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 September 30, 2024
or

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

Commission file number: 001-37576

SURGERY PARTNERS

Surgery Partners, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**47-3620923**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
340 Seven Springs Way, Suite 600 **Brentwood, Tennessee**	**37027**
(Address of Principal Executive Offices)	(Zip Code)

(615) 234-5900
(Registrant's telephone number, including area code)

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

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 ☒	Accelerated filer ☐
Non-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 ☒

As of November 5, 2024, there were 127,113,514 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
(Dollars in millions, except per share amounts)

	(Unaudited) September 30, 2024	December 31, 2023
ASSETS		
Current assets:		
Cash and cash equivalents	$ 221.8	$ 195.9
Accounts receivable	542.9	496.4
Inventories	82.0	75.2
Prepaid expenses	45.2	31.0
Other current assets	143.9	96.5
Total current assets	1,035.8	895.0
Property and equipment, net of accumulated depreciation of $558.8 and $454.4, respectively	1,004.5	968.7
Goodwill and other intangible assets, net	4,861.5	4,380.8
Investments in and advances to affiliates	214.8	184.1
Right-of-use operating lease assets	297.5	255.3
Long-term deferred tax assets	79.2	89.5
Other long-term assets	41.1	103.3
Total assets	$ 7,534.4	$ 6,876.7
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 170.8	$ 171.8
Accrued payroll and benefits	64.9	73.8
Other current liabilities	242.2	204.1
Current maturities of long-term debt	97.3	73.3
Total current liabilities	575.2	523.0
Long-term debt, less current maturities	3,094.2	2,701.8
Right-of-use operating lease liabilities	286.4	248.9
Other long-term liabilities	30.3	41.1
Non-controlling interests—redeemable	436.4	327.4
Stockholders' equity:		
Preferred stock, $0.01 par value; shares authorized - 20,310,000; shares issued or outstanding - none	—	—
Common stock, $0.01 par value; shares authorized - 300,000,000; shares issued and outstanding - 127,127,901 and 126,593,727, respectively	1.3	1.3
Additional paid-in capital	2,513.5	2,497.6
Accumulated other comprehensive income	10.5	57.5
Retained deficit	(628.8)	(569.2)
Total Surgery Partners, Inc. stockholders' equity	1,896.5	1,987.2
Non-controlling interests—non-redeemable	1,215.4	1,047.3
Total stockholders' equity	3,111.9	3,034.5
Total liabilities and stockholders' equity	$ 7,534.4	$ 6,876.7

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 September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Revenues	$ 770.4	$ 674.1	$ 2,249.9	$ 2,007.9
Operating expenses:				
Salaries and benefits	228.4	195.0	666.8	592.4
Supplies	201.4	179.2	589.9	549.8
Professional and medical fees	91.0	72.4	266.0	219.9
Lease expense	23.9	21.1	67.5	64.3
Other operating expenses	48.2	40.6	147.7	127.6
Cost of revenues	592.9	508.3	1,737.9	1,554.0
General and administrative expenses	29.2	36.8	102.7	100.0
Depreciation and amortization	50.2	28.9	118.7	87.0
Transaction and integration costs	29.4	12.8	66.1	37.3
Net loss on disposals, consolidations and deconsolidations	14.7	5.8	21.5	7.5
Equity in earnings of unconsolidated affiliates	(5.2)	(3.5)	(12.3)	(9.4)
Litigation settlements	0.5	3.6	(0.8)	8.1
Loss on debt extinguishment	—	—	5.1	—
Other income, net	(2.2)	(1.2)	(10.7)	(3.2)
	709.5	591.5	2,028.2	1,781.3
Operating income	60.9	82.6	221.7	226.6
Interest expense, net	(50.0)	(49.8)	(148.8)	(144.3)
Income before income taxes	10.9	32.8	72.9	82.3
Income tax (expense) benefit	(4.5)	(3.1)	(13.8)	6.3
Net income	6.4	29.7	59.1	88.6
Less: Net income attributable to non-controlling interests	(38.1)	(34.6)	(118.7)	(99.5)
Net loss attributable to Surgery Partners, Inc.	$ (31.7)	$ (4.9)	$ (59.6)	$ (10.9)
Net loss per share attributable to common stockholders:				
Basic	$ (0.25)	$ (0.04)	$ (0.47)	$ (0.09)
Diluted [(1)]	$ (0.25)	$ (0.04)	$ (0.47)	$ (0.09)
Weighted average common shares outstanding:				
Basic	126,172	125,747	126,093	125,559
Diluted [(1)]	126,172	125,747	126,093	125,559

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

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 September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Net income	$ 6.4	$ 29.7	$ 59.1	$ 88.6
Other comprehensive (loss) income, net of tax:				
Derivative activity, net of tax of $0	(26.6)	(1.8)	(47.0)	0.8
Comprehensive (loss) income	(20.2)	27.9	12.1	89.4
Less: Comprehensive income attributable to non-controlling interests	(38.1)	(34.6)	(118.7)	(99.5)
Comprehensive loss attributable to Surgery Partners, Inc.	$ (58.3)	$ (6.7)	$ (106.6)	$ (10.1)

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 Income (Loss)	Retained Deficit	Non-Controlling Interests—Non-Redeemable	Total
	Shares	Amount					
Balance as of December 31, 2023	126,594	$ 1.3	$ 2,497.6	$ 57.5	$ (569.2)	$ 1,047.3	$ 3,034.5
Net (loss) income	—	—	—	—	(12.4)	29.3	16.9
Equity-based compensation	508	—	4.9	—	—	—	4.9
Other comprehensive loss	—	—	—	(5.5)	—	—	(5.5)
Acquisition and disposal of shares of non-controlling interests, net	—	—	(6.9)	—	—	23.7	16.8
Distributions to non-controlling interests—non-redeemable holders	—	—	—	—	—	(29.7)	(29.7)
Balance as of March 31, 2024	127,102	$ 1.3	$ 2,495.6	$ 52.0	$ (581.6)	$ 1,070.6	$ 3,037.9
Net (loss) income	—	—	—	—	(15.5)	35.5	20.0
Equity-based compensation	22	—	15.1	—	—	—	15.1
Other comprehensive loss	—	—	—	(14.9)	—	—	(14.9)
Acquisition and disposal of shares of non-controlling interests, net	—	—	0.4	—	—	147.4	147.8
Distributions to non-controlling interests—non-redeemable holders	—	—	—	—	—	(29.6)	(29.6)
Balance as of June 30, 2024	127,124	$ 1.3	$ 2,511.1	$ 37.1	$ (597.1)	$ 1,223.9	$ 3,176.3
Net (loss) income	—	—	—	—	(31.7)	34.7	3.0
Equity-based compensation	4	—	7.0	—	—	—	7.0
Other comprehensive loss	—	—	—	(26.6)	—	—	(26.6)
Acquisition and disposal of shares of non-controlling interests, net	—	—	(4.6)	—	—	(11.7)	(16.3)
Distributions to non-controlling interests—non-redeemable holders	—	—	—	—	—	(31.5)	(31.5)
Balance as of September 30, 2024	127,128	$ 1.3	$ 2,513.5	$ 10.5	$ (628.8)	$ 1,215.4	$ 3,111.9

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 Income (Loss)	Retained Deficit	Non-Controlling Interests—Non-Redeemable	Total
	Shares	Amount					
Balance as of December 31, 2022	125,961	$ 1.3	$ 2,478.0	$ 76.2	$ (557.3)	$ 942.7	$ 2,940.9
Net (loss) income	—	—	—	—	(25.0)	18.3	(6.7)
Equity-based compensation	519	—	3.7	—	—	—	3.7
Other comprehensive loss	—	—	—	(11.3)	—	—	(11.3)
Acquisition and disposal of shares of non-controlling interests, net	—	—	(3.6)	—	—	49.7	46.1
Distributions to non-controlling interests—non-redeemable holders	—	—	—	—	—	(30.2)	(30.2)
Balance as of March 31, 2023	126,480	$ 1.3	$ 2,478.1	$ 64.9	$ (582.3)	$ 980.5	$ 2,942.5
Net income	—	—	—	—	19.0	27.6	46.6
Equity-based compensation	13	—	4.5	—	—	—	4.5
Other comprehensive income	—	—	—	13.9	—	—	13.9
Acquisition and disposal of shares of non-controlling interests, net	—	—	18.8	—	—	(19.7)	(0.9)
Distributions to non-controlling interests—non-redeemable holders	—	—	—	—	—	(23.8)	(23.8)
Balance as of June 30, 2023	126,493	$ 1.3	$ 2,501.4	$ 78.8	$ (563.3)	$ 964.6	$ 2,982.8
Net (loss) income	—	—	—	—	(4.9)	28.0	23.1
Equity-based compensation	(4)	—	4.5	—	—	—	4.5
Other comprehensive loss	—	—	—	(1.8)	—	—	(1.8)
Acquisition and disposal of shares of non-controlling interests, net	—	—	(11.4)	—	—	13.1	1.7
Distributions to non-controlling interests—non-redeemable holders	—	—	—	—	—	(23.8)	(23.8)
Balance as of September 30, 2023	126,489	$ 1.3	$ 2,494.5	$ 77.0	$ (568.2)	$ 981.9	$ 2,986.5

See notes to unaudited condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2024	**2023**
Cash flows from operating activities:		
Net income	$ 59.1	$ 88.6
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	118.7	87.0
Non-cash lease expense	29.2	26.4
Non-cash interest expense, net	4.8	19.8
Equity-based compensation expense	27.1	13.2
Net loss on disposals, consolidations and deconsolidations	21.5	7.5
Loss on debt extinguishment	5.1	—
Deferred income taxes	10.3	(10.8)
Equity in earnings of unconsolidated affiliates, net of distributions received	0.3	(2.7)
Changes in operating assets and liabilities, net of acquisitions and divestitures:		
Accounts receivable	(31.2)	(18.2)
Medicare accelerated payments and deferred governmental grants	—	(1.2)
Other operating assets and liabilities	(56.2)	21.6
Net cash provided by operating activities	188.7	231.2
Cash flows from investing activities:		
Purchases of property and equipment	(68.1)	(69.0)
Payments for acquisitions, net of cash acquired	(291.2)	(48.8)
Proceeds from disposals of facilities and other assets	1.5	25.8
Purchases of equity investments	(1.7)	(50.2)
Proceeds from sales of equity investments	4.0	1.0
Other investing activities	(21.3)	(26.3)
Net cash used in investing activities	(376.8)	(167.5)
Cash flows from financing activities:		
Principal payments on long-term debt	(1,108.8)	(107.1)
Borrowings of long-term debt	1,463.8	119.4
Payments of debt issuance costs	(15.1)	(1.5)
Distributions to non-controlling interest holders	(122.4)	(111.0)
Proceeds related to ownership transactions with non-controlling interest holders	5.6	0.7
Other financing activities	(9.1)	(11.1)
Net cash provided by (used in) financing activities	214.0	(110.6)
Net increase (decrease) in cash and cash equivalents	25.9	(46.9)
Cash and cash equivalents at beginning of period	195.9	282.9
Cash and cash equivalents at end of period	$ 221.8	$ 236.0

See notes to unaudited condensed consolidated financial statements.

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 orthopedics and pain management, gastroenterology, ophthalmology, and general surgery. The Company's surgical hospitals also provide services such as diagnostic imaging, laboratory, oncology, pharmacy, physical therapy and wound care. Ancillary services are comprised of multi-specialty physician practices, urgent care facilities and anesthesia 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 September 30, 2024, the Company owned or operated a portfolio of 166 surgical facilities, comprised of 147 ASCs and 19 surgical hospitals in 33 states. The Company owns these facilities in partnership with physicians and, in some cases, health care systems in the markets and communities it serves. The Company owned a majority interest in 89 of these surgical facilities and consolidated 123 surgical 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 year ended December 31, 2023 (the "2023 Annual Report on Form 10-K"). Certain prior year amounts have been reclassified to conform with the current year presentation.

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.

Revenues

The Company's revenues generally relate to contracts with patients in which the performance obligations are to provide health care services. The Company recognizes revenues in the period in which its obligations to provide health care services are satisfied and reports the amount that reflects the consideration the Company expects to be entitled to receive. The contractual relationships with patients, in most cases, also involve a third-party payor (e.g., Medicare, Medicaid and private insurance organizations, 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.

The following table presents a summary of revenues by service type as a percentage of total revenues:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Patient service revenues:				
Surgical Facility Services	93.3 %	95.8 %	94.1 %	95.9 %
Ancillary Services	4.4 %	2.4 %	4.0 %	2.5 %
Total patient service revenues	97.7 %	98.2 %	98.1 %	98.4 %
Other service revenues	2.3 %	1.8 %	1.9 %	1.6 %
Total revenues	100.0 %	100.0 %	100.0 %	100.0 %

Patient service revenues. This revenue is related to charging facility fees in exchange for providing patient care. The fee charged for health care 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.

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. Because 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.

Several states utilize supplemental Medicaid reimbursement programs for the purpose of providing reimbursement to providers to increase base rates to the levels that Medicare would have paid for the same service or for payments that offset a portion of the cost of providing care to Medicaid and indigent patients. These programs are designed with input from the Centers for Medicare & Medicaid Services ("CMS") and are funded with a combination of state and federal resources, including, in certain instances, fees or taxes levied on the providers. We account for payments under these supplemental programs as variable consideration and estimate the amount using the most likely amount method. Reimbursement under these programs, including the recognition of variable consideration, is reflected in patient service revenues. Taxes or other program-related costs are reflected in other operating expenses.

Other service revenues. Other service 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 and other non-patient services. The management 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 September 30,			
	2024		2023	
	Amount	%	Amount	%
Patient service revenues:				
Private insurance	$ 393.2	52.2 %	$ 347.1	52.4 %
Government	318.3	42.3 %	271.6	41.0 %
Self-pay	19.7	2.6 %	16.9	2.6 %
Other [(1)]	22.0	2.9 %	26.7	4.0 %
Total patient service revenues	753.2	100.0 %	662.3	100.0 %
Other service revenues	17.2		11.8	
Total revenues	$ 770.4		$ 674.1	

	Nine Months Ended September 30,			
	2024		2023	
	Amount	%	Amount	%
Patient service revenues:				
Private insurance	$ 1,152.2	52.2 %	$ 1,024.3	51.8 %
Government	932.0	42.2 %	837.6	42.4 %
Self-pay	60.2	2.7 %	49.6	2.5 %
Other [(1)]	62.2	2.9 %	65.2	3.3 %
Total patient service revenues	2,206.6	100.0 %	1,976.7	100.0 %
Other service revenues	43.3		31.2	
Total revenues	$ 2,249.9		$ 2,007.9	

(1) Other is comprised of automobile liability, letters of protection and other payor types.

Accounts Receivable

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 hospitals' cash collections and contractual write-offs, and for the Company's surgical facilities in general, 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), private insurance organizations, 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 agencies. Concentration of credit risk with respect to other payors is limited because of the large number of such payors.

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. 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 Company analyzes accounts receivable at each of its surgical facilities to ensure the proper collection and aged category. Collection efforts include direct contact with third-party payors or patients, written correspondence and the use of legal or collection agency assistance, as required.

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 health care 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.

The Company's effective tax rate was 18.9% for the nine months ended September 30, 2024 compared to (7.7)% for the nine months ended September 30, 2023. For the nine months ended September 30, 2024, the effective tax rate differed from the U.S. federal statutory rate of 21% primarily due to earnings attributable to non-controlling interests, an increase in the Company’s valuation allowance attributable to interest expense limitations, state tax expense, and a discrete tax expense of $1.5 million related to the valuation allowance impact of the Company’s impairment to an equity method investment. For the nine months ended September 30, 2023, the effective tax rate differed from the U.S. federal statutory rate of 21% primarily due to earnings attributable to non-controlling interests, an increase in the Company’s valuation allowance attributable to interest expense limitations, and discrete tax benefits of (i) $1.6 million related to the vesting of restricted stock awards and (ii) $15.8 million related to entity divestitures. 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.

Goodwill

Goodwill represents the excess of the fair value of the consideration provided in an acquisition plus the fair value of any non-controlling interests 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, disposals and deconsolidations for the nine months ended September 30, 2024 is included in Note 2. "Acquisitions, Disposals and Deconsolidations."

A summary of activity related to goodwill for the nine months ended September 30, 2024 is as follows (in millions):

Balance as of December 31, 2023	$ 4,326.0
Acquisitions, including post acquisition adjustments	495.4
Disposals	(6.0)
Balance as of September 30, 2024	$ 4,815.4

A detailed evaluation of potential impairment indicators was performed as of September 30, 2024, which specifically considered recent changes in interest rates, inflation risk and market volatility. On the basis of available evidence as of September 30, 2024, no indicators of impairment were identified. Future estimates of fair value could be adversely affected if the actual outcome of one or more of the Company's assumptions changes materially in the future, including a material decline in the Company’s stock price and the fair value of its long-term debt, lower than expected surgical case volumes, higher market interest rates or increased operating costs. Such changes impacting the calculation of fair value could result in a material impairment charge in the future.

Derivative Instruments and Hedging Activities

The Company records all derivatives on the balance sheet at fair value and any financing elements treated as debt instruments are recorded at amortized cost. 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 risks, even though hedge accounting does not apply or the Company elects not to apply hedge accounting.

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. Management believes the likelihood of an event occurring that would trigger such purchases was remote as of September 30, 2024. The non-controlling interests—redeemable are reported outside of stockholders' equity in the condensed consolidated balance sheets.

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

	Nine Months Ended September 30,	
	2024	2023
Balance at beginning of period	$ 327.4	$ 342.0
Net income attributable to non-controlling interests—redeemable	19.2	25.6
Acquisition and disposal of shares of non-controlling interests, net—redeemable	121.4	(2.2)
Distributions to non-controlling interest —redeemable holders	(31.6)	(33.2)
Balance at end of period	$ 436.4	$ 332.2

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 inputs classified into the following hierarchy:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These may include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions, 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 and accounts payable approximate their fair values under Level 3 calculations.

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

	Carrying Amount		Fair Value	
	September 30, 2024	December 31, 2023	September 30, 2024	December 31, 2023
Senior secured term loan	$ 1,391.5	$ 1,398.4	$ 1,393.2	$ 1,401.9
6.750% senior unsecured notes due 2025	$ —	$ 185.0	$ —	$ 183.2
10.000% senior unsecured notes due 2027	$ —	$ 320.0	$ —	$ 321.2
7.250% senior unsecured notes due 2032	$ 800.0	$ —	$ 835.0	$ —

The fair values in the table above were based on 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, including finance lease obligations, approximate their fair values based on Level 3 inputs.

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 Board's ("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 September 30, 2024, the Company's consolidated VIEs consisted of nine surgical facilities and 26 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 September 30, 2024 and December 31, 2023, were $86.2 million and $65.3 million, respectively, and the total liabilities of the consolidated VIEs were $57.9 million and $41.2 million, respectively.

Recent Accounting Pronouncements

In November 2023, the FASB issued Accounting Standards Update ("ASU") 2023-07, *Segment Reporting (Topic 280), Improvements to Reportable Segment Disclosures*, which requires enhanced disclosures of significant segment expenses. The ASU is effective for annual periods beginning after December 15, 2023 and interim periods beginning after December 15, 2024. The amendments in this ASU must be applied retrospectively to all periods presented and early adoption is permitted. The Company is evaluating the impact of this ASU on its condensed consolidated financial statements.

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740), *Improvements to Income Tax Disclosures*, which establishes new requirements for the categorization and disaggregation of information in the rate reconciliation as well as for disaggregation of income taxes paid. The ASU is effective for annual periods beginning after December 15, 2024 and interim periods beginning after December 15, 2025. The amendments in this ASU may be applied prospectively or retrospectively to all periods presented and early adoption is permitted. The Company is evaluating the impact of this ASU on its condensed consolidated financial statements.

2. Acquisitions, Disposals and Deconsolidations

Acquisitions

During the nine months ended September 30, 2024:

- The Company acquired a controlling interest in six surgical facilities and several physician practices for aggregate cash consideration of $291.2 million, net of cash acquired, and non-cash consideration of $1.1 million, which consisted of a non-controlling interest in one of the Company's existing surgical facilities. In connection with these acquisitions, the Company preliminarily recognized non-controlling interests of $293.2 million, goodwill of $506.7 million and investments and advances to affiliates of $44.6 million related to an acquired surgical facility accounted for as an equity method investment.

During the nine months ended September 30, 2023:

- The Company acquired a controlling interest in two surgical facilities and one physician practice for aggregate cash consideration of $23.1 million, net of cash acquired, and non-cash consideration of $1.3 million, which consisted of non-controlling interest in one of the Company's existing surgical facilities. In connection with these acquisitions, the Company preliminarily recognized non-controlling interests of $20.4 million and goodwill of $39.7 million.
- The Company acquired a controlling interest in two surgical facilities and one in-development de novo surgical facility, which were previously accounted for as equity method investments, for aggregate cash consideration of $26.9 million, net of cash acquired. The Company also amended the operating agreement of a previously non-controlled surgical facility resulting in the Company obtaining a controlling interest in the facility. These transactions resulted in the consolidation of the previously non-consolidated entities. The previously held non-controlling interests were remeasured and recorded at fair value as of the dates of the transactions. The fair value measurement utilizes Level 3 inputs, which includes unobservable data. The acquisition date fair value of the previously held non-controlling interests was $27.3 million. As a result of increasing its ownership interest, the Company recognized a net loss of $7.1 million included in net loss on disposals, consolidations and deconsolidations in the condensed consolidated statements of operations for the nine months ended September 30, 2023. The net loss was determined based on the difference between the fair value of the Company's previously held non-controlling interests in the entities and the carrying values immediately prior to the transactions. In connection with the consolidation of these facilities, the Company preliminarily recognized non-controlling interests of $55.1 million and goodwill of $106.3 million.
- The Company acquired non-controlling interests in five surgical facilities and two in-development de novo surgical facilities for aggregate cash consideration of $50.2 million. The non-controlling interests were accounted for as equity method investments and recorded as a component of investments in and advances to affiliates in the condensed consolidated balance sheets. The Company also paid cash consideration of $21.0 million to acquire management rights from the prior management service provider related to four of the aforementioned surgical facilities. Management rights agreements are accounted for and recorded as a component of intangibles assets, net in the accompanying condensed consolidated balance sheets. The cash paid to acquire the management rights is presented as a component of other investing activities on the condensed consolidated statements of cash flows.

Disposals and Deconsolidations

During the nine months ended September 30, 2024:

- The Company disposed of its non-controlling interests in one surgical facility, which was previously accounted for as an equity method investment, for cash proceeds of $2.0 million. In connection with this transaction, the Company recognized a pre-tax loss of $3.7 million, which is included in net loss on disposals, consolidations and deconsolidations in the accompanying condensed consolidated statements of operations for the nine months ended September 30, 2024.

- The Company sold a portion of its interests in one surgical facility for net cash proceeds of $2.5 million. As a result of the transaction, the Company no longer controlled the previously controlled surgical facility but retained a non-controlling interest, resulting in the deconsolidation of the previously consolidated entity. This transaction resulted in a pretax net gain on deconsolidation of $2.7 million, which is included in net loss on disposals, consolidations and deconsolidations in the accompanying condensed consolidated statements of operations for the nine months ended September 30, 2024. The net gain was determined based on the difference between the net cash proceeds plus the fair value of the Company’s retained interests in the entity and the carrying values of both the tangible and intangible assets of the entity immediately prior to the transaction.
- The Company sold its interests in one surgical facility for a nominal amount of cash proceeds. In connection with the sale, the Company recognized a pre-tax loss of $3.4 million, which is included in net loss on disposals, consolidations and deconsolidations in the accompanying condensed consolidated statements of operations for the nine months ended September 30, 2024.
- The Company recognized a pre-tax loss of $10.0 million related to an equity investment previously held at cost, which is included in net loss on disposals, consolidations and deconsolidations in the accompanying condensed consolidated statements of operations for the nine months ended September 30, 2024.

During the nine months ended September 30, 2023:

- The Company sold its interests in six surgical facilities for aggregate net cash proceeds of $30.4 million, a portion of which was held in escrow pursuant to the purchase agreements for such transactions. In connection with these transactions, the Company recognized a pre-tax gain of $26.9 million included in net loss on disposals, consolidations and deconsolidations in the condensed consolidated statements of operations for the nine months ended September 30, 2023.
- The Company disposed of its non-controlling interests in a surgical facility and an in-development de novo surgical facility, which were previously accounted for as equity method investments, for cash proceeds of $1.5 million. In connection with these transactions, the Company recognized a pre-tax loss of $13.7 million included in net loss on disposals, consolidations and deconsolidations in the condensed consolidated statements of operations for the nine months ended September 30, 2023.

3. Long-Term Debt

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

	September 30, 2024	December 31, 2023
Senior secured term loan [(1)]	$ 1,391.5	$ 1,398.4
Senior secured revolving credit facility	98.0	—
6.750% senior unsecured notes due 2025	—	185.0
10.000% senior unsecured notes due 2027	—	320.0
7.250% senior unsecured notes due 2032	800.0	—
Notes payable and other secured loans	212.5	205.2
Finance lease obligations	723.6	693.6
Less: unamortized debt issuance costs and discounts	(34.1)	(27.1)
Total debt	3,191.5	2,775.1
Less: current maturities	97.3	73.3
Total long-term debt	$ 3,094.2	$ 2,701.8

(1) Includes unamortized fair value discount of $1.5 million and $1.6 million as of September 30, 2024 and December 31, 2023, respectively.

Revolving Credit Facility

As of September 30, 2024, the Company's availability on its $703.8 million senior secured revolving credit facility (the "Revolver") was $595.8 million (including letters of credit of $10.0 million). The increase in outstanding borrowings on the Revolver compared to December 31, 2023 was primarily due to the timing of acquisitions completed during 2024.

7.250% Senior Unsecured Notes Due 2032

On April 10, 2024, the Company completed the issuance and sale of $800.0 million in aggregate principal amount of senior unsecured notes due 2032 (the "2032 Notes"). The 2032 Notes were issued pursuant to an Indenture dated April 10, 2024 by and among Surgery Center Holdings, Inc., certain subsidiaries of Surgery Center Holdings, Inc., as guarantors, and Wilmington Trust, National Association, as trustee. The 2032 Notes bear interest at an annual rate of 7.250% per year, payable semi-annually on April 15 and October 15 of each year, beginning on October 15, 2024. Proceeds from the sale of the 2032 Notes were used (i) to redeem all of the outstanding 6.750% senior unsecured notes due 2025 (the "2025 Notes") and the 10.000% senior unsecured notes due 2027 (the "2027 Notes," together with the 2025 Notes, the "Existing Notes"), (ii) to pay accrued interest on the Existing Notes through, but not including, April 25, 2024, (iii) to pay related fees and expenses in connection with the offering of the 2032 Notes and redemption of the Existing Notes and (iv) for general corporate purposes, including to fund future acquisitions.

In connection with this financing transaction, the Company recorded debt issuance costs and discount of $12.5 million, and a debt extinguishment loss of $2.8 million, which is included in loss on debt extinguishment in the accompanying condensed consolidated statements of operations for the nine months ended September 30, 2024.

First Amendment to Credit Agreement

On June 20, 2024, the Company entered into a first amendment (the "Amendment") to its credit agreement, dated as of December 19, 2023, by and among Surgery Center Holdings, Inc., the Borrower, Jefferies Finance LLC, as administrative agent and collateral agent, and the other financial institutions party thereto from time to time (the "Credit Agreement") to provide for a new tranche of term loans under the Credit Agreement in an aggregate principal amount of $1,400 million (the “2024 Refinancing Term Loans”), which 2024 Refinancing Term Loans replace or refinance in full all of the existing term loans outstanding under the Credit Agreement (as in effect immediately prior to the Amendment), all as further set forth in the Amendment. The 2024 Refinancing Term Loans mature on December 19, 2030. The 2024 Refinancing Term Loans bear interest at a rate per annum equal to (x) the forward-looking term rate based on Secured Overnight Financing Rate (“Term SOFR”) plus 2.75% per annum or (y) an alternate base rate (which will be the highest of (i) the prime rate plus 0.5% per annum above the federal funds effective rate and (ii) Term SOFR plus 1.00% per annum (which shall not be less than 1.00%)) plus 1.75% per annum. The 2024 Refinancing Term Loans amortize in equal quarterly installments of 0.25% of the aggregate original principal amount of the 2024 Refinancing Term Loans. Voluntary prepayments of the 2024 Refinancing Term Loans are permitted, in whole or in part, with prior notice, without premium or penalty (except a 1.00% call premium in the case of certain repricing events occurring prior to the sixth month anniversary of the effective date of the Amendment).

In connection with the Amendment, the Company recorded debt issuance costs and discount of $2.4 million, and a debt extinguishment loss of $2.3 million, which is included in loss on debt extinguishment in the accompanying condensed consolidated statements of operations for the nine months ended September 30, 2024. The loss on debt extinguishment includes the partial write-off of unamortized debt issuance costs and discounts.

4. Leases

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.

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 (in millions):

	Classification in Condensed Consolidated Balance Sheets	September 30, 2024	December 31, 2023
Assets:			
Operating lease assets	Right-of-use operating lease assets	$ 297.5	$ 255.3
Finance lease assets	Property and equipment, net of accumulated depreciation	588.6	587.0
Total leased assets		$ 886.1	$ 842.3
Liabilities:			
Operating lease liabilities:			
Current	Other current liabilities	$ 41.4	$ 37.6
Long-term	Right-of-use operating lease liabilities	286.4	248.9
Total operating lease liabilities		327.8	286.5
Finance lease liabilities:			
Current	Current maturities of long-term debt	29.5	25.4
Long-term	Long-term debt, less current maturities	694.1	668.2
Total finance lease liabilities		723.6	693.6
Total lease liabilities		$ 1,051.4	$ 980.1

The following table presents the components of the Company's lease expense and their classification in the condensed consolidated statements of operations (in millions):

	Nine Months Ended September 30,	
	2024	2023
Operating lease costs	$ 50.1	$ 48.7
Finance lease costs:		
Amortization of leased assets	47.5	29.0
Interest on lease liabilities	40.6	35.9
Total finance lease costs	88.1	64.9
Variable and short-term lease costs	18.1	16.3
Total lease costs	$ 156.3	$ 129.9

The following table presents supplemental cash flow information (in millions):

	Nine Months Ended September 30,	
	2024	2023
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash outflows from operating leases	$ 48.0	$ 47.2
Operating cash outflows from finance leases	$ 38.6	$ 34.1
Financing cash outflows from finance leases	$ 24.4	$ 19.3
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	$ 79.3	$ 39.9
Finance leases	$ 40.8	$ 108.7

5. Derivatives and Hedging Activities

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 and interest rate caps as part of its interest rate risk management strategy. During 2024 and 2023, such derivatives have been used to hedge the variable cash flows associated with existing variable-rate debt.

The key terms of interest rate swaps and interest rate caps outstanding are presented below:

		September 30, 2024			December 31, 2023			
Description	**Effective Date**	**Notional Amount (in millions)**		**Status**	**Notional Amount (in millions)**		**Status**	**Maturity Date**
Pay-fixed swap	May 7, 2021	$	435.0	Active	$	435.0	Active	March 31, 2025
Pay-fixed swap	May 7, 2021		330.0	Active		330.0	Active	March 31, 2025
Pay-fixed swap	May 7, 2021		435.0	Active		435.0	Active	March 31, 2025
Interest rate cap	September 30, 2021		145.6	Active		151.4	Active	March 31, 2025
Interest rate cap	September 30, 2021		8.3	Active		8.7	Active	March 31, 2025
Deferred premium cap	March 31, 2025		396.0	Active		—	N/A	December 31, 2028
Deferred premium cap	March 31, 2025		198.0	Active		—	N/A	December 31, 2028
Deferred premium cap	March 31, 2025		396.0	Active		—	N/A	December 31, 2028
Deferred premium cap	March 31, 2025		198.0	Active		—	N/A	December 31, 2028
Deferred premium cap	March 31, 2025		198.0	Active		—	N/A	December 31, 2028
		$	2,739.9		$	1,360.1		

As of September 30, 2024, the Company had three interest rate swaps with a total net notional amount of $1.2 billion. The interest rate swaps are pay-fixed, receive 1-Month Secured Overnight Financing Rate ("SOFR") (subject to a minimum of 0.75%) designated in cash flow hedging relationships and have a termination date of March 31, 2025.

As of September 30, 2024, the Company had two interest rate caps designated in cash flow hedging relationships with a total notional amount of $153.9 million. The interest rate caps each have a termination date of March 31, 2025. During the nine months ended September 30, 2023, the Company partially terminated a previously undesignated portion of one of its interest rate caps. In connection with the termination, the Company received $8.6 million, which is included as a component of operating activities in the condensed consolidated statements of cash flows for the nine months ended September 30, 2023.

On April 9, 2024, the Company entered into five deferred premium interest rate cap agreements, each with an effective date of March 31, 2025. The interest rate caps are designated in cash flow hedging relationships with a total notional amount of $1.4 billion. The deferred premium interest rate caps each have a termination date of December 31, 2028. These financial instruments are designed to limit the Company's interest rate exposure on its term loan concurrent with the expected maturity of positions held as of September 30, 2024. As of September 30, 2024, the Company's deferred premium interest rate caps had a total notional amount of $1.4 billion.

The pay-fixed, receive floating interest rate swaps did not meet the requirements to be considered derivatives in their entirety as a result of the financing component. Accordingly, the swaps are considered hybrid instruments, consisting of a financing element treated as a debt instrument and an embedded at-market derivative that was designated as a cash flow hedge.

Within the Company’s condensed consolidated balance sheets, the financing elements treated as debt instruments described above are carried at amortized cost and the embedded at-market derivatives are recorded at fair value. The cash flows related to the portion treated as debt are classified as financing activities in the condensed consolidated statements of cash flows while the portion treated as an at-market derivative are classified as operating activities. Within the Company’s condensed consolidated balance sheets, the interest rate caps are recorded at fair value. The cash flows related to the interest rate caps are classified as operating activities in the condensed consolidated statements of cash flows.

The Company's interest rate swap agreements, excluding the portion treated as debt, are recognized at fair value in the condensed consolidated balance sheets and are valued using pricing models that rely on market observable inputs such as yield curve data, which are classified as Level 2 inputs within the fair value hierarchy. The fair value of the interest rate caps is determined using the market standard methodology of discounting the future expected cash receipts that would occur if variable interest rates rise above the strike rate of the caps. The variable interest rates used in the calculation of projected receipts on the caps are based on an expectation of future interest rates derived from observable market interest rate curves and volatilities. The interest rate caps are classified using Level 2 inputs within the fair value hierarchy.

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 ("OCI") 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 OCI 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 $19.0 million will be reclassified as a decrease to interest expense.

The following table presents the fair values of our derivatives and their location on the condensed consolidated balance sheets (in millions):

	September 30, 2024		December 31, 2023	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Derivatives in cash flow hedging relationships				
Interest rate caps [1]	$ 2.2	$ —	$ 6.0	$ —
Interest rate swaps [1]	19.5	—	51.4	—
Interest rate caps [2]	—	11.4	—	—
Interest rate swaps [2] [3]	—	7.0	—	17.8
Total	$ 21.7	$ 18.4	$ 57.4	$ 17.8

(1) Amounts were included in other current assets and other long-term assets on the condensed consolidated balance sheets as of September 30, 2024 and December 31, 2023, respectively.

(2) Amounts were included in other current liabilities and other long-term liabilities on the condensed consolidated balance sheets as of September 30, 2024 and December 31, 2023, respectively.

(3) Amounts related to the financing component of the pay-fixed interest rate swaps.

The following table presents the pre-tax effect of the interest rate swaps and caps on the Company's accumulated OCI and condensed consolidated statements of operations (in millions):

		Three Months Ended September 30,		Nine Months Ended September 30,	
	Location	**2024**	**2023**	**2024**	**2023**
Derivatives not designated as hedging instruments					
Loss recognized in income	Other income, net	$ —	$ —	$ —	$ 0.6
Derivatives in cash flow hedging relationships					
Gain (loss) recognized in OCI (effective portion)		$ (11.8)	$ 7.4	$ (2.7)	$ 24.1
Gain reclassified from accumulated OCI into income (effective portion) [1]	Interest expense, net	$ (14.8)	$ (9.2)	$ (44.3)	$ (23.3)

(1) Includes amortization of accumulated OCI related to de-designated and terminated interest rate swaps of $5.3 million and $16.0 million for the three and nine months ended September 30, 2023, respectively. There were no corresponding amounts for the three and nine months ended September 30, 2024.

6. Earnings Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Numerator:				
Net loss attributable to Surgery Partners, Inc.	$ (31.7)	$ (4.9)	$ (59.6)	$ (10.9)
Denominator:				
Weighted average common shares outstanding:				
Basic	126,172	125,747	126,093	125,559
Diluted (1)	126,172	125,747	126,093	125,559
Net loss per share attributable to common stockholders:				
Basic	$ (0.25)	$ (0.04)	$ (0.47)	$ (0.09)
Diluted (1)	$ (0.25)	$ (0.04)	$ (0.47)	$ (0.09)
Dilutive securities outstanding not included in the computation of diluted loss per share as their effect is antidilutive:				
Stock options	1,187	1,421	1,164	1,412
Restricted shares	281	208	264	202

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

7. Other Current Liabilities

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

	September 30, 2024	December 31, 2023
Right-of-use operating lease liabilities	$ 41.4	$ 37.6
Cost report liabilities	20.7	23.9
Amounts due to patients and payors	29.4	23.9
Interest payable	29.9	17.8
Interest rate swaps	7.0	—
Accrued expenses and other	113.8	100.9
Total	$ 242.2	$ 204.1

8. Commitments and Contingencies

Professional, General and Workers' Compensation, and Cyber 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 professional, general and workers' compensation and cyber liability insurance in excess of self-insured retentions, 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. 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. Total professional, general and workers' compensation claim liabilities as of September 30, 2024 and December 31, 2023 were $18.1 million and $18.2 million, respectively. Expected insurance recoveries of $10.2 million as of both September 30, 2024 and December 31, 2023 are included as a component of other current assets and other long-term assets in the condensed consolidated balance sheets.

9. Segment Reporting

The Company currently operates in two major lines of business that are also the Company's reportable operating segments - the operation of surgical facilities and the operation of ancillary services. The Surgical Facility Services segment includes the operation of ASCs, surgical hospitals and anesthesia services. The Ancillary Services segment consists of multi-specialty physician practices. The "All other" line item primarily consists of amounts attributable to the Company's corporate general and administrative functions.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Revenues:				
Surgical Facility Services	$ 735.4	$ 657.3	$ 2,158.5	$ 1,956.5
Ancillary Services	35.0	16.8	91.4	51.4
Total	$ 770.4	$ 674.1	$ 2,249.9	$ 2,007.9
Adjusted EBITDA:				
Surgical Facility Services	$ 149.6	$ 138.6	$ 419.3	$ 384.1
Ancillary Services	0.7	(1.2)	(0.6)	(2.7)
All other	(21.7)	(31.9)	(74.3)	(85.6)
Total	$ 128.6	$ 105.5	$ 344.4	$ 295.8
Reconciliation of Adjusted EBITDA:				
Income before income taxes	$ 10.9	$ 32.8	$ 72.9	$ 82.3
Net income attributable to non-controlling interests	(38.1)	(34.6)	(118.7)	(99.5)
Interest expense, net	50.0	49.8	148.8	144.3
Depreciation and amortization	50.2	28.9	118.7	87.0
Equity-based compensation expense	7.1	4.4	27.1	13.2
Transaction, integration and acquisition costs (1)	31.5	13.0	71.2	38.8
Net loss on disposals, consolidations and deconsolidations	14.7	5.8	21.5	7.5
Litigation settlements and regulatory change impact (2)	1.6	4.2	1.5	13.9
Loss on debt extinguishment	—	—	5.1	—
Undesignated derivative activity	—	—	—	0.6
Other (3)	0.7	1.2	(3.7)	7.7
Adjusted EBITDA	$ 128.6	$ 105.5	$ 344.4	$ 295.8

(1) This amount includes transaction and integration costs of $29.4 million and $12.8 million for the three months ended September 30, 2024 and 2023, respectively. This amount further includes start-up costs related to de novo surgical facilities of $2.1 million and $0.2 million for the three months ended September 30, 2024 and 2023, respectively.

This amount includes transaction and integration costs of $66.1 million and $37.3 million for the nine months ended September 30, 2024 and 2023, respectively. This amount further includes start-up costs related to de novo surgical facilities of $5.1 million and $1.5 million for the nine months ended September 30, 2024 and 2023, respectively.

(2) This amount includes a litigation settlement loss of $0.5 million and $3.6 million for the three months ended September 30, 2024 and 2023, respectively. This amount also includes other litigation costs of $1.1 million and $0.6 million for the three months ended September 30, 2024 and 2023, respectively.

This amount includes a litigation settlements gain of $0.8 million and a loss of $8.1 million for the nine months ended September 30, 2024 and 2023, respectively. This amount also includes other litigation costs of $2.3 million and $1.4 million for the nine months ended September 30, 2024 and 2023, respectively. Additionally, the nine months ended September 30, 2023 includes $4.4 million related to the impact of recent changes in Florida law regarding the use of letters of protection.

(3) For the three months ended September 30, 2024, this amount includes hurricane-related impacts. For the three months ended September 30, 2023, this amount includes estimates for the net impact of a cyber event.

For the nine months ended September 30, 2024, this amount includes hurricane-related impacts in the third quarter of 2024, net of insurance proceeds related to cyber event losses predominantly incurred in 2023. For the nine months ended September 30, 2023, this amount includes estimates for the net impact of the same cyber event and losses from a divested business.

	September 30, 2024	December 31, 2023
Assets:		
Surgical Facility Services	$ 6,935.7	$ 6,347.4
Ancillary Services	85.1	36.3
All other	513.6	493.0
Total assets	$ 7,534.4	$ 6,876.7

	Nine Months Ended September 30,	
	2024	2023
Cash purchases of property and equipment:		
Surgical Facility Services	$ 62.5	$ 68.4
Ancillary Services	1.9	0.6
All other	3.7	—
Total cash purchases of property and equipment	$ 68.1	$ 69.0

10. Subsequent Events

On November 8, 2024, the Company purchased a controlling interest in two ASCs for $87.0 million. As of the date of this filing, the Company has not completed its preliminary estimation of the fair values assigned to the assets acquired and liabilities assumed.

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 our 2023 Annual Report on Form 10-K. 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, and 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.

By their nature, forward-looking 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, reductions in payments from government health care programs and private insurance payors, such as health maintenance organizations, preferred provider organizations, and other managed care organizations and employers; our ability to contract with private insurance payors; changes in our payor mix or surgical case mix; failure to maintain or develop relationships with physicians on beneficial or favorable terms, or at all; the impact of payor controls designed to reduce the number of surgical procedures; our efforts to integrate operations of acquired businesses and surgical facilities, attract new physician partners, or acquire additional surgical facilities; supply chain issues, including shortages or quality control issues with surgery-related products, equipment and medical supplies; competition for physicians, nurses, strategic relationships, acquisitions and managed care contracts; our ability to attract and retain qualified health care professionals; our ability to enforce non-compete restrictions against our physicians; our ability to manage material liabilities whether known or unknown incurred as a result of acquiring surgical facilities; the impact of future legislation and other health care regulatory reform actions, and the effect of that legislation and other regulatory actions on our business; our ability to comply with current health care laws and regulations; the outcome of legal and regulatory proceedings that have been or may be brought against us; the impact of cybersecurity attacks or intrusions; changes in the regulatory, economic and other conditions of the states where our surgical facilities are located; our indebtedness; the social and economic impact of a pandemic, epidemic or outbreak of a contagious disease on our business; and the risks and uncertainties set forth under the heading "Risk Factors" in our 2023 Annual Report on Form 10-K and discussed from time to time in our reports filed with the SEC.

Considering 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 because of new information, future events or otherwise.

Executive Overview

As of September 30, 2024, we owned or operated, primarily in partnership with physicians, a portfolio of 166 surgical facilities comprised of 147 ASCs and 19 surgical hospitals across 33 states. We owned a majority interest in 89 of the surgical facilities and consolidated 123 of these facilities for financial reporting purposes.

Total revenues for the third quarter of 2024 increased 14.3% to $770.4 million from $674.1 million for the third quarter of 2023. The increase in revenues was attributable to same-facility revenue growth and the net impact from acquisitions and divestitures completed during the twelve months ended September 30, 2024. Days adjusted same-facility revenues for the third quarter of 2024 increased 4.2% from the third quarter of 2023, with an 0.5% increase in revenue per case and a 3.7% increase in same-facility cases. Additionally, for the third quarter of 2024, Adjusted EBITDA increased 21.9% to $128.6 million compared to $105.5 million for the same period in 2023. The increase in Adjusted EBITDA was primarily attributable to revenue growth, continued cost management initiatives and acquisitions completed since the prior year period. For the third quarter of 2024, net loss attributable to Surgery Partners, Inc. was $31.7 million compared to $4.9 million for the same period in 2023. A reconciliation of non-GAAP financial measures appears below under the heading "Certain Non-GAAP Measures."

We continue to focus on improving our same-facility performance, selectively acquiring established facilities, developing new facilities and other portfolio management initiatives. During the third quarter of 2024, we acquired a controlling interest in several physician practices for aggregate cash consideration of $26.6 million, net of cash acquired.

We had cash and cash equivalents of $221.8 million and $595.8 million of borrowing capacity under the Revolver as of September 30, 2024.

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 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, management services we provide to physician practices for which we are not required to provide capital or additional assets and other non-patient services.

The following table summarizes revenues by service type as a percentage of total revenues:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Patient service revenues:				
Surgical Facility Services	93.3 %	95.8 %	94.1 %	95.9 %
Ancillary Services	4.4 %	2.4 %	4.0 %	2.5 %
Total patient service revenues	97.7 %	98.2 %	98.1 %	98.4 %
Other service revenues	2.3 %	1.8 %	1.9 %	1.6 %
Total revenues	100.0 %	100.0 %	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 that we consolidate for financial reporting purposes:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Private insurance payors	52.2 %	52.4 %	52.2 %	51.8 %
Government payors	42.3 %	41.0 %	42.2 %	42.4 %
Self-pay payors	2.6 %	2.6 %	2.7 %	2.5 %
Other payors (1)	2.9 %	4.0 %	2.9 %	3.3 %
Total	100.0 %	100.0 %	100.0 %	100.0 %

(1) Other is comprised of automobile 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 that we consolidate for financial reporting purposes for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Orthopedics and pain management	40.4 %	35.7 %	40.1 %	35.4 %
Ophthalmology	23.4 %	24.8 %	23.4 %	24.5 %
Gastrointestinal	22.8 %	23.6 %	22.5 %	24.0 %
General surgery	2.2 %	2.5 %	2.3 %	2.7 %
Other	11.2 %	13.4 %	11.7 %	13.4 %
Total	100.0 %	100.0 %	100.0 %	100.0 %

Critical Accounting Policies

A summary of significant accounting policies is disclosed in our 2023 Annual Report on Form 10-K under the caption "Critical Accounting Policies" in the Management's Discussion and Analysis of Financial Condition and Results of Operations section. There have been no material changes in the nature of our critical accounting policies or the application of those policies since December 31, 2023.

Results of Operations

Comparison of Operating Results for the Three Months Ended September 30, 2024 to the Three Months Ended September 30, 2023

The following tables summarize certain results from the statements of operations for the periods indicated (in millions):

	Three Months Ended September 30,	
	2024	2023
Revenues	$ 770.4	$ 674.1
Operating expenses:		
Cost of revenues	592.9	508.3
General and administrative expenses	29.2	36.8
Depreciation and amortization	50.2	28.9
Transaction and integration costs	29.4	12.8
Net loss on disposals, consolidations and deconsolidations	14.7	5.8
Equity in earnings of unconsolidated affiliates	(5.2)	(3.5)
Litigation settlements	0.5	3.6
Other income, net	(2.2)	(1.2)
	709.5	591.5
Operating income	60.9	82.6
Interest expense, net	(50.0)	(49.8)
Income before income taxes	10.9	32.8
Income tax expense	(4.5)	(3.1)
Net income	6.4	29.7
Less: Net income attributable to non-controlling interests	(38.1)	(34.6)
Net loss attributable to Surgery Partners, Inc.	$ (31.7)	$ (4.9)

Revenues. The following table sets forth patient service revenues (in millions):

	Three Months Ended September 30,	
	2024	2023
Patient service revenues	$ 753.2	$ 662.3
Other service revenues	17.2	11.8
Total revenues	$ 770.4	$ 674.1

Patient service revenues increased 13.7% to $753.2 million for the three months ended September 30, 2024 compared to $662.3 million for the three months ended September 30, 2023. The increase was primarily driven by a 4.2% increase in days adjusted same-facility revenues and the net impact from acquisitions and divestitures completed during the twelve months ended September 30, 2024. The increase in days adjusted same-facility revenues was attributable to a 3.7% increase in same-facility case volumes and a 0.5% increase in same-facility revenue per case.

Cost of Revenues. Cost of revenues was $592.9 million for the three months ended September 30, 2024 compared to $508.3 million for the three months ended September 30, 2023. The increase was primarily driven by an increase in case volume and the performance of high acuity procedures as well as acquisitions completed during the twelve months ended September 30, 2024. As a percentage of revenues, cost of revenues was 77.0% and 75.4% for the three months ended September 30, 2024 and 2023, respectively.

General and Administrative Expenses. General and administrative expenses were $29.2 million and $36.8 million for the three months ended September 30, 2024 and 2023, respectively. As a percentage of revenues, general and administrative expenses were 3.8% and 5.5% for the three months ended September 30, 2024 and 2023, respectively.

Depreciation and Amortization. Depreciation and amortization expenses were $50.2 million and $28.9 million for the three months ended September 30, 2024 and 2023, respectively. As a percentage of revenues, depreciation and amortization expenses were 6.5% and 4.3% for the three months ended September 30, 2024 and 2023, respectively.

Transaction and Integration Costs. The Company incurred $29.4 million of transaction and integration costs for the three months ended September 30, 2024 compared to $12.8 million for the three months ended September 30, 2023. The costs for both periods primarily related to ongoing development initiatives and the integration of acquisitions.

Net Loss on Disposals, Consolidations and Deconsolidations. The net loss on disposals, consolidations and deconsolidations for the three months ended September 30, 2024 and 2023 includes activity discussed in Note 2. "Acquisitions, Disposals and Deconsolidations" of the accompanying notes to the condensed consolidated financial statements. The remaining net loss in both periods was primarily attributable to sales and disposals of other assets.

Interest Expense, Net. Interest expense, net was $50.0 million for the three months ended September 30, 2024 compared to $49.8 million for the three months ended September 30, 2023. As a percentage of revenues, interest expense, net was 6.5% and 7.4% for the three months ended September 30, 2024 and 2023, respectively.

Income Tax Expense. Income tax expense was $4.5 million and $3.1 million for the three months ended September 30, 2024 and 2023, respectively. The effective tax rate was 41.3% and 9.5% for the three months ended September 30, 2024 and 2023, respectively. See Note 1. "Organization and Summary of Accounting Policies" under the heading *Income Taxes* for additional information related to the Company's effective tax rates for the three months ended September 30, 2024 and September 30, 2023, including why these rates differed from the U.S. federal statutory rate of 21%.

Net Income Attributable to Non-Controlling Interests. As a percentage of revenues, net income attributable to non-controlling interests was 4.9% and 5.1% for the three months ended September 30, 2024 and 2023, respectively.

Comparison of Operating Results for the Nine Months Ended September 30, 2024 to the Nine Months Ended September 30, 2023

The following tables summarize certain results from the statements of operations for the periods indicated (dollars in millions):

	Nine Months Ended September 30,	
	2024	2023
Revenues	$ 2,249.9	$ 2,007.9
Operating expenses:		
Cost of revenues	1,737.9	1,554.0
General and administrative expenses	102.7	100.0
Depreciation and amortization	118.7	87.0
Transaction and integration costs	66.1	37.3
Net loss on disposals, consolidations and deconsolidations	21.5	7.5
Equity in earnings of unconsolidated affiliates	(12.3)	(9.4)
Litigation settlements	(0.8)	8.1
Loss on debt extinguishment	5.1	—
Other income, net	(10.7)	(3.2)
	2,028.2	1,781.3
Operating income	221.7	226.6
Interest expense, net	(148.8)	(144.3)
Income before income taxes	72.9	82.3
Income tax (expense) benefit	(13.8)	6.3
Net income	59.1	88.6
Less: Net income attributable to non-controlling interests	(118.7)	(99.5)
Net loss attributable to Surgery Partners, Inc.	$ (59.6)	$ (10.9)

Revenues. The following table sets forth patient service revenues (in millions):

	Nine Months Ended September 30, 2024		Nine Months Ended September 30, 2023	
Patient service revenues	$	2,206.6	$	1,976.7
Other service revenues		43.3		31.2
Total revenues	$	2,249.9	$	2,007.9

Patient service revenues increased 11.6% to $2.2 billion for the nine months ended September 30, 2024 compared to $2.0 billion for the nine months ended September 30, 2023. The increase was primarily driven by an 8.7% increase in days adjusted same-facility revenues and the net impact from acquisitions and divestitures completed in 2024. The increase in days adjusted same-facility revenues was attributable to a 3.4% increase in same-facility case volumes and a 5.2% increase in same-facility revenue per case.

Cost of Revenues. Cost of revenues was $1.7 billion for the nine months ended September 30, 2024 compared to $1.6 billion for the nine months ended September 30, 2023. The increase was primarily driven by an increase in case volume and the performance of high acuity procedures as well as acquisitions completed in 2024. As a percentage of revenues, cost of revenues was 77.2% and 77.4% for the nine months ended September 30, 2024 and 2023, respectively.

General and Administrative Expenses. General and administrative expenses were $102.7 million and $100.0 million for the nine months ended September 30, 2024 and 2023, respectively. As a percentage of revenues, general and administrative expenses were 4.6% and 5.0% for the nine months ended September 30, 2024 and 2023, respectively.

Depreciation and Amortization. Depreciation and amortization expenses were $118.7 million and $87.0 million for the nine months ended September 30, 2024 and 2023, respectively. As a percentage of revenues, depreciation and amortization expenses were 5.3% and 4.3% for the nine months ended September 30, 2024 and 2023, respectively.

Transaction and Integration Costs. The Company incurred $66.1 million of transaction and integration costs for the nine months ended September 30, 2024 compared to $37.3 million for the nine months ended September 30, 2023. The costs for both periods primarily related to ongoing development initiatives and the integration of acquisitions.

Net Loss on Disposals, Consolidations and Deconsolidations. The net loss on disposals, consolidations and deconsolidations for the nine months ended September 30, 2024 and 2023 includes activity discussed in Note 2. "Acquisitions, Disposals and Deconsolidations" of the accompanying notes to the condensed consolidated financial statements. The remaining net loss in both periods was primarily attributable to sales and disposals of other assets.

Interest Expense, Net. Interest expense, net was $148.8 million for the nine months ended September 30, 2024 compared to $144.3 million for the nine months ended September 30, 2023. As a percentage of revenues, interest expense, net was 6.6% and 7.2% for the nine months ended September 30, 2024 and 2023, respectively.

Income Tax (Expense) Benefit. Income tax expense was $13.8 million for the nine months ended September 30, 2024 compared to income tax benefit of $6.3 million for the nine months ended September 30, 2023. The effective tax rate was 18.9% and (7.7)% for the nine months ended September 30, 2024 and 2023, respectively. See Note 1. "Organization and Summary of Accounting Policies" under the heading *Income Taxes* for additional information related to the Company's effective tax rates for the nine months ended September 30, 2024 and 2023, including why these rates differed from the U.S. federal statutory rate of 21%.

Net Income Attributable to Non-Controlling Interests. As a percentage of revenues, net income attributable to non-controlling interests was 5.3% and 5.0% for the nine months ended September 30, 2024 and 2023, respectively.

Liquidity and Capital Resources

Cash and cash equivalents were $221.8 million at September 30, 2024 compared to $195.9 million at December 31, 2023.

The primary source of our operating cash flows is the collection of accounts receivable from private insurance companies, federal and state agencies (under the Medicare and Medicaid programs) and individuals. Our cash flows provided by operating activities was $188.7 million for the nine months ended September 30, 2024 compared to $231.2 million for the nine months ended September 30, 2023. The $42.5 million decrease was primarily driven by increased transaction-related costs, the timing of routine transactions involving working capital and the impact of Hurricane Helene on collections.

Net cash used in investing activities for the nine months ended September 30, 2024 was $376.8 million compared to $167.5 million for the nine months ended September 30, 2023. The $209.3 million increase was primarily driven by an aggregate net increase of $193.9 million in payments for acquisitions (net of cash acquired) and purchases of equity method investments and a $24.3 million decrease in proceeds from sales of facilities.

Net cash provided by financing activities for the nine months ended September 30, 2024 was $214.0 million compared to net cash used of $110.6 million for the nine months ended September 30, 2023. The increase of $324.6 million was primarily driven by net proceeds received from the issuance and sale of $800.0 million in senior unsecured notes, partially offset by the redemption of all the Existing Notes (as discussed in the following section). The remaining increase was due to net borrowings on the Revolver used to fund acquisitions completed during the nine months ended September 30, 2024.

Debt

On April 10, 2024, we completed the issuance and sale of $800.0 million in aggregate principal amount of senior unsecured notes due 2032 (the "2032 Notes"). The 2032 Notes bear interest at an annual rate of 7.250% per year, payable semi-annually on April 15 and October 15 of each year, beginning on October 15, 2024. Proceeds from sale of the 2032 Notes were used (i) to redeem all of the outstanding 2025 Notes and 2027 Notes, (ii) to pay accrued interest on the Existing Notes through, but not including, April 25, 2024, (iii) to pay related fees and expenses in connection with the offering of the 2032 Notes and redemption of the Existing Notes, and (iv) for general corporate purposes, including to fund future acquisitions.

On June 20, 2024, the Company entered into the Amendment to the Credit Agreement, to provide for the 2024 Refinancing Term Loans in an aggregate principal amount of $1.4 billion. The 2024 Refinancing Term Loans replace or refinance in full all of the existing term loans outstanding under the Credit Agreement (as in effect immediately prior to the Amendment), all as further set forth in the Amendment. The 2024 Refinancing Term Loans mature on December 19, 2030. The 2024 Refinancing Term Loans shall bear interest at a rate per annum equal to (x) the forward-looking term rate based on Term SOFR plus 2.75% per annum or (y) an alternate base rate (which will be the highest of (i) the prime rate plus 0.5% per annum above the federal funds effective rate and (ii) Term SOFR plus 1.00% per annum (which shall not be less than 1.00%) plus 1.75% per annum. The 2024 Refinancing Term Loans amortize in equal quarterly installments of 0.25% of the aggregate original principal amount of the 2024 Refinancing Term Loans. Voluntary prepayments of the 2024 Refinancing Term Loans are permitted, in whole or in part, with prior notice, without premium or penalty (except a 1.00% call premium in the case of certain repricing events occurring prior to the sixth month anniversary of the effective date of the Amendment).

Capital Resources

Net working capital was approximately $460.6 million at September 30, 2024 compared to $372.0 million at December 31, 2023.

In addition to cash flows from operations and available cash, other sources of capital include amounts available on our Revolver as well as anticipated continued access to the capital markets.

Material Cash Requirements

There have been no material changes outside of the ordinary course of business to our upcoming cash obligations during the nine months ended September 30, 2024 from those disclosed under “Material Cash Requirements” in Management’s Discussion and Analysis of Financial Condition and Results of Operations in our 2023 Annual Report on Form 10-K.

Summary

Broad economic factors, including recent changes in interest rates, inflation and supply chain risks and market volatility, could negatively affect our payor mix, increase the relative proportion of lower margin services we provide and reduce patient volumes, as well as diminish our ability to collect outstanding receivables. Any increase in the amount or deterioration in the collectability of patient accounts receivable will adversely affect our cash flows and results of operations, requiring an increased level of working capital.

If general economic conditions, including recent changes in interest rates, inflation risk and market volatility, continue to deteriorate or remain uncertain for an extended period of time, our ability to access capital could be harmed, which could negatively affect our liquidity and ability to repay our outstanding debt.

Based on our current level of operations, we believe cash flows from operations, available cash, available capacity on our Revolver and continued anticipated access to capital markets, will be adequate to meet our short-term (i.e., 12 months) and long-term (beyond 12 months) liquidity needs.

Certain Non-GAAP Measures

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Condensed Consolidated Statements of Operations Data:				
Income before income taxes	$ 10.9	$ 32.8	$ 72.9	$ 82.3
Plus (minus):				
Net income attributable to non-controlling interests	(38.1)	(34.6)	(118.7)	(99.5)
Depreciation and amortization	50.2	28.9	118.7	87.0
Interest expense, net	50.0	49.8	148.8	144.3
Equity-based compensation expense	7.1	4.4	27.1	13.2
Transaction, integration and acquisition costs (1)	31.5	13.0	71.2	38.8
Net loss on disposals, consolidations and deconsolidations	14.7	5.8	21.5	7.5
Litigation settlements and regulatory change impact (2)	1.6	4.2	1.5	13.9
Loss on debt extinguishment	—	—	5.1	—
Undesignated derivative activity	—	—	—	0.6
Other (3)	0.7	1.2	(3.7)	7.7
Adjusted EBITDA	128.6	105.5	344.4	295.8

(1) This amount includes transaction and integration costs of $29.4 million and $12.8 million for the three months ended September 30, 2024 and 2023, respectively. This amount further includes start-up costs related to de novo surgical facilities of $2.1 million and $0.2 million for the three months ended September 30, 2024 and 2023, respectively.

This amount includes transaction and integration costs of $66.1 million and $37.3 million for the nine months ended September 30, 2024 and 2023, respectively. This amount further includes start-up costs related to de novo surgical facilities of $5.1 million and $1.5 million for the nine months ended September 30, 2024 and 2023, respectively.

(2) This amount includes a litigation settlement loss of $0.5 million and $3.6 million for the three months ended September 30, 2024 and 2023, respectively. This amount also includes other litigation costs of $1.1 million and $0.6 million for the three months ended September 30, 2024 and 2023, respectively.

This amount includes a litigation settlements gain of $0.8 million and a loss of $8.1 million for the nine months ended September 30, 2024 and 2023, respectively. This amount also includes other litigation costs of $2.3 million and $1.4 million for the nine months ended September 30, 2024 and 2023, respectively. Additionally, the nine months ended September 30, 2023 includes $4.4 million related to the impact of recent changes in Florida law regarding the use of letters of protection.

(3) For the three months ended September 30, 2024, this amount includes hurricane-related impacts. For the three months ended September 30, 2023, this amount includes estimates for the net impact of a cyber event.

For the nine months ended September 30, 2024, this amount includes hurricane-related impacts in the third quarter of 2024, net of insurance proceeds related to cyber event losses predominantly incurred in 2023. For the nine months ended September 30, 2023, this amount includes estimates for the net impact of the aforementioned cyber event and losses from a divested business.

We use Credit Agreement EBITDA as a measure of liquidity and to determine our compliance under certain covenants pursuant to our Credit Agreement, as amended. 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 acquisitions and synergies. These adjustments do not relate to our historical financial performance and instead relate to estimates compiled by management and calculated in conformance with the definition of "Consolidated EBITDA" used in the credit agreements governing our credit facilities.

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 September 30, 2024
Cash flows from operating activities	$ 251.3
Plus (minus):	
Non-cash interest expense, net	(10.0)
Non-cash lease expense	(38.0)
Deferred income taxes	(19.4)
Equity in earnings of unconsolidated affiliates, net of distributions received	(0.8)
Changes in operating assets and liabilities, net of acquisitions and divestitures	153.1
Income tax expense	19.8
Net income attributable to non-controlling interests	(166.4)
Interest expense, net	197.5
Transaction, integration and acquisition costs	97.3
Litigation settlements and other litigation costs	5.1
Other (1)	(2.8)
Acquisitions and synergies (2)	64.9
Credit Agreement EBITDA	$ 551.6

(1) This amount includes estimates for the impact of hurricanes, a cyber event and losses from divested business that occurred in 2023.

(2) Represents impact of acquisitions as if each acquisition had occurred on October 1, 2023. Further this includes revenue and cost synergies from other business initiatives and de novo facilities and an adjustment for the effects of adopting the new lease accounting standard, as defined in the credit agreement governing the Credit Agreement, as amended.

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 and cap agreements to manage our exposure to interest rate fluctuations. Our interest rate swap and cap 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 SOFR. Without derivatives, interest rate changes would result in gains or losses in the market value of our fixed rate debt portfolio due to differences in market interest rates and the rates at the inception of the debt agreements. Based on our indebtedness and the effectiveness of our interest rate swap and cap agreements at September 30, 2024, we do not expect changes in interest rates to have a material effect on our net earnings or cash flows in 2024.

For more information regarding our interest rate swap and cap agreements, please refer to Note 5. "Derivatives and Hedging Activities" of the accompanying notes to the condensed consolidated financial statements for additional information.

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) under the Securities and Exchange Act of 1934, as amended) as of September 30, 2024. 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 September 30, 2024 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***

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. In the opinion of management, we are not currently a party to any proceedings that would have a material adverse effect on our business, financial condition, or results of operations.

Item 1A. ***Risk Factors***

There have been no material changes with respect to the risk factors discussed in our 2023 Annual Report on Form 10-K.

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

None.

Item 3. ***Defaults Upon Senior Securities***

None.

Item 4. ***Mine Safety Disclosures***

Not applicable.

Item 5. ***Other Information***

Insider Trading Arrangements

From time to time, certain of our executive officers and directors have, and we expect they will in the future, enter into, amend and terminate written trading arrangements pursuant to Rule 10b5-1 of the Securities and Exchange Act of 1934 or otherwise. During the three months ended September 30, 2024, none of the Company's directors or officers adopted or terminated any Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement (as such terms are defined in Item 408 of Regulation S-K).

Item 6. ***Exhibits***

No.	Description
10.1	Retirement Agreement, dated August 5, 2024, by and between Surgery Partners, Inc. and Bradley R. Owens (incorporated herein by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed on August 6, 2024).
10.2	SP Management Services, Inc. Nonqualified Deferred Compensation Plan (incorporated herein by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed on August 6, 2024).
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	Inline XBRL Taxonomy Extension Instance Document - the instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2024, formatted in Inline XBRL (included in Exhibit 101).

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.

Date: November 12, 2024

By: /s/ David T. Doherty

David T. Doherty
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 31.1

CERTIFICATIONS

I, J. Eric Evans, 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/ J. Eric Evans
J. Eric Evans
Chief Executive Officer

Date: November 12, 2024

Exhibit 31.2

CERTIFICATIONS

I, David T. Doherty, 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/ David T. Doherty
David T. Doherty
Executive Vice President and Chief Financial Officer

Date: November 12, 2024

Exhibit 32.1

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 September 30, 2024, 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/ J. Eric Evans
J. Eric Evans
Chief Executive Officer

Date: November 12, 2024

By: /s/ David T. Doherty
David T. Doherty
Executive Vice President and Chief Financial Officer

Date: November 12, 2024