any third party or use for the benefit of herself or any third party, any Confidential Information. As used in this Agreement, "Confidential Information" shall mean any information relating to the business or affairs of the Company or any of its Subsidiaries or Affiliates or the Business, including but not limited to any technical or non-technical data, formulae, compilations, programs, devices, methods, techniques, designs, processes, procedures, improvements, models, manuals, financial data, acquisition strategies and information, information relating to operating procedures and marketing strategies, and any other proprietary information used by the Company or any of its Subsidiaries or Affiliates in connection with the Business, irrespective of its form; provided, however, that Confidential Information shall not include any information which is in the public domain or becomes known in the industry, in each case through no wrongful act on the part of Executive. Executive acknowledges that the Confidential Information is vital, sensitive, confidential and proprietary to the Company and its Subsidiaries and Affiliates. Executive will immediately notify the Company of any unauthorized possession, use, disclosure, copying, removal or destruction, or attempt thereof, of any Confidential Information by anyone of which Executive becomes aware and of all details thereof. Executive shall take all reasonably appropriate steps to safeguard Confidential Information and to protect it against disclosure, misuse, espionage, loss and theft. Executive shall deliver to the Company at the termination or expiration of the Employment Period, or at any other time the Company may request, all memoranda, notes, plans, records, reports, computer tapes, computers, printouts and software and other documents and data (and copies thereof) embodying or relating to the Confidential Information, Inventions and Discoveries (as defined below) or the business of the Company or any of its Subsidiaries or Affiliates which Executive may then possess or have under her control. Nothing in this Agreement limits, restricts or in any other way affects Executive's communicating with any governmental agency or entity, or communicating with any official or staff person of a governmental agency or entity, concerning matters relevant to the governmental agency or entity, or requires Executive to provide notice to the Company of the same. Executive cannot be held criminally or civilly liable under any federal or state trade secret law for disclosing a trade secret (1) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney, solely for the purpose of reporting or investigating a suspended violation of law, or (2) in a compliant or other document filed under seal in a lawsuit or other proceeding. Notwithstanding this immunity from liability, Executive may be held liable if Executive unlawfully accesses trade secrets by unauthorized means.

"Business" as used herein means the business of owning, operating, developing and/or managing, or providing management or administrative services to, (a) ambulatory surgery centers anywhere in the United States or (b) physician-owned surgical hospitals within a 50 mile radius of any hospital that is owned, operated, developed or managed by the Company or any Affiliate.

6. Inventions and Discoveries.

(a) Executive understands and agrees that all inventions, discoveries, ideas, improvements, whether patentable, copyrightable or not, pertaining to the Business or relating to Company's or any of its Subsidiaries' or Affiliates' actual or demonstrably anticipated research, development or inventions (collectively, "Inventions and Discoveries") that result from any work performed by Executive solely or jointly with others for the Company or any of its Subsidiaries or Affiliates which Executive, solely or jointly with others, conceives, develops, or reduces to practice during the course of Executive's employment with

the Company or any of its Subsidiaries, are the sole and exclusive property of the Company. Executive will promptly disclose all such matters to the Company and will assist the Company in obtaining legal

protection for Inventions and Discoveries. Executive hereby agrees on behalf of herself, her executors, legal representatives and assignees that she will assign, transfer and convey to the Company, its successors and assigns the Inventions and Discoveries.

(b) THE COMPANY AND EXECUTIVE ACKNOWLEDGE AND AGREE THAT SECTION 6(a) SHALL NOT APPLY TO AN INVENTION OF EXECUTIVE FOR WHICH NO EQUIPMENT, SUPPLIES, FACILITY OR TRADE SECRET INFORMATION OF THE COMPANY OR ANY OF ITS SUBSIDIARIES WAS USED AND WHICH WAS DEVELOPED ENTIRELY ON EXECUTIVE'S OWN TIME, UNLESS (A) THE INVENTION RELATED (I) TO THE BUSINESS OF THE COMPANY OR ANY OF ITS SUBSIDIARIES OR AFFILIATES OR (II) TO THE COMPANY'S OR ANY OF ITS SUBSIDIARIES' OR AFFILIATES' ACTUAL OR DEMONSTRABLY ANTICIPATED RESEARCH OR DEVELOPMENT, OR (B) THE INVENTION RESULTS FROM ANY WORK PERFORMED BY EXECUTIVE FOR THE COMPANY OR ANY OF ITS SUBSIDIARIES OR AFFILIATES.

(c) EXECUTIVE ACKNOWLEDGES THAT SHE HAS READ THIS SECTION 6 AND FULLY UNDERSTANDS THE LIMITATIONS WHICH IT IMPOSES UPON HER AND HAS RECEIVED A DUPLICATE COPY OF THIS AGREEMENT FOR HER RECORDS.

7. Restrictive Covenants. Executive acknowledges that in the course of her employment with the Company or any of its Subsidiaries or Affiliates, or their predecessors or successors, she has been and will be given access to and has and will become familiar with their trade secrets and with other Confidential Information and that her services have been and shall be of special, unique and extraordinary value to the Company and its Subsidiaries or Affiliates. Therefore, and in further consideration of the compensation to be paid to Executive hereunder and in connection with her employment, and to protect the Company's and its Subsidiaries' and Affiliates' Confidential Information, business interests and goodwill:

(a) Non-compete. Executive hereby agrees that for a period commencing on the date hereof and ending on the Termination Date, and thereafter, through the period ending twelve (12) months after the Termination Date (collectively, the "Restrictive Period"), she shall not, directly or indirectly, as employee, agent, consultant, stockholder, director, co-partner or in any other individual or representative capacity, own, operate, manage, control, engage in, invest in or participate in any manner in, act as a consultant or advisor to, render services for (alone or in association with any person, firm, corporation or entity), or otherwise assist any person or entity (other than the Company and its Subsidiaries) that engages in or owns, invests in, operates, manages or controls any venture or enterprise that directly or indirectly engages or is actively developing or attempting to develop in any element of the Business anywhere within a 50-mile radius of the Nashville, Tennessee metropolitan area or within a 50-mile radius of any area (or in the event such area is a major city, the metropolitan area relating to such city) in which the Company or any of its Subsidiaries on the Termination Date actively engages or is actively developing or attempting to develop in any element of the Business (the "Territory"); provided, however, that nothing contained herein shall be construed to prevent Executive from investing in the stock of any competing corporation listed on a national securities exchange or traded in the over-the-counter market, but only if Executive is not involved in the business of said corporation and if Executive and her associates (as such term is defined in Regulation 14(A) promulgated under the Securities Exchange Act of 1934, as in effect on the date hereof), collectively, do not own more than an aggregate of 3% of the stock of such corporation. With respect to the Territory, Executive specifically acknowledges that the Company and its Subsidiaries intend to expand the Business into and throughout the United States.

(b) Interference with Relationships. Without limiting the generality of the provisions of Section 7(a) hereof, Executive hereby agrees that, for a period commencing on the Commencement Date and ending on the Termination Date, and thereafter, through the period ending twelve (12) months after the

Termination Date (the "Non-Solicit Restrictive Period"), she will not, directly or indirectly, as employee, agent, consultant, stockholder, director, partner or in any other individual or representative capacity, (i) solicit or encourage, or participate in any business which solicits or encourages (A) any person, firm, corporation or other entity which has executed, or proposes to execute, a management services agreement or other services agreement with the Company or any of its Subsidiaries at any time during the term of this Agreement, or any successor in interest to any such person, firm, corporation or other entity, for the purpose of securing business or contracts related to any element of the Business, or (B) any present customer or patient of the Company or any of its Subsidiaries or any of their Affiliated Practices to terminate or otherwise alter his, her or its relationship with the Company or any of its Subsidiaries or such Affiliated Practice; provided, however, that nothing contained herein shall be construed to prohibit or restrict Executive from soliciting business from any such parties on behalf of the Company or any of its Subsidiaries in performance of her duties as an employee of the Company required under and as specifically contemplated by Section 2 above or (ii) divert, entice away, solicit or encourage, or attempt to divert, entice away, solicit or encourage, any physician who utilizes or has invested in an Affiliated Practice to become an owner, investor or user of another practice or facility that is not an Affiliated Practice or approach any such physician for any of the foregoing purposes or authorize or assist in the taking of any such action by any third party. In addition, at all times from and after the Termination Date, Executive shall not contact or communicate in any manner with any of Company's, or any of its Subsidiaries' or Affiliates' suppliers or vendors, or any other third party providing services to the Company or any of its Subsidiaries, regarding the Company or any of its Subsidiaries or any Company- or any such Subsidiary-related matter (which suppliers, vendors or third party service providers will include, without limitation, any third party with whom the Company or any of its Subsidiaries was, during the term of Executive's employment with the Company or any of its Subsidiaries, contemplating engaging, or negotiating with, for the future provision of products or services).

(c) Non-solicitation. Other than in the performance of her duties hereunder, during the Non-Solicit Restrictive Period, Executive shall not, directly or indirectly, as employee, agent, consultant, stockholder, director, co partner or in any other individual or representative capacity, employ, recruit or solicit for employment or engagement, any person who is employed or engaged by the Company or any of its Subsidiaries or any of its Affiliated Practices during the Non-Solicit Restrictive Period, or otherwise seek to influence or alter any such person's relationship with any of the Affiliated Practices, the Company or any of its Subsidiaries; provided, however that responses to a general solicitation (such as an internet or newspaper solicitation) that are not targeted towards any particular person shall not be deemed to be a violation of the restrictions set forth in this Section 7(c).

(d) Affiliated Practice. For purposes of this Agreement, an "Affiliated Practice" shall include any practice or facility (i) in which the Company or any of its Subsidiaries has an ownership interest or (ii) that is managed by or receives other services from the Company or any of its Subsidiaries in connection with any element of the Business.

(e) Blue Pencil. If any court of competent jurisdiction shall at any time deem the term of this Agreement or any particular Restrictive Covenant (as defined below) too lengthy or the Territory too extensive, the other provisions of this Section 7 shall nevertheless stand, the Restrictive Period herein shall be deemed to be the longest period permissible by law under the circumstances and the Territory herein shall be deemed to comprise the largest territory permissible by law under the circumstances. The court in each case shall reduce the time period and/or Territory to permissible duration or size.

(f) Covenant Not to Disparage. During the Restrictive Period and thereafter, Executive shall not disparage, denigrate or derogate in any way, directly or indirectly, the Company, any of its Subsidiaries or Affiliates, or any of its or their respective agents, officers, directors, employees, parent, subsidiaries, affiliates, Affiliated Practices, affiliated doctors (including any physicians who utilize or have invested in

any Affiliated Practice), representatives, attorneys, executors, administrators, successors and assigns (collectively, the "Protected Parties"), nor shall Executive disparage, denigrate or derogate in any way, directly or indirectly, her experience with any Protected Party, or any actions or decisions made by any Protected Party.

(g) Remedies. Executive acknowledges and agrees that the covenants set forth in this Section 7 and the preceding Sections 5 and 6 (collectively, the "Restrictive Covenants") are reasonable and necessary for the protection of the business interests of the Company and its Subsidiaries and Affiliates, that irreparable injury may result to the Company and its Subsidiaries and Affiliates if Executive breaches any of the terms of said Restrictive Covenants, and that in the event of Executive's actual or threatened breach of any such Restrictive Covenants, the Company and its Subsidiaries and Affiliates will have no adequate remedy at law. Executive accordingly agrees that in the event of any actual or threatened breach by her of any of the Restrictive Covenants, the Company and its Subsidiaries and Affiliates shall be entitled to immediate temporary injunctive and other equitable relief subject to hearing as soon thereafter as possible. Nothing contained herein shall be construed as prohibiting the Company or any of its Subsidiaries or Affiliates from pursuing any other remedies available to it for such breach or threatened breach, including the recovery of any damages which it is able to prove. In addition and supplementary to other rights and remedies existing in its (or their) favor, in the event of the material breach by Executive of any of the provisions of this Section 7, the Company (and/or its Subsidiaries or Affiliates) shall be entitled to require Executive to account for and pay over to the Company (and/or its Subsidiaries or Affiliates) all compensation, profits, moneys, accruals, increments or other benefits actually derived from or received as a result of any transactions constituting a breach of the covenants contained in this Agreement which may require Executive to repay any severance. In addition, in the event of an alleged breach or violation by Executive of this Section 7, the restricted periods set forth in this Section 7 shall be tolled until such breach or violation has been duly cured.

(h) Executive understands that the foregoing restrictions may limit her ability to earn a livelihood in a business similar to the business of the Company and its Subsidiaries or Affiliates, but she nevertheless believes that she has received and will receive sufficient consideration and other benefits as an executive of the Company and as otherwise provided hereunder to clearly justify such restrictions which, in any event (given her education, skills and ability), Executive does not believe would prevent her from otherwise earning a living. Executive acknowledges that the Restrictive Covenants are reasonable and that she has reviewed the provisions of this Agreement with her legal counsel. Executive shall inform any prospective or future employer of any and all restrictions contained in this Agreement and provide such employer with a copy of such restrictions, prior to the commencement of that employment.

8. Executive's Representations and Covenants.

(a) Executive hereby represents and warrants to the Company that (i) the execution, delivery and performance of this Agreement by Executive do not and shall not conflict with, breach, violate or cause a default under any contract, agreement, instrument, order, judgment or decree to which Executive is a party or by which she is bound, (ii) Executive is not a party to or bound by any employment agreement, non compete agreement or confidentiality agreement with any other person or entity and (iii) upon the execution and delivery of this Agreement by the Company, this Agreement shall be the valid and binding obligation of Executive, enforceable in accordance with its terms. Executive hereby acknowledges and represents that she has consulted with independent legal counsel regarding her rights and obligations under this Agreement and that she fully understands the terms and conditions contained herein.

(b) During the Employment Period and thereafter, Executive shall cooperate with the Company and its Subsidiaries and Affiliates in any internal investigation or administrative, regulatory or judicial proceeding as reasonably requested by the Company (including, without limitation, Executive

being available to the Company upon reasonable notice for interviews and factual investigations, appearing at the Company's request to give testimony without requiring service of a subpoena or other legal process, volunteering to the Company all pertinent information and turning over to the Company all relevant documents which are in or may come into Executive's possession, all at times and on schedules that are reasonably consistent with Executive's other permitted activities and commitments). In the event the Company requires Executive's cooperation in accordance with this Section 8(b), the Company shall reimburse Executive for reasonable travel expenses (including, without limitation, travel expenses, lodging and meals, and reasonable attorneys' fees upon submission of receipts).

9. Survival. Sections 4 through 22 shall survive and continue in full force in accordance with their terms notwithstanding the expiration or termination of the Employment Period.

10. Notices. Any notices provided for in this Agreement shall be in writing and shall be effective when delivered in person or deposited in the United States mail, postage prepaid, and addressed to Executive at her last known address on the books of the Company or, in the case of the Company, to it at its principal place of business, attention of the Chief Executive Officer, or to such other address as either party may specify by notice to the other actually received.

11. Severability. Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability will not affect any other provision or any other jurisdiction, but this Agreement will be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision had never been contained herein.

12. Complete Agreement. This Agreement, those documents expressly referred to herein and other documents of even date herewith, embody the complete agreement and understanding among Executive and the Company and its Subsidiaries and, as of the Effective Date, shall supersede and preempt any prior understandings, agreements or representations by or among the parties, written or oral, which may have related to the subject matter hereof in any way, including, for the avoidance of doubt, the Former Employment Agreement.

13. No Strict Construction. The language used in this Agreement will be deemed to be the language chosen by the parties hereto to express their mutual intent, and no rule of strict construction will be applied against any party hereto.

14. Counterparts. This Agreement may be executed in separate counterparts (including by facsimile or PDF signature pages), each of which is deemed to be an original and all of which taken together constitute one and the same agreement.

15. Successors and Assigns. This Agreement is intended to bind and does bind and inure to the benefit of and be enforceable by Executive and the Company and its successors and permitted assigns. Executive may not assign any of her rights or obligations hereunder without the prior written consent of the Company. The Company may (a) assign any or all of its respective rights and interests hereunder to one or more Subsidiaries or Affiliates of the Company, (b) designate one or more Subsidiaries or Affiliates of the Company to perform its obligations hereunder (in any or all of which cases the Company nonetheless shall remain responsible for the performance of all of its obligations hereunder), (c) assign its rights hereunder in connection with the sale of all or a substantial part of the business or assets of the Company or one of its Subsidiaries (whether by merger, sale of stock or assets, recapitalization or otherwise) and (d) merge any of the Subsidiaries or Affiliates with or into the Company (or vice versa). The rights of the Company

hereunder are enforceable by the Company or its Subsidiaries or Affiliates, which are the intended third party beneficiaries hereof and no other third party beneficiary is so otherwise intended.

16. Delivery by Facsimile or PDF. This Agreement and any amendments hereto, to the extent signed and delivered by means of a facsimile machine or PDF, shall be treated in all manner and respects as an original agreement or instrument and shall be considered to have the same binding legal effect as if it were the original signed version thereof delivered in person. At the request of any party hereto, each other party hereto shall re-execute original forms thereof and deliver them to the other party. No party hereto shall raise the use of a facsimile machine or PDF to deliver a signature or the fact that any signature or agreement or instrument was transmitted or communicated through the use of a facsimile machine or PDF as a defense to the formation or enforceability of a contract and each such party forever waives any such defense.

17. Income Tax Treatment. Executive and the Company acknowledge that it is the intention of the Company to deduct all cash amounts paid under this Agreement as ordinary and necessary business expenses for income tax purposes. Executive agrees and represents that she will treat all such non reimbursable amounts as ordinary income for income tax purposes, and should she report such amounts as other than ordinary income for income tax purposes, she will indemnify and hold the Company harmless from and against any and all taxes, penalties, interest, costs and expenses, including reasonable attorneys' and accounting fees and costs, which are incurred by Company directly or indirectly as a result thereof.

18. Governing Law. This Agreement shall be construed and enforced in accordance with, and all questions concerning the construction, validity, interpretation and performance of this Agreement shall be governed by, the laws of the state in which Executive resides, without giving effect to provisions thereof regarding conflict of laws.

19. Consent to Jurisdiction.

(a) THE COMPANY AND EXECUTIVE HEREBY CONSENT TO THE JURISDICTION OF ANY STATE OR FEDERAL COURT LOCATED WITHIN THE STATE IN WHICH EXECUTIVE RESIDES AND IRREVOCABLY AGREE THAT SUBJECT TO THE COMPANY'S ELECTION, ALL ACTIONS OR PROCEEDINGS ARISING OUT OF OR RELATING TO THIS AGREEMENT SHALL BE LITIGATED IN SUCH COURTS. EXECUTIVE ACCEPTS FOR HERSELF AND IN CONNECTION WITH her PROPERTIES, GENERALLY AND UNCONDITIONALLY, THE NONEXCLUSIVE JURISDICTION OF THE AFORESAID COURTS AND WAIVES ANY DEFENSE OF FORUM NON CONVENIENS, AND IRREVOCABLY AGREES TO BE BOUND BY ANY JUDGMENT RENDERED THEREBY IN CONNECTION WITH THIS AGREEMENT.

(b) Notwithstanding Section 20(a), the parties intend to and hereby confer jurisdiction to enforce the covenants contained in Sections 5 through 7 upon the courts of any jurisdiction within the geographical scope of such covenants. If the courts of any one or more of such jurisdictions hold such covenants wholly or partially invalid or unenforceable by reason of the breadth of such scope or otherwise, it is the intention of the parties that such determination not bar or in any way affect the Company's right to the relief provided above in the courts of any other jurisdiction within the geographical scope of such covenants, as to breaches of such covenants in such other respective jurisdictions, such covenants as they relate to each jurisdiction being, for this purpose, severable into diverse and independent covenants.

20. Amendment and Waiver. Any provision of this Agreement may be amended or waived only with the prior written consent of the Company and Executive, and no course of conduct or course of dealing or failure or delay by any party hereto in enforcing or exercising any of the provisions of this

Agreement shall affect the validity, binding effect or enforceability of this Agreement or be deemed to be an implied waiver of any provision of this Agreement.

21. Section 409A. To the maximum extent permitted by law, this Agreement shall be interpreted in such a manner that the payments to Executive under this Agreement are either exempt from, or comply with, Section 409A, including without limitation any such regulations or other guidance that may be issued after the date hereof. For purposes of Section 409A, each payment made under this Agreement shall be treated as a separate payment and the right to a series of installment payments under this Agreement is to be treated as a right to a series of separate payments. Notwithstanding anything to the contrary in this Agreement, if Executive is a "specified employee" as defined below, as of Executive's termination of employment, then, to the extent any payment under this Agreement resulting from Executive's termination of employment constitutes deferred compensation (after taking into account any applicable exemptions from Section 409A) and to the extent required by Section 409A, no payments due under this Agreement as a result of Executive's termination of employment may be made until the earlier of (a) the first day following the six-month anniversary of Executive's date of termination and (b) Executive's date of death; provided, however, that any payments delayed during this six-month period shall be paid in the aggregate in a lump sum as soon as reasonably practicable following the sixth month anniversary of Executive's date of termination. For purposes of this Agreement, all references to "termination of employment" and correlative phrases shall be construed to require a "separation from service" (as defined in Treas. Reg. §1.409A-1(h) after giving effect to the presumptions contain therein), and the term "specified employee" means an individual determined by the Company to be a specified employee under Treas. Reg. §409A-1(i). Further, notwithstanding anything to the contrary in this Agreement, if the time period provided to the Executive to review the Release Agreement allows for the Executive to choose which calendar year she will receive her payments set out in Section 4(g), all payments will be made in the later calendar year.

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IN WITNESS WHEREOF, the parties hereto have executed this Employment Agreement as of the date first written above.

SURGERY PARTNERS, INC.

By: /s/ Jennifer Baldock
Jennifer Baldock
Senior Vice President and General
Counsel

Accepted and Agreed:

/s/ Angela Justice

Angela Justice

Date: 02/22/2017

4836-6434-1086, v. 1

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (this "Agreement") is made as of June 13, 2014, between Symbion, Inc., a Delaware corporation (the "Company"), and George M. Goodwin ("Executive").

WHEREAS, simultaneously with the execution of this Agreement, Surgery Center Holdings, LLC, a Delaware limited liability company (the "Parent"), SH Acquisition Corp. a Delaware corporation and a wholly-owned subsidiary of the Parent ("Merger Sub"), and Symbion Holdings Corporation, a Delaware corporation ("Symbion Holdings"), are entering into that certain Agreement and Plan of Merger (the "Merger Agreement") pursuant to which, among other things, Merger Sub shall merge with and into Symbion Holdings, whereupon the separate existence of the Merger Sub shall cease, and Symbion Holdings shall be the surviving corporation and shall become a wholly-owned subsidiary of Parent following such merger;

WHEREAS, the Company is wholly owned by Symbion Holdings;

WHEREAS, as a condition to the execution of the Merger Agreement, the parties hereto are entering into this Agreement pursuant to which, contingent upon the closing of the transactions contemplated by the Merger Agreement (the "Closing"), the Company will employ Executive on the terms and conditions contained in this Agreement; and

WHEREAS, the covenants and agreements contained in this Agreement are contingent upon, and subject to, the occurrence of the Closing.

NOW, THEREFORE, in consideration of the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Employment. The Company shall employ Executive, and Executive hereby accepts employment with the Company, upon the terms and conditions set forth in this Agreement for the period beginning on the date of the Closing (the "Commencement Date") and ending on the five (5) year anniversary of the Commencement Date; provided, however, that the term of this Agreement shall automatically be extended for one additional year on the fifth anniversary of the Commencement Date and each anniversary thereafter (the "Employment Period") unless either party gives thirty (30) days' notice of non-renewal. The parties hereto acknowledge and agree that the covenants, agreements and obligations of the parties hereto are contingent upon, and subject to, the occurrence of the Closing.

2. Position and Duties.

(a) During the Employment Period, Executive shall serve as the Group President of the Parent reporting to the CEO or COO. Executive shall have such responsibilities, duties and authorities, and will render such services for the Company and its Subsidiaries or Affiliates as the Board of Directors (the "Board") (or any designated officer of the Board or the Company or Parent), may from time to time direct. Executive will devote his best efforts, energies and abilities and his full business time, skill and attention to the business and affairs of the Company

and its Subsidiaries, and shall perform his duties and responsibilities to the best of his ability, in a diligent, trustworthy, businesslike and efficient manner for the purpose of advancing the businesses of Company and its Subsidiaries. Executive acknowledges that his duties and responsibilities will require his full time business efforts and agrees that during the Employment Period he will not engage in any other business activity or have any business pursuits that interferes with Executive's duties and responsibilities under this Agreement or are competitive with the businesses of the Company. Notwithstanding the foregoing, Executive shall be permitted to devote a reasonable amount of time and effort to (i) providing service to, or serving on governing boards of, civic and charitable organizations, and (ii) personally investing and managing personal and family investments in real estate and in any corporation, partnership or other entity; but in each case, only to the extent that any of the activities described in clauses (i) or (ii), individually or as a whole, do not (A) require or involve the active participation of Executive in the management of any corporation, partnership or other entity or interfere with the execution of Executive's duties hereunder, or (B) otherwise violate any provision of this Agreement.

(b) For purposes of this Agreement, (i) "Subsidiaries" means any corporation or other entity of which either (a) the securities or other ownership interests having the voting power to elect a majority of the board of directors or other governing body are, at the time of determination, owned by the Company, Symbion Holdings or Parent, directly or through one or more subsidiaries or (b) to which the Company, Symbion Holdings or Parent, or any of their Affiliates provide management services to, and (ii) "Affiliate" of an entity means any other person or entity, directly or indirectly controlling, controlled by or under common control with an entity.

3. Compensation and Benefits.

(a) During the Employment Period, Executive's base salary shall be \$275,000 per annum (which annual base salary, as modified from time to time in accordance with this Section 3, shall be referred to herein as the "Base Salary"), payable by the Company in regular installments in accordance with the Company's general payroll practices, less taxes and other applicable withholdings. The Board or any designated officer shall perform an annual review of Executive's Base Salary based on Executive's performance of his duties and the Company's other compensation policies; provided that any modification in the Base Salary shall require approval of the Board or its Compensation Committee, which may give or withhold such approval in its sole discretion.

(b) In addition, during the Employment Period, Executive shall be entitled to participate in all of the Company's benefit programs for which employees of the Company are generally eligible, subject to the eligibility and participation requirements thereof, including, but not limited to, the following:

(i) medical, dental, vision, life and disability insurance, as is generally provided to other employees of the Company;

(ii) eligibility for vacation time in accordance with the policies of the Company as are in effect as of the Commencement Date; provided, however, that Executive shall not have less than 20 days of vacation time per calendar year;

(iii) participation in the management equity plan of Parent, pursuant to which Executive shall be granted 150,000 Class B Units of Parent, which Class B Units will be subject to customary vesting, buyback and other provisions and restrictions as set forth in the applicable award agreement and Parent's LLC Agreement. Copies of both the applicable award agreement and Parent's LLC Agreement have been provided to Executive prior to the date of this Agreement; and

(iv) participation in the existing Symbion, Inc. supplemental Executive Retirement Plan, or its equivalent or a successor plan, with a minimum of a two percent (2%) match for Executive.

(c) During the Employment Period, the Company shall reimburse Executive for all reasonable out-of-pocket expenses incurred by his in the course of performing his duties and responsibilities under this Agreement which are consistent with the Company's policies in effect from time to time with respect to travel, entertainment and other business expenses, subject to the Company's requirements with respect to reporting and documentation of such expenses.

(d) In addition to the Base Salary, Executive will be eligible to receive an annual bonus of fifty percent (50%) of the Base Salary upon the achievement of certain performance targets to be defined by the Board.

(e) All amounts payable to Executive hereunder shall be subject to all required withholdings by the Company. If additional guidance is issued under, or modifications are made to, Section 409A of the Internal Revenue Code or any other law affecting payments to be made under the Agreement, the Executive agrees that the Company may take such reasonable actions and adopt such reasonable amendments as the Company believes are necessary to ensure continued compliance with the Internal Revenue Code, including Section 409A thereof. However, the Company does not hereby or otherwise represent or warrant that any payments hereunder are or will be in compliance with Section 409A, and Executive shall be responsible for obtaining his own tax advice with regard to such matters.

4. Termination.

(a) Termination By Executive or the Company. The Employment Period (i) shall terminate upon Executive's resignation with Good Reason (as defined below) or without Good Reason, death or Incapacity (as defined below) or (ii) may be terminated by the Company at any time for Cause (as defined below) or without Cause.

(b) "Good Reason" shall mean without the written consent of Executive:

(i) without the express written consent of Executive, a material diminution of his position, duties, responsibilities, and status with the Company as in effect as of the

Commencement Date or a material reduction of Executive's resources as in effect on the Commencement Date;

- (ii) a reduction in Executive's Base Salary or annual bonus percentage;
- (iii) a material reduction in the level of benefits available or awarded to Executive, other than any reduction in connection with a Company-wide reduction applicable generally to similarly situated executive officers of the Company;
- (iv) during the first twelve (12) months of this Agreement or within twelve (12) months of any Change in Control (as defined herein), a material increase in Executive's core functional responsibilities with a corresponding material change in Executive's core functional role without a corresponding increase in compensation, provided, however, the addition of additional facilities or territories to Executive's oversight responsibilities or other ordinary course growth of the Parent or Company shall not be a material increase in Executive's core functional responsibilities;
- (v) a relocation by the Company of Executive's primary employment location to a location which is more than 50 miles from Executive's primary employment location on the date hereof; or
- (vi) a material breach by the Company of the terms of this Agreement;

but only if (x) Executive notifies the Company in writing within 60 days after the initial existence or occurrence of any of these conditions which notice describes in reasonable detail the basis for Executive's belief that Good Reason exists and that the Executive intends to resign for Good Reason and the Company, within 15 days after receipt of such notice, either fails to cure the condition or delivers a written notice to Executive that the Company intends not to cure such condition and (y) Executive actually resigns prior to 15 days after the earlier to occur of either the end of such 15-day cure period or delivery of such written notice by the Company.

(c) "Incapacity" as used herein shall mean that Executive is unable to perform, with or without reasonable accommodation, by reason of physical or mental incapacity, the essential duties, responsibilities and functions of his or his position. A medical examination by a physician selected by the Company to whom the Executive or his duly appointed guardian, if any, has no reasonable objection shall determine, according to the facts then available, whether and when Incapacity has occurred. Such determination shall not be arbitrary or unreasonable, and shall be final and binding on the parties hereto.

(d) "Cause" as used herein means the occurrence of any of the following events:

- (i) a material breach by Executive of any of the terms and conditions of this Agreement; provided that, if curable, Executive shall have a reasonable period of time (which in no event shall exceed 45 days) during which to cure such material breach following the date on which Executive receives the Company's written notice of such material breach;

(ii) Executive's reporting to work (A) intoxicated (other than Executive's reasonable use of alcohol in connection with business entertainment, provided, that such use of alcohol does not cause the Company, Parent or any of their Subsidiaries or Affiliates substantial public disgrace or disrepute or economic harm) or (B) under the influence of illegal drugs;

(iii) Executive's use of illegal drugs (whether or not at the workplace) or other conduct causing the Company, Parent or any of their Subsidiaries or Affiliates substantial public disgrace or disrepute or economic harm;

(iv) breach of fiduciary duty, gross negligence or willful misconduct with respect to the Company, Parent or any of their Subsidiaries or Affiliates;

(v) chronic absenteeism, which shall be deemed to have occurred if Executive has at least ten absences unrelated to paid time off, disability or illness in any ten week period;

(vi) Executive's material failure or willful refusal to substantially perform his duties, responsibilities and functions; provided that, if curable, Executive shall have a reasonable period of time (which in no event shall exceed 45 days) during which to cure such failure following the date on which Executive receives the Company's written notice of such failure;

(vii) Executive's failure to comply with any of the Company's, Parent's or any of their Subsidiaries' written guidelines or procedures promulgated by the Company, Parent or any such Subsidiary and furnished to Executive, including, without limitation, any guidelines or procedures relating to marketing or community relations; provided that, if curable, Executive shall have a reasonable period of time (which in no event shall exceed 45 days) during which to cure such failure following the date on which Executive receives the Company's written notice of such failure; or

(viii) Executive has committed an act or acts constituting a felony or any other act or omission involving theft, dishonesty or fraud against the Company, Parent or any of their Subsidiaries or any of their respective customers or suppliers or other business relationships.

(e) A "Change in Control" shall be deemed to have occurred at such time as:

(i) Upon the closing of a reorganization, merger, share exchange or consolidation, other than a reorganization, merger, share exchange or consolidation with respect to which those persons who were the beneficial owners, immediately prior to such reorganization, merger, share exchange or consolidation, of outstanding securities of the Parent or the Company ordinarily having the right to vote in the election of directors own, immediately after the closing of such transaction, own more than 51% of the outstanding securities of the resulting corporation ordinarily having the right to vote in the election of directors; or

(ii) Upon approval by the Parent or the Company stockholders or members of a complete liquidation and dissolution of the Parent or the Company or the sale or other disposition of all or substantially all of the assets of the Parent or the Company other than to a Subsidiary or Affiliate;

provided, however, that a sale, in a firm commitment underwritten public offering led by a nationally recognized underwriting firm pursuant to an effective registration statement under the Securities Act of 1933, as amended, or any successor federal statute, of units of the Parent (or common stock of an entity into which the units of the Parent convert) shall not be a Change in Control.

(f) Termination by Executive. Executive has the right to terminate his employment under this Agreement at any time, for any or no reason, but only after giving the Company (i) thirty (30) days prior written notice with respect to any termination without Good Reason or (ii) the number of days prior written notice set forth in the last sentence of Section 4(b) with respect to any termination with Good Reason.

(g) Compensation After Termination.

(i) If the Employment Period has commenced and is terminated pursuant to Executive's resignation without Good Reason, death or Incapacity, Executive shall only be entitled to receive his Base Salary through the date of termination and shall not be entitled to any other salary, bonus, compensation or benefits from the Company, Parent or their Subsidiaries, except as may be required by applicable law.

(ii) If the Employment Period has commenced and is terminated by the Company for Cause, Executive shall only be entitled to his Base Salary through the date of termination and shall not be entitled to any other salary, bonus, compensation or benefits from the Company, Parent or their Subsidiaries, except as may be required by applicable law. In addition, in such event, Executive shall automatically forfeit any rights to any unvested Units owned by Executive in Parent.

(iii) If the Employment Period has commenced and is terminated (1) by the Company without Cause, (2) by Executive for Good Reason or (3) this Agreement is not renewed by the Company or allowed to expire by the Company, then subject to the conditions described in Section 4(g)(v) below, Executive shall be entitled to receive as severance compensation the following (collectively, "Severance Pay"): (A) an amount equal to the sum of Executive's then-current annual Base Salary, payable in regular installments beginning within 30 days following the Termination Date in accordance with the Company's general payroll practices for salaried employees; (B) continuation of the welfare benefits described in Section 3(b) for twelve (12) months (the "Severance Period") to the extent permissible under the terms of the relevant benefit plans at no cost to Executive and (C) the Bonus payable to the Executive within 2 and 1/2 months after the end of the applicable year. For purposes of this Section 4(g), "Bonus" shall mean an amount equal to the Executive's then-current annual Base Salary, multiplied by the percentage contained in Section 3(d) hereof.

(iv) If, within twelve (12) months following a Change in Control, either (A) the Company terminates the employment of Executive hereunder without Cause under Section 4(a) above, or (B) Executive terminates his employment for Good Reason under Section 4(e) above, then, in lieu of any other compensation that may be specified in this Agreement, the Company will pay Executive the Severance Pay. The Company will make any payment due under this clause (iv) in a single lump-sum payment not later than 30 days after termination. If any payment obligation under this Section 4(g) arises, no compensation received from other employment (or otherwise) will reduce the Company's obligation to make the payment(s) described in this paragraph.

(v) Notwithstanding Section 4(g)(iii), Executive's right to receive Severance Pay hereunder is conditioned upon: (A) Executive executing, and not revoking, a written separation agreement and general release of all claims against the Parent, Company, their Subsidiaries and Affiliates and their respective managers, directors, officers, shareholders, members, representatives, agents, attorneys, predecessors, successors and assigns (other than a claim for the severance payments described in Section 4(g)(iii) and (iv) and Executive's rights to future distributions and payments related to the continued ownership of any equity securities in Parent that Executive will continue to own after such termination), in form and substance acceptable to the Company, which shall among other things, contain a general release by Executive of all claims arising out of his employment and termination of employment by the Company (a "Release Agreement") within 30 days of Executive's Termination Date; and (B) Executive's material compliance with all of his obligations which survive termination of this Agreement. The Severance Pay is intended to be in lieu of all other payments to which Executive might otherwise be entitled in respect of his termination without Cause, resignation with Good Reason or this Agreement is not renewed or allowed to expire by the Company. The Company, Parent and their Subsidiaries and Affiliates shall have no further obligations hereunder or otherwise with respect to Executive's employment from and after the date of termination of employment with the Company (the "Termination Date"), and the Company, Parent and their Subsidiaries and Affiliates shall continue to have all other rights available hereunder (including without limitation, all rights hereunder at law or in equity).

(vi) Except as otherwise expressly provided herein, all of Executive's rights to salary, bonuses, benefits and other compensation hereunder which might otherwise accrue or become payable after the termination of the Employment Period shall cease upon such termination, other than those expressly required under applicable law (such as COBRA). All amounts payable to Executive as severance hereunder shall be subject to all required withholdings by the Company (including, but not limited to, Section 409A of the Internal Revenue Code).

(h) The Company may offset any amount Executive owes it or Parent or their Subsidiaries or Affiliates against any amount they or their Subsidiaries or Affiliates owes Executive hereunder.

5. Confidential Information. Other than in the performance of his duties hereunder, during the Restrictive Period (as defined below) and thereafter, Executive shall keep secret and retain in strictest confidence, and shall not, without the prior written consent of the Company, furnish, make available or disclose to any third party or use for the benefit of herself or any third party, any Confidential Information. As used in this Agreement, "Confidential Information" shall mean any information relating to the business or affairs of the Company, Parent any of their Subsidiaries or Affiliates or the Business, including but not limited to any technical or non-technical data, formulae, compilations, programs, devices, methods, techniques, designs, processes, procedures, improvements, models, manuals, financial data, acquisition strategies and information, information relating to operating procedures and marketing strategies, and any other proprietary information used by the Company, Parent or any of their Subsidiaries or Affiliates in connection with the Business, irrespective of its form; provided, however, that Confidential Information shall not include any information which is in the public domain or becomes known in the industry, in each case through no wrongful act on the part of Executive. Executive acknowledges that the Confidential Information is vital, sensitive, confidential and proprietary to the Company, Parent and their Subsidiaries and Affiliates. Executive will immediately notify the Company of any unauthorized possession, use, disclosure, copying, removal or destruction, or attempt thereof, of any Confidential Information by anyone of which Executive becomes aware and of all details thereof. Executive shall take all reasonably appropriate steps to safeguard Confidential Information and to protect it against disclosure, misuse, espionage, loss and theft. Executive shall deliver to the Company at the termination or expiration of the Employment Period, or at any other time the Company may request, all memoranda, notes, plans, records, reports, computer tapes, computers, printouts and software and other documents and data (and copies thereof) embodying or relating to the Confidential Information, Inventions and Discoveries (as defined below) or the business of the Company, Parent or any of their Subsidiaries or Affiliates which he may then possess or have under his control.

"Business" as used herein means the business of owning, operating, developing and/or managing, or providing management or administrative services to, (a) ambulatory surgery centers anywhere in the United States or (b) physician-owned surgical hospitals within a fifty (50) mile radius of any hospital that is owned, operated, developed or managed by Parent or any Affiliate of Parent.

6. Inventions and Discoveries.

(a) Executive understands and agrees that all inventions, discoveries, ideas, improvements, whether patentable, copyrightable or not, pertaining to the Business or relating to the Company's, Parent's or any of their Subsidiaries' or Affiliates' actual or demonstrably anticipated research, development or inventions (collectively, "Inventions and Discoveries") that result from any work performed by Executive solely or jointly with others for the Company, Parent or any of their Subsidiaries or Affiliates which Executive, solely or jointly with others, conceives, develops, or reduces to practice during the course of Executive's employment with the Company, Parent or any of their Subsidiaries, are the sole and exclusive property of the Company. Executive will promptly disclose all such matters to the Company and will assist the Company in obtaining legal protection for Inventions and Discoveries. Executive hereby agrees on behalf of herself, his executors, legal

representatives and assignees that he will assign, transfer and convey to the Company, its successors and assigns the Inventions and Discoveries.

(b) THE COMPANY AND EXECUTIVE ACKNOWLEDGE AND AGREE THAT SECTION 6(a) SHALL NOT APPLY TO AN INVENTION OF EXECUTIVE FOR WHICH NO EQUIPMENT, SUPPLIES, FACILITY OR TRADE SECRET INFORMATION OF THE COMPANY, PARENT OR ANY OF THEIR SUBSIDIARIES WAS USED AND WHICH WAS DEVELOPED ENTIRELY ON EXECUTIVE'S OWN TIME, UNLESS (A) THE INVENTION RELATED (I) TO THE BUSINESS OF THE COMPANY, PARENT OR ANY OF THEIR SUBSIDIARIES OR AFFILIATES OR (II) TO THE COMPANY'S OR ANY OF ITS SUBSIDIARIES' OR AFFILIATES' ACTUAL OR DEMONSTRABLY ANTICIPATED RESEARCH OR DEVELOPMENT, OR (B) THE INVENTION RESULTS FROM ANY WORK PERFORMED BY EXECUTIVE FOR THE COMPANY, PARENT OR ANY OF THEIR SUBSIDIARIES OR AFFILIATES. EXECUTIVE AND THE COMPANY FURTHER ACKNOWLEDGE AND AGREE THAT SECTION 6(a) SHALL NOT APPLY TO ANY INVENTIONS OR WORK PRODUCT DEVELOPED OR VESTED BY EXECUTIVE PRIOR TO THE EFFECTIVE DATE, A COMPLETE AND ACCURATE LIST OF WHICH IS SET FORTH ON SCHEDULE 6(b).

(c) EXECUTIVE ACKNOWLEDGES THAT HE HAS READ THIS SECTION 6 AND FULLY UNDERSTANDS THE LIMITATIONS WHICH IT IMPOSES UPON HIS AND HAS RECEIVED A DUPLICATE COPY OF THIS AGREEMENT FOR HIS RECORDS.

7. Restrictive Covenants. Executive acknowledges that in the course of his employment with the Company, Parent or any of their Subsidiaries or Affiliates, or their predecessors or successors, he has been or will be given access to and has or will become familiar with their trade secrets and with other Confidential Information and that his services have been and shall be of special, unique and extraordinary value to the Company, Parent and their Subsidiaries or Affiliates. Therefore, and in further consideration of the compensation to be paid to Executive hereunder and in connection with his employment and the profit interests in Parent issued to Executive under that certain Executive Securities Agreement, dated as of the date hereof, and to protect the Company's and its Subsidiaries' and Affiliates' Confidential Information, business interests and goodwill:

(a) Non-compete. Executive hereby agrees that for a period commencing on the date hereof and ending on the Termination Date, and thereafter, through the period ending on the first anniversary of the Termination Date (collectively, the "Restrictive Period"), he shall not, directly or indirectly, as employee, agent, consultant, stockholder, director, co-partner or in any other individual or representative capacity, own, operate, manage, control, engage in, invest in or participate in any manner in, act as a consultant or advisor to, render services for (alone or in association with any person, firm, corporation or entity), or otherwise assist any person or entity (other than the Parent and its Subsidiaries) that engages in or owns, invests in, operates, manages or controls any venture or enterprise that directly or indirectly engages or is actively developing or attempting to develop in any element of the Business anywhere within a 50-mile radius of the Nashville metropolitan area or within a 50-mile radius of any area (or in the event such area is a major city, the metropolitan area relating to such city) in which the Parent, the Company or any of their Subsidiaries on the Termination Date actively engages or is actively

developing or attempting to develop in any element of the Business (the "Territory"); provided, however, that nothing contained herein shall be construed to prevent Executive from investing in the stock of any competing corporation listed on a national securities exchange or traded in the over-the-counter market, but only if Executive is not involved in the business of said corporation and if Executive and his associates (as such term is defined in Regulation 14(A) promulgated under the Securities Exchange Act of 1934, as in effect on the date hereof), collectively, do not own more than an aggregate of 3% of the stock of such corporation. With respect to the Territory, Executive specifically acknowledges that the Parent and its Subsidiaries intend to expand the Business into and throughout the United States.

(b) Interference with Relationships. Without limiting the generality of the provisions of Section 7(a) hereof, Executive hereby agrees that, for a period commencing on the date hereof and ending on the Termination Date, and thereafter, through the period ending on the second anniversary of the Termination Date (the "Non-Solicit Restrictive Period"), he will not, directly or indirectly, as employee, agent, consultant, stockholder, director, partner or in any other individual or representative capacity, (i) solicit or encourage, or participate in any business which solicits or encourages (A) any person, firm, corporation or other entity which has executed, or proposes to execute, a management services agreement or other services agreement with the Company, Parent or any of their Subsidiaries at any time during the term of this Agreement, or from any successor in interest to any such person, firm, corporation or other entity, for the purpose of securing business or contracts related to any element of the Business, or (b) any present customer or patient of the Company, Parent or any of their Subsidiaries or any of their Affiliated Practices to terminate or otherwise alter his, his or its relationship with the Company, Parent or any of their Subsidiaries or such Affiliate Practice; provided, however, that nothing contained herein shall be construed to prohibit or restrict Executive from soliciting business from any such parties on behalf of the Company, Parent or any of their Subsidiaries in performance of his duties as an employee of the Company required under and as specifically contemplated by Section 2 above or (ii) divert, entice away, solicit or encourage, or attempt to divert, entice away, solicit or encourage, any physician who utilizes or has invested in an Affiliated Practice to become an owner, investor or user of another practice or facility that is not an Affiliated Practice or approach any such physician for any of the foregoing purposes or authorize or assist in the taking of any such action by any third party. In addition, at all times from and after the Termination Date, Executive shall not contact or communicate in any manner with any of the Company's, the Parent's or any of their Subsidiaries' or Affiliates' suppliers or vendors, or any other third party providing services to the Company, Parent or any of their Subsidiaries, regarding the Parent, the Company, any of their Subsidiaries or any Company- or any such Subsidiary-related matter (which suppliers, vendors or third party service providers will include, without limitation, any third party with whom the Company, the Parent or any of their Subsidiaries was, during the term of Executive's employment with the Parent, the Company or any of their Subsidiaries, contemplating engaging, or negotiating with, for the future provision of products or services).

(c) Non-solicitation. Other than in the performance of his duties hereunder, during the Non-Solicit Restrictive Period, Executive shall not, directly or indirectly, as employee, agent, consultant, stockholder, director, co partner or in any other individual or representative capacity,

employ, recruit or solicit for employment or engagement, any person who is employed or engaged by the Parent, the Company or any of their Subsidiaries or any of its Affiliated Practices during the Non Solicit Restrictive Period, or otherwise seek to influence or alter any such person's relationship with any of the Affiliated Practices, the Parent, the Company or any of their Subsidiaries; provided, however that responses to a general solicitation (such as an internet or newspaper solicitation) that are not targeted towards any particular person shall not be deemed to be a violation of the restrictions set forth in this Section 7(c).

(d) Affiliated Practice. For purposes of this Agreement, an "Affiliated Practice" shall include any practice or facility (i) in which the Parent, Company or any of their Subsidiaries has an ownership interest or (ii) that is managed by or receives other services from the Parent, the Company or any of their Subsidiaries in connection with any element of the Business.

(e) Blue Pencil. If any court of competent jurisdiction shall at any time deem the term of this Agreement or any particular Restrictive Covenant (as defined below) too lengthy or the Territory too extensive, the other provisions of this Section 7 shall nevertheless stand, the Restrictive Period herein shall be deemed to be the longest period permissible by law under the circumstances and the Territory herein shall be deemed to comprise the largest territory permissible by law under the circumstances. The court in each case shall reduce the time period and/or Territory to permissible duration or size.

(f) Covenant Not to Disparage. During the Restrictive Period and thereafter, Executive shall not disparage, denigrate or derogate in any way, directly or indirectly, the Parent, the Company, any of their Subsidiaries or Affiliates, or any of its or their respective agents, officers, directors, employees, parent, subsidiaries, affiliates, Affiliated Practices, affiliated doctors (including any physicians who utilize or have invested in any Affiliated Practice), representatives, attorneys, executors, administrators, successors and assigns (collectively, the "Protected Parties"), nor shall Executive disparage, denigrate or derogate in any way, directly or indirectly, his experience with any Protected Party, or any actions or decisions made by any Protected Party.

(g) Remedies. Executive acknowledges and agrees that the covenants set forth in this Section 7 and the preceding Sections 5 and 6 (collectively, the "Restrictive Covenants") are reasonable and necessary for the protection of the business interests of the Company, Parent and their Subsidiaries and Affiliates, that irreparable injury may result to the Company, Parent and their Subsidiaries and Affiliates if Executive breaches any of the terms of said Restrictive Covenants, and that in the event of Executive's actual or threatened breach of any such Restrictive Covenants, the Company, Parent and their Subsidiaries and Affiliates will have no adequate remedy at law. Executive accordingly agrees that in the event of any actual or threatened breach by his of any of the Restrictive Covenants, the Company, Parent and their Subsidiaries and Affiliates shall be entitled to immediate temporary injunctive and other equitable relief subject to hearing as soon thereafter as possible. Nothing contained herein shall be construed as prohibiting the Company, Parent or any of their Subsidiaries or Affiliates from pursuing any other remedies available to it for such breach or threatened breach, including the recovery of any damages which it is able to prove. In addition and supplementary to other rights and remedies existing in its (or their) favor, in the event of the material breach by Executive of any of the provisions of this Section 7, the Company or Parent (and/or their Subsidiaries or Affiliates) shall be entitled to require the Executive to account for and pay over to the

Company or Parent (and/or their Subsidiaries or Affiliates) all compensation, profits, moneys, accruals, increments or other benefits actually derived from or received as a result of any transactions constituting a breach of the covenants contained in this Agreement which may require Executive to repay any severance. In addition, in the event of an alleged breach or violation by Executive of this Section 7, the restricted periods set forth in this Section 7 shall be tolled until such breach or violation has been duly cured.

(h) The Executive understands that the foregoing restrictions may limit his ability to earn a livelihood in a business similar to the business of the Company, Parent and their Subsidiaries or Affiliates, but he nevertheless believes that he has received and will receive sufficient consideration and other benefits as an executive of the Company and as otherwise provided hereunder to clearly justify such restrictions which, in any event (given his education, skills and ability), the Executive does not believe would prevent his from otherwise earning a living. Executive acknowledges that the Restrictive Covenants are reasonable and that he has reviewed the provisions of this Agreement with his legal counsel. The Executive shall inform any prospective or future employer of any and all restrictions contained in this Agreement and provide such employer with a copy of such restrictions, prior to the commencement of that employment.

8. Executive's Representations and Covenants.

(a) Executive hereby represents and warrants to the Company that (i) the execution, delivery and performance of this Agreement by Executive do not and shall not conflict with, breach, violate or cause a default under any contract, agreement, instrument, order, judgment or decree to which Executive is a party or by which he is bound, (ii) Executive is not a party to or bound by any employment agreement, non-compete agreement or confidentiality agreement with any other person or entity which will survive the Closing and (iii) upon the execution and delivery of this Agreement by the Company, this Agreement shall be the valid and binding obligation of Executive, enforceable in accordance with its terms; provided that the covenants, agreements and obligations contained herein shall be contingent upon, and subject to, the occurrence of the Closing. Executive hereby acknowledges and represents that he has consulted with independent legal counsel regarding his rights and obligations under this Agreement and that he fully understands the terms and conditions contained herein.

(b) During the Employment Period and thereafter, Executive shall cooperate with the Company, Parent and their Subsidiaries and Affiliates in any internal investigation or administrative, regulatory or judicial proceeding as reasonably requested by the Company (including, without limitation, Executive being available to the Company upon reasonable notice for interviews and factual investigations, appearing at the Company's request to give testimony without requiring service of a subpoena or other legal process, volunteering to the Company all pertinent information and turning over to the Company all relevant documents which are or may come into Executive's possession, all at times and on schedules that are reasonably consistent with Executive's other permitted activities and commitments). In the event the Company requires Executive's cooperation in accordance with this Section 8(b), the Company shall reimburse Executive for reasonable travel expenses (including, without limitation, travel expenses, lodging and meals, and reasonable attorneys' fees upon submission of receipts).

9. Survival. Sections 4 through 22 shall survive and continue in full force in accordance with their terms notwithstanding the expiration or termination of the Employment Period.

10. Notices. Any notice provided for in this Agreement must be in writing and must be either (i) personally delivered, (ii) mailed by registered or certified first class mail, prepaid with return receipt requested or (iii) sent by a recognized overnight courier service, to the recipient at the address below indicated:

Notices to the Executive:

1109 Radnor Glen Drive
Brentwood, TN 37027

Attn: [George Goodwin]
Telephone:
Facsimile: 615-478-4250
Email: GGoodwin@symbion.com

with a copy to (which shall not constitute notice to Executive):

McKenzie Laird, PLLC
4015 Hillsboro Pike
Suite 222
Nashville, Tennessee 37215
Attn: Robert H. Laird, Jr.
Telephone: (615) 916-3223
Email: rlaird@mckenzielaird.com

Notices to the Company:

c/o H.I.G. Middle Market, LLC
1450 Brickell Avenue, 31st Floor
Miami, Florida 33131
Attn: Chris Laitala and Matt Lozow
Telephone: (305) 379-2322
Facsimile: (305) 381-4157
Email: claitala@higcapital.com and mlozow@higcapital.com

with copies to (which shall not constitute notice to the Company):

McDermott Will & Emery LLP
227 West Monroe Street
Chicago, Illinois 60606-5096
Attn: Brooks B. Gruemmer

Telephone: 312-984-7594
Facsimile: 312-984-7700
Email: bgruemmer@mwe.com

or such other address or to the attention of such other person or entity as the recipient party shall have specified by prior written notice to the sending party. Any notice under this Agreement will be deemed to have been given (a) on the date such notice is personally delivered, (b) three (3) days after the date of mailing if sent by certified or registered mail, or (c) one (1) day after the date such notice is delivered to the overnight courier service if sent by overnight courier.

11. Severability. Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability will not affect any other provision or any other jurisdiction, but this Agreement will be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision had never been contained herein.

12. Complete Agreement. This Agreement, those documents expressly referred to herein and other documents of even date herewith, embody the complete agreement and understanding among Executive and the Company and its Subsidiaries and, as of the Effective Date, shall supersede and preempt any prior understandings, agreements or representations by or among the parties, written or oral, which may have related to the subject matter hereof in any way. Upon the Commencement Date, Executive will no longer be a participant in Symbion Inc. Executive Change in Control Severance Plan (the "Plan") and Executive hereby releases the Company and its Subsidiaries and waives any claims or rights that he may have under the Plan or any other prior or existing agreement or understanding he may have with the Parent, the Company or any of their Subsidiaries, Affiliates or predecessors, including, but not limited to, any claim for severance or other benefits. To the extent that any inconsistency exists between this Agreement and the LLC Agreement, the language of this Agreement shall supersede.

13. No Strict Construction. The language used in this Agreement will be deemed to be the language chosen by the parties hereto to express their mutual intent, and no rule of strict construction will be applied against any party hereto.

14. Counterparts. This Agreement may be executed in separate counterparts (including by facsimile or PDF signature pages), each of which is deemed to be an original and all of which taken together constitute one and the same agreement.

15. Successors and Assigns. This Agreement is intended to bind and inure to the benefit of and be enforceable by Executive and the Company or Parent and their respective successors and permitted assigns. Executive may not assign any of his rights or obligations hereunder without the prior written consent of the Company. The Company may (a) assign any or all of its respective rights and interests hereunder to Parent or one or more Subsidiaries or Affiliates of Parent or the Company, (b) designate one or more Subsidiaries or Affiliates of Parent or Company to perform its obligations hereunder (in any or all of which cases the Company nonetheless shall remain responsible for the performance of all of its obligations

hereunder), (c) assign its rights hereunder in connection with the sale of all or a substantial part of the business or assets of the Company or Parent or one of their Subsidiaries (whether by merger, sale of stock or assets, recapitalization or otherwise) and (d) merge any of the Subsidiaries or Affiliates with or into the Company (or vice versa); provided, however, that the foregoing actions may provide Executive with Good Reason to terminate this Agreement. The rights of the Company hereunder are enforceable by Parent or the Company Subsidiaries or Affiliates, which are the intended third party beneficiaries hereof and no other third party beneficiary is so otherwise intended.

16. Delivery by Facsimile or PDF. This Agreement and any amendments hereto, to the extent signed and delivered by means of a facsimile machine or PDF, shall be treated in all manner and respects as an original agreement or instrument and shall be considered to have the same binding legal effect as if it were the original signed version thereof delivered in person. At the request of any party hereto, each other party hereto shall re-execute original forms thereof and deliver them to the other party. No party hereto shall raise the use of a facsimile machine or PDF to deliver a signature or the fact that any signature or agreement or instrument was transmitted or communicated through the use of a facsimile machine or PDF as a defense to the formation or enforceability of a contract and each such party forever waives any such defense.

17. Income Tax Treatment. Executive and the Company acknowledge that it is the intention of the Company to deduct all cash amounts paid under this Agreement as ordinary and necessary business expenses for income tax purposes. Executive agrees and represents that he will treat all such non-reimbursable amounts as ordinary income for income tax purposes, and should he report such amounts as other than ordinary income for income tax purposes, he will indemnify and hold the Company harmless from and against any and all taxes, penalties, interest, costs and expenses, including reasonable attorneys' and accounting fees and costs, which are incurred by Company directly or indirectly as a result thereof.

18. Governing Law. This Agreement shall be construed and enforced in accordance with, and all questions concerning the construction, validity, interpretation and performance of this Agreement shall be governed by, the laws of the state in which Executive resides, without giving effect to provisions thereof regarding conflict of laws.

19. Waiver of Jury Trial. THE PARTIES HERETO HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS AGREEMENT. THE PARTIES HERETO ALSO WAIVE ANY BOND OR SURETY OR SECURITY UPON SUCH BOND WHICH MIGHT, BUT FOR THIS WAIVER, BE REQUIRED OF THE OTHER PARTY. THE PARTIES HERETO ACKNOWLEDGE THAT THIS WAIVER IS A MATERIAL INDUCEMENT TO ENTER INTO A BUSINESS RELATIONSHIP, THAT EACH HAS ALREADY RELIED ON THE WAIVER IN ENTERING INTO THIS AGREEMENT AND THAT EACH WILL CONTINUE TO RELY ON THE WAIVER IN THEIR RELATED FUTURE DEALINGS. THE COMPANY AND EXECUTIVE FURTHER WARRANT AND REPRESENT THAT EACH HAS REVIEWED THIS WAIVER WITH THEIR RESPECTIVE LEGAL COUNSEL, AND THAT EACH KNOWINGLY AND VOLUNTARILY WAIVES THEIR RESPECTIVE JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL. THIS

WAIVER IS IRREVOCABLE, MEANING THAT IT MAY NOT BE MODIFIED EITHER ORALLY OR IN WRITING, AND THE WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS AGREEMENT OR TO ANY OTHER DOCUMENTS OR AGREEMENTS RELATING TO THE TRANSACTION CONTEMPLATED HEREBY. IN THE EVENT OF LITIGATION, THIS AGREEMENT MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.

20. Consent to Jurisdiction.

(a) THE COMPANY AND EXECUTIVE HEREBY CONSENT TO THE JURISDICTION OF ANY STATE OR FEDERAL COURT LOCATED WITHIN THE STATE IN WHICH EXECUTIVE RESIDES AND IRREVOCABLY AGREE THAT SUBJECT TO THE COMPANY'S ELECTION, ALL ACTIONS OR PROCEEDINGS ARISING OUT OF OR RELATING TO THIS AGREEMENT SHALL BE LITIGATED IN SUCH COURTS. EXECUTIVE ACCEPTS FOR HERSELF AND IN CONNECTION WITH HIS PROPERTIES, GENERALLY AND UNCONDITIONALLY, THE NONEXCLUSIVE JURISDICTION OF THE AFORESAID COURTS AND WAIVES ANY DEFENSE OF FORUM NON CONVENIENS, AND IRREVOCABLY AGREES TO BE BOUND BY ANY JUDGMENT RENDERED THEREBY IN CONNECTION WITH THIS AGREEMENT.

(b) Notwithstanding Section 20(a), the parties intend to and hereby confer jurisdiction to enforce the covenants contained in Sections 5 through 7 upon the courts of any jurisdiction within the geographical scope of such covenants. If the courts of any one or more of such jurisdictions hold such covenants wholly or partially invalid or unenforceable by reason of the breadth of such scope or otherwise, it is the intention of the parties that such determination not bar or in any way affect the Company's right to the relief provided above in the courts of any other jurisdiction within the geographical scope of such covenants, as to breaches of such covenants in such other respective jurisdictions, such covenants as they relate to each jurisdiction being, for this purpose, severable into diverse and independent covenants.

21. Amendment and Waiver. Any provision of this Agreement may be amended or waived only with the prior written consent of the Company and Executive, and no course of conduct or course of dealing or failure or delay by any party hereto in enforcing or exercising any of the provisions of this Agreement shall affect the validity, binding effect or enforceability of this Agreement or be deemed to be an implied waiver of any provision of this Agreement.

22. Section 409A. To the maximum extent permitted by law, this Agreement shall be interpreted in such a manner that the payments to Executive under this Agreement are either exempt from, or comply with, Section 409A of the Internal Revenue Code and the regulations and other interpretive guidance issued thereunder (collectively, "Section 409A"), including without limitation any such regulations or other guidance that may be issued after the Commencement Date. For purposes of Section 409A, the right to a series of installment payments under this Agreement shall be treated as a right to a series of separate payments. Notwithstanding anything to the contrary in this Agreement, if Executive is a "specified employee" as defined in Section 409A as of Executive's termination of employment, then, to the extent any payment under this Agreement resulting from Executive's termination of employment

constitutes deferred compensation (after taking into account any applicable exemptions from Section 409A) and to the extent required by Section 409A, no payments due under this Agreement as a result of Executive's termination of employment may be made until the earlier of (a) the first day following the sixth month anniversary of Executive's date of termination and (b) Executive's date of death; provided, however, that any payments delayed during this six-month period shall be paid in the aggregate in a lump sum as soon as reasonably practicable following the sixth month anniversary of Executive's date of termination.

* * * * *

IN WITNESS WHEREOF, the parties hereto have executed this Employment Agreement as of the date first written above.

SYMBION, INC.

By: /s/ Richard E. Francis, Jr.

Name:

Its:

George M. Goodwin

IN WITNESS WHEREOF, the parties hereto have executed this Employment Agreement as of the date first written above.

SYMBION, INC.

By: _____

Name: _____

Its: President

/s/ George M. Goodwin

George M. Goodwin

Schedule 6(b) Prior Inventions

CERTIFICATIONS

I, Wayne S. DeVeydt, certify that:

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

By: /s/ Wayne S. DeVeydt
Wayne S. DeVeydt
Chief Executive Officer

Date: May 10, 2019

CERTIFICATIONS

I, Thomas F. Cowhey, certify that:

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

By: /s/ Thomas F. Cowhey
Thomas F. Cowhey
Executive Vice President and Chief Financial Officer

Date: May 10, 2019

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

In connection with the quarterly report of Surgery Partners, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned certifies, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

By: /s/ Wayne S. DeVeydt
Wayne S. DeVeydt
Chief Executive Officer

Date: May 10, 2019

By: /s/ Thomas F. Cowhey
Thomas F. Cowhey
Executive Vice President and Chief Financial Officer

Date: May 10, 2019