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CERTIFICATE OF NEED PROGRAM
DEPARTMENT OF HEALTH

APPLICATION FOR CERTIFICATE OF NEED
Health Care Facility Projects
(excluding nursing home, hospital, or CCRC related projects)

Certificate of Need applications must be submitted with a fee in accordance with Washington Administrative Code (WAC) 246-310-990.

Application is made for a Certificate of Need in accordance with provisions in Revised Code of Washington (RCW) 70.38 and WAC 246-310, rules and regulations adopted by the Washington State Department of Health. I hereby certify that the statements made in this application are correct to the best of my knowledge and belief.

Signature and Title of Responsible Officer Mark Barnhart Mark Barnhart, Chief Executive Officer	Date May 3, 2019 Telephone Number (206) 264-8100
Legal Name of Applicant Proliance Surgeons, Inc., P.S. Address of Applicant 805 Madison Street, Suite 901 Seattle, WA 98104	Type of Application: [X] Ambulatory Surgical Facility [ ] Kidney Disease Treatment Center Type of Project (check all that apply) [X] New Health Care Facility [ ] Capital expenditure over expenditure minimum [ ] Pre-development Expenditure [ ] Increase in the number of dialysis stations in a kidney disease center
Intended date of incurring contractual obligation to construct, acquire, lease or finance capital asset: Estimated capital expenditure: $ 0	Intended date of undertaking project: Upon certificate of need approval Intended date for beginning to offer services or operate completed project: Project Summary: Establishment of ambulatory surgical facility with four operating rooms

CERTIFICATE OF NEED APPLICATION

PROLIANCE CENTER FOR OUTPATIENT SPINE AND JOINT REPLACEMENT SURGERY OF PUGET SOUND

June 21, 2019

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I. APPLICANT DESCRIPTION:

a. Legal name(s) of applicant(s)
Note: The term "applicant" for this purpose is defined as any person or individual with a ten percent or greater financial interest in a partnership or corporation or other comparable legal entity that engage in any undertaking which is subject to review under provisions of RCW 70.38.

The applicant is Proliance Surgeons, Inc., P.S. ("Proliance Surgeons"). Proliance Surgeons is wholly-owned by the physicians listed in Exhibit 1.

b. Name and address of the proposed/existing facility.

Proliance Surgeons is seeking certificate of need ("CN") approval for its existing ambulatory surgical facility ("ASF"), Proliance Center for Outpatient Spine and Joint Replacement Surgery of Puget Sound ("COSJS"). COSJS currently operates pursuant to Determination of Reviewability #17-11, which was issued by the Washington State Department of Health (the "Department") on February 6, 2012. COSJS's address is 6808 220th Street S.W., Mountlake Terrace, WA, 98043.

c. Type of ownership (public/private/corporation, etc.).

Proliance Surgeons is a Washington professional corporation.

d. Name and address of owning entity at completion of project (unless same as applicant).

The name and address of the owning entity is and will be the same as the applicant.

e. Name, title, address, and telephone number of the person to whom questions regarding this application should be directed.

Please direct questions regarding this application simultaneously to the following:

Laura X. Kleisle
Proliance Surgeons, Inc., P.S.
805 Madison Street, Suite 901
Seattle, WA 98104
Tel: (206) 264-8100
E-mail: l.kleisle@proliancesurgeons.com

AND

Emily R. Studebaker
Studebaker Nault, PLLC
11900 N.E. 1st Street, Suite 300
Bellevue, WA 98005

Tel: (425) 279-9929
E-mail: estudebaker@studebakernault.com

f. *Corporate structure and related parties. Attach chart showing organizational relationship to related parties.*

Proliance Surgeons is wholly-owned by the physicians listed in Exhibit 1. Please see Exhibit 2 for an organizational chart for Proliance Surgeons.

g. *Name and address of operating entity at completion of project (unless same as applicant).*

The name and address of the operating entity is and will be the same as the applicant.

h. *General description and address of each facility owned and/or operated by applicant.*

Please see Exhibit 3 for a general description and address of each facility owned and/or operated by Proliance Surgeons.

i. *Facility licensure/accreditation status.*

COSJS is licensed by the Department as an ASF (#ASF.FS.60783506). It is also certified by the Centers for Medicare and Medicaid Services as an ambulatory surgical center (#G8973689), and it participates in the Medicaid program (#2099596). COSJS is accredited by the Accreditation Association for Ambulatory Health Care.

j. *Is applicant reimbursed for services under Titles V, XVIII, and XIX of Social Security Act?*

Proliance Surgeons is reimbursed for services under Titles V, XVIII, and XIX of the Social Security Act.

k. *Geographic identification of primary service area.*

For purposes of the numeric need methodology analysis, the primary service area is the Southwest Snohomish County Secondary Health Services Planning Area, as defined in WAC 246-310-270(3). Please see Exhibit 4 for the planning area map and zip code definition.

l. *List physician specialties represented on active medical staff and indicate number of active staff per specialty.*

Please see Exhibit 5 for a list of physician specialties represented on the active medical staff and the number of active staff per specialty.

m. *List all other generally similar providers currently operating in the primary service area.*

Hospitals in the Southwest Snohomish County Secondary Health Services Planning Area are listed in Table 1 below.

Table 1
Southwest Snohomish County Secondary Health Services Planning Area Hospitals

Hospital
Stevens Hospital (Closed)
Swedish Edmonds

ASFs in the Southwest Snohomish County Secondary Health Services Planning Area are listed in Table 2 below.

Table 2
Southwest Snohomish County Secondary Health Services Planning Area
Ambulatory Surgical Facilities

ASF[1]
Alderwood Surgery Center
Baxter Plastic Surgery
Cosmetic Surgical Arts Center
Proliance Center for Outpatient Spine and Joint Replacement Surgery of Puget (Applicant)
Urology Northwest Surgery Center
Virginia Mason Lynnwood Ambulatory Surgical Center[2]
Washington Spine Diagnostics and Treatment Center

n. *For existing facilities, provide applicant's overall utilization for the last five years, as appropriate.*
   1. *Ambulatory Surgical Facility - surgeries per year;*
   2. *Kidney Disease Treatment Center - dialyses and/or transplants per year;*

COSJS was established in June 2018. Please see Table 3 for COSJS's utilization for 2018.

[1] All ASFs identified in Table 2 are CN-exempt.
[2] All ORs at Virginia Mason Lynnwood Ambulatory Surgical Center are endoscopy rooms.

Table 3
COSJS Historical Utilization

Year	Number of Procedures
2018	1,229 (from June 2018)
2017	N/A
2016	N/A
2015	N/A
2014	N/A

o. Describe the history of applicant entity with respect to criminal convictions related to ownership/operation of health care facility, license revocations, and other sanctions described in WAC 246-310-230(5)(a). If there have been no such convictions or sanctions, please state.

Proliance Surgeons has no history with respect to criminal convictions related to the ownership or operation of a health care facility, license revocation, or other sanction described in WAC 246-310-230(5)(a).

II. PROJECT DESCRIPTION
Include the following elements in the project description. Be aware that an amendment to a Certificate of Need is required for certain project modifications as described in WAC 246-310-100(1).

a. Describe the project for which Certificate of Need approval is sought.

Proliance Surgeons is seeking CN-approval for COSJS, which currently operates pursuant to Determination of Reviewability #17-11. COSJS's address is 6808 220th Street S.W., Mountlake Terrace, WA 98043, which is located in the Southwest Snohomish County Secondary Health Services Planning Area.

There is no capital expenditure associated with the proposed project. COSJS's four ORs are already built out and operational.

b. Total estimated capital expenditures.

There is no capital expenditure associated with the proposed project. COSJS's four ORs are already built out and operational.

c. Total estimated operating expense for the first and second years of operation (please show separately).

Please see Table 4 below for COSJS's total estimated operating expenses for the first and second years of operation.

Table 4
COSJS Operating Expenses: 2019-2021

	2019 (Year 1)	2020 (Year 2)	2021 (Year 3)
Total Operating Expenses	$5,726,610	$6,368,558	$6,983,213

d. New services/changes in services represented by this project.

COSJS will offer and provide interventional pain management, neurosurgery, orthopedic surgery, physiatry, and general surgery.

e. General description of types of patients to be served by the project.

COSJS will offer and provide care to patients 16 of age and older who require ambulatory surgery, are not expected to require hospitalization, and can be treated appropriately in an outpatient surgery setting.

f. Projected utilization of service(s) for the first and second year of operation following project completion (please show separately). This should be expressed in appropriate workload unit measures.

Please see Table 5 below for COSJS's projected utilization for the first and second years of operation.

Table 5
COSJS Projected Utilization: 2019-2022

	2019 (Year 1)	2020 (Year 2)	2021 (Year 3)	2022 (Year 4)
Procedure Volumes	1,229	2,247	2,449	2,656

g. A copy of the letter of intent, per WAC 246-310-080.

Please see Exhibit 6 for the Letter of Intent for the project.

h. Sources of patient revenue (Medicare, etc.) with anticipated percentage of revenue from each source. Estimate the percentage of change for each of the sources of revenue by payer that will result from this project.

Please see Table 6 below for the projected sources of patient revenue by payer for the proposed project.

Table 6
Projected Sources of Patient Revenue by Payer

Payer	Percentage of Total Revenue
Medicare	45.7%
Medicaid	0.1%
Other government (including L&I)	0.3%
Commercial	52.4%
Other	1.6%
Total	100%

i. Source(s) of financing.

There is no capital expenditure associated with the proposed project. COSJS's four ORs are already built out and operational.

j. Equipment proposed:
1. *Description of equipment proposed.*
2. *Description of equipment to be replaced, including cost of the equipment, and salvage value (if any) or disposal, or use of the equipment to be replaced.*

No equipment will be purchased or leased for the proposed project.

k. Drawings:
1. *Single line drawings, at least approximately to scale, of current locations which identify current department and services.*
2. *Single line drawings, at least approximately to scale, of proposed locations which identify proposed services and departments.*
3. *Total net and gross square feet of project.*
4. *Describe any changes in dialysis station capacity proposed as part of this project.*

Please see <u>Exhibit 7</u> for single line drawings of the proposed project. The total gross square feet of the proposed project is 7,452. The total net square feet of the proposed project is 7,452.

l. Anticipated dates of both commencement and completion of project.

COSJS's four ORs are already built out and operational. Therefore, commencement and completion of the proposed project would be effective upon CN approval.

m. Describe the relationship of this project to the applicant's long-range plan and long-range financial plan (if any).

For over 25 years, Proliance Surgeons has been working to improve the health and well-being of residents of the Southwest Snohomish County Secondary Health Services Planning Area. The proposed project will expand the services Proliance Surgeons can provide and the patients it can serve, consistent with its long-term strategy.

Specifically, Proliance Surgeons is seeking CN-approval for its existing ASF, COSJS, which currently operates pursuant to Determination of Reviewability #17-11.

Approval of the proposed project will allow Proliance Surgeons to offer a more convenient, lower-cost alternative to hospital-based outpatient surgery for an array of procedures to patients in the Southwest Snohomish County Secondary Health Services Planning Area. This is an increasingly important consideration for our physicians and their patients.

n. *Describe any of the following which would currently restrict usage of the proposed site and/or alternate site for the proposed project: (a) mortgages; (b) liens; (c) assessments; (d) mineral or mining rights; (e) restrictive clauses in the instrument of conveyance; (f) easements and right-of-ways; (g) building restrictions; (h) water and sewer access; (i) probability of flooding; (j) special use restrictions; (k) existence of access roads; (l) access to power and/or electricity sources; (m) shoreline management/environmental impact; (n) others (please explain).*

None. Please see Exhibit 8 for the Lease between Proliance Surgeons, Inc., P.S. and 220th Street Office Building, L.L.C. dated August 30, 2016. The lease is for space already in use by Proliance Surgeons d/b/a COSJS to provide orthopedic and spine surgical services.

o. *Provide documentation that the proposed site may be used for the proposed project. Documentation may Include, but not limited to a letter from any appropriate municipal authority, zoning information, and signed letter from leasing agent or realator attesting to appropriate usage.*

Please see Exhibit 8 for the Lease between Proliance Surgeons, Inc., P.S. and 220th Street Office Building, L.L.C. dated August 30, 2016.

p. *Provide documentation that the applicant has sufficient interest in the site or facility proposed.*
"Sufficient interest" includes but not limited to one of the following:

- *a.* *clear legal title to the proposed site;*
- *b.* *a lease for at least one year with, options to renew for not less than a total of five years;*
- *c.* *a draft lease for at least one year with, options to renew for not less than a total of five years. A draft is acceptable only if all parties identified in the draft agreement provide a signed "Letter of Intent to finalize" the agreement.*
- *d.* *an earnest money agreement provided all parties identified in the agreement have signed it.*
- *e.* *a letter signed by a duly authorized representative of the property owner attesting to the property owners intent to sale the site as represented in the application.*

Please see Exhibit 8 for the Lease between Proliance Surgeons, Inc., P.S. and 220th Street Office Building, L.L.C. dated August 30, 2016.

III. PROJECT RATIONALE
Provide documentation to establish conformance of this project with applicable review criteria.

A. Need (WAC 246-310-210)

1. Identify and analyze the unmet health services needs and/or other problems toward which this project is directed.

Proliance Surgeons is seeking CN-approval for its existing ASF, COSJS. COSJS currently operates a four-OR ASF pursuant to Determination of Reviewability #17-11.

The proposed project will improve access to affordable, high-quality ambulatory surgical services to the Southwest Snohomish County Secondary Health Services Planning Area residents. Approval of the proposed project will allow Proliance Surgeons to offer a more convenient, lower-cost alternative to hospital-based outpatient surgery for interventional pain management, neurosurgery, orthopedic surgery, physiatry, and general surgery to patients in the Southwest Snohomish County Secondary Health Services Planning Area.

Based on the Department's quantitative need methodology, the Southwest Snohomish Secondary Health Services Planning Area is projected to need more than 2.87 additional outpatient ORs by 2022. Please see Exhibit 9 for COSJS's need methodology calculation.

CN-approval will also allow COSJS to be made available to all physicians in the community who are credentialed, privileged and in good standing and who perform ambulatory surgical services. Local physicians gaining access to COSJS will improve Southwest Snohomish County Secondary Health Services Planning Area residents' access to the procedures expected to be performed at the COSJS, including orthopedic and spine surgery. Further, because freestanding ASFs are more efficient and cost-effective in comparison to hospital outpatient surgery departments, the contractual rates for purchasers in the Southwest Snohomish County Secondary Health Services Planning Area can be lower in a freestanding setting, which translates to cost savings to patients.

The Southwest Snohomish County Secondary Health Services Planning Area has shown steady population growth from 2010 to 2015 and is forecasted to continue growing steadily through 2025. Please see Exhibit 10 for additional historical and projected resident population statistics for the Southwest Snohomish County Secondary Health Services Planning Area.

The ASF forecast provided below uses a comprehensive, statistically valid survey of ambulatory surgery cases by the National Center for Health Statistics, which is based on 2006 survey statistics and published in a revised report in September 2009. This survey includes surgery use rates by major age cohort groups. It demonstrates use rates for persons 65-74 years old are 2.6 times the average use rate, and 2.4 times higher for persons 75 years of age and older. These use rates are presented in Table 7 below. Considering the much higher growth in the 65+ age cohort, these use rate differences signify demand for health services will be much higher in the future as populations age.

Table 7[3]
National Center for Health Statistics Ambulatory Surgery Use Rates per 10,000 Residents, by Major Age Cohort

	Overall Average	Persons < 15 years old	Persons 15-44 years old	Persons 45-64 years old	Persons 65-74 years old	Persons > 75 years old
Use Rate	1,788.3	537.5	1,019.2	2,695.9	4,584.0	4,325.3
Use Rate/Overall Use Rate	1	0.3	0.6	1.5	2.6	2.4

There is an increasing need for additional outpatient surgery capacity in the Southwest Snohomish County Secondary Health Services Planning Area and surrounding areas. There continues to be significant shifting of surgeries to outpatient settings, where costs are lower and patient satisfaction is higher due to patients' preference for outpatient-based care. Having a local ASF not only reduces travel time and costs, it reduces inconvenience and anxiety when patients are able to obtain both clinical and surgical care in the same location.

Proliance Surgeons' proposed project will respond to projected, planning area demand for outpatient ORs and is validated by the need methodology, as shown below.

Need Methodology

The Department uses the numeric need methodology outlined in WAC 246-310-270 for determining the need for additional ASFs in Washington. The methodology provides a basis of comparison of existing OR capacity for both outpatient and inpatient ORs in a planning area using the current utilization of existing providers. The methodology separates Washington into 54 secondary health services planning areas. COSJS is located in the Southwest Snohomish County Secondary Health Services Planning Area.

The methodology estimates OR need in a planning area using steps defined in WAC 246-310-270(9). It relies on a variety of assumptions and initially determines existing capacity of dedicated outpatient and mixed-use ORs in the planning area, subtracts this capacity from the forecast number of surgeries expected in the planning area in the target year, and examines the difference to determine:

a) whether a surplus or shortage of ORs is predicted to exist in the target year; and

[3] Source: "Ambulatory Surgery in the United States, 2006," U.S. Department of Health and Human Services, National Center for Health Statistics, Report Number 11, January 28, 2009, revised September 4, 2009. Table 10, page 18.

b) if a shortage of ORs is predicted, the shortage of dedicated outpatient and mixed-use rooms are calculated.

Data used to make these projections specifically exclude endoscopy rooms and procedures.

According to the Department's records, there is a total of eight planning area providers with OR capacity. Of these eight providers, one is a hospital, and seven are ASFs. Because there is no mandatory reporting requirement for utilization of hospital or ASF ORs, the Department sends an annual utilization survey to all hospitals and known ASFs in the state. When this application was submitted, the most recent utilization survey data available was for year 2018.

Table 1 above shows a listing of the one hospital with OR capacity.[4] For that hospital, all known OR capacity and procedures are included in the methodology calculations for the planning area.

Table 2 above contains a listing of the seven ASFs in the planning area.[5] Out of these seven ASFs, none are CN-approved ASFs. One ASF provides endoscopy or endoscopy and pain management services only. The numeric methodology excludes these special purpose rooms and cases from the calculations. This exclusion leaves six ASFs remaining. These six ASFs are located within the offices of private physicians, whether in a solo or group practice, which have received an exemption and are considered a CN-exempt ASF. The use of these ASFs is restricted to physicians who are employees or members of the clinical practices that operate the facility. Therefore, these six facilities do not meet the ASF definition in WAC 246-310-010. For CN-exempt ASFs, the number of surgeries, but not ORs, is included in the methodology for the planning area.

In summary, surgical cases and ORs for the one hospital will be counted in the numeric methodology. Surgical cases, but not ORs, for the six CN-exempt surgery centers will be counted in the numeric methodology. Based solely on the results of numeric need methodology, there is need for an additional 2.84 outpatient ORs in Southwest Snohomish County Secondary Health Services Planning Area.

2. Define the population that is expected to be served by the project. The specific manner of definition is of necessity based on the specific project proposed and may require definitions for different elements of the project.

In all cases, provide Office of Fiscal Management population forecasts for the next ten years, broken down into age and gender categorizes.

In the case of an existing facility, include a patient origin analysis for at least the most recent three-month period, if such data is maintained, or provide patient origin data from the last statewide patient origin study. Patient origin is to be indicated by zip code. Zip codes are to be grouped by city and county and include a zip code map illustrating the service area.

[4] Source: CN historic files, ILRS.

[5] *Id*.

The population expected to be served can be defined according to specific needs and circumstances of patients (e.g., alcoholism treatment, renal dialysis), or by the number of persons who prefer to receive the services of a particular recognized school or theory of medical care.

3. *Provide utilization forecasts for each service included in the project. Include the following:*
   a. *Utilization forecasts for at least five years following project completion.*
   b. *The complete quantitative methodology used to construct each utilization forecast.*
   c. *Identify and justify all assumptions related to changes in use rate, market share, intensity of service, and others.*
   d. *Evidence of the number of persons now using the service(s) who will continue to use the service(s). Utilization experience for existing services involved in the project should be reported for up to the last ten years, as available. Such utilization should be reported in recognized units of measure appropriate to the service.*
   e. *Evidence of the number of persons who will begin to use the services(s).*

The proposed ASF is located in the Southwest Snohomish County Secondary Health Services Planning Area, which is defined using the zip codes in Table 8.

Table 8[6]
North King County Secondary Health Services Planning Area Zip Codes

Zip Code	City
98012	Bothell
98020	Edmonds
98021	Bothell
98026	Edmonds
98036	Lynwood
98037	Lynnwood
98043	Mountlake Terrace
98087	Lynnwood

The population data for the Southwest Snohomish County Secondary Health Services Planning Area included in Exhibit 10 demonstrates that the current total population of approximately 293,192 continues to grow and is expected to increase to 313,878 in 2024, an increase of 20,686.

Proliance Surgeons has developed this proposed project to ensure that there is sufficient capacity in the planning area to meet current and projected need. There is no construction, renovation or

[6] Source: Office of Financial Management.

expansion associated with this project. The proposed ASF's ORs are fully built-out and operational. Without a CN, however, use of COSJS is restricted to patients and physicians of Proliance Surgeons, and Proliance Surgeons cannot make the ASF broadly available within the heath planning area. As a result, patients experience delays in receiving needed care or are being forced to travel significant distances to receive the care.

Table 9 below shows an increase in the total number of cases from 1,229 in 2019 to 2,696 in 2023 at COSJS. Conservatively, Proliance Surgeons projects there will be at least an increase of 1,467 procedures performed annually at COSJS from 2019 to 2023. In addition to making the proposed ASF available to Proliance Surgeons' patients, which will account for the number of procedures performed at the proposed ASF, making the ASF available to other qualified, credentialed and privileged physicians and their patients, along with population growth, will also cause an increase in the number of procedures to be performed.

Proliance Surgeons has taken a conservative approach in estimating growth, and the projections are far below the likely increase in utilization.

Table 9
Proposed ASF Projected Utilization

Year	Number of Procedures
2019	1,229
2020	2,247
2021	2,449
2022	2,656
2023	2,696

4.

a. *Provide information on the availability and accessibility of similar existing services to the defined population expected to be served. This section should concentrate on other facilities and services which "compete" with the applicant.*

i. *Identify all existing providers of services similar to those proposed and include sufficient utilization experience of those providers that demonstrates that such existing services are not available in sufficient supply to meet all or some portion of the forecaster utilization.*

ii. *If existing services are available to the defined population, demonstrate that such services are not accessible to that population. Time and distance factors, among others, are to be analyzed in this section.*

iii. *If existing services are available and accessible to the defined population, justify why the proposed project does not constitute an unnecessary duplication of services.*

As noted in other sections of this application, the establishment of the proposed ASF is being undertaken to provide additional capacity for the planning area. The proposed ASF will not duplicate services. Instead, it is necessary in order to expand the services offered at COSJS.

We believe the only other providers of outpatient surgical services in the Southwest Snohomish County Secondary Health Services Planning Area are the following: Swedish Edmonds, Alderwood Surgery Center, Baxter Plastic Surgery, Cosmetic Surgical Arts Center, Proliance Center for Outpatient Spine and Joint Replacement Surgery of Puget (Applicant), Urology Northwest Surgery Center, Virginia Mason Lynnwood Ambulatory Surgical Center, and Washington Spine Diagnostics and Treatment Center.

b. In the context of the criteria contained in WAC 246-310-210(1)(a) and (b), document the manner in which:

i. Access of low-income persons, racial and ethnic minorities, women, mentally handicapped persons, and other under-served groups to the services proposed is commensurate with needs for the health services.

A copy of the proposed ASF's proposed non-discrimination, charity care, and admission policies are included as Exhibits 11, 12 and 13, respectively. Consistent with the requirements of WAC 246-310-270(7), the proposed ASF projects to provide the average charity care for Southwest Snohomish County.

ii. In the case of the relocation of a facility or service, or the reduction or elimination of a service, the present needs of the defined population for that facility or service, including the needs of under-served groups, will continue to be met by the proposed relocation by alternative arrangements.

This project does not propose the relocation, reduction or elimination of existing services. As such, this question is not applicable.

Applicants should include the following:

- *Copy of admissions policy;*
- *Copy of community service policy;*
- *Copy of its charity care policy;*
- *Reference appropriate access problems and discuss how this project addresses such problems;*
- *As appropriate, reference health facility related access problems of under-served groups noted in social services plan documents;*
- *Other information as appropriate*

5. As applicable, substantiate the following special needs and circumstances that the proposed project is to serve.

a. *The special needs and circumstances of entities such as medical and other health professions' schools, multi-disciplinary clinics, and specialty centers that provide a substantial portion of their services, resources, or both, to individuals not residing in the health services areas in which the entities are located or in adjacent health services areas.*
b. *The special needs and circumstances of biomedical and behavioral research projects which are designed to meet a national need and for which local conditions offer special advantages.*
c. *The special needs and circumstances of osteopathic hospitals and non-allopathic services with which the proposed facility/service would be affiliated.*

This question is not applicable to this project.

B. Financial Feasibility (WAC 246-310-220)

1. Proposed capital expenditures should be broken out in detail and should account for at least the following:

- *Land acquisition;*
- *Site survey, tests, inspections;*
- *Construction contract;*
- *Financial feasibility studies, architectural fees/engineering fees/consulting fees;*
- *Fixed equipment (not in construction contract);*
- *Movable equipment;*
- *Freight and delivery charges;*
- *Sales tax;*
- *Cost of tuning up and trial runs;*
- *Reconditioning costs (in case of used asset);*
- *Cost of title investigations, legal fees, brokerage commissions;*
- *Other activities essential to the acquisition, improvement, expansion, or replacement of plant and equipment due to the project; and*
- *Financing costs, including interim interest expense, reserve account, interest*
- *expense, and other financing costs.*

2. The method and sources for calculating construction costs and other estimated capital expenditures should be fully explained.

This question is not applicable to this project.

3. Documentation of project impact on (a) capital costs, and (b) operating costs and charges for health services.

This question is not applicable to this project.

4. Source(s) of financing (loan, grant, gifts, etc.). Provide all financing costs, including reserve account, interest expense, and other financing costs. If acquisition of the asset is *to be by lease, copies of any lease agreements, and/or maintenance repair contracts should be provided. The proposed lease should be capitalized with interest expense and principal separated. For debt amortization, provide a repayment schedule showing interest and principal amount for each year over which the debt will be amortized.*

This question is not applicable to this project.

5. *Provide a cost comparison analysis of the following alternative financing methods: purchase, lease, board-designated reserves, and interfund loan or bank loan. Provide the rationale for choosing the financing method selected.*

This question is not applicable to this project.

6. *Provide a pro forma balance sheet and the accounting statement, statement of changes in financial position of unrestricted funds and changes in components of working capital.*

Exhibit 14 contains the pro forma income statement.

7. *Provide a capital expenditure budget through the project completion and for three years following completion of the project.*

This question is not applicable to this project.

8. *The expected sources of revenues for the applicant's total operations (e.g., Medicaid, Blue Cross, Labor and Industries, etc.) with anticipated percentage of revenue from each source.*

Table 10
Projected Sources of Patient Revenue by Payer

Payer	Percentage of Total Revenue
Medicare	45.7%
Medicaid	0.1%
Other government (including L&I)	0.3%
Commercial	52.4%
Other	1.6%
Total	100%

9. *Expense and revenue statements for the last three full years.*

Exhibit 15 contains Proliance Surgeons' income statements for the last three full years.

NOTE: This exhibit represents the unofficial and unaudited income statements of Proliance Surgeons. This exhibit is confidential and proprietary to Proliance Surgeons and should not be used for any purpose other than evaluation of this CN application.

10. Cash flow statement for the last three full years.

Exhibit 15 contains Proliance Surgeons' cash flow statements for the last three full years. This exhibit is confidential and proprietary to Proliance Surgeons and should not be used for any purpose other than evaluation of this CN application.

NOTE: This exhibit represents the unofficial and unaudited cash flow statements of Proliance Surgeons. This exhibit is confidential and proprietary to Proliance Surgeons and should not be used for any purpose other than evaluation of this CN application.

11. Balance sheets detailing the assets, liabilities, and net worth of facility for the last three full fiscal years.

Exhibit 15 contains Proliance Surgeons' balance sheets detailing the assets, liabilities, and net worth of facility for the last three full fiscal years.

NOTE: This exhibit represents the unofficial and unaudited balance sheets of Proliance Surgeons. This exhibit is confidential and proprietary to Proliance Surgeons and should not be used for any purpose other than evaluation of this CN application.

12. Indicate the reduction or addition of FTEs with the salaries, wages, employee benefits for each FTE affected.

Table 11 identifies the projected staffing, by FTE, for each of the first three years of operation. Information regarding the salaries, wages and employee benefits is included in the pro forma financials contained in Exhibit 14.

Table 11
Proposed ASF Estimated Total Staffing 2019-2023[7]

Position	2019	2020	2021	2022	2023
Clinical Director/Charge Nurse	1	1	2	2	2
RNs	4.5	5.5	7	7	7
Surgical Technologists	3	6	7	7	7
Receptionists	1	1.5	1.5	1.5	1.5
Total	9.5	14	17.5	17.5	17.5

C. Structure and Process (Quality) of Care (WAC 246-310-230)

[7] Source: Applicant.

Please document the following associated with structure and process of care.

1. *The availability of sufficient numbers of qualified health manpower and management personnel. If the staff availability is a problem, describe the manner in which the problem will be addressed.*

The proposed ASF intends to continue employment of all its staff in good standing. A sufficient number of qualified health manpower and management personnel are already in place and will be added, as needed, in accordance with Table 11.

2. *Identify the facility's Medical Director, Director of Nursing, and other key staff. For each provide their professional license number for Washington. If they are also licensed in other states, provide their license number for those states.*

Aric A. Christal, M.D. is the proposed ASF's Medical Director. *See* Exhibit 16 for COSJS's Medical Director Job Description. Steven E. Balee, RN, BSN is the proposed ASF's Director of Nursing.

3. *For the Medical Director indicate if he/she will be an employee of the facility or contractual. If performing his/her duties through a contract, provide a copy. A draft is acceptable only if all parties identified in the draft agreement provide a signed "Letter of Intent to finalize" the agreement and all terms and costs are included.*

Aric A. Christal, M.D. is the proposed ASF's Medical Director. Steven E. Balee, RN, BSN is the proposed ASF's Director of Nursing.

4. *The relationship of ancillary and support services to proposed services, and the capability of ancillary and support services to meet the service demands of the proposed project.*

Proliance Surgeons will offer all of the necessary ancillary and support services on site.

Exhibit 17 contains a copy of the executed Transfer Agreement between Outpatient Spine and Joint Replacement Surgery of Puget Sound and Swedish Edmonds dated September 1, 2017.

5. *The specific means by which the proposed project will promote continuity in the provision of health care to the defined population and avoid unwarranted fragmentation of services. This section should include the identification of existing and proposed formal working relationships with hospitals, nursing homes, and other health service resources serving your primary service area. This description should include recent, current, and pending cooperative planning activities, shared services agreements, and transfer agreements. Copies of relevant agreements and other documents should be included.*

Proliance Surgeons will offer all of the necessary ancillary and support services on site.

Exhibit 17 contains a copy of the executed Transfer Agreement between Outpatient Spine and Joint Replacement Surgery of Puget Sound and Swedish Edmonds dated September 1, 2017.

6. *Fully describe any history of the applicant entity with respect to the actions noted in Certificate of Need rules and regulations WAC 246-310-230(5)(a). If there is such history, provide clear, cogent, and convincing evidence that the proposed project will be operated in a manner that ensures safe and adequate care to the public to be served and in conformance with applicable federal and state requirements.*

COSJS has no history with respect to the actions described in CN criteria WAC 246-310-230(5)(a). Proliance Surgeons has no history with respect to the actions described in CN criteria WAC 246-310-230(5)(a), with the exception of The Eye Surgeons Group Ambulatory Surgery Center's termination from the Medicare program, which termination is the subject of an ongoing appeal.

7. *Services to be provided will be provided (a) in a manner that ensures safe and adequate care, and (b) in accord with applicable federal and state laws, rules, and regulations.*

Proliance Surgeons operates all existing programs in conformance with applicable state and federal laws, rules and regulations.

D. Cost Containment (WAC 246-310-240)

Please document the following associated with cost containment.

1. *Exploration of alternatives to the project you have chosen to pursue, including postponing action, shared service arrangements, merger, contract services, and different methods of service provision, including different spacial configurations you have evaluated and rejected.*
   Each alternative should be analyzed by application of the following:

   - *Decision making criteria (cost limits, availability, quality of care, legal restriction, etc.);*
   - *Advantages and disadvantages, and whether the sum of either the advantages or the disadvantages outweigh each other by application of the decision-making criteria;*
   - *Capital costs;*
   - *Staffing impact.*

As discussed above, there is significant net need for outpatient surgery ORs in the Southwest Snohomish County Secondary Health Services Planning Area. The proposed ASF will improve access, a key criterion for a CN. The proposed ASF will also provide a low cost, freestanding ambulatory surgical facility in the health planning area to meet the needs of patients and help residents of the planning area avoid wait times for procedures and lower health care costs.

Proliance Surgeons has a presence in the Southwest Snohomish County Secondary Health Services Planning Area, and the proposed ASF will build upon this presence and offer other patients convenient access to surgical services. Proliance Surgeons is committed to providing high quality, affordable care in the Southwest Snohomish County Secondary Health Services Planning Area, and the proposed ASF will help accomplish this goal. The proposed project promotes continuity of care with Proliance Surgeons' other services, and it offers cost containment as well. Making the proposed ASF available to qualified, credentialed and privileged physicians in good standing is significantly less costly than building a new ASF to address the need for surgical services.

Proliance Surgeons is requesting a CN for the proposed ASF so that other qualified, credentialed and privileged physicians in good standing can use the facility, which is fully built-out and operational. As part of its due diligence, Proliance Surgeons examined alternatives to the proposed project and evaluated those alternatives. The alternatives are addressed below.

Alternative 1: "Do Nothing"

Proliance Surgeons rejected a "do nothing" alternative. The Southwest Snohomish County Secondary Health Services Planning Area currently has too few outpatient ORs. Planning area residents are underserved relative to the forecasted demand for surgical services and must travel or wait to obtain care. Proliance Surgeons has a presence in the Southwest Snohomish County Secondary Health Services Planning Area and can add value to community health services by extending its continuum of care to additional residents of the community and other patients. A "do nothing" alternative strategy is detrimental to the community, in that such a strategy would do nothing to reduce the travel or wait times for surgical services, would further restrict needed health care services within the health planning area, and would not improve the cost effectiveness of care delivery. There is no advantage to the "do nothing" alternative, so it was not considered feasible.

Alternative 2: Request Approval for a Freestanding ASC, i.e., The Proposed Project

In contrast to the "do nothing" approach, the advantages of a CN-approved ASF are clear. A CN-approved ASF would afford increased access and local choice for the health planning area residents and local, independent physicians. It would increase physicians' and patients' ease of access and improve their ability to deliver and receive high quality care. This alternative model reduces the overall cost of care and passes these relative cost and efficiency advantages of a freestanding ambulatory surgical facility to patients and payers.

There are no disadvantages to granting Proliance Surgeons' request for CN approval. The facility is built out and operational. The data demonstrates there would not be a duplication of services, given a projected net demand of over 2.84 outpatient ORs in the health planning area.

A CN-approved ASF would better serve the interests of the planning area residents and achieve Southwest Snohomish County Secondary Health Services Planning Area's desire to reduce wait times for outpatient surgical services.

2. *The specific ways in which the project will promote staff or system efficiency or productivity.*

The primary objective of the proposed project is to provide needed access to a high quality, low cost ASF in the planning area where there is clear demonstrated need. Patients who need outpatient surgery will have the option to have their procedure in an ASF where they can obtain the same quality surgical experience, but at a lower cost. This proposed ASF will offer care that is both affordable and local. The proposed ASF will be available to Proliance Surgeons' physicians and their patients as well as to other qualified, credentialed and privileged physicians in good standing and their patients.

3. In the case of construction, renovation, or expansion, capital cost reductions achieved by architectural planning and engineering methods and methods of building design and construction. Include an inventory of net and gross square feet for each service and estimated capital cost for each proposed service. Reference appropriate recognized space planning guidelines you have employed in your space allocation activities.

There is no construction, renovation or expansion associated with the proposed project. The proposed ASF's ORs are fully built-out and operational.

4. In the case of construction, renovation or expansion, an analysis of the capital and operating costs of alternative methods of energy consumption, including the rationale for choosing any method other than the least costly. For energy-related projects, document any efforts to obtain a grant under the National Energy Conservation Act.

There is no construction, renovation or expansion associated with the proposed project. The proposed ASF's ORs are fully built-out and operational.

EXHIBIT 1

PHYSICIAN OWNERS OF PROLIANCE SURGEONS, INC., P.S.

Proliance Surgeons, Inc., P.S. Shareholders and Ownership Percentages

Shareholder	Ownership	MD License Number
Adams Jr, Wendall W.	0.5025%	MD00028543
Alberts, James R.	0.5025%	MD00042557
Anderson, Kurt A.	0.5025%	MD00047451
Angelo, Richard L.	0.5025%	MD00024301
Arntz, Craig T.	0.5025%	MD00021237
Arroyo, Julian S.	0.5025%	MD00034871
Auld, M. Kevin	0.5025%	MD00023514
Barker, David T.	0.5025%	MD00016468
Barker, Howard B.	0.5025%	MD00039924
Barloon, Andrew S.	0.5025%	MD00030214
Barrett, William P.	0.5025%	MD00019510
Barronian, Alan D.	0.5025%	MD00027983
Barthel, Traci G.	0.5025%	MD00039700
Basamania, Carl J.	0.5025%	MD00023310
Beck, John	0.5025%	MD60333186
Bennett, Randall P.	0.5025%	MD00022922
Birnbach, Charles D.	0.5025%	MD00033777
Blair, John M.	0.5025%	MD00034543
Bohmke, Karen	0.5025%	MD00019596
Brandes, Clayton B.	0.5025%	MD00035290
Briscoe, Patricia A.	0.5025%	MD00031121
Brown, Gary L.	0.5025%	MD00013171
Bruckner, James D.	0.5025%	MD00027573
Burgoyne, John D.	0.5025%	MD00034623
Cameron, Brian D.	0.5025%	MD00037844

Castle, Jr., Thomas H.	0.5025%	MD00025341
Cero, Susan R.	0.5025%	MD00030770
Chang, Wallace H.	0.5025%	MD00019761
Chi, Thomas D.	0.5025%	MD00038904
Christal, Aric	0.5025%	MD60217236
Clark, Herbert R.	0.5025%	MD00020828
Clark, William L.	0.5025%	MD00033039
Clinton, Camille M.	0.5025%	MD60010627
Coray, Spencer A.	0.5025%	MD00043805
Cornejo, Carol	0.5025%	MD00031941
Crutcher, James P.	0.5025%	MD00024359
Dawson, Steven M.	0.5025%	MD00028547
de la Torre, Sarah	0.5025%	MD00040542
Downer, Philip R.	0.5025%	MD00041479
Droz, Sarah	0.5025%	MD60145373
Duong, Trac M.	0.5025%	MD60340252
Edmond, Charles V.	0.5025%	MD00030364
El-Ghazzawy, Adel	0.5025%	MD00039270
Esterberg, Justin L.	0.5025%	MD60011672
Falicov, Alexis	0.5025%	MD00044866
Foltz, Luba	0.5025%	MD00043428
Fong, Randall S.	0.5025%	MD00032458
Foral, Darcy S.	0.5025%	MD00046110
Francis, Robert R.	0.5025%	MD00023403
Franklin, Jonathan L.	0.5025%	MD00021811
Fuchs, Robin	0.5025%	MD00040985
Fujisaki, Keith	0.5025%	MD60174702
Garr, Jeffrey L.	0.5025%	MD00038207
Ghidella, Sean D.	0.5025%	MD00040711
Gray, Richard E.	0.5025%	MD00027404

Green, David	0.5025%	MD00027977
Gregush, Ronald V.	0.5025%	MD00048012
Gross, James R.	0.5025%	MD00019697
Gumprecht, Thomas F	0.5025%	MD00015217
Guyette, Todd	0.5025%	MD00042525
Hall, Jonathan S.	0.5025%	MD60462965
Haller, Ralph T.	0.5025%	MD00023815
Han, Steven K.	0.5025%	MD00043687
Hanesworth, Daniel M.	0.5025%	MD00037368
Harmon, Kurt E.	0.5025%	MD00036345
Harris, Kevin C.	0.5025%	MD00042133
Harvey, Susan	0.5025%	MD00026860
Hassan, Douglas M.	0.5025%	MD00034814
Havener, Todd W.	0.5025%	MD00043648
Heusch, Wendy L.	0.5025%	OP00002091
Heydt, Jennifer L.	0.5025%	MD00042735
Holland, Lawrence E.	0.5025%	MD00020205
Hormel, Scott E.	0.5025%	MD00031699
Howe, Christopher R.	0.5025%	MD60001006
Howlett, John P.	0.5025%	MD60105354
Huang, Bill K.	0.5025%	MD00047621
Huang, Fredrick S.	0.5025%	MD00040082
Hulst, Jonah B.	0.5025%	MD60290797
Hutchison, Margaret	0.5025%	MD00071266
Hutter, Jonathan J.	0.5025%	MD00041886
Idjadi, Jeremy	0.5025%	MD00046591
Jackman, Todd E.	0.5025%	MD00049377
Jenkins, Matthew V.	0.5025%	MD60230908
Johannsen, Tracy	0.5025%	MD00021154
Johnson, Gary K.	0.5025%	MD00011699

Johnstone, Frederic L.	0.5025%	MD00023580
Jones, Brian D.	0.5025%	OP60222153
Jurek, Sara K.	0.5025%	MD60349493
Jurich, Thomas J.	0.5025%	MD00028487
Kapnadak, Sondra	0.5025%	MD60463903
Khalfayan, E. Edward	0.5025%	MD00032857
Kim, C. Anthony	0.5025%	MD00037136
Kim, Helen	0.5025%	MD00035175
Kim, Kyle	0.5025%	MD00029378
Kim, Steve H.	0.5025%	MD00042157
Kimbrough, Tyler G.	0.5025%	MD60067019
Kimelman, Judy	0.5025%	ML20002952
Kinahan, Peter	0.5025%	MD00039462
King, Douglas R.	0.5025%	MD00023020
King, Jason C.	0.5025%	MD60139203
Kirby, Richard M.	0.5025%	MD00016685
Klesert, Todd R.	0.5025%	MD60125691
Knapp, Calvin H.	0.5025%	MD00027495
Knipe, Thomas A.	0.5025%	MD00046371
Ko, Jia-Wei K.	0.5025%	MD60549136
Koala, Diana	0.5025%	MD00037938
Komenda, Gregory A.	0.5025%	MD00035536
Koo, Samuel S.	0.5025%	MD60072440
Kopelovich, Jonathan C.	0.5025%	MD60564654
Kopstein, Andrew B.	0.5025%	MD00037629
Lamberton, Gregory	0.5025%	MD60101321
Lee, Frederick B.	0.5025%	MD60134839
Lee, Michael B.	0.5025%	MD60085559
Lee, Robin Y.	0.5025%	MD60138629
Lee, Samson J.	0.5025%	MD00045831

Lenart, Thomas	0.5025%	MD00037554
Lilly, Joel D.	0.5025%	MD00027366
Lin, Kenneth C.	0.5025%	MD00047536
Lohse, Grant	0.5025%	MD60296681
Lorentz, Wendy	0.5025%	MD60079014
Lu, Dawei	0.5025%	MD60088076
MacFarlane, Steven D.	0.5025%	MD00020254
Mandt, Peter R.	0.5025%	MD00023819
Mankey, Martin G.	0.5025%	MD00025092
Marsh, Robert E.	0.5025%	MD00039426
Marshall, Silas T	0.5025%	MD60386052
Martin, Carolyn	0.5025%	MD00035088
Mason, Jeff R.	0.5025%	MD00030797
Matsen Ko, Laura J.	0.5025%	MD60548267
Maurice, Peter	0.5025%	MD00043215
McAdam, Michael	0.5025%	MD00045053
McAllister, Craig M.	0.5025%	MD00028073
McCallister, Wren V.	0.5025%	MD00046171
McClean, Patrick	0.5025%	MD00025424
McConnell, Yarrow	0.5025%	MD60624254
McKeever, Megan	0.5025%	MD00049399
Melville, Jennifer	0.5025%	MD00035251
Merritt, Andrew L.	0.5025%	MD60315456
Mourning, David	0.5025%	MD00043382
Mullen, John S.	0.5025%	MD00038847
Nash, Robert W.	0.5025%	MD00033892
Nathe, Tyler	0.5025%	MD60291180
Novak, Erik J.	0.5025%	MD60001018
Nowak, Douglas D.	0.5025%	MD60191176
Oates, Kenneth	0.5025%	MD00036995

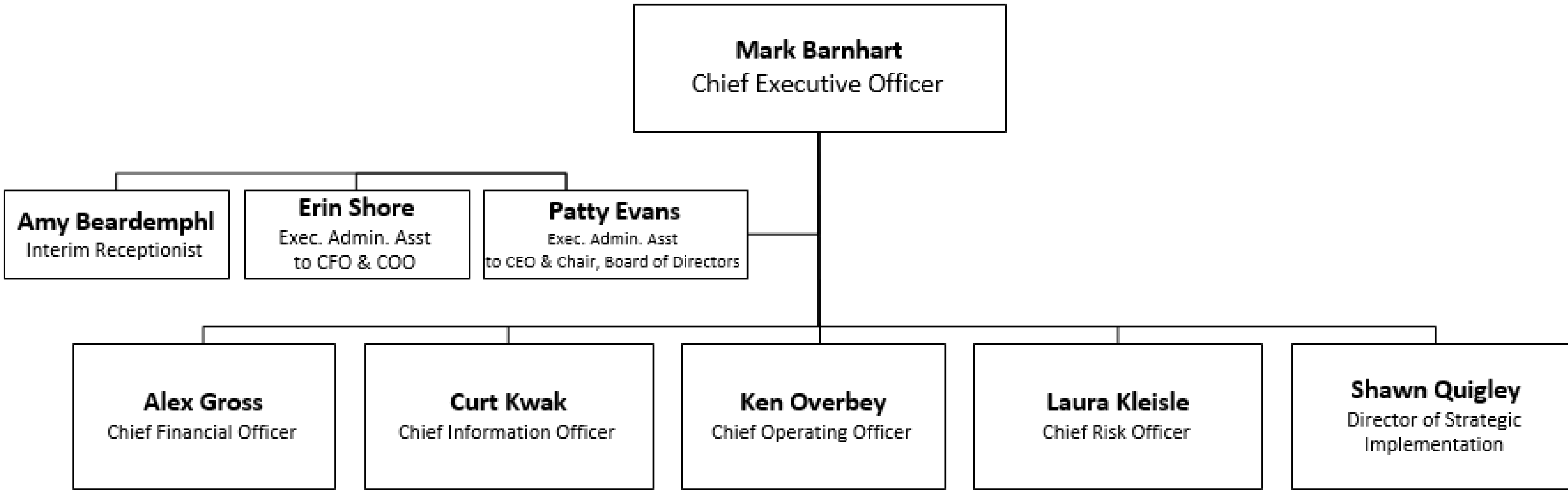
Olsen, Justin P.	0.5025%	MD60627845
Palaskas, Constantine W.	0.5025%	MD00022586
Parker, John	0.5025%	MD00027986
Patel, Ashit	0.5025%	MD00042020
Payne, William	0.5025%	MD60457002
Peterson, II, Charles A.	0.5025%	MD00033841
Petty, Christopher	0.5025%	MD00044181
Pray, Lauren	0.5025%	MD00047896
Price, J. Scott	0.5025%	MD00043700
Pritchett, James W.	0.5025%	MD00019112
Pryor, John D.	0.5025%	MD60170138
Puttler, Eric G.	0.5025%	MD00046498
Ratcliffe, Steven S.	0.5025%	MD00016613
Reed, Mark A.	0.5025%	MD00038340
Riddell, Duncan	0.5025%	MD00029782
Roberts, Neil E.	0.5025%	MD00031898
Robon, Matthew J.	0.5025%	MD00047476
Rodin, Curtis W.	0.5025%	MD00027583
Rogers, Shawn	0.5025%	MD00038124
Ruhlman, Scott D.	0.5025%	MD60144741
Sailer, Michael J.	0.5025%	MD00027596
Santos, David	0.5025%	MD00030977
Saperstein, David A.	0.5025%	MD00038220
Seibert, Nicholas R.	0.5025%	MD60147145
Seidner, Todd J.	0.5025%	MD00035622
Shafer, Jonathan B.	0.5025%	MD00047627
Shapiro, Joel A.	0.5025%	MD00039921
Shonnard, Neal H.	0.5025%	MD00027457
Shrivastava, Niket	0.5025%	MD60024708
Sinnett, Michelle J.	0.5025%	MD00032770

Smith, Stacia	0.5025%	MD00029938
Srinivasan, Jayashree	0.5025%	MD00030207
Steedman Jr, John T.	0.5025%	MD00035192
Stickney, Jeffrey L.	0.5025%	MD00027879
Stone, Addison T.	0.5025%	MD60137857
Sun, Steven D.	0.5025%	MD00035818
Teeny, Steven M.	0.5025%	MD00026825
Thomas, Alan B.	0.5025%	MD00038506
Thompson, Jason	0.5025%	MD00043489
Toomey, Sean D.	0.5025%	MD00038455
Torvie, Ana	0.5025%	MD60575475
Truong, Anh Q.	0.5025%	MD60452289
Tullus, Martin S.	0.5025%	MD00015980
Van Bergeyk, Anthony B.	0.5025%	MD00044729
Vaughan, Patrick	0.5025%	MD00044237
Veith, Robert G.	0.5025%	MD00015985
Wahl, Christopher J	0.5025%	MD00043836
Watt, Jay Michael	0.5025%	MD00027295
Wells, Craig G.	0.5025%	MD00018725
Wen, Marco N.	0.5025%	MD00031147
Wilcox, Jason J.	0.5025%	MD60183072
Wilson, William J.	0.5025%	MD00021234
Young, William	0.5025%	MD60454300
Zundel, Roger S.	0.5025%	MD00033644

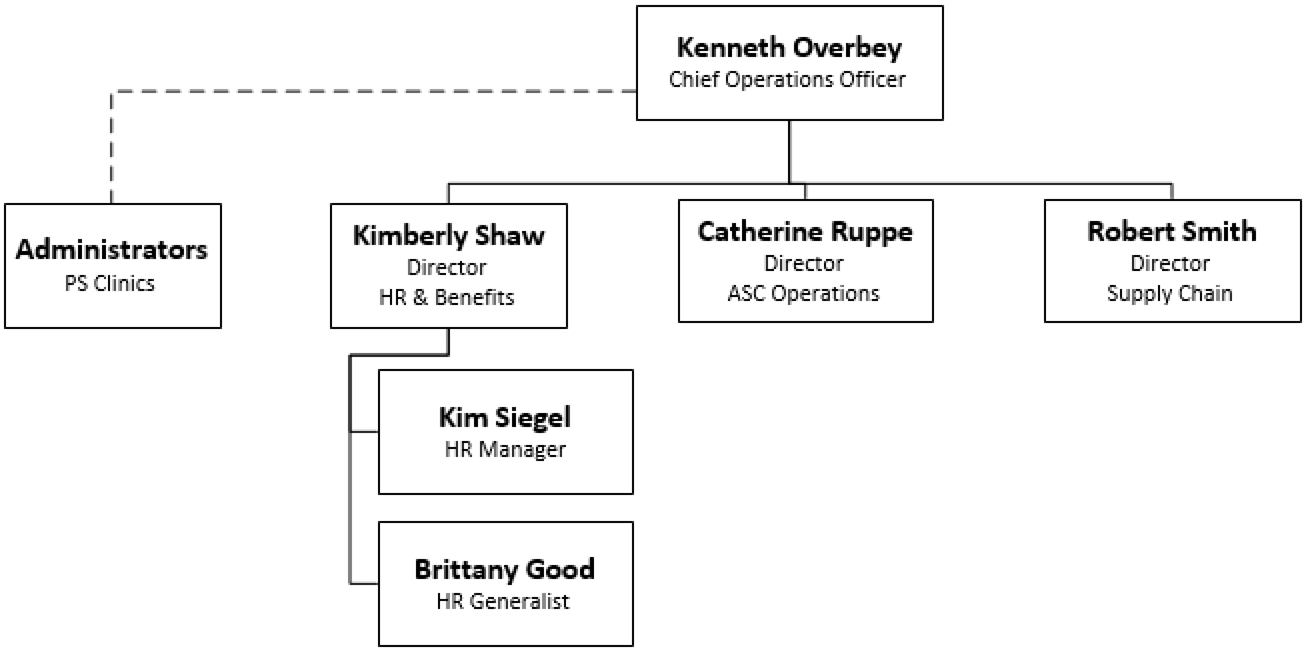
EXHIBIT 2

PROLIANCE SURGEONS, INC., P.S.
ORGANIZATIONAL CHART

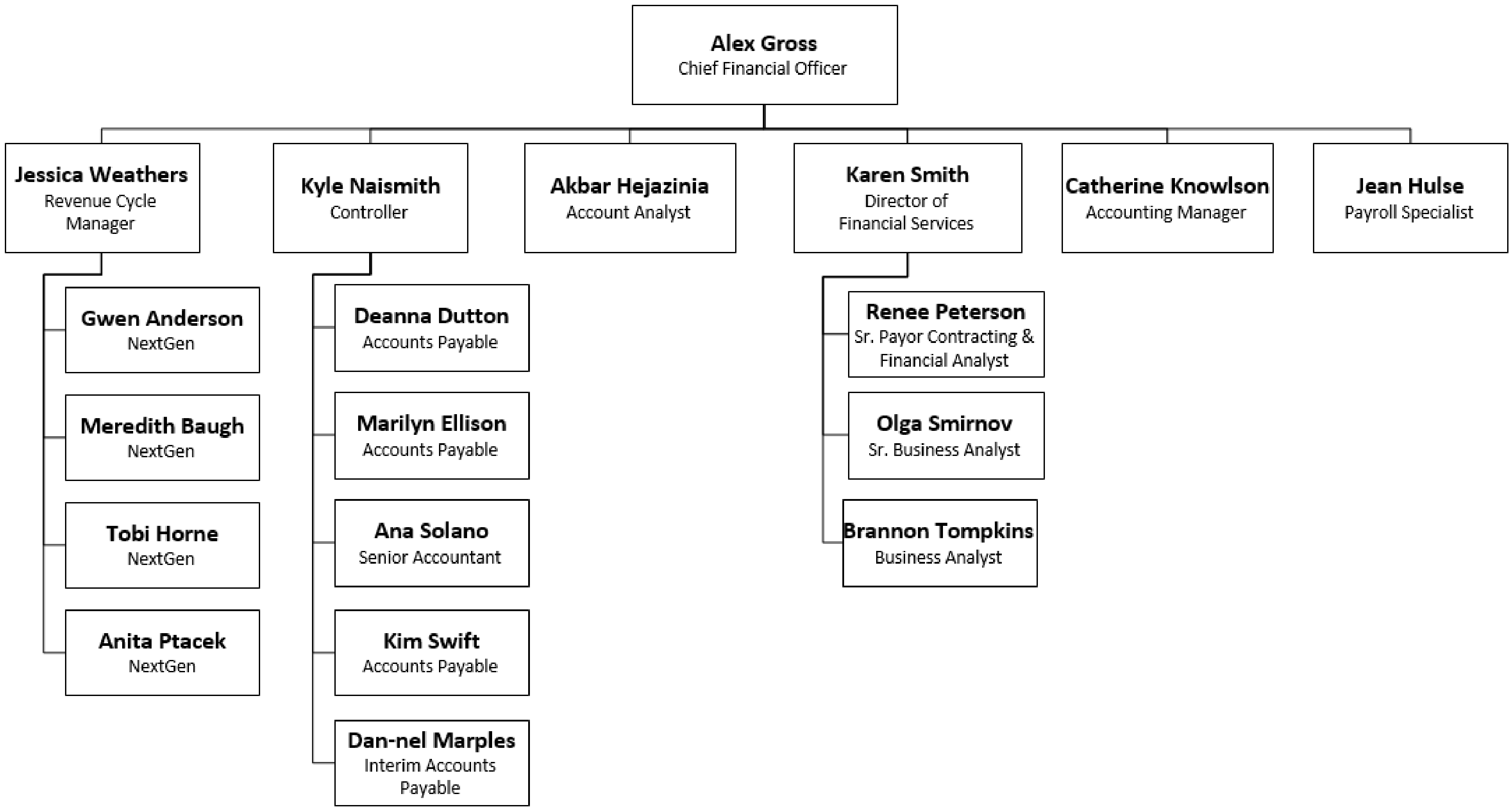
Proliance Central Office
March 2019



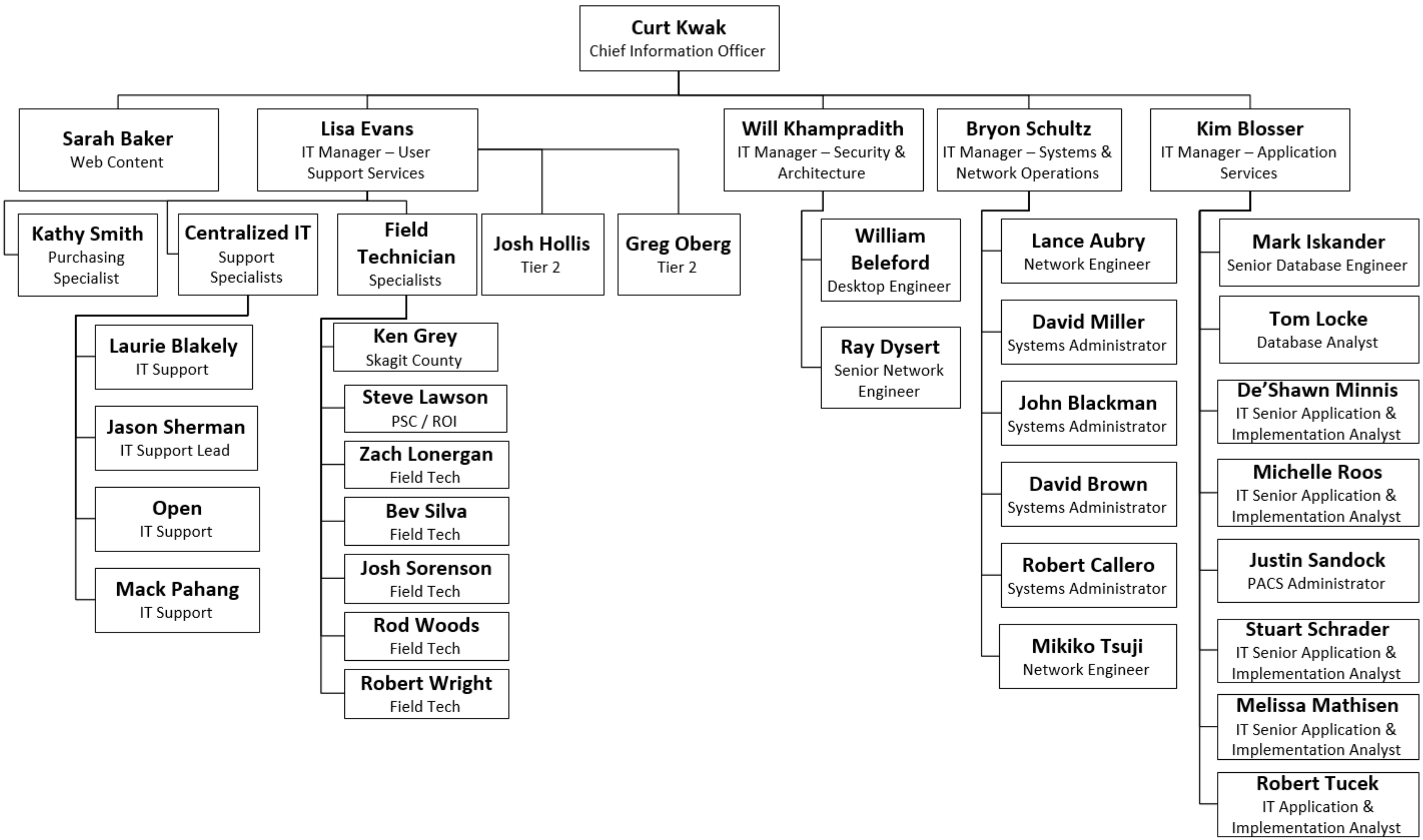
Operations
March 2019



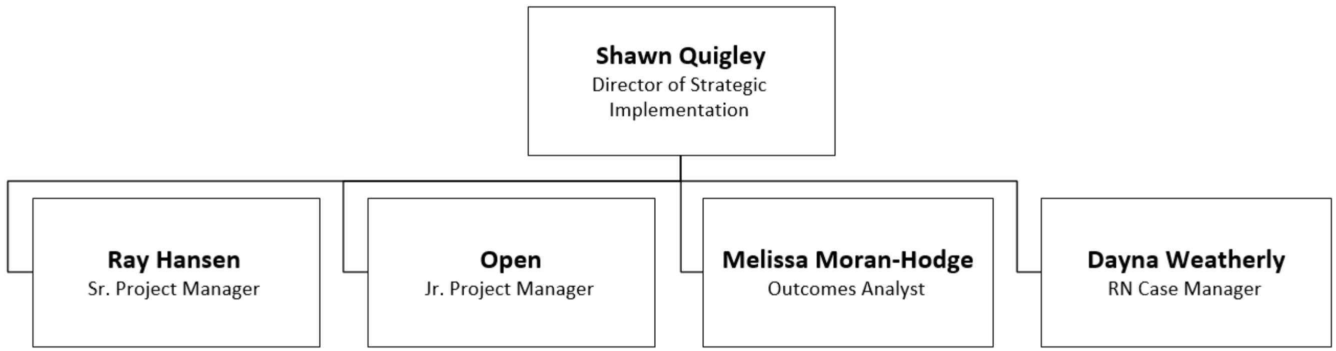
Finance
March 2019



Information Technology
March 2019



Implementation
March 2019



Risk & Compliance
March 2019

- **Laura Kleisle**
  Chief Risk Officer
  - **Christine Campbell**
    Credentialing Specialist
  - **Cori Pleasant**
    Payor Relations & Credentialing Administrator
  - **Erin Schentrup**
    Corporate Compliance Assistant
  - **McKenna Ulery**
    Compliance Assistant

EXHIBIT 3

GENERAL DESCRIPTION AND ADDRESS OF FACILITY
OWNED AND/OR OPERATED BY
PROLIANCE SURGEONS, INC., P.S.

Clinic/Facility Name, Proliance Surgeons, Inc. P.S. dba:	Address	City	State	Zip	Specialties	ASF/ASC
Ankle and Foot of Edmonds	7320 216th Street SW, Suite 320B	Edmonds	WA	98026-8006	Podiatry-Foot and Ankle Surgery	
Bellevue Ear Nose and Throat Clinic	1231 116th Avenue NE, Suite 915	Bellevue	WA	98004-3804	Otolaryngology, Audiology/Hearing Aid Fitter/Dealer	
Bellevue Ear Nose and Throat Clinic	510 8th Avenue NE, Suite 310	Issaquah	WA	98029-5436	Otolaryngology, Audiology/Hearing Aid Fitter/Dealer	
Cascade Ear Nose and Throat	1019 24th Street, Suite B	Anacortes	WA	98221-2586	Otolaryngology, Audiology/Hearing Aid Fitter/Dealer	
Cascade Ear Nose and Throat	111 S. 13th Street	Mount Vernon	WA	98274-4105	Otolaryngology, Audiology/Hearing Aid Fitter/Dealer	
Cascade Ear Nose and Throat	118 S. 12th Street	Mount Vernon	WA	98274-4105	Otolaryngology, Audiology/Hearing Aid Fitter/Dealer	
Cascade Ear Nose and Throat	20302 77th Avenue NE	Arlington	WA	98223-7462	Otolaryngology, Audiology/Hearing Aid Fitter/Dealer	
Cascade Ear Nose and Throat Surgery Center	111 S. 13th Street	Mount Vernon	WA	98274-4105	Outpatient Surgery	**ASF/ASC**
Concept Therapy	15808 Mill Creek Blvd, Suite 120	Mill Creek	WA	98012-1500	Occupational & Hand Therapy, Physical Therapy	
Concept Therapy	16527 Alderwood Mall Pkwy	Lynnwood	WA	98037-3202	Occupational & Hand Therapy, Physical Therapy	
Concept Therapy	190 West Dayton Street, Suite 202	Edmonds	WA	98020-7221	Occupational & Hand Therapy, Physical Therapy	
Ear, Nose, Throat & Allergy Associates	104 27th Avenue SE	Puyallup	WA	98374-1145	Otolaryngology, Allergies	
Edmonds Center for Outpatient Surgery	7320 216th Street SW, Suite 140	Edmonds	WA	98026-8006	Outpatient Surgery	**ASF/ASC**
Edmonds Orthopedic Center	1025 153rd Street SE, Suite 200	Mill Creek	WA	98012-4051	Orthopedic Surgery, Physical Medicine & Rehabilitation	
Edmonds Orthopedic Center	13020 Meridian Avenue S.	Everett	WA	98208-6422	Orthopedic Surgery	
Edmonds Orthopedic Center	7315 212th Street	Edmonds	WA	98026-7310	Orthopedic Surgery	
Edmonds Orthopedic Center	7320 216th Street SW , Suite 320	Edmonds	WA	98026-8006	Orthopedic Surgery	
Edmonds Orthopedic Center	20700 Bond Road NE , Bldg B, Suite 105	Poulsbo	WA	98370-9099	Orthopedic Surgery	
Edmonds Orthopedic Therapy	7320 216th Street SW, Suite 320	Edmonds	WA	98026-8006	Occupational & Hand Therapy, Physical Therapy	
Everett Bone and Joint	1100 Pacific Avenue , Suite 300	Everett	WA	98201-4261	Orthopedic Surgery	
Everett Bone and Joint	19200 N. Kelsey Street	Monroe	WA	98272-1431	Orthopedic Surgery	
Everett Bone and Joint MRI	3102 Colby Avenue	Everett	WA	98201-4205	Diagnositic Imaging/MRI	
Everett Bone and Joint Surgery Center	1100 Pacific Avenue, Suite 100	Everett	WA	98201-4261	Outpatient Surgery	**ASF/ASC**
Hillside Medical Surgery Center	104 27th Avenue SE	Puyallup	WA	98374-1145	Outpatient Surgery	**ASF/ASC**
Lake WA Facial Plastic Surgery	510 8th Avenue NE, Suite 300	Issaquah	WA	98029-5436	Facial Plastic Surgery	
Lakewood Surgery Center	7308 Bridgeport Way W, Suite 102	Lakewood	WA	98499-8000	Outpatient Surgery	**ASF/ASC**
Minor and James Surgery Center	515 Minor Avenue, Suite 130	Seattle	WA	98104-2138	Outpatient Surgery	**ASF/ASC**
Minor and James Surgical Specialists	515 Minor Avenue, Suite 150	Seattle	WA	98104-2138	Audiology/Hearing Aid Fitter/Dealer	
Minor and James Surgical Specialists	1200 112th Avenue NE, Suite B250	Bellevue	WA	98034-3749	Otolaryngology, Audiology,Podiatry	
Minor and James Surgical Specialists	515 Minor Avenue, Suite 140	Seattle	WA	98104-2138	Otolaryngology, Otology/Neurotology	
Minor and James Surgical Specialists	1801 NW Market Street, Suite 207	Seattle	WA	98107-3909	Podiatry	
Minor and James Surgical Specialists	515 Minor Avenue, Suite 200	Seattle	WA	98104-2133	Urology	
Minor and James Surgical Specialists	18100 NE Union Hill Road	Redmond	WA	98052-3330	Urology, Podiatry	
Minor and James Surgical Specialists	751 NE Blakely Drive	Issaquah	WA	98029-6201	Urology, Podiatry	
Minor and James Surgical Specialists	3400 California Avenue SW, Suite 210	Seattle	WA	98116-3307	Urology, Podiatry	
North Puget Sound MRI	6808 220th Street SW, Suite 105	Mountlake Terrace	WA	98043-2187	Diagnositic Imaging/MRI	
Northwest Orthopaedic Clinic	9730 3rd Avenue NE, Suite 201	Seattle	WA	98115-2023	Orthopedic Surgery	
Northwest Women's Healthcare	1101 Madison Street, Suite 1150	Seattle	WA	98104-3558	Obstetrics & Gynecology	

NW Pain Management Associates	6808 220th Street SW, Suite 201	Mountlake Terrace	WA	98043-2187	Interventional Pain Management	
Orthopedic Physician Associates	20700 Bond Road NE , Bldg B, Suite 105	Poulsbo	WA	98370-9099	Orthopedic Surgery	
Orthopedic Physician Associates	777 N. 5th Avenue, Suite 300	Sequim	WA	98382-3080	Orthopedic Surgery	
Orthopedic Physician Associates	3216 NE 45th Place , Suite 304	Seattle	WA	98105-4028	Orthopedic Surgery, Sports Medicine	
Orthopedic Physician Associates	3400 California Avenue SW, Suite 210	Seattle	WA	98116-3307	Orthopedic Surgery, Sports Medicine	
Orthopedic Physician Associates	601 Broadway , 6th Floor	Seattle	WA	98122-5330	Orthopedic Surgery, Sports Medicine	
Orthopedic Physician Associates	201 Alpha Way	Cle Elum	WA	98922-1045	Orthopedic Surgery	
Orthopedic Physician Associates	751 NE Blakely Drive, Suite 4020	Issaquah	WA	98029-6201	Orthopedic Surgery, N/A	
Orthopedic Physician Associates MRI Center	900 Terry Avenue, Suite 100	Seattle	WA	98104-4230	Diagnositic Imaging/MRI	
Orthopedic Specialists of Seattle	2409 N 45th Street,	Seattle	WA	98103-6907	Orthopedic Surgery, Sports Medicine	
Orthopedic Specialists of Seattle	5350 Tallman Avenue NW, Suite 500	Seattle	WA	98107-3932	Orthopedic Surgery, Sports Medicine	
Orthopedic Specialists of Seattle	601 Broadway , 6th Floor	Seattle	WA	98122-5330	Orthopedic Surgery, Sports Medicine	
Overlake Surgery Center	1135 116th Avenue NE, Suite 300	Bellevue	WA	98004-3804	Outpatient Surgery	**ASF/ASC**
Plastic & Reconstructive Surgeons	17930 Talbot Road S.	Renton	WA	98055-6230	Plastic & Resonstructive Surgery	
Plastic & Reconstructive Surgeons	23925 225th Way SE, Suite B	Maple Valley	WA	98038-5291	Plastic & Resonstructive Surgery	
Plastic & Reconstructive Surgeons ASC	17930 Talbot Road S.	Renton	WA	98055-6230	Outpatient Surgery	**ASF/ASC**
Proliance Bone and Joint Urgent Care	150 Andover Park W.	Tukwila	WA	98188-2801	Urgent Care-Orthopedics	
Proliance Center for Outpatient Spine and Joint Replacement S	6808 220th Street SW, Suite 100	Mountlake Lake	WA	98043-2187	Outpatient Surgery	**ASF/ASC**
Proliance Eastside ENT	12333 NE 130th Lane, Suite 440	Kirkland	WA	98034-7467	Otolaryngology	
Proliance Eastside ENT	1800 116th Avenue NE, Suite 102	Bellevue	WA	98004-3043	Otolaryngology	
Proliance Eastside ENT	8301 161st Avenue NE, Suite 200	Redmond	WA	98052-3858	Otolaryngology	
Proliance Eastside MRI	12911 120th Avenue NE, Suite H-120	Kirkland	WA	98034-3027	Diagnositic Imaging/MRI	
Proliance Eastside Surgery Center	12911 120th Avenue NE, Suite H-110	Kirkland	WA	98034-3027	Outpatient Surgery	**ASF/ASC**
Proliance Hand, Wrist and Elbow Physicians	11801 NE 160th Street, Suite D	Bothell	WA	98011-4106	Orthopedic Surgery, Orthopedic Hand Surgery	
Proliance Hand, Wrist and Elbow Physicians	12911 120th Avenue NE, Suite H-220	Kirkland	WA	98034-3027	Orthopedic Surgery, Orthopedic Hand Surgery	
Proliance Hand, Wrist and Elbow Physicians	1810 116th Ave NE, Suite D-4	Bellevue	WA	98004-3058	Orthopedic Surgery, Orthopedic Hand Surgery	
Proliance Hand, Wrist and Elbow Physicians	18100 NE Union Hill Road, Suite 330	Redmond	WA	98052-3330	Orthopedic Surgery, Orthopedic Hand Surgery	
Proliance Hand, Wrist and Elbow Physicians	751 NE Blakely Drive, 3rd Floor	Issaquah	WA	98029-6201	Orthopedic Surgery, Orthopedic Hand Surgery	
Proliance Highlands MRI	510 8th Avenue NE, Suite 110	Issaquah	WA	98029-5436	Diagnositic Imaging/MRI	
Proliance Highlands Surgery Center	510 8th Avenue NE , Suite 100	Issaquah	WA	98029-5436	Outpatient Surgery	**ASF/ASC**
Proliance Orthopaedic and Sports Medicine	1231 116th Avenue NE , Suite 750	Bellevue	WA	98004-3804	Orthopedic Surgery, Sports Medicine	
Proliance Orthopaedic and Sports Medicine	510 8th Avenue NE, Suite 200	Issaquah	WA	98029-5436	Orthopedic Surgery, Sports Medicine	
Proliance Orthopaedic and Sports Medicine	18100 NE Union Hill Road , Suite 330	Redmond	WA	98052-3330	Orthopedic Surgery, Sports Medicine	
Proliance Orthopedic Associates	24060 SE Kent Kangley Road, Suite D-100	Maple Valley	WA	98038-6801	Orthopedic Surgery, Sports Medicine	
Proliance Orthopedic Associates	27005 168th Place SE , Suite 201	Covington	WA	98042-4902	Orthopedic Surgery, Sports Medicine	
Proliance Orthopedic Associates	4011 Talbot Road S, Suite 300	Renton	WA	98055-5773	Orthopedic Surgery, Sports Medicine	
Proliance Orthopedic Associates ASC	4033 Talbot Road S., Suite 270	Renton	WA	98055-5772	Outpatient Surgery	**ASF/ASC**
Proliance Orthpedic Associates MRI	27005 168th Place SE, Suite 201	Covington	WA	98042-4902	Diagnositic Imaging/MRI	
Proliance Othropedic Associates MRI	8009 S. 180th Street, Suite 105	Kent	WA	98032-1042	Diagnositic Imaging/MRI	
Proliance Retina	109 NE Birch Street	Coupeville	WA	98239-3133	Ophthalmology	
Proliance Retina	1229 Madison Street, Suite 620	Seattle	WA	98104-3304	Ophthalmology	

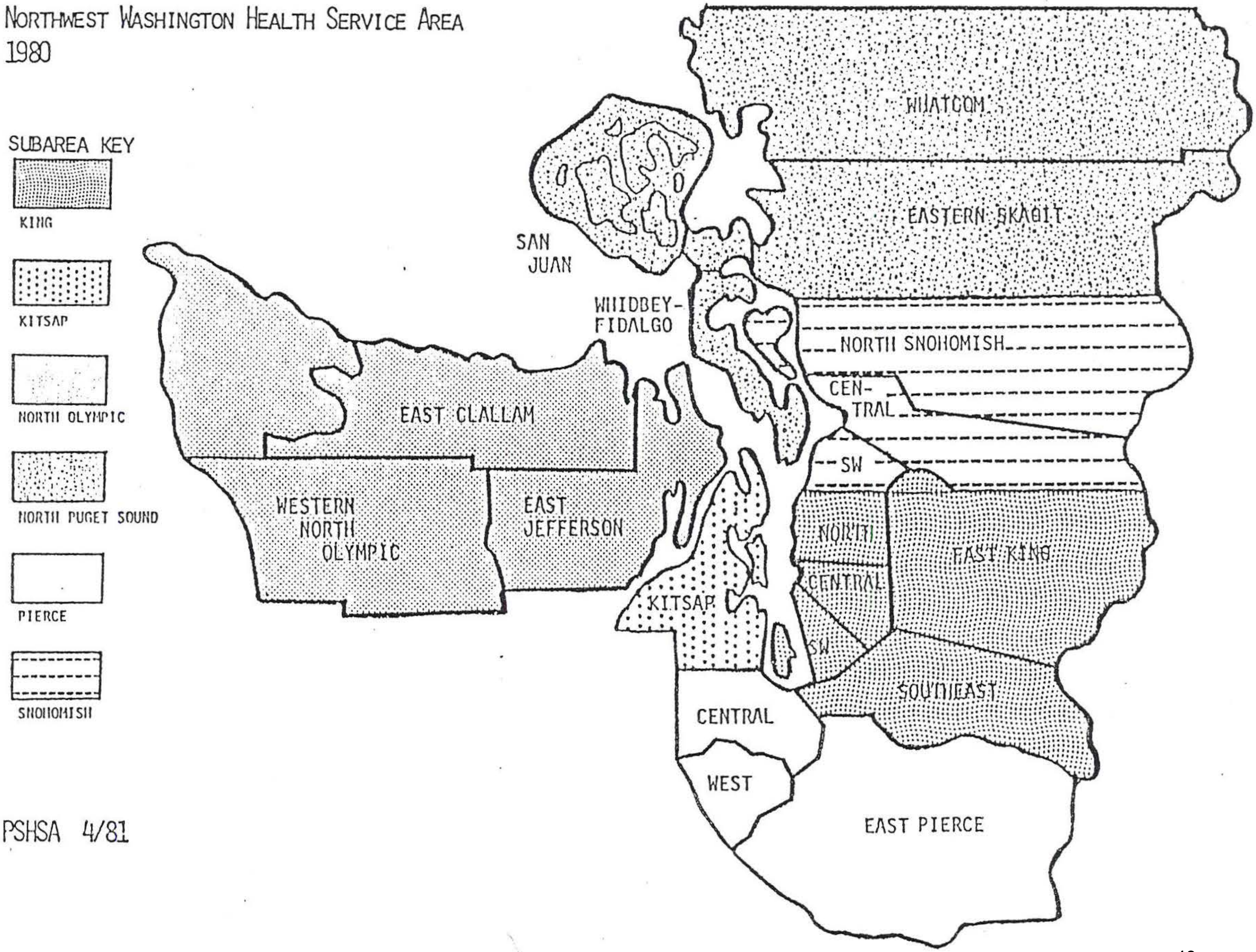
Proliance Retina	1229 Madison Street, Suite 680	Seattle	WA	98104-3541	Ophthalmology	
Proliance Retina	1750 112th Avenue NE, Suite D050	Bellevue	WA	98004-3752	Ophthalmology	
Proliance Retina	215 East George Hopper Road	Burlington	WA	98233-3105	Ophthalmology	
Proliance Retina	2205 W. Dolarway Road, Suite 2	Ellensburg	WA	98926-8228	Ophthalmology	
Proliance Retina	3105 Old Fairhaven Pkwy, Suite 103	Bellingham	WA	98225-8212	Ophthalmology	
Proliance Retina	321 Ramsay Way, Suite 107	Kent	WA	98032-4544	Ophthalmology	
Proliance Retina	6100 219th Street SW , Suite 280	Mountlake Terrace	WA	98043-2222	Ophthalmology	
Proliance Southwest Seattle Orthopedics	16259 Sylvester Road SW, Suite 501	Burien	WA	98166-3049	Orthopedic Surgery, Sports Medicine	
Proliance Spine Surgeons of Puget Sound	6808 220th Street SW, Suite 200	Mountlake Terrace	WA	98043-2187	Orthopedic Surgery-Spine, Physical Medicine & Rehabilitation	
Proliance Sports Therapy and Rehab of Bellevue	1200 112th Avenue NE, Suite C260	Bellevue	WA	98004-3732	Occupational & Hand Therapy, Physical Therapy	
Proliance Sports Therapy and Rehab of Issaquah	510 8th Avenue NE, Suite 340	Issaquah	WA	98029-5436	Occupational & Hand Therapy, Physical Therapy	
Proliance Surgical Specialists at Overlake	1231 116th Avenue NE, Suite 535	Bellevue	WA	98004-3804	General Surgery, Colorectal Surgery	
Proliance Surgical Specialists of Edmonds	13020 Meridian Avenue S.	Everett	WA	98208-6422	General Surgery, Throracic and Vascular Surgery	
Proliance Surgical Specialists of Edmonds	7315 212th Street SW, Suite 201	Edmonds	WA	98026-7610	General Surgery, Thoracic and Vascular Surgery	
ProOrtho	14841 179th Avenue SE, Suite 330	Monroe	WA	98272-1127	Orthopedic Surgery, Sports Medicine	
ProOrtho	18100 NE Union Hill Road , Suite 330	Redmond	WA	98052-3330	Orthopedic Surgery, Sports Medicine	
ProOrtho	901 Boren Avenue, Suite 900	Seattle	WA	98104-3596	Orthopedic Surgery, Sports Medicine	
ProOrtho	550 17th Avenue, Suite 500	Seattle	WA	98122-5789	Orthopedic Surgery-Spine	
ProOrtho	751 NE Blakely Drive, Suite 4020	Issaquah	WA	98029-6201	Orthopedic Surgery, Sports Medicine	
ProOrtho	12911 120th Avenue NE, Suite H-210	Kirkland	WA	98034-3027	Orthopedic Surgery, Sports Medicine	
ProSports Imaging NW MRI	3801 5th Street SE, Suite 120	Puyallup	WA	98374-2103	Diagnositic Imaging/MRI	
Puget Sound Ear Nose and Throat	13020 Meridian Avenue S, 2nd Floor	Everett	WA	98208-6422	Otolarynogology, Audiology	
Puget Sound Ear Nose and Throat	21911 76th Ave W, Suite 211	Edmonds	WA	98026-7918	Otolarynogology, Audiology	
Puget Sound Ear Nose and Throat	104 27th Avenue SE	Puyallup	WA	98374-1145	Otolarynogology, Neurotology/Otology	
Puget Sound Imaging MRI	1724 W. Union Avenue, Suite B-100	Tacoma	WA	98405-2099	Diagnositic Imaging/MRI	
Puget Sound Orthopaedics	2727 Hollycroft Street, Suite 410	Gig Harbor	WA	98335-1369	Orthopedic Surgery, Podiatric Surgery	
Puget Sound Orthopaedics	1724 W. Union Avenue, Suite 100	Tacoma	WA	98405-2099	Orthopedic Surgery, Podiatric Surgery	
Puget Sound Orthopaedics	7308 Bridgeport Way W, Suite 201	Lakewood	WA	98499-8000	Orthopedic Surgery, Podiatric Surgery	
Puyallup Ambulatory Surgery Center	1519 3rd Street SE, Suite 240	Puyallup	WA	98372-3724	Outpatient Surgery	**ASF/ASC**
Puyallup Surgical Consultants	1519 3rd Street SE, Suite 210	Puyallup	WA	98372-3724	Urology	
Puyallup Surgical Consultants	1519 3rd Street SE, Suite 230	Puyallup	WA	98372-3724	General Surgery, Surgical Oncology/Breast Surgery	
Rainier Orthopedic Institute	20920 State Route 410 E.	Bonney Lake	WA	98391-6302	Orthopedic Surgery, Sports Medicine	
Rainier Orthopedic Institute	3801 5th Street SE, Suite 110	Puyallup	WA	98374-2106	Orthopedic Surgery, Sports Medicine	
Redmond Ambulatory Surgery Center	18100 NE Union Hill Road, Suite 340	Redmond	WA	98052-3330	Outpatient Surgery	**ASF/ASC**
Rehabilitation Sports & Spine Center	15808 Mill Creek Blvd., Suite 120	Mill Creek	WA	98012-1500	Physical Medicine & Rehabilitation	
Rehabilitation Sports & Spine Center	190 West Dayton Street, Suite 202	Edmonds	WA	98020-7221	Physical Medicine & Rehabilitation	
Rehabilitation Sports & Spine Center	3216 Norton Avenue, Suite 101	Everett	WA	98201-4290	Physical Medicine & Rehabilitation	
Seattle Neurosurgery	10024 SE 240th Street, Suite 201	Kent	WA	98031-5124	Neurosurgery	
Seattle Neurosurgery	1607 Cooper Point Road NW	Olympia	WA	98502-8325	Neurosurgery	
Seattle Neurosurgery	20700 Bond Road NE, Bldg B, Suite 105	Poulsbo	WA	98370-9099	Neurosurgery	
Seattle Neurosurgery	37624 SE Fury Street	Snoqualmie	WA	98065-9680	Neurosurgery	

Seattle Neurosurgery	4361 Talbot Road S , Suite 102	Renton	WA	98055-6226	Neurosurgery	
Seattle Neurosurgery	751 NE Blakely Drive, Suite 4020	Issaquah	WA	98029-6201	Neurosurgery	
Seattle Neurosurgery	801 Broadway, Suite 617	Seattle	WA	98122-4396	Neurosurgery	
Seattle Neurosurgery	9226 Bayshore Drive NW, Suite 230	Silverdale	WA	98383-9196	Neurosurgery	
Seattle Obstetrics & Gynecology Group	1101 Madison Street, Suite 950	Seattle	WA	98104-3592	Obstetrics & Gynecology	
Seattle Obstetrics & Gynecology Group	801 Broadway, Suite 623	Seattle	WA	98122-4316	Gynecology	
Seattle Orthopedic Center - Surgery	2409 N 45th Street	Seattle	WA	98103-6907	Outpatient Surgery	**ASF/ASC**
Seattle Orthopedic Center MRI	2409 N. 45th Street	Seattle	WA	98103-6907	Diagnositic Imaging/MRI	
Seattle Orthopedic Center PT	2409 N 45th Street	Seattle	WA	98103-6907	Occupational & Hand Therapy, Physical Therapy	
Seattle Orthopedic Center PT	5350 Tallman Avenue NW, Suite 500	Seattle	WA	98107-3932	Occupational & Hand Therapy, Physical Therapy	
Seattle Surgery Center	900 Terry Avenue, 3rd Floor	Seattle	WA	98104-4230	Outpatient Surgery	**ASF/ASC**
Skagit Northwest Orthopedic ASC at Continental	1500 Continental Place	Mount Vernon	WA	98273-4105	Outpatient Surgery	**ASF/ASC**
Skagit Northwest Orthopedic ASC at LaVenture	1401 So. LaVenture Road	Mount Vernon	WA	98274-6033	Outpatient Surgery	**ASF/ASC**
Skagit Northwest Orthopedics	1017 20th Street	Anacortes	WA	98221-2505	Orthopedic Surgery, Rehabilitation Medicine	
Skagit Northwest Orthopedics	1401 So. LaVenture Road	Mount Vernon	WA	98274-6033	Orthopedic Surgery, Rehabilitation Medicine	
Skagit Northwest Orthopedics	1500 Continental Place	Mount Vernon	WA	98273-4105	Orthopedic Surgery, Rehabilitation Medicine	
Skagit Northwest Orthopedics	2720 Commercial Avenue	Anacortes	WA	98221-2750	Orthopedic Surgery, Rehabilitation Medicine	
Skagit Northwest Orthopedics MRI	1401 So. LaVenture Road	Mount Vernon	WA	98274-6033	Diagnositic Imaging/MRI	
Skagit Northwest Physical & Occupational Therapy	1017 20th Street	Anacortes	WA	98221-2505	Physical Therapy	
Skagit Northwest Physical & Occupational Therapy	1401 So. LaVenture Road	Mount Vernon	WA	98274-6033	Physical Therapy	
South Seattle Otolaryngology	16259 Sylvester Road SW, Suite 505	Burien	WA	98166-3049	Otolaryngology, Audiology, Hearing Aid Fitter/Dealer	
South Seattle Otolaryngology	4033 Talbot Road South, Suite 230	Renton	WA	98055-5700	Otolaryngology, Audiology, Hearing Aid Fitter/Dealer	
Southwest Seattle Ambulatory Surgery Center	275 SW 160th Street, Suite 200	Burien	WA	98166-3003	Outpatient Surgery	**ASF/ASC**
The Children and Family Eye Doctors	303 S. 72nd Avenue	Yakima	WA	98908-1661	Ophthalmology	
The Children and Family Eye Doctors	1321 Aaron Drive	Richland	WA	99352-4678	Ophthalmology,	
The Children and Family Eye Doctors	17130 Avondale Way NE, Suite 111	Redmond	WA	98052-4455	Ophthalmology, Optometry	
The Eye Surgeons Group	1221 Madison Street, Suite 1420	Seattle	WA	98104-1367	Ophthalmology	
The Eye Surgeons Group	502 South M Street	Tacoma	WA	98405-3728	Ophthalmology	
The Retina Surgery Center	1750 112th Avenue NE, Suite D050	Bellevue	WA	98004-3752	Outpatient Surgery	**ASF/ASC**
The Surgery Center at Rainier	3801 5th Street SE, Suite 210	Puyallup	WA	98374-2106	Outpatient Surgery	**ASF/ASC**
Three Rivers ENT	7105 W. Hood Place, Suite A-103	Kennewick	WA	99336-6714	Otolaryngology, Audiology, Hearing Aid Fitter/Dealer	

EXHIBIT 4

SOUTHWEST SNOHOMISH COUNTY SECONDARY HEALTH SERVICES PLANNING AREA MAP AND ZIP CODE DEFINITION

BASIC HOSPITAL PLANNING AREAS
NORTHWEST WASHINGTON HEALTH SERVICE AREA
1980



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ZIPCODES BY PLANNING AREAS
Northwest Washington Health Service Area
June, 1980

ASCs

Pierce Central	Pierce East	Pierce West
98303	98301	98327
98333	98304	98387
98335	98321	98388
98349	98323	98412
98351	98328	98430
98394	98330	98431
98395	98338	98433
98401	98344	98438
98402	98348	98439
98403	98352	98444
98404	98354	98445
98405	98360	98468
98406	98371	98491
98407	98385	98492
98408	98390	98493
98409	98396	98494
98411	98397	98498
98416	98398	98499
98421	98423	
98422	98446	
98424	98447	
98443	98558	
98465	98580	
98466		
98467		

Snohomish Central	Snohomish East	Snohomish North	Snohomish Southwest
98201	98224	98223	98020
98202	98251	98241	98036
98203	98254	98252	98043
98204	98256	98259	98063
98205	98272	98287	
98206	98288	98292	
98258	98290		
98270	98293		
98275	98294		

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EXHIBIT 5

LIST OF PHYSICIAN SPECIALTIES REPRESENTED ON ACTIVE MEDICAL STAFF AND NUMBER OF ACTIVE STAFF PER SPECIALTY

Proliance Surgeons, Inc., P.S. Physician Employees and Associate/Shareholder Status

NOTE: All Physicians, including Shareholder Physicians and Associate Physicians are Full-Time Employees of Proliance Surgeons, Inc., P.S.

Last Name	First Name	M.I./Name	Title	Affiliation Status	MD License Number
Adams	Wendall	W	MD	Shareholder	MD00028543
Alberton	Allison	R	MD	Associate	MD60568384
Alberts	James	R	MD	Shareholder	MD00042557
Alton	Timothy	E	MD	Associate	MD60476247
Amann	Sean	M	MD	Shareholder	MD60178231
Anderson	Kurt	A	MD	Shareholder	MD00047451
Anderson	Steven	J	MD	Associate	MD00021245
Angelo	Richard	L	MD	Shareholder	MD00024301
Antoine	Jamie	R	MD	Associate	MD60007110
Arntz	Craig	T	MD	Shareholder	MD00021237
Arroyo	Julian	S	MD	Shareholder	MD00034871
Auld	Merritt	Kevin	MD	Shareholder	MD00023514
Backous	Douglas	D	MD	Associate	MD00034718
Bargren	John	H	MD	Associate	MD00010947
Barker	Howard	B	MD	Shareholder	MD00039924
Barloon	Andrew	Samuel	MD	Shareholder	MD00030214
Barrett	William	P	MD	Shareholder	MD00019510
Barronian	Alan	D	MD	Shareholder	MD00027983
Barthel	Traci	G	MD	Shareholder	MD00039700
Basamania	Carl	J	MD	Shareholder	MD00023310
Beck	John	David	MD	Shareholder	MD60333186
Bede	William	Brandt	MD	Associate	MD00012593
Bhola	Siddharth	K	MD	Associate	MD60753244
Biggers	Oliver	R	MD	Associate	MD00015395

Birnbach	Charles	D	MD	Shareholder	MD00033777
Blair	John	M	MD	Shareholder	MD00034543
Bohmke	Karen	L	MD	Shareholder	MD00019596
Brandes	Clayton	B	MD	Shareholder	MD00035290
Briscoe	Patricia	A	MD	Shareholder	MD00031121
Brown	Gary	L	MD	Shareholder	MD00013171
Bruckner	James	D	MD	Shareholder	MD00027573
Bullock	Cindy	E	DPM	Associate	PO60058024
Burgoyne	John	D	MD	Shareholder	MD00034623
Cameron	Brian	D	MD	Shareholder	MD00037844
Cameron	Tracy	L	MD	Associate	MD00037648
Castle	Thomas	H	MD	Shareholder	MD00025341
Cero	Susan	R	MD	Shareholder	MD00030770
Charboneau	Megan	L	MD	Associate	MD60563150
Chen	Tiffany	A	MD	Associate	MD60777425
Chen	Yicheng		MD	Associate	MD60739596
Chi	Thomas	D	MD	Shareholder	MD00038904
Chilczuk	Benjamin	Daniel	MD	Associate	MD00021945
Cho	Sung	W	MD	Associate	MD60621759
Christal	Aric	A	MD	Shareholder	MD60217236
Clark	Herbert	R	MD	Shareholder	MD00020828
Clark	William	L	MD	Shareholder	MD00033039
Clinton	Camille	M	MD	Shareholder	MD60010627
Connelly	Camille	L	MD	Associate	MD60724676
Coray	Spencer	A	MD	Shareholder	MD00043805
Cornejo	Carol	J	MD	Shareholder	MD00031941
Crutcher	James	P	MD	Shareholder	MD00024359
Cui	Jimmy	Y	MD, PhD	Associate	MD00039814
Daniel	Anna	G	MD	Associate	MD00020114
Dawson	Steven	M	MD	Shareholder	MD00028547

Downer	Philip	R	MD	Shareholder	MD00041479
Droz	Jennifer	LB	MD	Shareholder	MD60145373
Dukes	Chase	A	MD	Associate	MD60913021
Duong	Trac	M	MD	Shareholder	MD60340252
Edmond	Charles	V	MD, FACS	Shareholder	MD00030364
El-Ghazzawy	Adel	G	MD	Shareholder	MD00039270
England	Christopher	R	MD	Associate	MD60719422
Esterberg	Justin	L	MD	Shareholder	MD60011672
Falicov	Alexis		MD, Ph.D.	Shareholder	MD00044866
Foltz	Luba	M	MD	Shareholder	MD00043428
Fong	Randall	S	MD	Shareholder	MD00032458
Foral	Darcy	Silver	MD	Shareholder	MD00046110
Fowler	Lawrence	Joseph	MD	Associate	MD00043158
Francis	Robert	R	MD	Shareholder	MD00023403
Franklin	Jonathan	L	MD	Shareholder	MD00021811
Fuchs	Robin	R	MD	Shareholder	MD00040985
Fujisaki	Charles	Keith	MD	Shareholder	MD60174702
Garcia	Grant	H	MD	Associate	MD60876079
Garr	Jeffrey	L	MD	Shareholder	MD00038207
Garr	Kathryn	Elizabeth	MD	Associate	MD00034218
Ghidella	Sean	D	MD	Shareholder	MD00040711
Gormley	Joanne	M	DPM	Associate	PO00000433
Gray	Richard	E	MD	Shareholder	MD00027404
Green	David	C	MD	Shareholder	MD00027977
Gregush	Ronald	V	MD	Shareholder	MD00048012
Grigalunas	Alexander	L	MD	Associate	MD60690632
Gross	James	R	MD	Shareholder	MD00019697
Gumprecht	Thomas	F	MD	Shareholder	MD00015217
Guyette	Todd	M	MD	Shareholder	MD00042525
Hall	Jonathan	S	MD	Shareholder	MD60462965

Haller	Ralph	T	MD	Shareholder	MD00023815
Haloman	Sean	P	MD	Associate	MD60574019
Han	Steven	K	MD	Shareholder	MD00043687
Hanesworth	Daniel	M	MD	Shareholder	MD00037368
Hannon	Elena	M	MD	Associate	MD00037276
Harmon	Kurt	E	MD	Shareholder	MD00036345
Harris	Kevin	C	MD	Shareholder	MD00042133
Harsha	Wayne	J	MD	Associate	MD60116004
Harvey	Susan	M	MD	Shareholder	MD00026860
Hassan	Douglas	M	MD	Shareholder	MD00034814
Havener	Todd	W	MD	Shareholder	MD00043648
Heusch	Wendy	L	DO	Shareholder	OP00002091
Heydt	Jennifer	L	MD	Shareholder	MD00042735
Hintz	Christine	M	OD	Associate	OD00003704
Holland	Lawrence	E	MD	Shareholder	MD00020205
Hormel	Scott	E	MD	Shareholder	MD00031699
Howe	Christopher	R	MD	Shareholder	MD60001006
Howlett	John	P	MD	Shareholder	MD60105354
Huang	Bill	K	MD	Shareholder	MD00047621
Huang	Fredrick	S	MD	Shareholder	MD00040082
Hulst	Jonah	B	MD	Shareholder	MD60290797
Hutchison	Margaret	L	MD	Shareholder	MD00071266
Hutter	Jonathan	J	MD	Shareholder	MD00041886
Jackman	Todd	E	MD	Shareholder	MD00049377
Jamil	Annisa	L	MD	Associate	MD00044821
Jenkins	Matthew	V	MD	Shareholder	MD60230908
Johannsen	Tracy	A	MD	Shareholder	MD00021154
Johnson	Gary	K	MD	Shareholder	MD00011699
Johnstone	Frederic	L	MD	Shareholder	MD00023580
Jones	Brian	D	DO	Shareholder	OP60222153

Jurek	Sara	K	MD	Shareholder	MD60349493
Kapnadak	Sondra	E	MD	Shareholder	MD60463903
Khalfayan	Elias	E	MD	Shareholder	MD00032857
Kim	Cholwoo	Anthony	MD	Shareholder	MD00037136
Kim	D	Kyle	MD	Shareholder	MD00029378
Kim	Steve	H	MD	Shareholder	MD00042157
Kim	Helen	H	MD	Shareholder	MD00035175
Kimbrough	Tyler	G	MD	Shareholder	MD60067019
Kimelman	Judith	M	MD	Shareholder	ML20002952
Kinahan	Peter	J	MD	Shareholder	MD00039462
King	Douglas	R	MD	Shareholder	MD00023020
King	Jason	C	MD	Shareholder	MD60139203
Kirby	Richard	M	MD	Shareholder	MD00016685
Klesert	Todd	R	MD	Shareholder	MD60125691
Knapp	Calvin	H	MD	Shareholder	MD00027495
Knipe	Thomas	A	MD	Shareholder	MD00046371
Ko	Jia-Wei	"Kevin"	MD	Shareholder	MD60549136
Koala	Diana	K	MD	Shareholder	MD00037938
Komenda	Gregory	A	MD	Shareholder	MD00035536
Koo	Samuel	S	MD, MPH	Shareholder	MD60072440
Kopelovich	Jonathan	C	MD	Shareholder	MD60564654
Kopstein	Andrew	B	MD	Shareholder	MD00037629
Krumins	Peter	E	MD	Associate	MD00031974
Kuechle	David	K	MD	Associate	MD00032709
Lamberton	Gregory	R	MD	Shareholder	MD60101321
Laury	Adrienne	M	MD	Associate	MD60820938
Lee	Frederick	B	MD	Shareholder	MD60134839
Lee	Michael	Bor-Hwa	MD	Shareholder	MD60085559
Lee	Robin	Y	MD	Shareholder	MD60138629
Lee	Samson	J	MD	Shareholder	MD00045831

Lenart	Thomas	D	MD, Ph.D.	Shareholder	MD00037554
Lilly	Joel	D	MD	Shareholder	MD00027366
Lin	Kenneth	C	MD	Shareholder	MD00047536
Lo	Anthony		DPM	Associate	PO00000325
Locknane	Timothy	D	MD	Associate	MD00036179
Lohse	Grant	R	MD	Shareholder	MD60296681
Lorentz	Wendy	J	MD	Shareholder	MD60079014
Lu	Dawei		MD	Shareholder	MD60088076
MacFarlane	Steven	D	MD	Shareholder	MD00020254
Mandt	Peter	R	MD	Shareholder	MD00023819
Mankey	Martin	G	MD	Shareholder	MD00025092
Mantel	Autumn	M	OD	Associate	OD00003988
Marsh	Robert	E	MD	Shareholder	MD00039426
Marshall	Silas	T	MD	Shareholder	MD60386052
Martin	Carolyn		MD	Shareholder	MD00035088
Martin	Michael	J	MD	Associate	MD00031212
Mason	Jeff	R	MD	Shareholder	MD00030797
Matsen Ko	Laura	J	MD	Shareholder	MD60548267
Maurice	Peter	F	MD	Shareholder	MD00043215
McAdam	Michael	K	MD	Shareholder	MD00045053
McAllister	Craig	M	MD	Shareholder	MD00028073
McCallister	Wren	V	MD	Shareholder	MD00046171
McConnell	Yarrow	J	MD	Shareholder	MD60624254
McKeever	Meghan	M	MD	Shareholder	MD00049399
Melville	Jennifer	L	MD	Shareholder	MD00035251
Merritt	Andrew	L	MD	Shareholder	MD60315456
Messmer	Timothy	E	DPM	Associate	PO00000477
Mi	Cindy	W	MD	Associate	MD60718159
Mickelson	Dayne	T	MD	Associate	MD60476167
Min	Catherina		OD	Associate	OD60376275

Mourning	David	M	MD	Shareholder	MD00043382
Mullen	John	S	MD	Shareholder	MD00038847
Nash	Robert	W	MD	Shareholder	MD00033892
Nathe	Tyler	J	MD	Shareholder	MD60291180
Nelson	Daniel	E	MD	Associate	MD00026916
Nilson	Rex	Z	DPM	Associate	PO00000340
Norling	Gregory	J	MD	Associate	MD00017881
Novak	Erik	J	MD, Ph.D.	Shareholder	MD60001018
Nowak	Douglas	D	MD	Shareholder	MD60191176
Oates	Kenneth	M	MD	Shareholder	MD00036995
Olsen	Justin	P	MD	Shareholder	MD60627845
O'Rourke	Erin	M	DPM	Associate	PO00000496
Parker	John	T	MD	Shareholder	MD00027986
Patel	Ashit	C	MD	Shareholder	MD00042020
Payne	William	Barrett	MD	Shareholder	MD60457002
Peterson	Charles	A	MD	Shareholder	MD00033841
Petty	Christopher	N	MD	Shareholder	MD00044181
Powell	Eric	G	DPM	Associate	PO60394257
Pray	Lauren	E	MD	Shareholder	MD00047896
Price	John	Scott	MD	Shareholder	MD00043700
Pritchett	James	W	MD	Shareholder	MD00019112
Pryor	John	D	MD	Shareholder	MD60170138
Puttler	Eric	G	MD	Shareholder	MD00046498
Ratcliffe	Steven	S	MD	Shareholder	MD00016613
Reed	Mark	A	MD	Shareholder	MD00038340
Riddell	Duncan	A	MD	Shareholder	MD00029782
Roberts	Neil	E	MD	Shareholder	MD00031898
Robon	Matthew	J	MD	Shareholder	MD00047476
Rodin	Curtis	W	MD	Shareholder	MD00027583
Rogers	Shawn	E	MD	Shareholder	MD00038124

Ruffin	Chad	V	MD	Associate	MD60907862
Ruhlman	Scott	D	MD	Shareholder	MD60144741
Sailer	Michael	J	MD	Shareholder	MD00027596
Santoro	Michael	A	MD	Associate	MD00019114
Santos	David	Q	MD	Shareholder	MD00030977
Saperstein	David	A	MD	Shareholder	MD00038220
Scott	Trevor	P	MD	Associate	MD60764332
Seib	Thomas	P	MD	Associate	MD00035183
Seibert	Nicholas	R	MD	Shareholder	MD60147145
Seidner	Todd	J	MD	Shareholder	MD00035622
Shafer	Jonathan	B	MD	Shareholder	MD00047627
Shapiro	Joel	A	MD	Shareholder	MD00039921
Shonnard	Neal	H	MD	Shareholder	MD00027457
Shrivastava	Niket		MD	Shareholder	MD60024708
Sinnett	Michelle	J	MD	Shareholder	MD00032770
Smith	Gavin	H	DPM	Associate	PO00000791
Smith	Stacia	A	MD	Shareholder	MD00029938
Snitily	Brian	K	MD	Associate	MD60488992
Souders	Jennifer	E	MD	Associate	MD00029678
Srinivasan	Jayashree		MD	Shareholder	MD00030207
Steedman	John	T	MD	Shareholder	MD00035192
Stickney	Jeffrey	L	MD	Shareholder	MD00027879
Stone	Addison	T	MD	Shareholder	MD60137857
Street	Ryan	J	MD	Associate	MD60644430
Summerfield	Steven	L	MD	Associate	MD00038398
Sun	Steven	D	MD	Shareholder	MD00035818
Taylor	Steven	K	MD	Associate	ML20003187
Thomas	Alan	B	MD	Shareholder	MD00038506
Thomas	Joelle	E	MD	Associate	MD60777402
Thompson	Jason	H	MD	Shareholder	MD00043489

Toomey	Eugene	P	MD	Associate	MD00027284
Toomey	Sean	D	MD	Shareholder	MD00038455
Torvie	Ana	J	MD	Shareholder	MD60575475
Truong	Anh	Q	MD	Shareholder	MD60452289
Tullus	Martin	S	MD	Shareholder	MD00015980
Tyson	Geoffrey	L	MD	Associate	MD00021183
Van Bergeyk	Anthony	B	MD	Shareholder	MD00044729
Vaughan	Patrick	J	MD	Shareholder	MD00044237
Veith	Robert	G	MD	Shareholder	MD00015985
Wahl	Christopher	J	MD	Shareholder	MD00043836
Wardle	Darren	L	DPM	Associate	PO00000411
Weil	Wayne	M	MD	Associate	MD00043327
Wen	Marco	N	MD	Associate	MD00031147
Wilcox	Carrie Lynn	K	MD	Associate	MD60764338
Wilcox	Jason	J	MD	Shareholder	MD60183072
Williams	Paul	F	MD	Associate	MD00024422
Wilson	William	J	MD	Shareholder	MD00021234
Yearian	Philip	R	DPM	Associate	PO00000535
Yen	Rodney	G	DPM	Associate	PO00000460
Young	Eva		MD	Associate	MD00046677
Young	William	Gregory	MD	Shareholder	MD60454300
Yu	Vivian	M	MD	Associate	MD60257147
Yung	Herbie		MD	Associate	MD60739934
Zundel	Roger	S	MD	Shareholder	MD00033644

EXHIBIT 6

LETTER OF INTENT

PROLIANCE SURGEONS®

RECEIVED

FEB 06 2019

CERTIFICATE OF NEED PROGRAM
DEPARTMENT OF HEALTH

January 22, 2019

Janis Sigman, Manager
Certificate of Need Program
Department of Health
111 Israel Road S.E.
Tumwater, WA 98501

Re: Letter of Intent
Proliance Surgeons, Inc., P.S. d/b/a Proliance Center for Outpatient Spine and Joint Replacement Surgery of Puget Sound

In accordance with WAC 246-310-080, Proliance Surgeons, Inc., P.S. ("Proliance Surgeons") hereby submits this Letter of Intent proposing to operate Proliance Center for Outpatient Spine and Joint Replacement Surgery of Puget Sound as a certificate of need approved ambulatory surgery center ("ASC") in the Southwest Snohomish secondary health services planning area. Proliance Center for Outpatient Spine and Joint Replacement Surgery of Puget Sound has historically operated as a certificate of need exempt ASC.

Pursuant to WAC 246-310-080, Proliance Surgeons submits the following information:

1. Description of proposed services: Proliance Surgeons proposes to operate Proliance Center for Outpatient Spine and Joint Replacement Surgery of Puget Sound as a four-operating room ASC.

2. Estimated cost of proposed project: There is no capital expenditure associated with this project. These operating rooms are fully built-out and operational.

3. Identification of service area: The service area is the Southwest Snohomish secondary health services planning area.

Thank you for your assistance in this matter. If you have any questions, please contact our attorney, Emily R. Studebaker, at estudebaker@studebakernault.com or (425) 279-9929.

Sincerely,

Charles Peterson II, M.D.
Interim CEO, & President

805 Madison Street
Suite 901
Seattle, WA 98104
206.264.8100
www.proliancesurgeons.com

EXHIBIT 7

SINGLE LINE DRAWINGS OF PROPOSED PROJECT

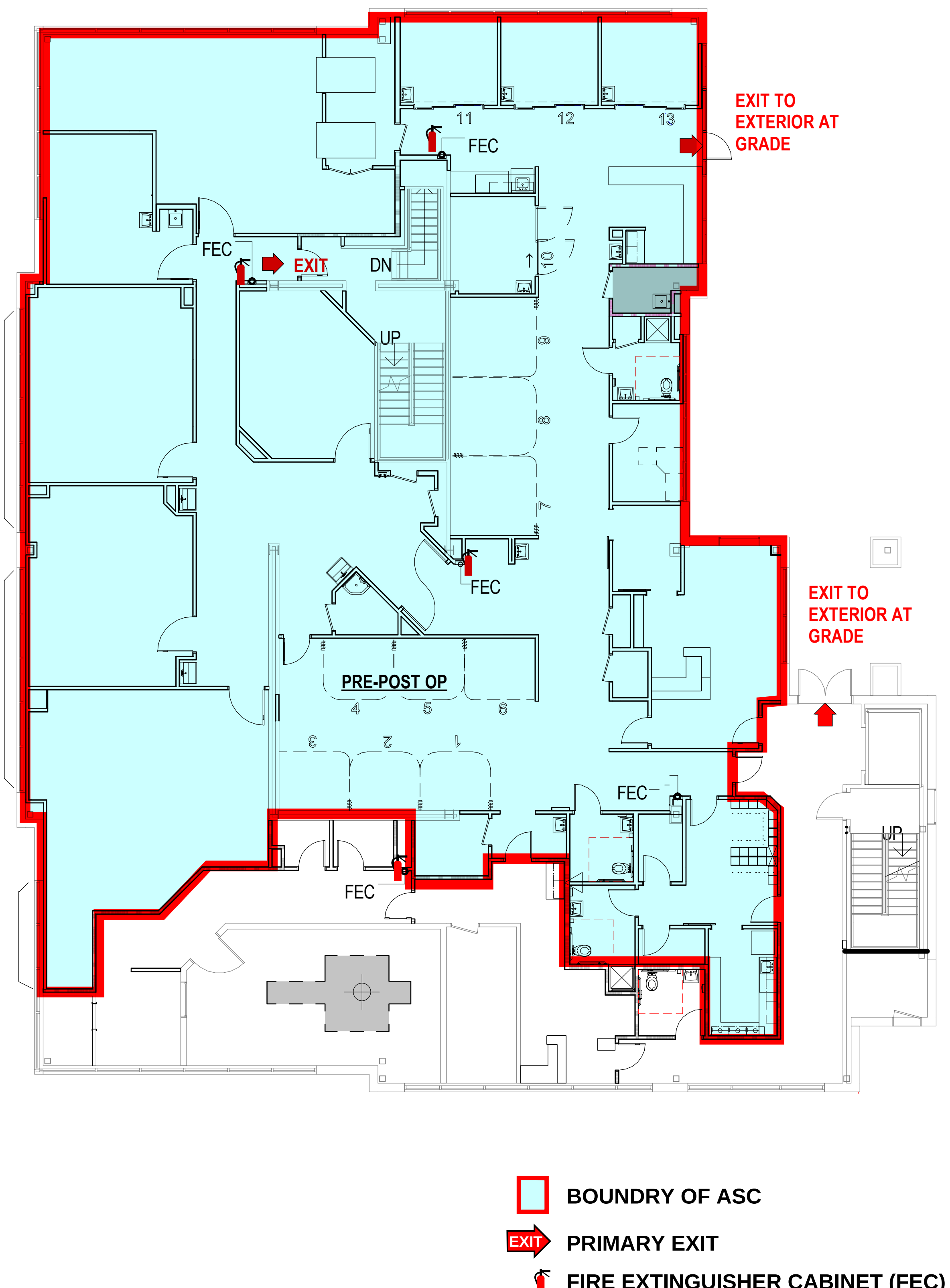
EXIT TO EXTERIOR AT GRADE
FEC
11
12
13
FEC
EXIT
DN
10
UP
9
8
7
FEC
EXIT TO EXTERIOR AT GRADE
PRE-POST OP
4
5
6
3
2
1
FEC
UP
FEC
BOUNDRY OF ASC
EXIT
PRIMARY EXIT
FIRE EXTINGUISHER CABINET (FEC)

EXHIBIT 8

LEASE BETWEEN PROLIANCE SURGEONS, INC., P.S. AND 220th STREET OFFICE BUILDING, L.L.C. DATED AUGUST 30, 2016

PROLIANCE
LEASE AGREEMENT

(For Multi-Tenant Medical Office Building)

August 30 , 2016

{13720/105.011/01172224-17}

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Exhibit A	**Rules and Regulations**
Exhibit B	**Memorandum of Lease**
Exhibit C	**Commencement Date Agreement**

PROLIANCE LEASE AGREEMENT

(For Multi-Tenant Medical Office Building)

1. Specific Information:

1.1. The "Landlord" is **220th Street Office Building L.L.C.**, a Washington limited liability company.

1.2. The "Tenant" is **Proliance Surgeons, Inc., P.S.**, a Washington professional service corporation, dba Edmonds Orthopedic Center and dba Northwest Pain Management.

1.3. The "Building" is located on the real property legally described on **Schedule 1.3** ("Property"), and commonly known as North Star Place, 6808 220th Street SW, Mountlake Terrace, Washington; the Rentable Area of the Building is 29,491 rentable square feet and there is no other Rentable Area on the Property.

1.4. The "Premises" is the leased premises consisting of that interior portion of the Building depicted on **Schedule 1.4** and referred to as Suites 100, 150, 201, 202, 204 and 205; the total Rentable Area of the Premises is 17,561 square feet allocated as follows:

1.4.1. Suites 100 and 150 – 9,728 square feet;

1.4.2. Suite 201 – 3,468 square feet; and

1.4.3. Suites 202, 204 and 205 – 4,365 square feet.

1.5. Lease Duration:

1.5.1. The "Commencement Date" of this Lease is:

1.5.1.1. The date of full execution of this Lease with respect to Suite 201 ("First Commencement Date");

1.5.1.2. The date the improvements to all of Suites 202, 204 and 205 ("Clinic/Office TI's"), as well as the installation of Tenant's fixtures, furnishings and equipment, are substantially completed with respect to Suites 202, 204 and 205, and a certificate of occupancy is issued by the applicable governmental agency, but in no event later than March 1, 2017, collectively ("Second Commencement Date"); and

1.5.1.3. The date the improvements to all of Suites 100 and 150 ("ASC TI's"), as well as the installation of Tenant's fixtures, furnishings and equipment, are substantially completed with respect to Suites 100 and 150, and a certificate of occupancy is issued by the applicable governmental agency, but in no event later than July 1, 2017 ("Third Commencement Date").

1.5.2. The "Termination Date" of this Lease is the last day of the month in which occurs the tenth (10th) anniversary of the Third Commencement Date.

1.5.3. The Termination Date may be extended two (2) times, each time for a period of five (5) years (each an "Extended Term"), as provided in **Article 3**.

1.5.4. The first "Lease Year" with respect to Suite 201 shall commence on the First Commencement Date, with respect to Suites 100 and 150 on the Third Commencement Date, and, with respect to Suites 202, 204 and 205, on the Second Commencement Date. The last day of the first Lease Year with respect to all of the Premises shall be the last day of the month in which occurs the first (1st) anniversary of the Third Commencement Date. The second and all subsequent Lease Years shall be the twelve (12) calendar months immediately following the preceding Lease Year.

1.6. The "Basic Monthly Rent" is one-twelfth of the product of the Rentable Area of the Premises multiplied by $25.00 per square foot, which shall be adjusted periodically in accordance with **Schedule 1.6**. The initial total Basic Monthly Rent for the Premises (on and after the Third Commencement Date) is $36,585.42 allocated as follows:

1.6.1. Suites 100 and 150 – $20,266.67;

1.6.2. Suite 201 – $7,225.00; and

1.6.3. Suites 202, 204 and 205 – $9,093.75.

Notwithstanding the foregoing, (i) the Basic Monthly Rent for Suite 201 for the three first full calendar months after the First Commencement Date shall be zero, (ii) the Basic Monthly Rent for Suites 202, 204 and 205 for the three first full calendar months after the Second Commencement Date shall be zero, (iii) the Basic Monthly Rent for Suite 150 for the three first full calendar months after the Third Commencement Date shall be zero and (iv) the Basic Monthly Rent for Suite 100 for the following three full calendar months after the Third Commencement Date shall be zero. The Basic Monthly Rent for all of the Premises shall be zero for three full calendar months of the second Lease Year; provided, however, that the rent abatement shall be carried out over up to 18 consecutive months by staggering each Suite's abatement as follows: Suite 201 (first three full calendar months of the second Lease Year) followed by Suites 202, 204 and 205 (second three full calendar months) followed by Suite 150 (third three full calendar months) and followed by Suite 100 (fourth three full calendar months) shall be zero..

1.7. The "Permitted Use" of the Premises is (i) medical or related health care practices and the provision of services that are generally ancillary, related to, or associated with Tenant's medical or related health care practices, including pain management, the use of any imaging modalities, surgery center, orthopedic services, physical therapy, the provision of laboratory services or pharmacy services and the operation of a primary/urgent care clinic and specialty medical services clinics; (ii) administrative office activities in support of Tenant's medical or related health care practices; and (iii) ingress, egress, and the parking of motor vehicles in the parking area by Tenant's health care providers, employees, patients, visitors, invitees and delivery vehicles. No use restrictions will apply to any uses Tenant will have in the Building.

1.8. Security Deposit: None.

1.9. Tenant's total "Pro Rata Share" for the Premises is 59.55% allocated as follows:

1.9.1. Suites 100 and 150 – 32.99%;

1.9.2. Suite 201 – 11.76%; and

1.9.3. Suites 202, 204 and 205 – 14.80%.

1.10. Guarantor(s): None

1.11. Notice Address of Tenant:

Proliance Surgeons, Inc., P.S.
805 Madison Street, Suite 901
Seattle, WA 98104
Attn: Chief Executive Officer
Fax No. (206) 264-8689

With a copy to:

Edmonds Orthopedic Center
7320 216th St. SW
Edmonds, WA 98026
Attn: Administrator

1.12. Notice Address of Landlord:

220th Street Office Building, LLC
6808 220th Street SW, Suite 300 Mountlake Terrace, WA 98043
Attention: Property Manager
Fax No. (425) 774-8499
Email anita.riksheim@destmark.com

1.13. Date. This Lease is dated, for reference purposes only, as of August 30, 2016.

2. Premises and Common Area. Landlord hereby leases to Tenant and Tenant leases from Landlord for the term, at the rental, and on all of the terms and conditions of this Lease, the Premises. Tenant and its agents, servants, employees and invitees shall have unobstructed access to the Premises (subject to reasonable security measures, emergencies, casualties and other provisions of this Lease) twenty-four (24) hours a day, 365 or 366 days a year. All portions of the Property that are for the non-exclusive use of tenants of the Building, including, without limitation, driveways, sidewalks, parking areas, landscaped areas, service corridors, stairways, elevators, public restrooms and public lobbies, are referred to in this Lease as "Common Area."

3. Term.

3.1. **Term.** The term of this Lease is from the Commencement Date (from the First Commencement Date with respect to Suite 201, the Second Commencement Date with respect to Suites 202, 204 and 205, and the Third Commencement Date with respect to Suites 100 and 150) (set forth in **Section 1.5.1**) until the Termination Date (set forth in **Section 1.5.2**), unless sooner terminated pursuant to any provision hereof. The period from the Commencement Date until the Termination Date is the "Initial Term." References to the term of this Lease include the Initial Term and all Extended Terms, if any.

3.2. **Intentionally Deleted..**

3.3. **Suites 100 and 150 Contingency and Termination of Alliance Lease.** The terms of this Lease with respect to Suites 100 and 150 ("First Floor Space") are contingent and conditioned upon the termination of Landlord's existing lease agreement with Alliance Healthcare Radiology ("Alliance Lease") under terms and conditions satisfactory to Landlord. Landlord shall diligently pursue termination of the Alliance Lease as soon as possible after execution of this Lease. If the Alliance Lease is not terminated and possession of the First Floor Space delivered to Tenant vacant and broom clean and otherwise in the condition required by this Lease on or before January 1, 2017, then the outside date of the Third Commencement Date (July 1, 2017) shall be postponed to August 1, 2017. If the Alliance Lease is not terminated and possession of the First Floor Space delivered to Tenant vacant and broom clean and otherwise in the condition required by this Lease on or before February 1, 2017, then: (a) Tenant may (in its sole discretion) grant the Landlord an additional period of time of Tenant's choosing by which to terminate the Alliance Lease and deliver possession of the First Floor Space to Tenant in which event the outside date of the Third Commencement Date shall be extended by a commensurate amount of time plus an additional thirty (30) days; or (b) the First Floor Space shall be excluded from the Premises. If the First Floor Space is excluded from the Premises under subsection (b), then Tenant may elect, on or before March 1, 2017, to terminate this Lease as to all or any other portion of the Premises; at which point (i) the terms of this Lease shall remain in full force and effect with respect to that portion of the Premises, if any, with respect to which Tenant elects to continue the Lease, and shall be void with respect to the First Floor Space and that portion of the Premises with respect to which Tenant elects to terminate the Lease, and (ii) the total Rentable Area of the Premises, the total Basic Monthly Rent for the Premises, and Tenant's total Pro Rata Share for the Premises shall all be reduced to reflect the exclusion of the First Floor Space and that portion of the Premises with respect to which Tenant elects to terminate the Lease, and (iii) Landlord shall reimburse Tenant upon demand for all costs and expenses incurred by Tenant relating to permitting, planning, design, and/or construction of the Original Tenant Improvements relating to the First Floor Space and that portion of the Premises with respect to which Tenant elects to terminate the Lease. For clarity, Tenant may elect to terminate the Lease with respect to all of the Premises in which event the Lease shall be terminated and Landlord shall reimburse Tenant for all of the costs and expenses incurred by Tenant relating to permitting, planning, design, and/or construction of all of the Original Tenant Improvements. If Tenant grants Landlord additional time to deliver possession of the First Floor Space per subsection (a) above, and Landlord fails to deliver the First Floor Space by such new deadline, then the terms of subsection (b) above shall then apply provided that Tenant shall have thirty (30) days after the new deadline to elect to terminate this Lease as to all or any other portion of the Premises.

3.4. **Possession**. Tenant shall obtain possession of Suite 201 directly from Northwest Pain Management, PLLC on or before the First Commencement Date and Landlord shall have no obligations with respect to the delivery of possession of Suite 201. Landlord shall deliver possession of Suites 202, 204 and 205 of the Premises to Tenant 30 days after this Lease has been fully executed for the purpose of carrying out the Clinic/Office TI's. Subject to Section 3.3 above, Landlord shall deliver possession of Suites 100 and 150 of the Premises to Tenant on or before January 1, 2017. While Tenant has possession of Suites 202, 204 and 205 before the Second Commencement Date and of Suites 100 and 150 before the Third Commencement Date, all of Tenant's Lease obligations (except for payment of Operating Expenses and Basic Monthly Rent) shall become effective immediately although such early possession shall not accelerate the Termination Date of this Lease. Notwithstanding the foregoing, if Landlord does not deliver possession of Suites 202, 204 and 205 on or before sixty (60) days from full execution of this Lease, Tenant may elect to terminate the Lease as to all or any portion of the Premises within ten (10) business days after said deadline, at which point (i) the terms of this Lease shall remain in full force and effect with respect to that portion of the Premises, if any, with respect to which Tenant elects to continue the Lease, and shall be void with respect to that portion of the Premises with respect to which Tenant elects to terminate the Lease, and (ii) the total Rentable Area of the Premises, the total Basic Monthly Rent for the Premises, and Tenant's total Pro Rata Share for the Premises shall all be reduced to reflect the exclusion of that portion of the Premises with respect to which Tenant elects to terminate the Lease. If Tenant waives timely delivery of possession of Suites 202, 204 or 205 of the Premises, then one (1) day of Basic Monthly Rent shall abate with respect to Suites 202, 204 and 205 of the Premises for each day after the date delivery of the applicable portion of the Premises is due until the date that possession of all of the Suites on the second floor of the Premises is delivered to Tenant. If Tenant waives timely delivery of possession of Suites 100 and 150 of the Premises, then one (1) day of Basic Monthly Rent shall abate with respect to Suites 100 and 150 of the Premises for each day after the date delivery of the applicable portion of the Premises is due until the date that possession of all of the Suites on the first floor of the Premises is delivered to Tenant. The Basic Monthly Rent abatement shall apply to the Basic Monthly Rent payments first due (after the period during which Basic Monthly Rent is zero).

3.5. **Extended Term.** On the conditions that Tenant is not in default under this Lease after notice and expiration of applicable grace periods and that Tenant has not received two (2) or more notices of default, whether or not the defaults are timely cured, during the twelve (12) month period immediately preceding Tenant's notice to Landlord to extend, Tenant may in its discretion extend this Lease with respect to some or all of the Premises, for the Extended Terms provided for in **Section 1.5.3**. For example, Tenant may elect to extend the Lease with respect to only Suites 100 and 150, and/or Suites 202, 204 and 205, and/or Suite 201. If Tenant elects to extend this Lease with respect to less than all of the Premises, then the total Rentable Area of the Premises, the total Basic Monthly Rent for the Premises, and Tenant's total Pro Rata Share for the Premises shall all be reduced to reflect the exclusion of that portion of the Premises omitted from extension of this Lease. Each Extended Term will commence on the day following expiration of the prior Initial Term or Extended Term, as applicable. Except as otherwise expressly provided herein, all the provisions of this Lease will remain in effect during the Extended Terms. Tenant's right to extend this Lease must be exercised by written notice given to Landlord not later than six (6) months before expiration of the Initial Term or Extended Term then in effect. Notwithstanding the foregoing, if Tenant neither timely notifies Landlord of Tenant's election to extend this Lease nor expressly waives in writing its right to extend this Lease, then Landlord shall remind Tenant of Tenant's right to extend this Lease by written notice ("Reminder Notice") delivered to Tenant before the Termination Date (and later than six (6) months before expiration of the Initial Term or Extended Term then in effect) and providing that Tenant may exercise its right to extend this Lease for the next Extended Term by written notice delivered to Landlord no later than thirty (30) days after the date of delivery to Tenant of the Reminder Notice. If Tenant fails to extend this Lease by written notice to Landlord not later than thirty (30) days after the date of delivery to Tenant of the Reminder Notice, then Tenant's right to extend this Lease shall be terminated. If Tenant wishes to terminate this Lease sooner than the expiration date of the Extended Term provided for in **Section 1.5.3**, then Tenant may, in the written notice given to Landlord to extend this Lease, extend the Term for a shorter period than the Extended Term but not shorter than six (6) months. If Tenant so elects to shorten the Extended Term, then the Termination Date shall be the date set forth by Tenant in its extension notice to Landlord.

4. Rent.

4.1. **Basic Monthly Rent.** Tenant shall pay to Landlord as rent for the Premises the Basic Monthly Rent, in advance, on the first day of each month of the term hereof. Rent for any period during the term hereof which is for less than one (1) month shall be a pro-rata portion of the monthly installment. Rent shall be payable without notice or demand and, except as expressly permitted under this Lease, without deduction, offset, or abatement, in lawful money of the United States of America to Landlord at Landlord's notice address set forth in this Lease or such different address as Landlord may designate in writing by notice to Tenant.

4.2. **Operating Expenses.**

4.2.1. **Operating Expenses Stop.** The Basic Monthly Rent payable by Tenant under this Lease includes Tenant's Pro Rata Share of the Operating Expenses of the Property in the amount of $8.22 per square foot of Rentable Area (the "OpEx Stop"). As additional rent, Tenant shall pay to Landlord on the first day of each month (but not sooner than the applicable Commencement Date with respect to the applicable portion of the Premises), with Tenant's payment of Basic Monthly Rent, one-twelfth of the amount, if any, by which Tenant's Pro Rata Share of Operating Expenses exceeds the OpEx Stop. Notwithstanding the foregoing, the OpEx Stop shall be recalculated after the expiration of eighteen (18) full calendar months from the First Commencement Date to be the average of the actual Operating Expenses of the Property over said eighteen (18) month period, which shall be memorialized in an amendment to this Lease.

4.2.2. **Operating Expenses Statements.** Periodically, Landlord shall submit to Tenant a statement of the anticipated monthly amount of Operating Expenses and the monthly amount due from Tenant under the terms of **Section 4.2.1**, and Tenant shall pay the same and all subsequent monthly payments concurrently with the payment of Basic Monthly Rent or if no Basic Monthly Rent is due, payment shall be due and payable on or before the first day of each month, in advance without adjustment or offset. Tenant shall continue to make said monthly payments until notified by Landlord of a change thereof. No later than March 15th of each year, Landlord shall give Tenant a statement showing the total Operating Expenses for the Property actually incurred for the prior calendar year ("Final Annual Operating Expenses Statement"). In the event that the term of this Lease does not begin or end coincident with the calendar year, the statement for such year shall be prorated appropriately. In the event the total of the monthly payments which Tenant has made for the prior calendar year shall be less than the portion of the actual Operating Expenses owed by Tenant as shown on the Final Annual Operating Expenses Statement, then Tenant shall pay the difference in a lump sum within thirty (30) days after receipt of such Statement, even though the Term may have expired or been terminated. Any overpayment made shall be refunded to Tenant within thirty (30) days after delivery to Tenant of the Final Annual Operating Expenses Statement or, at Landlord's option, credited towards the next Basic Monthly Rent payments coming due. In the case of the year in which the Lease expires or terminates, any overpayment will be refunded.

4.2.3. **Definition of Operating Expenses**. "Operating Expenses" shall mean the total costs and expenses paid or incurred by Landlord in connection with the ownership, operation, maintenance and repair of the Property, in accordance with reasonable accounting and management practices consistently applied, including, without limitation: (1) Taxes; (2) Insurance Premiums; (3) the cost of utilities consumed at the Property if paid for by Landlord; (4) the cost of any governmentally required license, permit, or inspection for or of the Property; (5) personal property taxes on any personal property owned by Landlord and located at the Property and used for the maintenance or operation of the Property; (6) any other costs and expenses of any other kind whatsoever reasonably incurred by Landlord in operating, maintaining or repairing the Property including, without limitation, costs of repairs and replacements to improvements within the Property as appropriate to maintain the Property in good operating condition; trash collection; cleaning including window washing and graffiti removal; maintenance of landscaping and grounds; maintenance and repair of the roof subject to the limitations of **Section 7.1.1**; security services and devices; building supplies; maintenance or replacement of equipment utilized for operation and maintenance of the Property; accounting, legal and other professional fees and expenses incurred in connection with the Property; costs of furniture, draperies, carpeting, landscaping and other customary and ordinary items of personal property provided by Landlord for use in the Common Area; service contracts; costs of services of independent contractors retained to do work of a nature referenced above; and costs of compensation (including employment taxes and fringe benefits) of all persons who perform regular and recurring duties connected with the day-to-day operation and maintenance of the Property, its equipment, the adjacent walks, landscaped areas, drives and parking areas, including, without limitation, janitors, floor waxers, window washers, watchmen, gardeners, sweepers and handymen; (7) repairs or other work occasioned by an insured casualty loss in an amount not to exceed the deductible, and (8) any other expense designated by this Lease to be an Operating Expense. Operating Expenses shall be "net" only and for that purpose shall be deemed reduced by the amounts of any insurance reimbursement or other reimbursement received by Landlord (or to the extent Landlord's insurance required under this Lease would have provided insurance, whichever is greater) in connection with such expenses. The following shall <u>not</u> be Operating Expenses: (1) repairs or other work occasioned by casualty except for the deductible portion of any insured casualty loss; (2) depreciation and amortization; (3) capital expenses; (4) costs of financing and refinancing including but not limited to interest on debt or principal payments to a Lender or rental under a ground lease (other than leasehold excise tax); (5) expenses for the defense of Landlord's title to the Property; (6) any costs, fines, or penalties incurred because Landlord violated any governmental rule or authority; (7) any amounts expended to remediate or as a result of any Hazardous Substance on the Property existing as of the Commencement Date; (8) costs, including legal fees, arising from the negligence, willful misconduct or other tortious conduct of Landlord, its employees, agents or contractors; (9) any late payment fees or interest, late charges or penalties incurred as a result of Landlord's failure to pay an Operating Expense when due unless due to the failure of Tenant to timely pay Landlord; (10) any expense not billed to Tenant within twelve (12) months of the date incurred by Landlord; (11) costs of Landlord's general overhead and compensation for any of Landlord's employees above the grade of Building or Property Manager; (12) property management fees in excess of four percent (4%) of Basic Monthly Rent; (13) any leasing commissions, finder's fees, attorneys' fees, entertainment and travel expenses and other costs incurred by Landlord in leasing or attempting to lease space in the Building; (14) expenses that relate to preparation, improvement, decoration, painting or redecorating of rental space for a tenant or other occupants of the Building; (15) legal expenses; (16) costs to correct the initial construction of, or latent defects in, the Building, and; (17) amounts paid to subsidiaries or affiliates of Landlord for services provided to the Building to the extent the cost of such services exceeds the costs that would generally be charged for such services if rendered on a competitive basis (based upon a standard of similar medical office buildings in the general market area of the Premises) by unaffiliated third parties capable of providing such service.

4.2.4. **Controllable Operating Expenses**. The term "Controllable Operating Expenses" shall mean all categories of Operating Expenses except for the following: (a) real estate taxes and assessments; (b) insurance premiums; (c) increases in water, sewer, electrical and other utility charges for the Building which are the direct result of increases in the billing rate; and (d) any extraordinary costs of maintaining, repairing or operating the Property occasioned by strikes, lockouts, acts of God, acts of terrorism, inability to obtain labor or materials, governmental restrictions, enemy action, civil commotion, emergencies, weather, fire or casualty (excluding any such costs for which Landlord receives reimbursement under insurance policies carried by Landlord or any tenant in the Building). For purposes of determining the amount payable by Tenant with respect to Operating Expenses, Controllable Operating Expenses shall not be increased by more than five percent (5%) in any calendar year on a non-cumulative basis.

4.2.5. **Operating Expense Records.** Landlord or its agents shall keep records in reasonable detail showing all Operating Expense expenditures. Tenant shall have the right from time to time, but, except as expressly provided otherwise in this Section, not more than once as to any calendar year and no later than one year after receipt of the Final Annual Operating Expenses Statement for the calendar year in question, to inspect and copy such records at its cost at any reasonable time on reasonable notice. If, after such inspection and photocopying, Tenant disputes the amount of Operating Expenses, Tenant, or an agent designated by Tenant, shall be entitled to audit and/or review Landlord's records to determine the proper amount of Operating Expenses. If such audit or review reveals that Landlord has overcharged Tenant, then within five (5) business days after the results of such audit are made available to Landlord, Landlord shall reimburse Tenant the amount of such overcharge plus interest at the rate of seven percent (7%) per annum. If the audit reveals that Tenant was undercharged, then within five (5) business days after the results of the audit are made available to Tenant, Tenant shall reimburse Landlord the amount of such undercharge plus interest thereon at the rate of seven percent (7%) per annum. Tenant agrees to pay the cost of such audit, provided that, if the audit reveals that Landlord's determination of Operating Expenses was in error in Landlord's favor by three percent (3%) or more, Landlord shall pay the cost of such audit. Provided further, if the results of the audit indicate that Tenant is not entitled to a refund or credit, Tenant shall reimburse Landlord for any out-of-pocket costs incurred by Landlord in complying with Tenant's audit request. Landlord shall be required to maintain records of all Operating Expenses for three calendar years after the calendar year in which such Operating Expenses were incurred. Notwithstanding the above, Tenant's right to audit records and to the refund of any overpayment of Operating Expenses as to any calendar year is waived one year after Tenant's receipt of Landlord's Final Annual Operating Expenses Statement for that year; provided that, if Tenant's audit reveals that Landlord's determination of Tenant's Pro Rata Share of Operating Expenses of the Property was in error in Landlord's favor by three percent (3%) or more, then Tenant may at its sole election audit the previous two calendar years.

4.2.6. **Definition of Lender**. For the purposes of this Lease, a "Lender" is a mortgagee under a mortgage or a beneficiary under a deed of trust granted by Landlord or Landlord's predecessor and which is a lien on the Property.

5. Section 5 intentionally deleted.

6. Use.

6.1. **Permitted Use.** The Premises shall be used and occupied only for the Permitted Use and for no other purpose without prior written consent of Landlord, which consent shall not be unreasonably withheld, conditioned or delayed. The designation of Tenant's Permitted Use shall not be deemed to be an agreement by Landlord to refrain from leasing other property to others for a similar use except as provided in **Section 6.3.**

6.2. **Compliance with Law.** Tenant shall not use the Premises in any way which violates any law, ordinance, or governmental regulation or order. Landlord represents to Tenant that, to the best of Landlord's knowledge, with the exception of any improvements to the Premises made by Tenant (even if paid for by a tenant improvement allowance provided by Landlord), as of the Commencement Date, the Property complies with all applicable laws, ordinances, rules, regulations, codes, or orders, including without limitation, the Americans With Disabilities Act, if applicable, (collectively "Applicable Laws") and Landlord shall be responsible to promptly cure any noncompliance which existed on the Commencement Date at Landlord's expense and not as an Operating Expense (except with respect to, or as a result of, any improvements to the Premises made by Tenant, the cost of cure of which shall be paid for by Tenant either directly or as an Operating Expense). If the enactment of new or revised Applicable Laws, including without limitation a change in policy with respect to enforcement of Applicable Laws in effect as of the Commencement Date, during the Lease term requires any changes to the Property during the Lease term, then Landlord shall correct, repair or replace any resulting non-compliance of the Property, provided, however, that if such changes to the Property are required due to alterations or other improvements in the Premises made by Tenant or due to the nature of the then actual use of the Premises by Tenant, then the cost of such changes shall be paid for by Tenant either directly or as an Operating Expense. Notwithstanding the foregoing, Applicable Laws compliance issues which pertain to the Premises in connection with Tenant's construction of any alterations or other improvements in the Premises or the operation of Tenant's business and employment practices in the Premises, shall be the responsibility of Tenant at its sole cost and expense. The repairs, corrections or replacements required of Landlord or of Tenant under the foregoing provisions of this Section shall be made promptly following notice of non-compliance from any applicable governmental agency. Notwithstanding the foregoing, if Tenant is obligated under the terms of this Section to make repairs or alterations to the Premises to comply with Applicable Laws with respect to the Premises as a result of Tenant's particular use, and the cost of fulfilling such obligation exceeds an amount equal to nine (9) months Basic Monthly Rent for the impacted portion of the Premises (i.e., either Suites 100/150; or Suite 201; or Suites 202/204/205), then, in lieu of fulfilling such obligation, Tenant may terminate this Lease as to the entire Premises or as to only the impacted portion by written notice to Landlord, provided, however, if such notice terminates this Lease with respect to all or any portion of the Premises on less than six (6) months' notice, then Tenant shall pay Landlord Basic Monthly Rent (but no Operating Expenses) with respect to the portion of the Premises with respect to which the Lease is terminated on the first day of each month for the balance of the six (6) months even though the Lease is terminated as to such portion of the Premises. If Tenant elects to terminate the Lease as to only the impacted portion of the Premises, the terms of this Lease shall remain in full force and effect with respect to that portion of the Premises, if any, with respect to which Tenant elects to continue the Lease, and shall be void with respect to that portion of the Premises with respect to which Tenant elects to terminate the Lease, and the total Rentable Area of the Premises, the total Basic Monthly Rent for the Premises, and Tenant's total Pro Rata Share for the Premises shall all be reduced to reflect the exclusion of that portion of the Premises with respect to which Tenant elects to terminate the Lease.

6.3. **Exclusive Uses.** Landlord shall not permit any tenant or other occupant of the Property other than Tenant or a subtenant of Tenant, to (i) provide pain management services on the Property, (ii) operate an ambulatory surgery center on the Property, (iii) engage in the practice of orthopedic medicine by any orthopedic physician on the Property; or (iv) provide physical, occupational or hand therapy services on the Property. Massage therapy services shall not violate the restrictions in the preceding sentence.

7. Maintenance, Repairs and Alterations.

7.1. Landlord's Obligation.

7.1.1. Landlord shall maintain and repair, at Landlord's expense and not as an Operating Expense: (i) the roof, roof covering, foundation, exterior walls (excluding glass, window casings, and doors), bearing walls, and exterior painting of the Building, and (ii) utility lines from the meter or "main" to the point of entry into the Building and all piping and wiring inside the walls of the Building, unless (iii) such maintenance and repairs are caused in part or in whole by the act, neglect, fault or omission of any duty by Tenant, its agents, servants, employees, contractors or invitees, in which case Tenant shall pay to Landlord the reasonable cost of such maintenance and repairs. Notwithstanding the foregoing, the cost of the following shall be included in Operating Expenses: repair and maintenance of gutters, skylights and light wells, routine roof covering maintenance such as re-coating or cleaning, cleaning and maintenance of exterior walls (including but not limited to removal of graffiti), and minor exterior painting for "touch-up" or "patching" purposes.

7.1.2. Landlord shall also repair and maintain in good operating condition the Common Area of the Property and the plumbing, electrical and mechanical systems inside the Building, including, without limitation, plumbing and plumbing fixtures, fire sprinkler systems (if any), heating, ventilating, air conditioning, and elevators. Any costs related to the repair or maintenance activities specified in this **Section 7.1.2** shall be included as a part of Operating Expenses except to the extent expressly excluded from Operating Expenses under the terms of this Lease, or unless such repairs or maintenance is required in whole or in part because of any act, neglect, fault or omissions of Tenant, its agents, servants, employees or invitees, in which case Tenant shall pay to Landlord the cost of such repairs and maintenance; provided, however, that the cost of replacement of major components of the mechanical systems of the Building, such as HVAC units, shall not be included in Operating Expenses but such replacements shall nonetheless be made as and when needed by Landlord to keep the mechanical systems in good operating condition.

7.1.3. Landlord shall have no obligation to make repairs under this **Section 7.1** until a reasonable time after receipt of written notice of the need for such repairs. Except as provided in this **Section 7.1** and as provided in this Lease as to damage by casualty or improvements to the Premises that Landlord is expressly obligated to make, if any, Landlord shall have no obligation to make any repair, change or improvement to the Premises. Landlord shall exercise reasonable diligence in effectuating repairs obligated to be made by Landlord.

7.2. **Tenant's Obligations.** Tenant shall, at Tenant's sole cost and expense, maintain and keep the interior of the Premises in good condition and repair, casualty damage and ordinary wear and tear excepted.

7.3. **Initial Condition of Premises.** Landlord warrants that the Premises will be delivered to Tenant (i) water tight, (ii) free from structural or latent defects, and (iii) free from Hazardous Substances. Subject to Landlord's obligation to make the improvements described in **Schedule 7.3** ("Landlord's Work"), if any, Tenant accepts the Premises in the condition existing when this Lease is signed, provided, however, such acceptance shall not constitute a waiver or release of Landlord's liability for breach of any of its obligations, representations or warranties in this Lease. Except as expressly provided in **Schedule 7.3** attached to the Lease, Landlord has no obligation to make any improvements or changes to the Premises.

7.4. **Surrender.** On the Termination Date of this Lease, or on any sooner termination of this Lease, Tenant shall remove Tenant's personal property, including all of its trade fixtures, furnishings and equipment, and surrender the Premises to Landlord in good condition and in accordance with Tenant's maintenance obligation and broom clean, casualty damage and ordinary wear and tear excepted. All alterations, improvements or additions which may be made on the Premises shall be owned by Landlord and shall remain upon the Premises without compensation to Tenant, provided, however, that Tenant shall remove on Landlord's request any alterations or improvements that required Landlord's prior written consent but were made by Tenant without the prior written consent of Landlord and Tenant shall repair any damage caused by such removal. Any alterations, additions or improvements made to the Premises by Tenant while the Property was owned by a predecessor to Landlord shall be deemed to have been made with such predecessor Landlord's prior written consent and Tenant shall have no obligation to remove any of such alterations, additions or improvements. If Tenant fails to remove any of Tenant's personal property within two days after the termination of this Lease or of Tenant's right to possession, Landlord, at Tenant's sole cost and expense, shall be entitled (but not obligated) to remove and store it. Landlord shall not be responsible for the value, preservation or safekeeping of Tenant's personal property. Tenant shall pay Landlord, upon demand, the expenses and storage charges incurred for Tenant's personal property. In addition, if Tenant fails to remove Tenant's personal property from the Premises or storage, as the case may be, within thirty (30) days after written notice, Landlord may deem all or any part of Tenant's personal property to be abandoned, and title to it shall be deemed to be immediately vested in Landlord.

7.5. **Landlord's Rights.** If Tenant fails to perform Tenant's maintenance obligations, Landlord may, at its option (but shall not be required to) enter the Premises, after ten (10) days prior written notice to Tenant or with no prior written notice in an emergency, and perform Tenant's maintenance obligations and Tenant shall immediately, fully reimburse Landlord for such expense together with interest thereon at the rate of ten percent (10%) per annum.

7.6. **Casualty Damage.** The above provisions of this **Article 7** relate to repairs and maintenance arising in the ordinary course of operation of the Building and the Property and any related facilities. In the event of fire, earthquake, flood, vandalism, war, terrorism, natural disaster or similar cause of damage or destruction, **Article 11** shall apply in lieu of this **Article 7**.

7.7. **Alterations and Additions.**

7.7.1. Without Landlord's prior written consent, Tenant shall not make any alterations, improvements or additions to the Premises, except for non-structural interior modifications from time to time, the cost of each of which does not exceed twenty five thousand dollars ($25,000.00). As a condition of consent, Landlord may require that Tenant be responsible to remove at the expiration of the Term any alterations, improvements or additions that are the subject of the consent, and to restore the Premises to the prior condition; Landlord may impose such other conditions as are reasonable. Tenant shall secure all governmental permits required in connection with any such work. Tenant agrees to comply with all applicable laws in making alterations, additions or improvements to the Premises.

7.7.2. Before commencing any work relating to alterations, additions and improvements affecting the Premises (none of which are required or requested by Landlord, nor an obligation of Tenant except as expressly provided in this Lease), Tenant shall notify

Landlord in writing of the expected date of commencement thereof. Landlord shall then have the right at any time to maintain on the Premises such notices as Landlord reasonably deems necessary to protect the Premises and Landlord from any lien. In any event, Tenant shall pay, when due, all charges incurred by Tenant. Tenant shall not permit any lien to be asserted, against the Premises for any charge incurred or alleged to have been incurred by Tenant, and Tenant shall indemnify, defend Landlord against, and hold Landlord harmless from any and all liability, costs, and damages therefrom.

7.7.3. Landlord has consented to Tenant making the improvements or changes to the Premises ("Original Tenant Improvements") provided in **Schedule 7.7** attached to this Lease, if any. Tenant shall in no event be required to remove the Original Tenant Improvements or any other alterations or improvements made by Tenant with the prior written approval of Landlord so long as such approval was not conditioned in writing, at the time it was given, upon Tenant's removal of the alteration or improvement at the expiration of the Term of this Lease.

8. Common Area, Parking Facilities and Generator.

8.1. Tenant shall have the non-exclusive right, in common with others, to use the Common Area, subject to the rules and regulations adopted by Landlord together with such other reasonable and nondiscriminatory rules and regulations as are hereafter promulgated by Landlord in its reasonable discretion (the "Rules and Regulations") so long as such Rules and Regulations do not materially interfere with or prevent Tenant from operating the Premises for the Permitted Use and are not enforced in a discriminatory manner. Tenant shall comply with the Rules and Regulations provided that in the event of any conflict between the terms of this Lease and the provisions of the Rules and Regulations in force from time to time, the terms of this Lease shall control. Current Rules and Regulations are attached hereto as **Exhibit A.**

8.2. Tenant shall have a non-exclusive, irrevocable license, without charge, to use Tenant's Pro Rata Share of parking facilities serving the Building in common on an unreserved basis with other tenants of the Building. Landlord shall continuously provide Tenant with parking spaces located on the Property and sufficient in number to at least satisfy the then applicable governmental minimum parking requirements, or three (3) parking stalls per one thousand (1,000) square feet of Rentable Area in the Building, whichever is greater. In addition to Tenant's non-exclusive parking rights, Tenant shall, without charge, have the exclusive right to six (6) parking stalls which shall be labeled for Tenant's exclusive use in the location shown on **Schedule 8.2.** However, if Tenant does not lease the First Floor Space, then Tenant shall instead have the exclusive right to use any three (3) of the six (6) parking stalls shown on **Schedule 8.2** to be designated by Tenant.

8.3. Landlord reserves the right to modify the Common Area, including the right to add or remove exterior and interior landscaping so long as such modifications do not (i) materially interfere with or prevent Tenant from operating the Premises for the Permitted Use, (ii) materially increase Operating Expenses payable by Tenant, (iii) reduce the parking available to Tenant, (iv) deprive Tenant of the use of restroom facilities serving the floor upon which the Premises are located, or (v) adversely affect access to the Premises.

8.4. At no additional charge to Tenant, Landlord shall permit Tenant to install, maintain, repair and replace, at Tenant's sole expense, a back-up generator to serve the Premises, in approximately the location(s) shown on **Schedule 8.4.** The final exact siting of the generator must be pre-approved by Landlord, which approval shall not be unreasonably withheld, conditioned or delayed. At no additional charge to Tenant, Tenant may also install in the Common Area and through the Building the electrical wiring and any other appurtenances to the generator needed to connect the generator to the Premises and make it operational.

9. Hazardous Substances.

9.1. As used in this Lease, the term "Hazardous Substance" means any substance or material, including biomedical waste, the storage, use or disposal of which is or becomes regulated under any law, now or hereafter in effect due to its potential harm to the health, safety or welfare of humans or the environment. Tenant and Landlord shall each immediately notify the other of any inquiry, investigation or notice that either may receive from any third party regarding the actual or suspected presence of Hazardous Substances at the Property.

9.2. Landlord represents and warrants to Tenant that Landlord has not released or deposited on the Property any Hazardous Substance, and that to the best of Landlord's knowledge, there is no Hazardous Substance on, in, or under the Property as of the Commencement Date. If there is any Hazardous Substance on, in, or under the Property as of the Commencement Date which has been or thereafter becomes unlawfully released, then Landlord shall indemnify, defend and hold Tenant harmless from any and all claims, judgments, damages, penalties, fines, costs, liabilities or losses including without limitation sums paid in settlement of claims, attorneys' fees, consultant fees and expert fees, incurred or suffered by Tenant either during or after the Lease term as the result of such Hazardous Substance.

9.3. Tenant shall not cause or permit any Hazardous Substance to be brought upon, kept, or used in or about, or disposed of on the Property by Tenant, its agents, employees, contractors or invitees, except for Hazardous Substances related to the operation of Tenant's business at the Premises (such as biohazards, chemical solutions, cleaning products, etc.) which are kept, used, and disposed of in strict compliance with all applicable federal, state and local laws, regulations, codes and ordinances. If Tenant breaches the obligations stated in the preceding sentence, then Tenant shall indemnify, defend and hold Landlord harmless from any and all claims, judgments, damages, penalties, fines, costs, liabilities or losses including without limitation sums paid in settlement of claims, attorneys' fees, consultant fees and expert fees, incurred or suffered by Landlord either during or after the Lease term as the result of such Hazardous Substance.

9.4. Without limiting the foregoing, if the presence of any Hazardous Substance brought upon, kept or used in or about the Property by Tenant, its agents, employees, contractors or invitees, results in any unlawful release of Hazardous Substance on the Property or any other property, Tenant shall promptly take all actions, at its sole expense, as are necessary to return the Property or any other property, to the condition existing prior to the release of any such Hazardous Substance; provided that Landlord's approval of such actions shall first be obtained, which approval shall not be unreasonably withheld, conditioned or delayed.

9.5. The provisions of this **Article 9** shall survive (and be enforceable thereafter) the termination or expiration of this Lease and the surrender of the Premises by Tenant.

10. Insurance; Indemnity.

10.1. **Payment of Premium.** "Insurance Premiums" are the actual cost of the property, liability, rent loss and other insurance carried by Landlord in connection with the Property as required or permitted by the terms of this Lease, provided, however that Insurance Premiums shall not include premiums for earth movement insurance or for insurance not customarily carried by owners of properties similar to the Property. The cost of Insurance Premiums shall be included in Operating Expenses.

10.2. **Liability Insurance.**

10.2.1. **Carried by Tenant.** Tenant shall obtain and keep in force during the term of this Lease a policy of commercial general liability insurance, in the name of Tenant and naming Landlord and, if requested by Landlord, Landlord's property manager and Lender, as additional insureds, with a combined single limit of not less than $2,000,000.

10.2.2. **Carried by Landlord.** Landlord may also maintain liability insurance similar to that described in the preceding Section, in addition to and not in lieu of, the insurance required to be maintained by Tenant. Tenant shall not be named as an additional insured therein.

10.3. **Property Insurance - Building, Improvements and Rental Value.**

10.3.1. **Building and Improvements.** Landlord shall obtain and keep in force during the term of this Lease a special form causes of loss policy in the name of Landlord, with loss payable to Landlord and at Landlord's election to any Lender(s), insuring against loss or damage to the Property (exclusive of the Original Tenant Improvements, if any) with such deductible amount as is selected by Landlord, provided, however, that without the prior written consent of Tenant, such deductible amount that may be included in Operating Expenses shall not exceed ten thousand dollars ($10,000). Such insurance shall be for full replacement cost.

10.3.2. **Rental Value.** Landlord shall also obtain and keep in force during the term of this Lease a policy or policies in the name of Landlord, with loss payable to Landlord and at Landlord's election any Lender(s), insuring the loss of the full rental and other charges (including Operating Expenses) payable by Tenant to Landlord for one year.

10.4. **Tenant's Property Insurance.** Tenant at its own cost shall maintain insurance coverage on all of Tenant's personal property, the Original Tenant Improvements, trade fixtures and Tenant-owned alterations and improvements in the Premises similar in coverage to that required by this Lease to be carried by Landlord. Such insurance shall be full replacement cost coverage with a deductible not to exceed Ten Thousand Dollars ($10,000) per occurrence. The proceeds of such insurance shall be the sole property of Tenant. Upon request from Landlord, Tenant shall provide Landlord with written evidence that such insurance is in force. Landlord will not carry insurance on Tenant's possessions, fixtures, improvements and betterments, equipment, furniture or inventory and will not be responsible for any loss or damage thereto.

10.5. **Insurance Policies.** Insurance required hereunder shall be in companies duly licensed to transact business in the state where the Premises are located, and maintaining during the policy term a "General Policyholders Rating" of at least A- and a "Financial Rating" of VIII or better as set forth in the most current issue of Best's Insurance Reports, or such other rating as may be required by a Lender. Tenant shall not do or permit to be done anything that shall invalidate the insurance policies maintained by Landlord. Within ten (10) days after the execution of this Lease, Tenant and Landlord shall each deliver to the other copies of policies or certificates complying with this Lease. No policy required hereunder shall be cancelable or reducible in coverage except after thirty (30) days prior written notice to Landlord or Tenant (as applicable). If either party fails to obtain, maintain and/or provide evidence of insurance required hereunder, then the other party may obtain the same and the failing party shall, upon demand, reimburse the other party for the cost thereof. No such action or reimbursement shall be a waiver of default or other remedies.

10.6. **Waiver of Subrogation.** Without affecting any other rights or remedies, Tenant and Landlord each hereby release and relieve the other, and waive their entire right to recover damages (whether in contract or in tort) against the other, for loss or damage to property arising out of or incident to the perils required to be insured against under this Lease, or actually insured, to the actual extent of the insurance actually maintained (or, required to be maintained under this Lease, if greater). Landlord and Tenant agree to have their respective insurance companies issuing property damage insurance waive any right to subrogation that such companies may have against Landlord or Tenant, as the case may be, so long as the insurance is not invalidated thereby. This waiver shall not apply to the extent of the deductible amounts to any applicable insurance policies or to the extent of liabilities in excess of the limits of such policies.

10.7. **Indemnity.**

10.7.1. Tenant shall indemnify, defend and hold Landlord harmless from any claim, liability, loss, cost, expense or obligation arising from Tenant's use or occupancy of the Premises, or arising from the negligence or intentional misconduct of Tenant, its agents, employees, invitees or contractors, or the failure of Tenant to perform its obligations under this Lease, but (x) only to the extent that such claims, liability, loss, cost, expense or obligation are not covered by insurance maintained by Landlord, and (y) only to the extent not caused by the negligence or willful misconduct of Landlord or its agents, employees or contractors, or the failure of Landlord to perform its obligations under this Lease.

10.7.2. Landlord agrees to indemnify, defend and hold Tenant harmless from any claim, liability, loss, cost, expense or obligation, exclusive of damage to Tenant's personal property, arising from the negligence or intentional misconduct of Landlord, its agents, employees or contractors, or the failure of Landlord to perform its obligations under this Lease, but (x) only to the extent that such claim, liability, loss, cost, expense or obligations are not covered by the insurance required to be maintained or otherwise maintained by Tenant and (y) only to the extent not caused by the negligence or willful misconduct of Tenant or its agents, employees, invitees or contractors or the failure of Tenant to perform its obligations under this Lease.

10.7.3. Landlord and Tenant specifically agree that the provisions of this **Section 10.7** also apply to any claim of injury or damage to the persons or property of Tenant's and Landlord's employees, and each acknowledges and agrees that as to such claims, each, with respect to the other, does hereby waive any right of immunity that each may have under the Washington State Industrial Insurance Act (Title 51 RCW as amended and under any substitute or replacement statute). This waiver and agreement was specifically negotiated by Landlord and Tenant and is solely for the benefit of Landlord and Tenant and their respective successors and assigns and is not intended as a waiver of their rights of immunity under said industrial insurance for any other purpose.

10.7.4. Except to the extent of claims arising out of the gross negligence or intentional misconduct of Landlord or its officers, agents, contractors, invitees or employees or out of Landlord's breach of this Lease, Landlord shall not be liable for injury to Tenant's business or assets or any loss of income therefrom or for damage to any personal property of Tenant or of its employees.

10.7.5. Tenant agrees that, to the extent not expressly prohibited by law, or caused by or resulting from the negligence or willful misconduct of Landlord or its officers, agents, contractors, invitees or employees (the "Landlord Parties") or arising out of a breach by Landlord of its covenants under this Lease, Landlord and the Landlord Parties shall not be liable for any damage either to person or property sustained by Tenant or Tenant's employees, agents or contractors (collectively "Tenant Parties"), due to damage caused by water, snow, frost, steam, sewage, gas, electricity, sewer gas or odors or by the bursting, leaking or dripping of pipes, faucets and plumbing fixtures and windows. Tenant further agrees that Landlord shall not be liable for any loss or damage thereto or theft of Tenant's personal property, unless otherwise provided for herein or caused by the gross negligence or willful misconduct of Landlord or the Landlord Parties.

10.7.6. The provisions of this **Section 10.7** shall survive expiration or termination of this Lease.

10.8 **Landlord's Title; Leasehold Title Insurance.** Landlord represents and warrants that it has good and marketable title to the Premises and the Property. Tenant reserves the right prior to the First Commencement Date to cause (at Tenant's expense) a title insurance company of Tenant's choice to issue and deliver to Tenant a standard leasehold owner's policy of title insurance with ALTA 13 endorsement (revised October 17, 1992) insuring Tenant's leasehold interest in the Premises, the Original Tenant Improvements, and Tenant's fixtures, furnishings and equipment, in an amount determined by Tenant. If the title insurance policy reveals (in Tenant's reasonable discretion) that Landlord does not have good and marketable title to the Premises, the Tenant may elect to terminate this Lease by delivering written notice thereof to Landlord prior to the First Commencement Date, at which point this Lease will be of no further force and effect.

11. Damage or Destruction.

11.1. Partial Damage.

11.1.1. **Insured Partial Damage.** In the event of a partial destruction of the Building by fire or other perils covered under an insurance policy maintained or required by this Lease to be maintained by Landlord and not exceeding fifty percent (50%) of the full insurable value thereof, and provided that (a) the damage thereto is such that the Building may be repaired, reconstructed or restored within a period of one hundred eighty (180) days from the date of the happening of such casualty, and (b) Landlord shall receive insurance proceeds sufficient to cover the cost of such repairs (except for any deductible amount provided by Landlord's policy, which deductible amount, if paid by Landlord, shall constitute an Operating Expense subject to the limitations in this Lease), Landlord shall commence and proceed diligently with the work of repair, reconstruction and restoration of the Building, as applicable, and this Lease shall continue in full force and effect; provided, however, that Tenant's rent shall be abated in accordance with **Section 11.4** of this Lease. Any insurance proceeds required by a Lender to be applied to reduction of indebtedness and not made available to pay for repairs shall be deemed to be not received by Landlord.

11.1.2. **Uninsured Partial Damage.** If Landlord would be obligated to make repairs under Section 11.1.1 but for lack of insurance proceeds sufficient to cover the cost of such repairs, and if the cost of repair that is not covered by insurance proceeds actually available to Landlord (after deduction of any proceeds required by a Lender to be applied to reduction of indebtedness) exclusive of the deductible includible in Operating Expenses, is less than an amount equal to twelve times the amount of Basic Monthly Rent payable at the time of the casualty, and the unexpired term of this Lease at the time of the casualty is at least five (5) years (including any Extended Term if Tenant elects to extend this Lease by written notice given to Landlord not later than sixty (60) days after the date of the casualty), then Landlord shall repair the Premises as soon as reasonably possible, and this Lease shall continue in full force and effect. If the terms of the preceding sentence are satisfied except that the cost of repair that is not covered by insurance proceeds actually available to Landlord exclusive of the deductible includible in Operating Expenses, is greater than an amount equal to twelve times the amount of Basic Monthly Rent, then Landlord shall repair the Premises as soon as reasonably possible, and this Lease shall continue in full force and effect if Tenant voluntarily agrees to pay, without right of reimbursement, the costs of such repairs in excess of the sum of the available insurance proceeds and an amount equal to twelve times the amount of Basic Monthly Rent which shall be paid by Landlord.

11.2. **Major or Uninsured Damage.** In the event of any damage to or destruction of the Building other than as described in **Section 11.1**, Landlord may elect to repair such damage as soon as reasonably possible, and this Lease shall continue in full force and effect. If Landlord does not so elect within sixty (60) days after the occurrence of the casualty to repair, either Tenant or Landlord may declare this Lease terminated by ten (10) days written notice to the other party; provided Tenant or Landlord may avoid termination of this Lease if either voluntarily agrees to pay, without right of reimbursement, all of the costs of such repairs by Landlord.

11.3. **Damage Near End of Term or Lengthy Repair Period.** If the Premises are damaged during the last year of the term of this Lease (as extended by any Extended Terms) and such damage impairs Tenant's use of the Premises and requires more than thirty (30) days to repair, Landlord or Tenant may, at their option, cancel and terminate this Lease as of the date of occurrence of such damage by giving written notice to the other of their election to do so within thirty (30) days after Landlord receives notice of occurrence of such damage. If Landlord or Tenant elects to repair damage under **Section 11.2**, and such damage impairs Tenant's use of the Premises and requires more than two hundred seventy (270) days to repair, Tenant or Landlord may, at its option, cancel and terminate this Lease as of the date of occurrence of such damage by giving written notice to the other of its election to do so within ten (10) business days after receipt of notice from the other of the other's election to repair the damage.

11.4. **Abatement of Rent.** In the event of repair, reconstruction and restoration as provided in this **Article 11**, the rent (including both Basic Monthly Rent and Operating Expenses) payable by Tenant shall be abated proportionately, beginning on the date of the damage or destruction of the Building or the Property, based on the extent to which Tenant's use of the Premises is impaired beginning on such date and continuing until substantial completion of such repair, reconstruction or restoration. Except for abatement of rent, if any, Tenant shall have no claim against Landlord for any damage suffered by reason of any such damage, destruction, repair or restoration.

11.5. **Termination of Lease.** Upon any termination of this Lease under any of the provisions of this **Article 11**, the parties shall be released thereby without further obligation to the other from the date possession of the Premises is surrendered to the Landlord, except with regard to (a) items occurring prior to the damage or destruction and (b) provisions of this Lease that, by their express terms, survive the expiration or earlier termination hereof.

12. Taxes.

12.1. **Taxes.** Landlord shall pay all Taxes applicable to the Property, the amount of which shall be included in Operating Expenses. If any Taxes cover any period of time prior to or after expiration of the term hereof, Tenant's share of such Taxes shall be equitably prorated to cover only the period of time within which this Lease shall be in effect. As used herein, the term "Taxes" shall include any form of required payment, assessment, license fee, tax on rent, levy, or tax (other than Landlord's net income tax and inheritance or estate taxes) imposed by any authority having the direct or indirect power to tax any legal or equitable interest of Landlord in the Property or Landlord's right to rent or other income therefrom. Assessments shall be paid over the longest time period available. Tenant shall have the right to contest, in good faith and by appropriate and timely legal proceedings, the legality, assessed valuation or amount of any tax or assessment that this Lease obligates Tenant to pay. Landlord shall reasonably cooperate with Tenant in the prosecution of such contest, provided that all expenses of same including, without limitation, all attorneys' fees, court and other costs, are paid solely by Tenant.

12.2. **Personal Property Taxes.** Tenant shall pay prior to delinquency all taxes assessed against and levied on any leasehold improvements, fixtures, furnishings, equipment and other property of Tenant. Tenant shall cause such Tenant property to be assessed separately from the Property or reimburse Landlord for the taxes attributable to Tenant within ten (10) days after receipt of a written statement from Landlord setting forth the taxes applicable to Tenant's property.

13. Utilities and Services.

13.1. Landlord shall furnish the Premises with heat, ventilation and air conditioning ("HVAC") that provides a comfortable environment for normal business operations in the Premises. HVAC shall be available at all times, with no "after-hours" charges, and shall be subject to Tenant's control within each Suite included in the Premises by adjustment of HVAC controls located inside each Suite. Landlord shall furnish at all times elevator services, water and electric current sufficient for lighting, medical equipment and business appliances. Subject to Landlord's standard security and access procedures, the Building and related parking areas will be accessible to Tenant on a 24 hour basis every day of the year. If electronic key cards or other openers are required to enter the Building or related parking areas, Landlord will provide a reasonable number of such electronic key cards or other openers without charge to Tenant and its employees; Tenant shall pay Landlord for the reasonable cost of replacement of any lost electronic key cards or other openers.

13.2. Suite 100 and Suite 150 have a deduct meter for electric service that can be read separately from the rest of the Building. Tenant shall be responsible for paying for such utility service as additional rent. All other utilities for Suites 100 and 150 (exclusive of telephone and internet service) shall be included in Operating Expenses.

13.3. Landlord shall not be liable for, nor shall any eviction of Tenant result from the failure to furnish any utility or service, whether or not such failure is caused by accident; breakage; repair; strike, lockout or other labor disturbance or labor dispute of any character; act of terrorism; shortage of materials; governmental regulation, moratorium or other governmental action; or Landlord's inability, despite the exercise of reasonable diligence to furnish any such utility or service (collectively, "Force Majeure"); provided, however, that if any utility or other service is unavailable for more than three consecutive business days such that Tenant is reasonably unable to conduct business in the Premises, then Tenant shall be entitled to an abatement of Basic Monthly Rent for the period of time following such three consecutive business days until such utility or service is restored sufficiently to enable Tenant to conduct business in the Premises. For purposes of the preceding sentence, a "business day" is any day during which Tenant's business at the Premises is normally open to the public for three hours or more.

13.4. Landlord reserves the right to stop service of the elevator, plumbing, ventilation, air conditioning and electric systems, when Landlord deems reasonably necessary or desirable, due to accident, emergency or the need to make repairs, alterations or improvements, until such repairs, alterations or improvements shall have been completed, and Landlord shall further have no responsibility or liability for failure to supply elevator facilities, plumbing, ventilation, air conditioning or electric service when prevented from doing so by Force Majeure or a failure by a third party to deliver gas, oil or another suitable fuel supply; provided, however, Landlord shall use commercially reasonable efforts to minimize interference with Tenant's use and operation of the Premises for the Permitted Use. Without limiting the foregoing, it is expressly understood and agreed that any covenants on Landlord's part to furnish any service pursuant to any of the terms, covenants, conditions, provisions or agreements of this Lease, or to perform any act or thing for the benefit of Tenant, shall not be deemed breached if Landlord is unable to furnish or perform the same by virtue of Force Majeure.

14. Rentable Area and Useable Area.

14.1. The terms "Rentable Area" and "Useable Area" shall reflect such areas as reasonably calculated using the "Standard Method for Measuring Floor Area in Office buildings" approved June 7, 1996, by the American National Standards Institute and the Building Owners and Managers Association International (ANSI/BOMA Z65.1-1996) ("BOMA") consistently applied to all areas in the Building.

14.2. The Rentable Areas of the Building and Premises are as set forth in **Sections 1.3** and **1.4**, respectively and shall not be subject to re-measurement except as set forth in **Section 14.3**.

14.3. The Rentable Areas of the Building and Premises shall only be recalculated in the event of construction that alters their physical size and, in such event, shall be measured by Landlord's architect at Landlord's sole expense. Tenant's Pro Rata Share shall be recalculated by Landlord's architect in the event of any change in the Rentable Area of the Premises or the total Rentable Area in the Building so that Tenant's Pro Rata Share equals the quotient of the Rentable Area of the Premises divided by the total Rentable Area in the Building. Landlord shall promptly deliver to Tenant the results of re-measurement including back-up information.

15. Assignment and Subletting.

15.1. **Landlord's Consent Required.** Tenant shall not voluntarily or by operation of law assign, transfer, mortgage, sublet, or otherwise transfer or encumber all or any part of Tenant's interest in this Lease or the Premises without Landlord's prior written consent, which consent shall not be unreasonably withheld, conditioned or delayed. Notwithstanding the foregoing, Tenant may, without Landlord's prior consent: (A) assign this Lease to (i) a subsidiary, parent, or entity controlled or under common control of Tenant; and; (B) sublet no more than twenty five percent (25%) of the Rentable Area of the Premises for the business convenience of Tenant to provide complementary services to the population served by Tenant's business at the Premises (each of the foregoing a "Permitted Transfer"). The acceptance of rent by Landlord from a person other than Tenant shall not be deemed to be a waiver by Landlord of any provision hereof. Consent to one assignment or subletting shall not be deemed consent to any subsequent assignment or subletting.

15.2. **No Release of Tenant.** Regardless of Landlord's consent, no subletting or assignment shall release Tenant's primary obligation to pay or perform any obligation under this Lease.

15.3. **Assignment Fee.** In the event that Landlord shall consent to a sublease or assignment under **Section 15.1**, Tenant agrees to reimburse Landlord for the reasonable out-of-pocket expenses incurred by Landlord in connection with such consent including without limitation Landlord's legal expenses in an aggregate amount not to exceed one thousand dollars ($1,000).

15.4. **Assignment by Landlord.** Landlord shall be permitted freely to assign all of its rights and obligations hereunder. In the event of a sale or other transfer of the Property, whether by foreclosure or otherwise, the Tenant agrees to attorn to the new owner and to recognize such owner as the Landlord under this Lease and Tenant shall thereafter look solely to such transferee for performance of this Lease, so long as such transferee is bound by all of the Landlord's obligations set forth herein. Landlord (and its successor transferees) shall be relieved from and after the date of such transfer of all liability with respect to Landlord's obligations accrued after the date of transfer. Landlord (and its successor transferees) shall remain liable for any funds, in which Tenant has an interest, in the hands of Landlord at the time of such transfer, unless and until such funds are delivered to the transferee.

16. Defaults; Remedies.

16.1. **Defaults.** The occurrence of any one or more of the following events shall constitute a default and breach of this Lease by Tenant:

16.1.1. The failure by Tenant to make any payment required to be made by Tenant hereunder as and when due where such failure shall continue for a period of five (5) business days after written notice thereof from Landlord to Tenant;

16.1.2. The failure by Tenant to observe or perform any of the provisions of this Lease (other than the payment of money) to be observed or performed by Tenant where such failure shall continue for a period of twenty (20) days after written notice thereof from Landlord to Tenant; provided, however, that if the nature of Tenant's default is such that more than twenty (20) days are reasonably required for its cure, then Tenant shall not be deemed to be in default if Tenant commenced such cure within said twenty (20) day period and thereafter diligently prosecutes such cure to completion; and

16.1.3. The making by Tenant or any guarantor of Tenant of any general assignment, or general assignment for the benefit of creditors; (ii) the filing by or against Tenant or any guarantor of Tenant of a petition to have Tenant adjudged a bankrupt or petition for reorganization or arrangement under any law relating to bankruptcy (unless, in the case of a petition filed against Tenant, the same is dismissed within sixty (60) days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease, where possession is not restored to Tenant within sixty (60) days; or (iv) the attachment, execution or other judicial seizure of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease, where such seizure is not discharged within sixty (60) days.

16.2. **Remedies in Default.** Upon the occurrence of a default by Tenant, Landlord, without notice to Tenant (except where expressly provided for in this Lease or by applicable law) may do any one or more of the following:

16.2.1. Elect to terminate this Lease and the tenancy created hereby by giving notice of such election to Tenant, and reenter the Premises, without the necessity of legal proceedings, and remove Tenant and all other persons and property from the Premises, and may store such property in a public warehouse or elsewhere at the cost of and for the account of Tenant without resort to legal process and without Landlord being deemed guilty of trespass or becoming liable for any loss or damage occasioned thereby. Neither the termination of this Lease nor the exercise of any remedy under this Lease or otherwise available at law or in equity shall affect Landlord's right of indemnification set forth in this Lease or otherwise available at law or in equity for any act or omission of Tenant, and all rights to indemnification and other obligations of Tenant intended to be performed after termination of this Lease shall survive termination of this Lease;

16.2.2. Notwithstanding Landlord's right to terminate this Lease, Landlord may, at its option, even though Tenant has breached this Lease and abandoned the Premises, continue this Lease in full force and effect and not terminate Tenant's right to possession, and enforce all of Landlord's rights and remedies under this Lease. In such event, Landlord may continue the Lease in effect after Tenant's breach and abandonment and recover rent as it becomes due. Further, in such event Landlord shall be entitled to recover from Tenant all costs of maintenance and preservation of the Premises, and all costs, including attorneys' fees and receivers' fees, incurred in connection with appointment of and performance by a receiver to protect the Premises and Landlord's interest under this Lease. Neither re-entry or taking possession of the Premises by Landlord nor service of any notice permitted or required under Title 59 RCW shall be construed as an election to terminate this Lease unless a notice (signed by a duly authorized representative of Landlord) of intention to terminate this Lease is given to Tenant. No act or omission by Landlord or its agents during the lease term shall be an acceptance of a surrender of the Premises, and no agreement to accept a surrender of the Premises shall be valid unless made in writing and signed by a duly authorized representative of Landlord. Landlord shall be entitled to a restraining order or injunction to prevent Tenant from defaulting under any of its obligations other than the payment of rent or other sums due hereunder; and

16.2.3. Exercise any other legal or equitable right or remedy which it may have, subject to the limitations set forth in this Lease.

16.2.4. No provision of this Lease shall excuse Landlord from its legal obligation to mitigate its damages and exercise reasonable commercial efforts to re-let the Premises in the event of a Tenant default.

16.3. **Damages**. If this Lease is terminated by Landlord pursuant to this **Article 16**, Tenant nevertheless shall remain liable for (a) any rents and damages which may be due or sustained prior to such termination, and all reasonable costs, fees and expenses including, but not limited to, reasonable attorneys' fees, costs and expenses incurred by Landlord in pursuit of its remedies hereunder, or in renting the Premises to others (all such rents, damages, costs, fees and expenses being referred to herein as "Termination Damages"), and (b) additional damages ("Post-Termination Damages"), which Post-Termination Damages, at the election of Landlord, shall be either:

16.3.1. An amount equal to the rents which, but for termination of this Lease, would have become due during the remainder of the term of this Lease, less the amount of rents, if any, which Landlord shall receive during such period from others to whom the Premises may be rented (or which Tenant proves Landlord would have received had Landlord exercised reasonable commercial efforts to mitigate its damages), in which case such Post-Termination Damages shall be computed and payable in monthly installments, in advance, on the first day of each calendar month following termination of the Lease and continuing until the date on which the term of this Lease would have expired but for such termination, and any suit or action brought to collect any such Post-Termination Damages for any month shall not in any manner prejudice the right of Landlord to collect any Post-Termination Damages for any subsequent month by a similar proceeding; or

16.3.2. An amount equal to the present worth (as of the date of such termination) of rents which, but for termination of this Lease, would have become due during the remainder of the term of this Lease, less the fair rental value of the Premises, in which case such Post-Termination Damages shall be payable to Landlord in one lump sum on demand and shall bear interest at the Default Rate until paid. For purposes of this Section, "present worth" shall be computed by discounting such amount to present worth at a discount rate equal to three percentage points (i.e., 300 basis points) above the discount rate then in effect at the Federal Reserve Bank nearest to the Premises; provided that Tenant may avoid the application of this Section so long as Tenant voluntarily agrees to pay, and, in fact, does pay all sums due to date under the immediately preceding Section within forty-five (45) days of receipt of notice of Landlord's declaration of the termination of this Lease and Tenant continues thereafter to pay such amounts monthly until the Termination Date.

16.3.3. To the extent that Termination Damages include costs incurred by Landlord to rent the Premises to others, such costs shall not exceed the sum of the following unamortized costs incurred by Landlord in connection with this Lease: leasing commission, tenant improvement allowance, and tenant improvement costs, if any (collectively "Lease Costs"). The Lease Costs shall be amortized, without interest, over the Initial Term. If this Lease is terminated by Landlord pursuant to this **Article 16** after expiration of the Initial Term, the unamortized Lease Costs shall be zero.

16.4. **Miscellaneous**. If Landlord elects to terminate this Lease following the default of Tenant, Landlord may relet the Premises or any part thereof on such terms and conditions as Landlord, in its business judgment, may determine. Nothing contained in this Lease shall limit or prejudice the right of Landlord to prove for and obtain, in proceedings for the termination of this Lease by reason of bankruptcy or insolvency, an amount equal to the maximum allowed by any statute or rule of law in effect at the time when, and governing the proceedings in which, the damages are to be proved, whether or not the amount be greater, equal to, or less than the amount of the loss or damages referred to above.

16.5. **Default by Landlord.** Landlord shall not be in default unless Landlord fails to perform obligations required of Landlord within a reasonable time, but in no event later than twenty (20) days after written notice (or such shorter time period as is reasonable in the event of an emergency) by Tenant to Landlord, specifying wherein Landlord has failed to perform such obligation; provided, however, that if the nature of the Landlord's obligation is such that more than twenty (20) days are required for performance, then Landlord shall not be in default if

Landlord commences performances within such twenty (20) day period and thereafter diligently prosecutes the same to completion.

16.6. **Late Charges and Interest.** Tenant hereby acknowledges that late payment by Tenant to Landlord of any sum due under this Lease will cause Landlord to incur costs not contemplated by this Lease and the amount of which is difficult to predict in advance. Accordingly, if any sum due from Tenant shall not be received by Landlord within ten (10) days after the date that said amount is due and Tenant does not pay the amount due Landlord within five (5) business days after written notice, then Tenant shall pay to Landlord a late charge of five percent (5%) of such overdue amount but not more than five hundred dollars ($500). In addition, any amount due to Landlord not paid when due shall bear interest at ten percent (10%) per annum ("Default Rate") from the due date. Payment of such interest or late charge shall not excuse or cure any default by Tenant under this Lease. In the event that a check from Tenant is returned unpaid by Tenant's bank, Tenant shall pay an additional returned check charge of one hundred dollars ($100) which Tenant agrees is reasonable and which is in addition to a late charge and interest charges if otherwise applicable.

16.7. **Cure by Landlord.** Landlord, at any time after Tenant commits a default, may cure the default at Tenant's cost. If Landlord at any time pays any sum or does any act that requires the payment of any sum to cure a Tenant default (after Tenant has been given written notice of default and opportunity to cure as provided in this Lease), repayment of the sum paid by Landlord plus ten percent (10%) shall be due upon demand from Tenant.

16.8. **Mortgagee Protection**. In the event of any uncured default on the part of Landlord, which default would entitle Tenant to terminate this Lease, Tenant shall not terminate this Lease unless Tenant has notified any Lender, whose address shall have been furnished to Tenant, at least sixty (60) days in advance of the proposed effective date of the termination. During the sixty (60) day period the Lender shall be entitled to commence to cure the default (the "Cure Period"). If the default is not capable of being cured with due diligence within the Cure Period, the Lease shall not be terminated if the Lender shall have commenced to cure the default within the Cure Period and shall pursue the cure with due diligence thereafter. If the default is one which is not capable of cure by the Lender within the Cure Period because the Lender is not in possession of the Building or Property, the Cure Period shall be extended to include the time needed to obtain possession of the Premises by the Lender by power of sale, judicial foreclosure, or other legal action required to recover possession, provided that these avenues are pursued with due diligence and in any event, the entire Cure Period is not longer than three hundred sixty five (365) days from the date of Tenant's notice of termination. However, Tenant's rent shall be abated during the Cure Period.

16.9. **Waiver of Trial by Jury**. LANDLORD AND TENANT HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE THE RIGHT EITHER MAY HAVE TO A TRIAL BY JURY WITH RESPECT TO ANY LITIGATION BASED HEREON, OR ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS LEASE OR THE OBLIGATIONS EVIDENCED HEREBY, OR ANY OTHER DOCUMENT OR INSTRUMENT CONTEMPLATED TO BE EXECUTED IN CONJUNCTION HEREWITH, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF ANY PARTY. THIS PROVISION IS A

MATERIAL INDUCEMENT TO EACH OF LANDLORD AND TENANT IN ENTERING INTO THIS LEASE.

17. Condemnation. If all of the Property or any portion of the Property which is reasonably necessary for the reasonably convenient use of the Premises are taken under the power of eminent domain, or sold by Landlord under the threat of the exercise of said power (all of which is referred to in this Lease as "condemnation") or if more than twenty-five percent (25%) of the Rentable Area of the Building, or more than twenty-five percent (25%) of the parking areas on or serving the Property is taken by condemnation, either Landlord or Tenant may terminate this Lease as of the date the condemning authority takes possession by notice in writing of such election within twenty (20) days after Landlord shall have notified Tenant of the taking, or, in the absence of such notice, then within twenty (20) days after the condemning authority shall have taken possession. If this Lease is not terminated by either Landlord or Tenant then it shall remain in full force and effect as to the portion of the Premises remaining, provided the Basic Monthly Rent shall be reduced by the proportion that the Rentable Area of the Premises taken by condemnation bears to the total Rentable Area of the Premises. All awards for the taking of any part of the Property or any payment made under the threat of the exercise of power of eminent domain shall be the property of Landlord, whether made as compensation for diminution of value of the leasehold or for the taking of the fee or as severance damages; provided, however, that (i) Tenant shall be entitled to any separately made award for Tenant's moving expenses or for loss of or damage to Tenant's trade fixtures and removable personal property, and (ii) if this Lease is terminated during the Initial Term under any of the provisions of this **Article 17** and if Tenant paid all or any portion of the cost of the Original Tenant Improvements (excluding any portion paid for by a tenant improvement allowance provided by Landlord), then Landlord shall pay over to Tenant that portion of Landlord's award or payment made under the threat of the exercise of power of eminent domain equivalent to the unamortized cost of the Original Tenant Improvements to the extent existing at the time of the taking or threat of taking and paid for by Tenant (amortized on a straight line basis over the Initial Term without interest).

18. General Provisions.

18.1. **Reasonableness of Consent.** Except when "sole consent" or "sole discretion" is expressly provided for in this Lease, whenever the consent of Landlord or Tenant is required by the terms of this Lease, such consent shall not be unreasonably withheld or delayed although it may be subject to reasonable conditions.

18.2. **Payments Are Rent.** All payments due to Landlord from Tenant shall be deemed to be rent due under this Lease. In the event of nonpayment, Landlord shall have all the rights provided for in this Lease as if the nonpayment were a nonpayment of Basic Monthly Rent.

18.3. **Brokers**. Landlord and Tenant each represents and warrants to the other that it did not deal with any broker in connection with this transaction other than CBRE, Inc. Landlord shall pay all amounts due CBRE, Inc. in connection with this Lease. Each party agrees to indemnify and defend the other against any loss, cost or liability, including, without limitation, attorneys' fees, in connection with the claims of any other broker arising from such party's acts.

18.4. **Estoppel Certificate.** Tenant shall, on not less than ten (10) business days prior written notice from Landlord, sign and deliver to Landlord a statement in writing (i) certifying that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect) and the date to which the rent and other charges are paid, and (ii) acknowledging that there are not, to Tenant's knowledge, any uncured defaults on the part of Landlord or Tenant under this Lease, or specifying such defaults, if any, which are claimed.

18.5. **Tenant Signage.**

18.5.1. No sign, advertisement or notice visible from outside the Premises ("Signage") shall be exhibited, painted or affixed by Tenant on any part of the Building or Property without Landlord's prior written consent, not to be unreasonably withheld, conditioned or delayed. Tenant will have the right to the maximum amount of Signage, including monument signage as well as signage on the east, west and north facing façade of the Building, that is legally permitted. With respect to Signage to which Landlord has consented, Tenant shall install such Signage at Tenant's sole expense, such Signage shall conform to all applicable governmental rules and regulations, Tenant shall maintain such Signage in good condition and appearance at Tenant's sole expense, and, at the termination of this Lease, Tenant shall remove all such Signage and repair any damage caused by such removal at Tenant's sole expense.

18.5.2. Landlord, at its expense, shall install Building standard signage with respect to the Premises, before the Commencement Date, including Suite signage, elevator signage, and the Building lobby directory and other lobby signage. Landlord shall include on the Building lobby directory, in addition to Tenant's name, the names of all individual physicians and other care providers provided by Tenant to Landlord from time to time.

18.6. **Severability.** The invalidity of any provision of this Lease, as determined by a court of competent jurisdiction, shall in no way affect the validity of any other provision hereof.

18.7. **Time of Essence.** Time is of the essence.

18.8. **Captions.** Article and Section captions are for convenience only and are not a part of this Lease.

18.9. **Incorporation of Prior Agreement; Amendments.** This Lease contains all agreements of the parties with respect to any matter mentioned herein. No prior agreement or understanding pertaining to any such matter shall be effective. This Lease may be modified in writing only, signed by the parties in interest at the time of the modification.

18.10. **Waiver.** No waiver by either party of any provision hereof shall be deemed a waiver of any other provision hereof or of any subsequent breach by the other of the same or any other provision. Landlord's consent to or approval of any act shall not be deemed to render unnecessary the obtaining of Landlord's consent to or approval of any subsequent act by Tenant. The acceptance of rent hereunder by Landlord shall not be a waiver of any preceding breach by Tenant of any provision hereof, other than the failure of Tenant to pay the particular rent so accepted regardless of Landlord's knowledge of such preceding breach at the time of acceptance of such rent.

18.11. **Recording, Memorandum of Lease and Commencement Date Agreement.** Neither party shall record this Lease. On the request of either party, Landlord and Tenant agree to execute and either may record a Memorandum of Lease in recordable form, substantially similar to that attached hereto as **Exhibit B**. In addition, Landlord and Tenant, on the request of either party, shall execute a Commencement Date Agreement in the form attached hereto as **Exhibit C**.

18.12. **Holding Over.** If Tenant remains in possession of the Premises or any part thereof after the expiration of the term hereof without the express written consent of Landlord, such occupancy shall be a tenancy from month to month at a rental equal to one hundred twenty five percent (125%) of the Basic Monthly Rent due for the last month of the Lease term plus all other charges payable hereunder, and upon the terms hereof applicable to a month to month tenancy. Such month to month tenancy shall be terminable by either party on twenty (20) days written notice to the other party, effective as of the last day of a calendar month.

18.13. **Cumulative Remedies.** No remedy or election hereunder shall be deemed exclusive, but shall wherever possible, be cumulative with all other remedies at law or in equity.

18.14. **Covenants and Conditions.** Each provision of this Lease performable by either party shall be deemed both a covenant and a condition.

18.15. **Binding Effect; Choice of Law; Proration.** Subject to any provisions hereof restricting assignment or subletting by Tenant or as may be expressly provided in this Lease, this Lease shall bind the parties, their personal representatives, successors and assigns. This Lease shall be governed by the laws of the state of Washington.

18.16. **Subordination.** This Lease is and shall be subordinate to any encumbrance now of record or any encumbrance hereafter recorded affecting the Property, but Tenant's possession shall not be disturbed so long as Tenant performs all its obligations under this Lease. Tenant shall attorn to any purchaser at any foreclosure sale, or to any grantee or transferee designated in any deed in lieu of foreclosure. Tenant shall execute a commercially reasonable subordination agreement to accomplish the purposes of this **Section 18.16**, on condition the party benefited by the subordination agreement executes a non-disturbance agreement under which it agrees not to disturb Tenant's possession so long as Tenant performs all its obligations under this Lease.

18.17. **Attorneys' Fees.** If Tenant or Landlord brings an action to enforce the terms hereof or declare rights hereunder, the prevailing party in any such action, on trial or appeal, shall be entitled to its reasonable attorneys' fees to be paid by the losing party as fixed by the court.

18.18. **Landlord's Access and HIPAA Compliance.** Landlord and Landlord's agents shall have the right upon reasonable advance written notice to Tenant to enter the Premises at reasonable times for the purpose of inspecting the same, showing the same to prospective purchasers, tenants or Lenders, and making such repairs to the Premises as Landlord is obligated to perform under the terms of this Lease. Landlord acknowledges that, in connection with any entry into the Premises, Landlord and Landlord's agents, employees, contractors, prospective purchasers, existing and prospective mortgagees and prospective tenants (collectively "Landlord Parties"), may come into contact with protected health information ("PHI") within the meaning of the Health Insurance Portability and Accountability Act of 1996, Public Law 104-91, and regulations promulgated thereunder ("HIPAA"). Landlord (a) shall not disclose, and shall cause Landlord Parties not to disclose, any such PHI, (b) shall implement such appropriate safeguards as may be necessary to protect the confidentiality of any such PHI against unauthorized access and use in connection with such entries into the Premises and (c) shall report to Tenant in writing any unauthorized use or disclosure of any such PHI in connection with any such entry into the Premises within ten (10) days of becoming aware of such unauthorized use or disclosure. In the event HIPAA or any similar or related law or regulation requires a written contract with respect to the obligations of Tenant, Landlord or Landlord Parties in connection with the privacy and security of PHI, then Tenant and Landlord shall execute, and Landlord shall cause Landlord Parties to execute, such written contract on such terms as are required by law.

18.19. **Auctions.** Tenant shall not advertise or conduct any auction or going out of business sale in the Premises.

18.20. **Corporate Authority.** Each party hereby represents and warrants to the other party that the person executing this Lease on behalf of such party is duly authorized to execute and deliver this Lease.

18.21. **Notices.** Wherever under this Lease provision is made for any demand, notice or declaration of any kind, or where it is deemed desirable or necessary by either party to give or serve any such notice, demand or declaration to the other party, it shall be in writing and served either personally, by recognized courier service (Federal Express, UPS, etc.), or sent by United States mail, registered or certified, return receipt requested, postage prepaid, addressed to the notice address of the party stated at the beginning of this Lease or such subsequent address as may have been specified for such purpose in a written notice given to the other party. Such notices shall be deemed given on the day delivered or on the third business day after deposit in the U.S. mail, registered or certified, return receipt requested, postage prepaid. Notices from either party may be delivered by their respective legal counsel.

18.22. **Tenant's Financing**. Notwithstanding any other provisions of this Lease, Tenant may, with Landlord's consent not to be unreasonably withheld, from time to time, secure financing or general credit lines and grant the lenders thereof, as security therefore, (i) a security interest in Tenant's fixtures, trade fixtures, furnishings, inventory and equipment (collectively, "Personalty"), (ii) the right to enter the Premises to realize upon any Personalty so pledged, provided that any damage to the Premises caused in connection with such entry is repaired, and/or (iii) a collateral assignment of or leasehold encumbrance in Tenant's leasehold interest in the Premises, with rights of reassignment; provided, however, such collateral assignment may be made solely for the purpose of securing Tenant's indebtedness to such lenders and shall be subject to Landlord's prior written consent. Upon Tenant providing notice of such financing to Landlord, Landlord agrees to not unreasonably withhold its consent in writing to such security interest and agreement and to give such lenders the same notice and opportunity to cure any default of Tenant as is provided Tenant hereunder (including time to foreclose or otherwise take possession of the Premises, if necessary to effect such cure). In addition, Landlord agrees to ask any Lender specifically to acknowledge the rights of Tenant's lenders described herein.

18.23. **Tenant's Property; Waiver of Landlord's Liens** . All of the Personalty shall be and remain the personal property of Tenant. Landlord shall subordinate its statutory or common law landlord's liens (as same may be enacted or may exist from time to time) and any and all rights granted under any present or future laws to levy or distrain for rent (whether in arrears or in advance) against the aforesaid property of Tenant on the Premises to the lien of any holders of a security interest in the Personalty and further agrees to execute any reasonable instruments evidencing such subordination, at any time or times hereafter upon Tenant's request.

18.24. **Force Majeure**. In the event that Landlord or Tenant shall be delayed or hindered in, or prevented from, the performance of any act required hereunder, including without limitation completion of the Clinic/Office T/I's and ASC TI's, by reason of delay by the other party, failure of power or unavailability of utilities, riots, insurrection, war, labor disputes, weather or act of God or other reason of a like nature not the fault of such party or not within its control, then performance of such act (other than the payment of money including but not limited to Basic Monthly Rent and Operating Expenses) shall be excused for the period of delay, and the period for the performance of any such act shall be extended for a period equivalent to the period of such delay but not to exceed one hundred eighty (180) days.

18.25. **Quiet and Peaceful Enjoyment**. So long as Tenant is not in default hereunder beyond any applicable cure period, Tenant shall have quiet and peaceful use, enjoyment and occupancy of the Premises.

18.26. **Non-Disturbance Agreement**. Landlord shall, on or before the First Commencement Date, obtain from the holder of any mortgage or deed of trust on the Property, an executed and acknowledged non-disturbance agreement recognizing this Lease and agreeing not to disturb Tenant's quiet enjoyment of the Premises so long as Tenant is not in default under the Lease. If such non-disturbance agreement is not timely delivered to Tenant, Tenant may elect to terminate this Lease by written notice delivered to Landlord at any time before the non-disturbance agreement is delivered to Tenant. Tenant may record the non-disturbance agreement, at Tenant's expense, in the real property records of the County in which the Premises are located.

18.27. **Right of First Refusal – Storage Space**. During the term of this Lease, Tenant shall have a right of first refusal to lease the storage space located in the garage of the Building (the "Storage Space") upon the terms and conditions set forth below:

In the event Landlord shall receive any offer from, or make any offer to, a party other than Tenant (an "Outside Tenant") for the lease of the Storage Space, which offer Landlord or the Outside Tenant (as the case may be) desires to accept (the "Outside Lease Offer"), and which desire of Landlord or the Outside Tenant shall be evidenced in writing, Landlord shall give written notice of such Outside Lease Offer to Tenant, which notice shall set forth the material terms of such Outside Lease Offer. Tenant then shall have, ten (10) business days after the date notice is received in which to elect to lease the Storage Space on the same terms and conditions as contained in the Outside Lease Offer, provided, however, that the term for the Storage Space shall be co-terminus with the term of this Lease, such election to be exercised by Tenant giving written notice to Landlord within such ten (10) business day period. If the Outside Tenant's term under the Outside Lease Offer would be longer than the term if Tenant elects to lease the Storage Space, then all Landlord concessions under the Outside Lease Offer including, without limitation, free or reduced rent and tenant improvement allowance, shall be prorated accordingly.

In the event Tenant elects to lease the Storage Space, Tenant shall take the Storage Space according to the foregoing terms and conditions. Except as the same may conflict with the Outside Lease Offer (which shall control in the event of such a conflict), all terms and conditions of this Lease shall apply to the Storage Space. If Tenant properly exercises its Right of First Refusal to Lease, the parties shall execute an amendment to the Lease setting forth the terms and conditions with respect to the addition of the Storage Space to the Lease as set forth under this paragraph.

In the event Tenant shall not elect to lease the Storage Space within the ten (10) business day period provided hereinabove, then Landlord may lease the Storage Space to the Outside Tenant on the same terms and conditions set forth in the notice of such Outside Lease Offer to Tenant and this Right of First Refusal to Lease shall thereafter be null and void.

The Right of First Refusal to Lease may be exercised as long as Tenant is not then in default under this Lease after the expiration of applicable notice and cure periods.

18.28 **Tenant's Right of First Refusal to Purchase the Property.** During the term of the Lease, Tenant shall have a right of first refusal to purchase the Property upon the terms and conditions set forth below ("Right of First Refusal"):

In the event Landlord shall receive any written offer from, or make any written offer to, a party other than Tenant (an "Outside Party") to purchase the Property, which offer Landlord or the Outside Party (as the case may be) desires to accept (the "Purchase Offer"), Landlord shall give written notice of such Purchase Offer to Tenant, which notice shall include a true and complete copy of the Purchase Offer. Tenant then shall have thirty (30) days after the date notice is received in which to elect to purchase the Property on the same terms and conditions as contained in the Purchase Offer, such election to be exercised by Tenant giving written notice to Landlord within such thirty (30) day period.

In the event Tenant shall not elect to purchase the Property within the thirty (30) day period provided hereinabove, then Landlord may sell the Property to the Outside Party on the same terms and conditions set forth in the Purchase Offer delivered to Tenant and this Right of First Refusal shall thereafter be null and void, provided the sale is closed in accordance with the terms of the Purchase Offer. If the sale to the Outside Party is not closed in accordance with the terms of the Purchase Offer, or if Landlord desires to sell the Property at a lower purchase price or on terms more favorable to the Outside Party than offered to Tenant, Landlord shall not sell the Property without first again granting to Tenant the opportunity to purchase in accordance with this Right of First Refusal. Transfers of an interest in the Property between the principals of Landlord, members of their respective families or affiliated companies of Landlord may be made without compliance with this Section, it being understood that the provisions of this Section shall survive any such transfers to such a party or affiliate. If the Property is sold to an Outside Party in compliance with this Section, Tenant's Right of First Refusal shall remain in full force and effect with respect to any later sale of the Property by such Outside Party.

Notwithstanding the foregoing, Tenant shall have no right to exercise the Right of First Refusal: (i) during the period commencing with the giving of any notice of default and continuing until said default is cured; (ii) during the period of time any accrued rent is unpaid (without regard to whether notice thereof is given to Tenant); or (iii) in the event that Tenant has been given two (2) or more notices of default, whether or not the defaults are timely cured, during the twelve (12) month period immediately preceding the opportunity to otherwise exercise the Right of First Refusal. While the Right of First Refusal is personal to Tenant, Proliance Surgeons, Inc., P.S., and cannot be assigned, and cannot be exercised by anyone other than Tenant, Proliance Surgeons, Inc., P.S., the Tenant, Proliance Surgeons, Inc., P.S., shall have the right to have an assignee take title to the Property at closing with Landlord's prior consent, which consent shall not be unreasonably withheld.

18.29 **Special Articles.** The following Schedules and Exhibits are attached and are a part of this Lease:

Schedule 1.3	**Legal Description of Property**
Schedule 1.4	**Sketch of Premises**
Schedule 1.6	**Basic Monthly Rent**
Schedule 7.3	**Landlord's Work**
Schedule 7.7	**Original Tenant Improvements and Tenant Improvement Allowance**
Schedule 8.2	**Sketch of Location of Tenant's Exclusive Parking Stalls**
Schedule 8.4	**Sketch of Location of Tenant's Generator**
Exhibit A	**Rules and Regulations**
Exhibit B	**Memorandum of Lease**
Exhibit C	**Commencement Date Agreement**

[*Signatures on following page*]

LANDLORD:

220th Street Office Building L.L.C., ,
a Washington limited liability company

By: ______________________
Name: Daniel Vortman
Its: Managing Member

TENANT:

Proliance Surgeons, Inc., P.S., a
Washington professional service
corporation

By: ______________________
Name: David G. Fitzgerald
Its: Chief Executive Officer

STATE OF WASHINGTON)
) ss.
COUNTY OF KING)

I certify that I know or have satisfactory evidence that Daniel Vortman is the person who appeared before me, and said person acknowledged that s/he signed this instrument, on oath stated that s/he was authorized to execute the instrument and acknowledged it as the Managing Member of **220th Street Office Building L.L.C.**, a Washington limited liability company, to be the free and voluntary act of such party for the uses and purposes stated therein.

Dated: August 30, 2016.

ANITA M. RIKSHEIM
STATE OF WASHINGTON
NOTARY PUBLIC
MY COMMISSION EXPIRES
10-01-18

Name: Anita M Riksheim
NOTARY PUBLIC, State of Washington
My appointment expires 10/01/18

STATE OF WASHINGTON)
) ss.
COUNTY OF KING)

I certify that I know or have satisfactory evidence that David G. Fitzgerald is the person who appeared before me, and said person acknowledged that he signed this instrument, on oath stated that he was authorized to execute the instrument and acknowledged it as the Chief Executive Officer of **Proliance Surgeons, Inc., P.S.**, a Washington professional service corporation, to be the free and voluntary act of such party for the uses and purposes stated therein.

Dated: 6/30/2016.

PA EVANS
COMMISSION EXPIRES
NOTARY
PUBLIC
JUNE 18, 2019
STATE OF WASHINGTON

Name: ______________________
NOTARY PUBLIC, State of Washington
My appointment expires 6/18/19

SCHEDULES

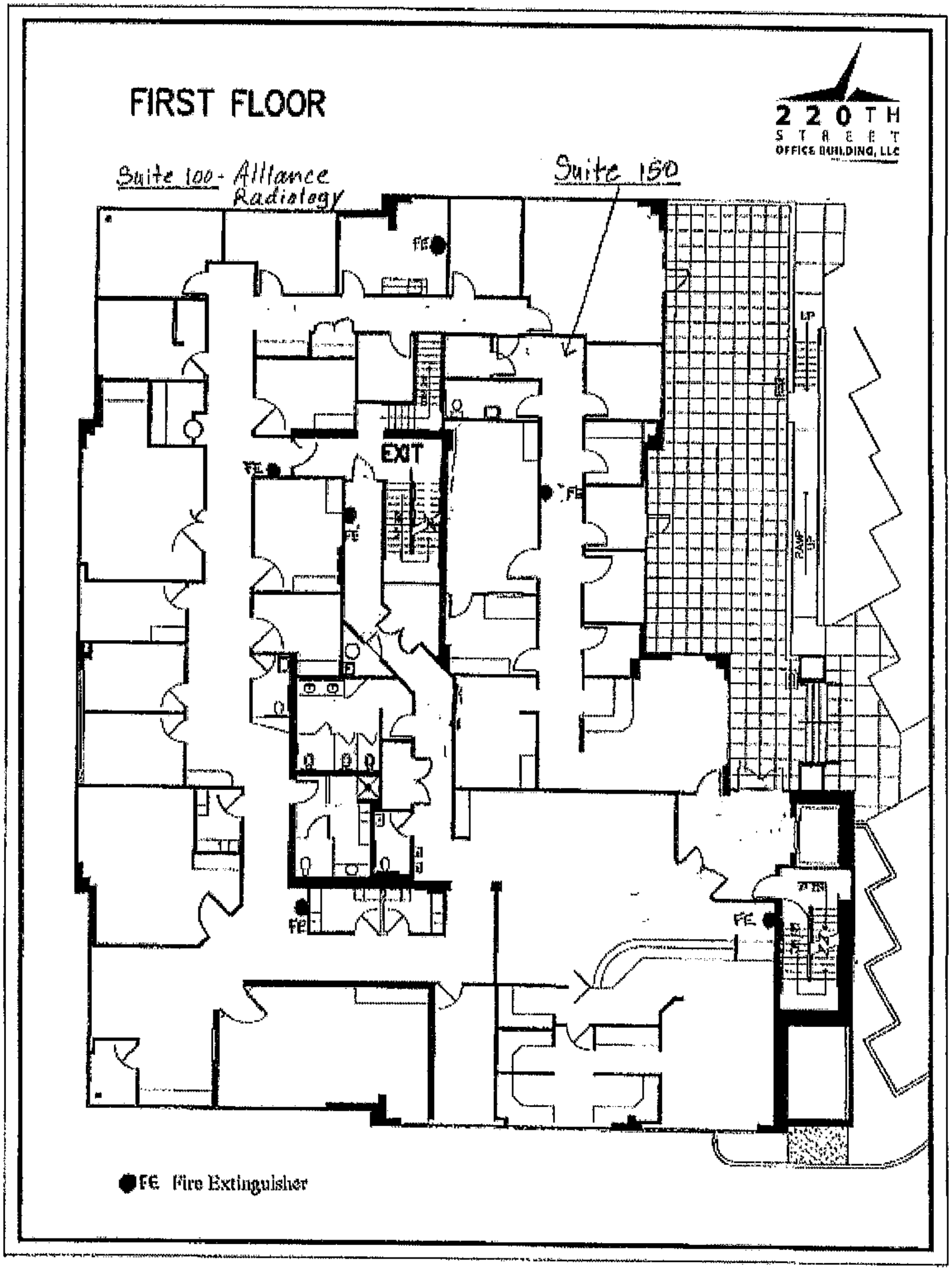
Schedule 1.3
Legal Description of Property

The East 201 feet of that tract of real estate described as follows:

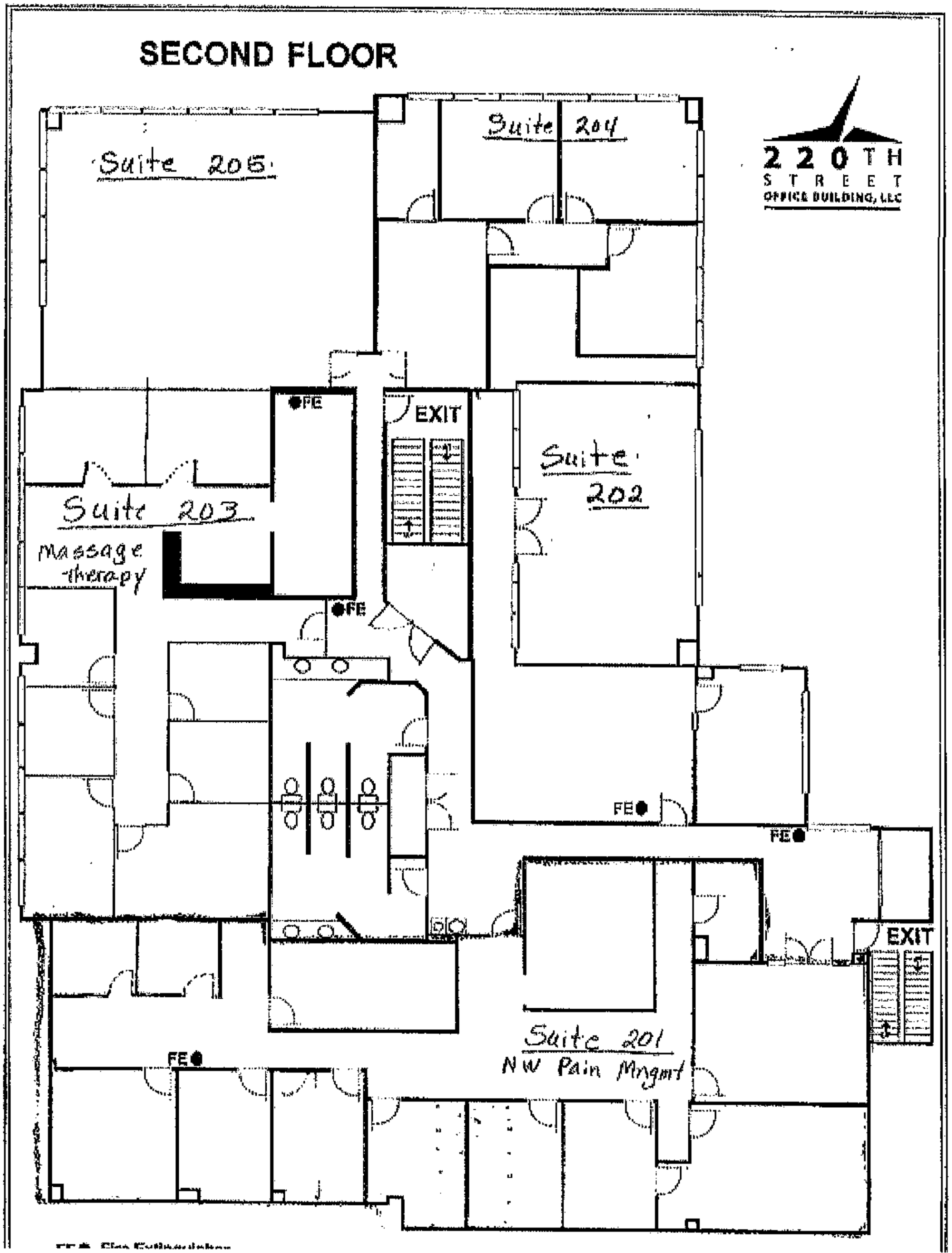
The North 264 feet of the Northeast quarter of the Southwest quarter, Section 29, Township 27 North, Range 4 East of the Willamette Meridian, records of Snohomish County, Washington;

Except the North 30 feet for road. Also except that portion deeded to the City of Mountlake Terrace per Snohomish Recording No. 8602050225.

Schedule 1.4
Sketch of Premises



Schedule 1.4
Sketch of Premises
(Continued)



Schedule 1.6
Basic Monthly Rent

1. **Rent During Initial Term.**

1.1 Basic Monthly Rent shall be abated as provided in **Section 1.6.**

1.2 On the first day of the second Lease Year, and on the first day of each following Lease Year, the Basic Monthly Rent shall be increased by two and one-half percent (2.5%).

2. **Rent During Extended Terms.** Basic Monthly Rent for the first year of each Extended Term shall be at the then fair market rental rate for property comparable to the Premises, leased on terms comparable to the terms of this Lease to a tenant under no compulsion to lease and not in possession of the Premises, for a term equal to such Extended Term (the "Fair Market Rent"). The term "Fair Market Rent" shall be the fair market monthly rental of the Premises determined as set forth below based on a survey of monthly rental rates being charged in the North King County/South Snohomish County area, for space comparable to the Premises, taking into account the quality and age of the Building, the floor level, quality of tenant improvements (but excluding tenant improvements made or installed at Tenant's expense, furniture, fixtures, and equipment), and other relevant factors, provided, that Fair Market Rent shall be adjusted to take into account and give Tenant the benefit of the fact that expenses associated with a new lease will not be incurred by Landlord including but not limited to brokerage fees, tenant improvement allowances, free rent periods, and so forth. Notwithstanding anything herein to the contrary, Basic Monthly Rent for the first year of each Extended Term shall be no lower than 102.5% of the Basic Monthly Rent for the immediately preceding year. On the first day of the second year of each Extended Term, and on the first day of each following Lease Year during the Extended Term, the Basic Monthly Rent shall be increased by two and one-half percent (2.5%).

2.1 If Landlord and Tenant are unable, following good faith discussions and negotiations, to reach agreement on the Fair Market Rent within sixty (60) days after Tenant notifies Landlord of Tenant's election to extend this Lease, then, no later than ninety (90) days after Tenant notifies Landlord of Tenant's election to extend this Lease, Landlord shall deliver to Tenant written notice of Landlord's Fair Market Rent proposal for the subject Extended Term (**"Landlord's Fair Market Rent Proposal"**), together with a copy of a written appraisal ("First Appraisal") prepared by a disinterested, independent appraiser who is a member of the American Institute of Real Estate Appraisers with at least ten (10) years of experience in appraising medical office space in King or Snohomish County, Washington ("Qualified Appraiser"), supporting Landlord's Fair Market Rent Proposal, and shall advise Tenant of the proposed adjustment to Basic Monthly Rent, if any. Within forty-five (45) days after receipt of Landlord's Fair Market Rent Proposal, Tenant shall notify Landlord in writing whether Tenant accepts or rejects Landlord's Fair Market Rent Proposal. If Tenant rejects Landlord's Fair Market Rent Proposal, then Tenant's written notice shall include Tenant's determination of the Fair Market

Rent, and shall be accompanied by a copy of a written appraisal prepared by a Qualified Appraiser selected by Tenant ("Second Appraisal"), supporting Tenant's determination of Fair Market Rent. If the higher of the First and Second Appraisals is not more than one hundred eight percent (108%) of the lower, then the Fair Market Rent shall be the average of the two. Otherwise, the Fair Market Rent shall be determined by arbitration as set forth below.

2.2 If the Fair Market Rent is to be determined by arbitration, then within ten (10) business days after delivery of the Second Appraisal to Landlord, Landlord's and Tenant's Appraisers shall agree on a third Qualified Appraiser (the "Arbitrator") to determine the Fair Market Rent. If the first two Appraisers do not timely choose the Arbitrator, then either Landlord or Tenant on notice to the other may request appointment of the Arbitrator by the American Arbitration Association ("AAA") in accordance with its then-prevailing real estate valuation arbitration rules. If the AAA does not appoint an Arbitrator meeting the qualifications of a Qualified Appraiser within thirty (30) days after the request, then either party may apply to the senior judge of the superior court of the county where the Premises are located who, acting in his individual (not judicial) capacity, shall make the appointment.

2.3 The Arbitrator shall be provided copies of the First and Second Appraisals at the time of the Arbitrator's acceptance of appointment as the Arbitrator and shall render its determination of Fair Market Rent in writing within thirty (30) days after such date. Arbitrator shall study such evidence and information as Arbitrator shall deem appropriate in determining the Fair Market Rent, provided, however, that Arbitrator's determination of Fair Market Rent shall be confined and strictly limited to selection, as the more reasonable approximation of Fair Market Rent, of the amount stated in the First Appraisal or Second Appraisal, and Arbitrator may not select or declare any third number to be the Fair Market Rent. Any communication by a party or its Appraiser to Arbitrator shall be in writing with a copy to the other party. At Arbitrator's request, in Arbitrator's discretion, the Appraisers shall meet together with Arbitrator to discuss the Fair Market Rent determination. Each party shall bear the expense of retaining its Appraiser. The fees and expenses of the Arbitrator and other expenses of the arbitration shall be borne equally by the parties. The Arbitrator's determination of Fair Market Rent shall be final and binding on the parties. Judgment upon the determination of Fair Market Rent rendered by the Arbitrator may be entered in any court having jurisdiction.

2.4 Upon completion of Arbitrator's investigation of Fair Market Rent, Arbitrator shall report in writing to each of the parties which Appraisal has been selected by Arbitrator as the more reasonable approximation of Fair Market Rent without requirement of further substantiation or information; upon receipt of such report from Arbitrator, Arbitrator's assignment shall be complete, and Landlord and Tenant agree to accept such determination by Arbitrator as binding and conclusive without any right of appeal.

2.5 In no event shall the delay in the determination of the Fair Market Rent of the Premises affect Tenant's obligation to pay the amount of Basic Monthly Rent or any other charges under the Lease, as then in force, or the amount of increase, if any, immediately upon receipt of notification of the same, which shall be retroactive to the first day of the Extended Term.

2.6 In the event that the Arbitrator does not select the Second Appraisal as the more reasonable approximation of Fair Market Rent, Tenant may reduce the length of the Extended Term, but not shorter than six (6) months, by written notice delivered to Landlord within six (6) months after the Arbitrator's decision.

2.7 If the Fair Market Rent has not been determined by the commencement of the Extended Term, then Tenant shall continue to pay the Basic Monthly Rent then in effect until such time as the Fair Market Rent has been determined. Upon such determination, the Basic Monthly Rent shall be retroactively adjusted to the commencement of the Extended Term. If such adjustment results in an underpayment of Basic Monthly Rent by Tenant, Tenant shall pay Landlord the amount of such underpayment, without interest, within thirty (30) days after the determination thereof.

Schedule 7.3
Landlord's Work

None.

Landlord's Initials

Tenant's Initials

Schedule 7.7
Original Tenant Improvements
and Tenant Improvement Allowance

1. **Tenant Improvement Allowance.** Landlord shall provide Tenant with a tenant improvement allowance in the amount of up to $792,855.00 (the "**Tenant Improvement Allowance**") ($45.00 per square foot of Rentable Area in the Premises), subject to adjustment as provided in **Section 14.3**. The Original Tenant Improvements shall include all work done in the Premises pursuant to the Tenant Improvement Plans described below and all other work, other than Landlord's Work, necessary to make the Premises suitable for the operation of Tenant's business. The Tenant Improvement Allowance shall be disbursed by Landlord to Tenant in installments no more frequently than once a month when all of the following conditions have been satisfied: (i) Tenant has submitted to Landlord copies of paid invoices for the cost of design, permitting and construction of the Original Tenant Improvements in an amount equal to the disbursement amount requested, (ii) Landlord has received lien waivers from all contractors, subcontractors and materialmen who have performed work on behalf of Tenant at the Premises, and (iii) Tenant is not in default under this Lease. Upon Tenant's satisfaction of each of the foregoing conditions, Landlord shall disburse fifty percent (50%) of the requested disbursement amount. Landlord shall disburse the balance of the requested disbursements after: (A) a certificate of occupancy (or final signed-off building permit) has been issued by the appropriate governmental authority indicating that Tenant's construction work was performed in accordance with local and state codes and that all of the Premises are acceptable for occupancy, (B) Landlord has received lien waivers for all contractors, subcontractors, materialmen, suppliers and all other persons performing work or supplying materials on or about the Premises, and (C) Tenant has opened for business in the Premises. The Tenant Improvement Allowance may be utilized by Tenant for all or any portion of the Premises and may be less than or more than $45.00 per square foot of Rentable Area with respect to different portions of the Premises. Any portion of the Tenant Improvement Allowance not disbursed by December 31, 2017 shall be forfeited.

2. **Cost of Original Tenant Improvements.** Subject to Tenant's right to receive the Tenant Improvement Allowance as provided in this Lease, Tenant shall be solely responsible for the cost of the Original Tenant Improvements which shall be paid by Tenant.

3. **Cooperation, Architect and Contractor.** Throughout the process of preparing the Tenant Improvement Plans (as defined below), obtaining any necessary governmental permits and approvals, and constructing the Original Tenant Improvements, each party shall act diligently and in good faith and shall cooperate with the other and with governmental agencies in whatever manner may be reasonably required. Any modifications, changes or omissions to the Tenant Improvement Plans required by any governmental or quasi-governmental authority or utility shall also require the prior written approval of Landlord, such approval not to be unreasonably withheld, conditioned or delayed. Landlord approves Tenant's architect, Taylor Gregory Broadway Architects ("Architect"), and Tenant's contractor Constantine Builders, Inc. Any change in Tenant's contractor shall be subject to Landlord's approval not to be unreasonably withheld, conditioned or delayed. Landlord reserves the right to complete the Original Tenant Improvements in Suite 201 if Tenant agrees that the quality and timing will meet Tenant's standards and the cost does not exceed other bids obtained by Tenant. Landlord's

contractor, Coho Construction, will be allowed to bid on the Original Tenant Improvements in Suites 201, 202, 204 and 205. Tenant has no obligation to enter into any contract with Landlord's contractor and no obligation to permit Landlord to complete the Original Tenant Improvements in Suite 201 if Tenant prefers that another contractor selected by Tenant perform such work.

4. **Tenant Improvement Plans.** A space plan for the Original Tenant Improvements in Suite 201 ("Clinic TI's") is attached. As soon as reasonably possible after the execution of this Lease, Tenant shall meet with Architect for the purpose of preparing a space plan for the layout of the Original Tenant Improvements in Suites 100 and 150 ("ASC TI's"), and in Suites 202, 204 and 205 ("Clinic/Office TI's"). The Clinic TI's in Suite 201 will be for medical clinic use; the Clinic/Office TI's in Suites 202, 204 and 205 will be for medical clinic use and administrative offices, and the ASC TI's in Suites 100 and 150 will be for an ambulatory surgery center. Landlord acknowledges that the Original Tenant Improvements may include modifications of, upgrades to, and additions to Building systems located outside of the Premises ("Building System Modifications"), in particular the HVAC system necessary for the ASC TI's, and Landlord shall not unreasonably withhold, condition or delay its consent to any such Building System Modifications provided that the Building System Modifications shall be made at Tenant's sole expense. Tenant shall cause to be included in the Draft Plans (defined below) the Building System Modifications that are part of the Original Tenant Improvements. Landlord shall cooperate with Tenant in the design of the Building System Modifications and make available to Tenant at no additional charge portions of the Building outside the Premises (exclusive of areas leased to other tenants) necessary or desirable for installation and maintenance of the Building System Modifications including, without limitation, rooftop areas. Based on the space plans created for the Clinic TI's, Clinic/Office TI's and ASC TI's, respectively, Architect shall prepare draft working drawings and specifications for the Original Tenant Improvements ("Draft Plans"). Tenant reserves the right to have the electrical and mechanical work completed on a "design/build" basis. All Tenant's plans shall be subject to Landlord's approval which shall not be unreasonably conditioned or withheld. Landlord shall notify Tenant in writing within ten (10) business days after receipt of the first draft of the Draft Plans for each of the Clinic TI's, Clinic/Office TI's and ASC TI's, whether Landlord approves or objects to the Draft Plans and of the manner, if any, in which the Draft Plans are unacceptable. If Landlord objects to the Draft Plans, then Tenant shall direct Architect to revise the Draft Plans and cause Landlord's objections to be remedied in the revised Draft Plans. Tenant shall then resubmit the revised Draft Plans to Landlord for approval within ten (10) business days after receipt of Landlord's objections. Landlord shall notify Tenant in writing within seven (7) business days after receipt of revised Draft Plans whether Landlord approves or objects to the Draft Plans and of the manner, if any, in which the Draft Plans are unacceptable. If Landlord objects to the revised Draft Plans, then Tenant shall again direct Architect to revise the Draft Plans to address Landlord's objections and resubmit the Draft Plans to Landlord within seven (7) business days after receipt of Landlord's objections. Landlord 's approval of or objection to the re-revised Draft Plans and Tenant's correction of the same shall be repeated in accordance with the previous two sentences of this **Section 4**, until Landlord has approved the Draft Plans in writing. The iteration of the set of the Draft Plans for each of the Clinic TI's, Clinic/Office TI's and ASC TI's that is approved by Landlord without objection shall be referred to herein as the "**Tenant Improvement Plans**." If Landlord fails to timely notify Tenant in writing of objections to Draft Plans (or revised Draft Plans), then Landlord shall be deemed to have

approved such Draft Plans (or revised Draft Plans). Tenant shall be solely responsible for the suitability of the design and function of the Tenant Improvements for Tenant's needs and business. All work by Architect on the space plans, Draft Plans and revisions to the Tenant Improvement Plans, if any, shall be at Tenant's sole expense but shall be eligible for payment out of the Tenant Improvement Allowance. The Original Tenant Improvements and Tenant Improvement Plans shall include, without limitation, the following:

a) All interior demising walls, flooring, electrical wiring, outlets, and equipment, mechanical, plumbing and life-safety improvements in the Premises.

b) All partitioning, doors, floor prep, floor coverings, ceilings, wall coverings and painting, cabinetry, millwork and similar items to be installed within the Premises.

c) All electrical wiring, distribution, equipment connections, lighting fixtures, outlets, switches, circuits, panels, and other electrical work to be installed within the Premises or in the Building's electrical closets as required from the ground floor electrical room to and within the Premises; all additional electrical required to support X-ray, diagnostic imaging, etc. equipment of Tenant.

d) Low voltage wiring, equipment and systems including phone, music, security, intercom and communications systems.

e) The furnishing and installation of all duct work, terminal boxes, diffusers and accessories required for the completion of the heating, ventilation and air conditioning systems within the Premises, including the cost of meter and key control for after-hour air conditioning, zone boxes, and controls. Controls shall be compatible with, and connected to the Building central controls system.

f) Any additional Tenant requirements including, but not limited to, odor control, special heating, ventilation and air conditioning, noise or vibration control, medical gas, compressed air, vacuum and suction systems, or other special systems.

g) All fire and life safety control systems such as fire walls, sprinklers with quick response heads, halon, fire extinguishers, fire dampers, fire wall sleeving, fire alarm system extension from ground floor Building panel, including piping, wiring and accessories installed within the Premises.

h) Window coverings (building standard).

i) All plumbing, fixtures, pipes and accessories to be installed within the Premises; all toilet room and special exhaust fans shall be connected to Building exhaust "riser".

5. **Construction Permits**. Tenant shall cause the Tenant Improvement Plans to be submitted to the appropriate governmental body for plan checking and the issuance of a building

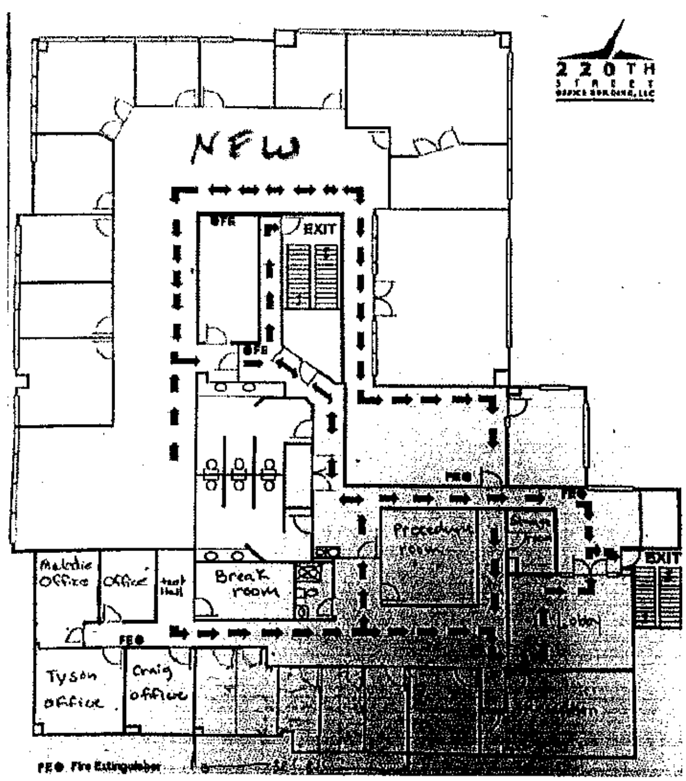
permit. As provided in **Section 3** of this **Schedule 7.7**, Tenant shall cause to be made any changes in the plans and specifications necessary to obtain the building permit.

6. **Risk of Construction of Original Tenant Improvements.** Tenant shall maintain, or cause its contractor to maintain, in full force and effect during the period of construction of the Original Tenant Improvements a "Builder's Risk" policy of insurance.

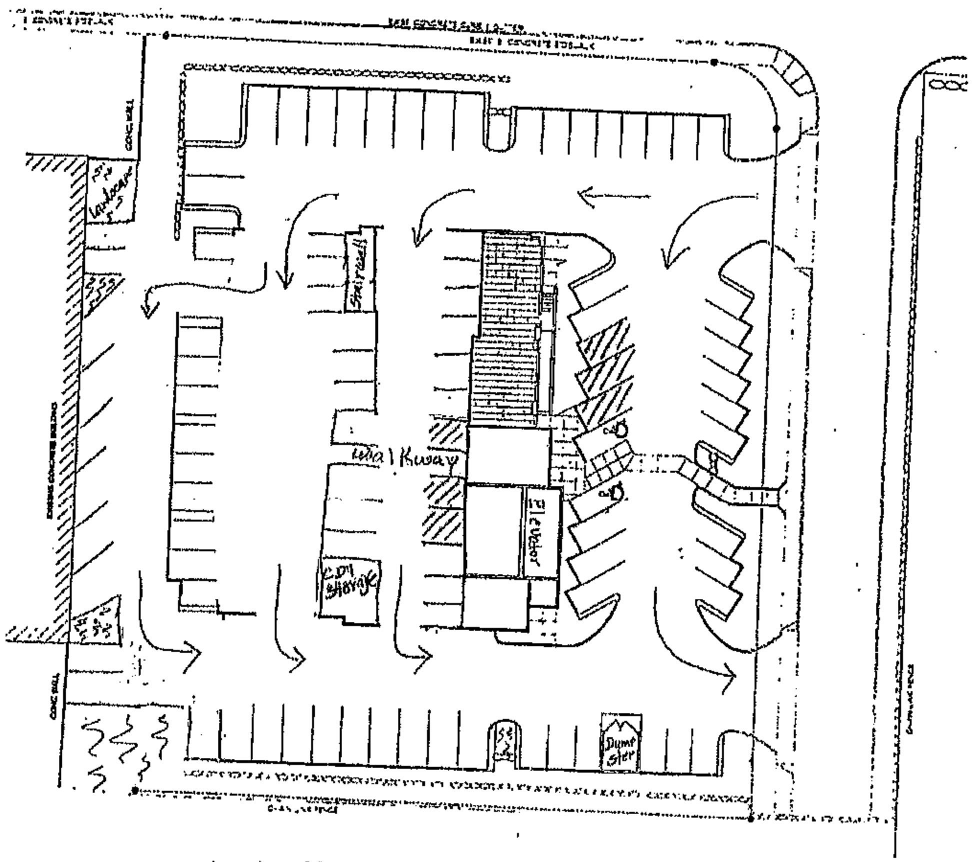
7. **Substitutions, Change Orders and Extras.** Tenant may, without Landlord approval, select and substitute any materials and interior finishes so long as they comply with applicable local codes requirements and are of a quality level comparable to or better than building standards. Other change orders or extras requested by Tenant that materially vary from the Tenant Improvement Plans are subject to Landlord's approval which shall not be unreasonably withheld, conditioned or delayed. If Landlord fails to timely notify Tenant in writing of objections to change orders or extras within three (3) business days after submittal to Landlord, then Landlord shall be deemed to have approved such change orders or extras.

Landlord's Initials ____________________ Tenant's Initials ____________________

[Below is the space plan for the Clinic TI's]

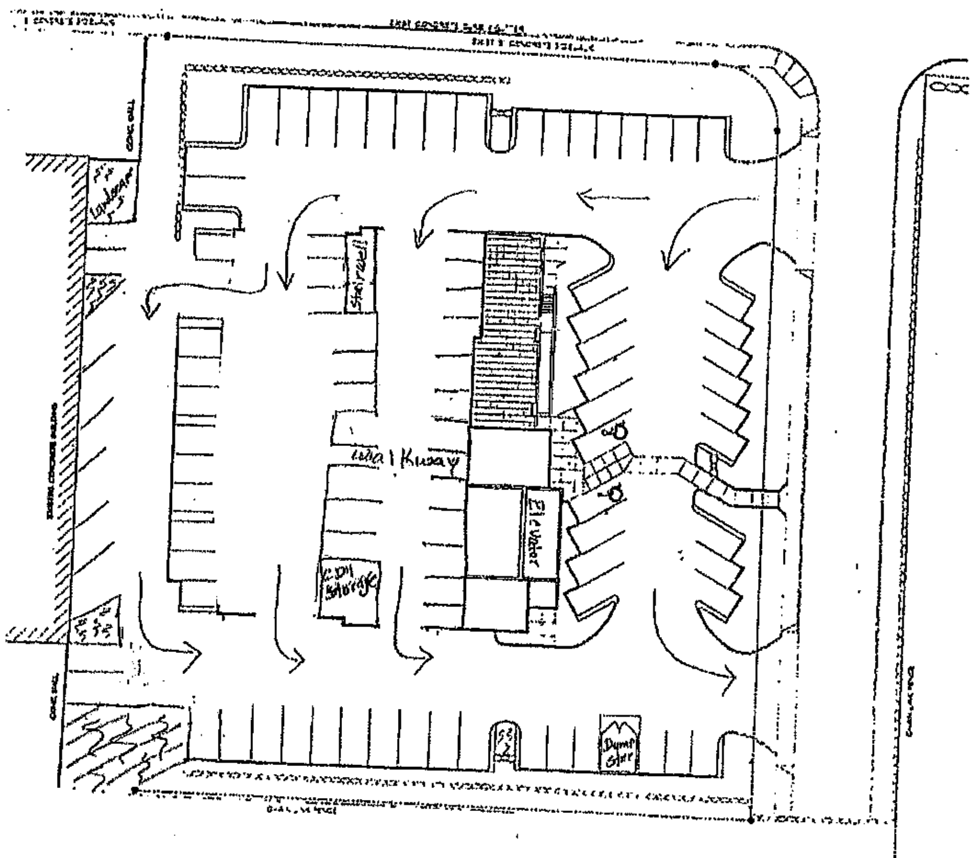


Schedule 8.2
Tenant's Exclusive Parking Stalls



Location of 6 parking spaces for Tenant's exclusive use

Schedule 8.4
Sketch of Location of Tenant's Generator



Possible location of back-up generator

Exhibit A
Rules and Regulations

1. Tenant shall obtain approval from Landlord (which Landlord shall not unreasonably withhold, condition or delay), prior to installation, of all types of window shades, blinds, drapes, solar film, canopies and other similar equipment that may be visible from the exterior of the Building, and Tenant agrees to maintain such window treatments in a good and attractive condition.

2. The sidewalks, halls, passages, exits, entrances, elevators and stairways shall not be obstructed by any of the tenants or used by them for any purposes other than for ingress and egress from their respective Premises.

3. Tenant shall not alter any lock or install any new or additional locks or any bolts on any doors or windows of the Premises.

4. The toilet rooms, urinals, wash bowls and other apparatus shall not be used for any purpose other than that for which they were constructed and no foreign substance of any kind whatsoever shall be thrown therein and the expense of any breakage, stoppage or damage resulting from the violation of this rule shall be borne by the tenant who, or whose employees or invitees shall have caused it.

5. Tenant shall not overload the floor of the Premises or in any way deface the Premises or any part thereof.

6. No furniture, freight or equipment of any kind shall be brought into the Building without prior notice to Landlord and all moving of the same into or out of the Building shall be done at such time and in such manner as Landlord shall designate. Landlord shall have the right to prescribe the weight, size and position of all heavy equipment brought into the Building and also the times and manner of moving the same in and out of the Building. Heavy objects shall, if considered necessary by Landlord, stand on supports of such thickness as is necessary to properly distribute the weight. Landlord will not be responsible for loss of or damage to any such property from any cause and all damage done to the Building by moving or maintaining any such property shall be repaired at the expense of Tenant.

7. Tenant shall not use, keep or permit to be used or kept any foul or noxious gas or substance in the Premises, or permit or suffer the Premises to be occupied or used in a manner offensive or objectionable to Landlord or other occupants of the Building by reason of noise, odors and/or vibrations, or interfere in any way with other tenants or those having business therein, nor shall any animals (other than seeing eye dogs or other similar service animals) be brought in or kept in or about the Premises or the Building.

8. No cooking, other than by coffee makers, toasters, microwaves, and similar small appliances for employee lunch room use, shall be done or permitted by Tenant on the Premises, nor shall the Premises be used for the storage of merchandise, for washing clothes other than medical gowns and similar items for medical services, for lodging, or for any improper, objectionable or immoral purposes.

9. Tenant shall not use or keep in the Premises or the Building any kerosene, gasoline or inflammable or combustible fluid or material, other than substances customarily used in the conduct of Tenant's business, or use any method of heating or air conditioning other than that supplied by Landlord.

10. Landlord will direct electricians as to where and how telephone and other wires are to be introduced. No boring or cutting for wires will be allowed without consent of the Landlord. The location of telephones, call boxes and other office equipment affixed to the Premises shall be subject to the approval of Landlord.

11. Outside Normal Hours of Operation, access to the Building, or to the halls, corridors, elevators or stairways in the Building, or to the Premises may be refused unless the person seeking access is known to the person or employee of the Building in charge and has a pass or is properly identified. The Landlord shall in no case be liable for damages for any error with regard to the admission to or exclusion from the Building of any person. In case of invasion, mob, riot, public excitement, or other commotion, the Landlord reserves the right to prevent access to the Building during the continuance of the same by closing of the doors or otherwise, for the safety of the tenants and protection of property in the Building and the Building.

12. Landlord reserves the right to exclude or expel from the Building any person who, in the judgment of Landlord, is intoxicated or under the influence of liquor or drugs, or who shall in any manner do any act in violation of any of the rules and regulations of the Building.

13. No vending machine, except for a beverage and or snack vending machine for employee lunch room use, shall be installed, maintained or operated upon the Premises without the written consent of the Landlord.

14. Landlord shall have the right, exercisable without notice and without liability to Tenant, to change the name and street address of the Building of which the Premises are a part.

15. Tenant shall not disturb, solicit, or canvass any occupant of the Building and shall cooperate to prevent same.

16. Without the written consent of Landlord, Tenant shall not use the name of the Building in connection with or in promoting or advertising the business of Tenant except as Tenant's address.

17. Landlord shall have the right to control and operate the public portions of the Building, and the public facilities, and heating and air conditioning, as well as facilities furnished for the common use of tenants, in such manner as it deems best for the benefit of tenants of the Building generally.

18. All entrance doors in the Premises shall be left locked when the Premises are not in use, and all doors opening to public corridors shall be kept closed except for normal ingress and egress from the Premises.

19. Only artificial trees may be displayed in suites during holiday periods. All other holiday decorations shall be either non-combustible or flame resistant in accordance with the National Fire Prevention Code.

Exhibit B
Memorandum of Lease

Return Address:

MEMORANDUM OF LEASE

Reference Number(s) of related document(s): _____.

Grantor: _____.

Grantee: _____.

Legal Description (abbreviated): _____.

Full legal(s) on Exhibit _____.

Assessor's Tax Parcel ID Number(s): _____

1. PURPOSE OF MEMORANDUM OF LEASE: The undersigned parties have signed and recorded this Memorandum of Lease in order to give actual and constructive notice to all other persons of the existence of a lease ("hereafter "Lease") of the real property located in the County of King, State of Washington between the Landlord and Tenant identified below and of the rights and interests of such Landlord and Tenant.

2. PARTIES:

2.1 LANDLORD: The Landlord under the Lease is _____, whose present address is _____, and who may also be contacted through:

2.2 TENANT: The Tenant under the Lease is _____, whose present address is _____, and who may also be contacted through:

3. REAL PROPERTY AFFECTED BY THE LEASE: The real property affected by the Lease is the real property described on Exhibit A to this Memorandum which Exhibit A is incorporated herein by this reference.

4. TERM OF LEASE: The Initial Term of the Lease commences on ________ with respect to Suites 100 and 150; commences on __________ with respect to Suites 202, 204 and 205; and

commences on ____________ with respect to Suite 201, and ends on __________, 20__ (with respect to all of the Premises). The Initial Term may be extended two (2) times, each time for a period of five (5) years, upon not less than six (6) months prior written notice to Landlord.

5. OTHER PROVISIONS: The Lease contains certain provisions restricting the use for which the real property affected by the Lease may be used.

6. ALL TERMS NOT CONTAINED IN THIS MEMORANDUM: All of the terms of the Lease are not contained in this Memorandum. This Memorandum neither expands nor modifies the Lease and the Lease shall control over this Memorandum in the event of any conflict or inconsistency. Any person who is potentially interested in the affected real property or lease should make further inquiry of the parties hereto.

LANDLORD:

By ____________________
Its ____________________

TENANT:

By ____________________
Its ____________________

<u>LANDLORD ACKNOWLEDGMENT</u>:

STATE OF Washington)
) ss.
COUNTY OF Snohomish)

I certify that I know or have satisfactory evidence that Daniel Voetman is the person who appeared before me, and said person acknowledged that he/she signed this instrument, on oath stated that he/she was authorized to execute the instrument and acknowledged it as the Managing Member of 220th Street Office Building LLC to be the free and voluntary act of such party for the uses and purposes stated therein.

Dated August 30, 2016.

ANITA M. RIKSHEIM
STATE OF WASHINGTON
NOTARY PUBLIC
MY COMMISSION EXPIRES
10-01-18

Notarial Stamp/Seal

Anita M Riksheim
Name: Anita M Riksheim
NOTARY PUBLIC, State of Washington
My appointment expires 10/01/18

TENANT ACKNOWLEDGMENT:

STATE OF Washington)
) ss.
COUNTY OF King)

I certify that I know or have satisfactory evidence that David Fitzgerald is the person who appeared before me, and said person acknowledged that he/she signed this instrument, on oath stated that he/she was authorized to execute the instrument and acknowledged it as the CEO of Proliance Surgeons to be the free and voluntary act of such party for the uses and purposes stated therein.

Dated 8/30/2016.

PA EVANS
NOTARY PUBLIC
COMMISSION EXPIRES JUNE 18, 2019
STATE OF WASHINGTON

Notarial Stamp/Seal

Name: PA Evans
NOTARY PUBLIC, State of Washington
My appointment expires 6/18/19

Exhibit C
Commencement Date Agreement

MEMORANDUM OF LEASE DATES

This Memorandum of Lease Dates is executed by ____ ("Landlord"), and ________________________________ ("Tenant") in connection with their Proliance Lease Agreement dated _____________ ("Lease") concerning the Premises commonly known as Suites ___ of _____________, Washington 98___ and legally described in the Lease. Unless specifically stated otherwise, all capitalized terms in this Memorandum shall have the same meaning as defined in the Lease.

Landlord and Tenant hereby agree as follows:

1. The First Commencement Date (with respect to Suite 201) is ____________________.

2. The Second Commencement Date (with respect to Suites 202, 204 and 205) is ____________________.

3. The Third Commencement Date (with respect to Suites 100 and 150) is ____________________.

4. The last day of the Initial Term of the Lease is ____________________.

5. The first payment of Basic Monthly Rent for the entire Premises in the amount of $__________ shall be due on ____________________.

6. The first Basic Monthly Rent adjustment for the Extended Term under Schedule 1.6 of the Lease is ____________________.

7. Tenant's notice to extend the term of this Lease for the first Extended Term must be delivered to Landlord no sooner than __________ and no later than ________________.

8. The first Extended Term (if the option to extend is exercised) is ____________________to ____________________.

9. Tenant's notice to extend the term of this Lease for the second Extended Term must be delivered to Landlord no sooner than __________ and no later than ________________.

10. The second Extended Term (if the option to extend is exercised) is ____________________to ____________________.

Executed by Landlord this ___ day of _________, 20__.

LANDLORD:

By:______________________

Executed by Tenant this _____ day of ___________, 20__.

TENANT:

By:______________________

EXHIBIT 9

NEED METHODOLOGY CALCULATION

Need Calculation

Row	Facility	License Number	Zip Code	CN Exempt Facility	Special Procedure Rooms	Dedicated Inpatient ORs	Dedicated Outpatient ORs	Mixed Use ORs	Mixed Use min/case	Inpatient Cases in Mixed Use ORs	Inpatient Mins. in Mixed Use ORs	Outpatient Min/Case	Outpatient Cases	Outpatient Mins.	Data Source	
1	Alderwood Surgery Center	ASF.FS.60100124	98037	Yes	-	-	2	-	N/A	-	-	60.00	150	9,000	CY2017 Data	2017
2	Baxter Plastic Surgery	ASF.FS.60100198	98043	Yes	-	-	2	-	N/A	-	-	120.00	237	28,440	CY2017 Data	2017
3	Cosmetic Surgical Arts Center	ASF.FS.60103023	98036	Yes	-	-	1	-	N/A	-	-	179.00	52	9,308	CY2017 Data	2017
4	Virginia Mason Lynnwood Ambulatory Su	ASF.FS.60101659	98036	Yes	2	-	-	-	N/A	-	-	N/A	-	-	Endoscopy Center (Rooms not included in need methodology)	0
5	Urology Northwest Surgery Center	ASF.FS.60397572	98043	Yes	1	-	2	-	N/A	-	-	45.00	198	8,910	CY2015 Data	2015
6	Proliance Center for Outpatient Spine an	ASF.FS.60783506	98043	Yes	-	-	4	-	N/A	-	-	50.00	1,880	94,000	ILRS Data for Outpatient Cases, Minutes per statutory assumption pe	2017
7	Washington Spine Diagnostics and Treat	ASF.FS.60099790	98021	Yes	4	-	2	-	N/A	-	-	89.43	369	33,000	CY2017 Data	2017
10	Stevens Hospital	HAC.FS.00000138	98026	No	-	-	-	-	N/A	-	-	50.00	-	-	Closed	
11	Swedish Edmonds	HAC.FS.60183546	98026	No	4	-	-	8	96.86	4,667	452,054	50.00	-	-	CY2017 Data	
12	Total				11	-	13	8	96.86	4,667	452,054	63.29	2,886	182,658		

ORs counted in numeric methodology

Survey Data Year (1st Year)	2015
Survey Data Year (2nd Year)	2017
Year 1 of Operation	2019
Year 3 of Operation	2021

			Total Populatio	Age 15+		
Total Surgeries	7,553					
Area Population 2015 Estimated	272,374	Claritas data and annual estimates using Claritas growth rates	272,374	228,147	Selected Population Data:	
Area Population 2017 Estimated	282,591	Claritas data and annual estimates using Claritas growth rates	282,591	239,727	Total Population	
Use Rate	26.7					2.84
Planning Area Projected Population Year: 2021	301,298	Claritas data and annual estimates using Claritas growth rates	301,298	254,368		

% Outpatient of Total Surgeries	38.21%
% Inpatient of Total Surgeries	61.79%

a.i. Minutes/year/mixed-use OR 94,250

a.ii. Minutes/year/dedicated outpatient OR 68,850

a.iii. Outpatient OR capacity

0 dedicated outpatient ORs x 68850 minutes = - mins dedicated OR capacity - Outpatient surgeries

a.iv. Mixed-use OR capacity in minutes

8 mixed-use ORs x 94250 minutes = 754,000 mins mixed-use OR capacity 7,784 Mixed-use surgeries

b.i. Projected surgeries

4,976 projected inpatient surgerie -----> 481,978 minutes inpatient surgeries

3,085 projected outpatient surger -----> 195,250 minutes outpatient surgeries

b.ii. Forecast # of outpatient surgeries - capacity of dedicated outpatient ORs

3,085 - - = 3,085 outpatient surgeries

b.iii. Average time per surgery

Average time of inpatient surgeries = 96.86

Average time of outpatient surgeries = 63.29

b.iv.	Projected OR capacity need in minutes					
		Inpatient surgeries x average time	=	481,978	minutes	Number of minutes needed for inpatient surgery
		Remaining outpatient surgeries x avg time	=	195,250	minutes	Number of minutes needed for outpatient surgery over current dedicated outpatient OR capacity
				677,228	minutes	

c.i.	Determination of excess mixed-use OR capacity								
		if b.iv < a. iv., divide (a. iv. - b.iv.) by 94250 to determine surplus of mixed-use ORs					b.iv.	677,228	projected OR capacity need
							a.iv.	754,000	current mixed-use OR capacity
		754,000							
		(677,228)							
		76,772	/	94,250	=	0.81			

c.ii.	Determination of inpatient and outpatient OR shortage					
		if b.iv > a. iv., divide (inpatient part of b. iv. - a.iv.) by 94250 to determine shortage of inpatient ORs				
		481,978				
		(754,000)				
		(272,022)	/	94,250	=	(2.89)
		divide outpatient part of b.iv. by 68850 to determine shortage of dedicated outpatient ORs				
		195,250	/	68,850	=	2.84

EXHIBIT 10

HISTORICAL AND PROJECTED RESIDENT POPULATION STATISTICS FOR SOUTHWEST SNOHOMISH COUNTY SECONDARY HEALTH SERVICES PLANNING AREA

Southwest Snohomish

Pop-Facts: Demographic Trend

Description	Southwest Snohomish					
	2000* / 2010**		2019		2024	
	Census	%	Estimate	%	Projection	%
Population by Age**	**248,418**		**293,192**		**313,878**	
Age 0 - 4	16,079	6.47%	17,601	6.00%	18,080	5.76%
Age 5 - 9	15,252	6.14%	17,994	6.14%	18,630	5.94%
Age 10 - 14	15,502	6.24%	17,870	6.09%	19,002	6.05%
Age 15 - 17	9,876	3.98%	10,335	3.52%	11,795	3.76%
Age 18 - 20	8,960	3.61%	9,472	3.23%	10,688	3.41%
Age 21 - 24	12,371	4.98%	12,741	4.35%	13,982	4.45%
Age 25 - 34	36,383	14.65%	40,367	13.77%	36,514	11.63%
Age 35 - 44	36,369	14.64%	42,560	14.52%	45,740	14.57%
Age 45 - 54	38,705	15.58%	40,051	13.66%	41,495	13.22%
Age 55 - 64	30,837	12.41%	39,703	13.54%	41,576	13.25%
Age 65 - 74	15,266	6.15%	27,670	9.44%	34,993	11.15%
Age 75 - 84	8,836	3.56%	11,978	4.09%	16,160	5.15%
Age 85 and over	3,982	1.60%	4,850	1.65%	5,223	1.66%
Age 16 and over	198,462	79.89%	236,327	80.60%	254,298	81.02%
Age 18 and over	191,709	77.17%	229,392	78.24%	246,371	78.49%
Age 21 and over	182,749	73.57%	219,920	75.01%	235,683	75.09%
Age 65 and over	28,084	11.31%	44,498	15.18%	56,376	17.96%
Median Age	**37.7**		**39.7**		**41.2**	
Population by Sex**	**248,418**		**293,192**		**313,878**	
Male	121,847	49.05%	144,462	49.27%	154,630	49.26%
Female	126,571	50.95%	148,730	50.73%	159,248	50.74%
Pop. by Single-Classification Race by Hispanic/Latino**						
Hispanic or Latino	**20,001**		**26,513**		**30,264**	

Southwest Snohomish

Pop-Facts: Demographic Trend

Description	Southwest Snohomish					
	2000* / 2010**		2019		2024	
	Census	%	Estimate	%	Projection	%
White Alone	9,610	48.05%	12,747	48.08%	14,551	48.08%
Black or African American Alone	268	1.34%	382	1.44%	445	1.47%
American Indian and Alaska Native Alone	362	1.81%	522	1.97%	611	2.02%
Asian Alone	265	1.32%	359	1.35%	416	1.37%
Native Hawaiian & Other Pacific Islander Alone	37	0.18%	51	0.19%	60	0.20%
Some Other Race Alone	7,601	38.00%	10,030	37.83%	11,419	37.73%
Two or More Races	1,858	9.29%	2,422	9.14%	2,762	9.13%
Not Hispanic or Latino	**228,417**		**266,679**		**283,614**	
White Alone	170,689	74.73%	181,291	67.98%	181,663	64.05%
Black or African American Alone	7,894	3.46%	13,202	4.95%	16,545	5.83%
American Indian and Alaska Native Alone	1,638	0.72%	1,758	0.66%	1,782	0.63%
Asian Alone	36,591	16.02%	54,604	20.48%	65,364	23.05%
Native Hawaiian & Other Pacific Islander Alone	1,116	0.49%	1,751	0.66%	2,141	0.75%
Some Other Race Alone	484	0.21%	561	0.21%	591	0.21%
Two or More Races	10,005	4.38%	13,512	5.07%	15,528	5.48%
Households by Age of Householder**	**96,862**		**115,357**		**124,073**	
Householder Under 25 Years	3,725	3.85%	3,292	2.85%	3,804	3.07%
Householder 25 to 34 Years	16,256	16.78%	17,239	14.94%	15,131	12.20%
Householder 35 to 44 Years	19,228	19.85%	22,515	19.52%	24,119	19.44%
Householder 45 to 54 Years	21,954	22.67%	22,434	19.45%	23,380	18.84%
Householder 55 to 64 Years	17,985	18.57%	22,688	19.67%	23,614	19.03%
Householder 65 to 74 Years	9,376	9.68%	16,527	14.33%	20,747	16.72%
Householder 75 to 84 Years	5,731	5.92%	7,513	6.51%	9,939	8.01%
Householder 85 Years and over	2,607	2.69%	3,149	2.73%	3,339	2.69%
Median Age of Householder	**49.2**		**51.5**		**53.1**	

Southwest Snohomish

Pop-Facts: Demographic Trend

Description	Southwest Snohomish					
	2000* / 2010**		2019		2024	
	Census	%	Estimate	%	Projection	%
Households by Household Income*	**81,482**		**115,357**		**124,073**	
Income Less than $15,000	6,369	7.82%	5,663	4.91%	5,083	4.10%
Income $15,000 - $24,999	7,039	8.64%	5,667	4.91%	5,090	4.10%
Income $25,000 - $34,999	9,316	11.43%	5,277	4.57%	5,096	4.11%
Income $35,000 - $49,999	13,122	16.10%	10,455	9.06%	8,317	6.70%
Income $50,000 - $74,999	19,896	24.42%	17,840	15.47%	17,504	14.11%
Income $75,000 - $99,999	12,500	15.34%	16,174	14.02%	15,477	12.47%
Income $100,000 - $124,999	6,888	8.45%	13,640	11.82%	14,186	11.43%
Income $125,000 - $149,999	2,895	3.55%	10,663	9.24%	12,112	9.76%
Income $150,000 - $199,999	1,857	2.28%	12,985	11.26%	15,762	12.70%
Income $200,000 - $249,999	819	1.01%	7,302	6.33%	10,028	8.08%
Income $250,000 - $499,999	611	0.75%	6,512	5.65%	10,198	8.22%
Income $500,000 or more	170	0.21%	3,179	2.76%	5,220	4.21%
Average Household Income	**$65,834**		**$123,382**		**$143,568**	
Median Household Income	**$56,151**		**$94,749**		**$109,639**	
Median HH Inc. by Single-Classification Race*						
White Alone	$56,450		$94,655		$109,653	
Black or African American Alone	$46,839		$77,073		$87,814	
American Indian and Alaska Native Alone	$55,385		$83,705		$96,599	
Asian Alone	$57,116		$111,471		$127,868	
Native Hawaiian & Other Pacific Islander Alone	$63,578		$71,739		$85,779	
Some Other Race Alone	$42,752		$64,255		$74,866	
Two or More Races	$57,568		$92,386		$107,721	
Hispanic or Latino	$46,977		$70,185		$80,291	

Southwest Snohomish

Pop-Facts: Demographic Trend

Description	Southwest Snohomish					
	2000* / 2010**		2019		2024	
	Census	%	Estimate	%	Projection	%
Not Hispanic or Latino	$56,455		$96,549		$112,085	

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Pop-Facts Demographics Trend

Pop-Facts Premier 2019

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Southwest Snohomish Aggregate Pop-Facts Demographic Trend

Population by Age and Sex Trend

Description	Southwest Snohomish					
	2010		2019		2024	
	Census	%	Estimate	%	Projection	%
Total Population By Age	**248,418**		**293,192**		**313,878**	
Age 0 - 4	16,079	6.47%	17,601	6.00%	18,080	5.76%
Age 5 - 9	15,252	6.14%	17,994	6.14%	18,630	5.94%
Age 10 - 14	15,502	6.24%	17,870	6.09%	19,002	6.05%
Age 15 - 17	9,876	3.98%	10,335	3.52%	11,795	3.76%
Age 18 - 20	8,960	3.61%	9,472	3.23%	10,688	3.41%
Age 21 - 24	12,371	4.98%	12,741	4.35%	13,982	4.45%
Age 25 - 34	36,383	14.65%	40,367	13.77%	36,514	11.63%
Age 35 - 44	36,369	14.64%	42,560	14.52%	45,740	14.57%
Age 45 - 54	38,705	15.58%	40,051	13.66%	41,495	13.22%
Age 55 - 64	30,837	12.41%	39,703	13.54%	41,576	13.25%
Age 65 - 74	15,266	6.15%	27,670	9.44%	34,993	11.15%
Age 75 - 84	8,836	3.56%	11,978	4.09%	16,160	5.15%
Age 85 and over	3,982	1.60%	4,850	1.65%	5,223	1.66%
Age 16 and over	198,462	79.89%	236,327	80.60%	254,298	81.02%
Age 18 and over	191,709	77.17%	229,392	78.24%	246,371	78.49%
Age 21 and over	182,749	73.57%	219,920	75.01%	235,683	75.09%
Age 65 and over	28,084	11.31%	44,498	15.18%	56,376	17.96%
Median Age	**37.7**		**39.7**		**41.2**	
Male Population by Age	**121,847**		**144,462**		**154,630**	
Age 0 - 4	8,259	6.78%	9,032	6.25%	9,251	5.98%
Age 5 - 9	7,679	6.30%	9,212	6.38%	9,538	6.17%
Age 10 - 14	7,897	6.48%	9,135	6.32%	9,741	6.30%
Age 15 - 17	5,000	4.10%	5,226	3.62%	6,009	3.89%
Age 18 - 20	4,736	3.89%	4,875	3.37%	5,486	3.55%
Age 21 - 24	6,326	5.19%	6,512	4.51%	7,104	4.59%
Age 25 - 34	18,278	15.00%	20,429	14.14%	18,558	12.00%
Age 35 - 44	18,146	14.89%	21,483	14.87%	23,076	14.92%
Age 45 - 54	19,000	15.59%	19,882	13.76%	20,702	13.39%
Age 55 - 64	14,620	12.00%	19,174	13.27%	20,175	13.05%
Age 65 - 74	6,983	5.73%	12,717	8.80%	16,239	10.50%

Southwest Snohomish Aggregate Pop-Facts Demographic Trend

Population by Age and Sex Trend

Description	Southwest Snohomish					
	2010		2019		2024	
	Census	%	Estimate	%	Projection	%
Age 75 - 84	3,574	2.93%	5,110	3.54%	6,923	4.48%
Age 85 and over	1,349	1.11%	1,675	1.16%	1,828	1.18%
Age 16 and over	96,405	79.12%	115,369	79.86%	124,127	80.27%
Age 18 and over	93,012	76.34%	111,857	77.43%	120,091	77.66%
Age 21 and over	88,276	72.45%	106,982	74.06%	114,605	74.12%
Age 65 and over	11,906	9.77%	19,502	13.50%	24,990	16.16%
Median Age	**36.5**		**38.6**		**40.0**	
Female Population by Age	**126,571**		**148,730**		**159,248**	
Age 0 - 4	7,820	6.18%	8,569	5.76%	8,829	5.54%
Age 5 - 9	7,573	5.98%	8,782	5.90%	9,092	5.71%
Age 10 - 14	7,605	6.01%	8,735	5.87%	9,261	5.82%
Age 15 - 17	4,876	3.85%	5,109	3.44%	5,786	3.63%
Age 18 - 20	4,224	3.34%	4,597	3.09%	5,202	3.27%
Age 21 - 24	6,045	4.78%	6,229	4.19%	6,878	4.32%
Age 25 - 34	18,105	14.30%	19,938	13.41%	17,956	11.28%
Age 35 - 44	18,223	14.40%	21,077	14.17%	22,664	14.23%
Age 45 - 54	19,705	15.57%	20,169	13.56%	20,793	13.06%
Age 55 - 64	16,217	12.81%	20,529	13.80%	21,401	13.44%
Age 65 - 74	8,283	6.54%	14,953	10.05%	18,754	11.78%
Age 75 - 84	5,262	4.16%	6,868	4.62%	9,237	5.80%
Age 85 and over	2,633	2.08%	3,175	2.13%	3,395	2.13%
Age 16 and over	102,057	80.63%	120,958	81.33%	130,171	81.74%
Age 18 and over	98,697	77.98%	117,535	79.03%	126,280	79.30%
Age 21 and over	94,473	74.64%	112,938	75.93%	121,078	76.03%
Age 65 and over	16,178	12.78%	24,996	16.81%	31,386	19.71%
Median Age	**38.9**		**40.9**		**42.3**	

Southwest Snohomish Aggregate Pop-Facts Demographic Trend

Population by Age and Sex Trend

Description	Southwest Snohomish					
	2010		2019		2024	
	Census	%	Estimate	%	Projection	%

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Pop-Facts Demographics Trend

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Southwest Snohomish Aggregate Pop-Facts Demographic Trend

Population Summary

Population by:	Southwest Snohomish	
	Total Population	Population Growth
2024 Projection	313,878	
2019 Estimate	293,192	
2010 Census	248,418	
2000 Census	210,816	
Growth 2000 - 2010		17.84%
Growth 2010 - 2019		18.02%
Growth 2019 - 2024		7.06%

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Pop-Facts Demographics Trend

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Southwest Snohomish Aggregate Pop-Facts Demographic Trend

Map

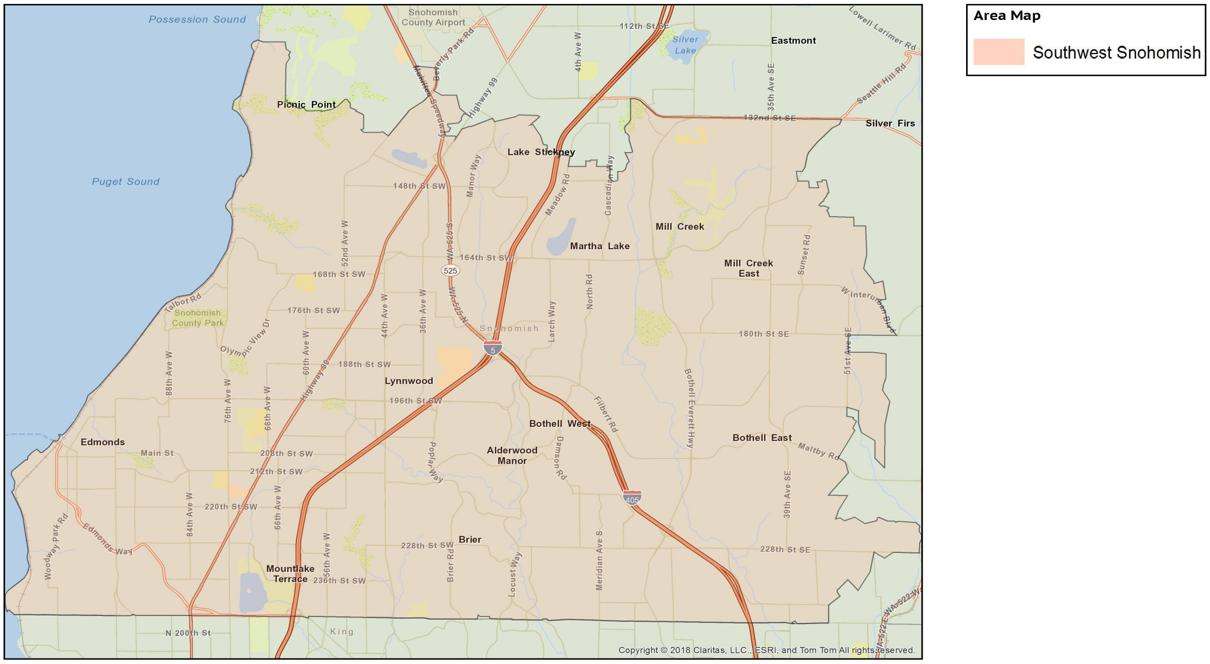

EXHIBIT 11

PROLIANCE SURGEONS, INC., P.S.
NON-DISCRIMINATION POLICY

PROLIANCE SURGEONS

Patient Rights and Responsibilities

This facility and medical staff have adopted the following list of patient rights and responsibilities. This list includes, but is not limited to:

PATIENT RIGHTS

- Impartial treatment without regard to race, color, sex, national origin, religion, handicap or disability.
- To be free from acts of discrimination or reprisal, to receive considerate, respectful, and safe care that is dignified at all times and to be protected from abuse, harassment and neglect and have knowledge of and access to protective services.
- Knowledge of the name and professional status of those caring for you.
- To receive information from the surgeons about your diagnosis, treatment plan, prognosis, and any unanticipated outcomes, to the best of the physicians' knowledge. You have the right to spiritual care and communication and if communication restrictions are necessary for your care and safety, we will document and explain the restrictions to you or your family.
- To participate actively in decisions regarding your medical care including being involved in resolving problems with your care. To the extent permitted by law, this includes the right to refuse treatment. If the patient is adjudged incompetent or the patient has designated a legal representative or a family member, the person appointed/designated shall fully participate in decisions regarding the patient's care.
- Full consideration of privacy concerning your medical care program. Case discussion, examination and treatment are confidential and should be conducted as discretely as possible.
- To be asked if you have an Advance Directive and if so, for it to be prominently placed in your chart.
- To be advised that should an unexpected life threatening event occur, you will receive resuscitative or other stabilizing measures and be transferred to an acute facility that will order additional treatment according to your wishes in your Advance Directive.
- Confidential treatment of all communications and records pertaining to care. Written permission shall be obtained before medical records can be made available to anyone not directly concerned with your care.
- Responsible responses to any reasonable request for service.
- To leave the facility even against medical advice and to change providers if another qualified provider is available.
- To expect reasonable continuity of care.
- To be advised if the physician proposes to engage in or perform experimentation affecting your care or treatment and the right to refuse to participate in this activity without hindering access to care.
- To be informed of the continuing health care requirements following discharge from the center.
- Examine and receive an explanation of a bill for service, regardless of source of payment.
- To report any comments or complaints concerning the quality of care provided to you and for the facility to provide a prompt resolution within fourteen (14) business days to your comment or complaint. In the event, after reasonable attempts have been made, that a resolution is not achieved within fourteen (14) business days, then you will be notified when you can expect a resolution.

PATIENT RESPONSIBILITIES

- To provide accurate and complete information concerning your present complaints, past medical history and other matters relating to your health.
- To make it known whether you clearly comprehend the course of treatment and what is expected of you.
- For following the treatment plan established by the physician, including the instructions of nurses and other health care professional as they carry out the physicians' orders.
- To keep your appointments and notifying the facility if unable to do so.
- To provide a responsible adult to drive you home from the facility and stay with you for 24 hours after surgery.
- For assuring that the financial obligations of your care is fulfilled as promptly as possible.
- For being considerate of the rights of other patients and facility personnel.

FEEDBACK

Our goal is to provide the best surgical experience possible while in our Ambulatory Surgery Center. Patients, clients, families or visitors have the right to express complaints or concerns about any aspects of their care or experience with our ASC without fear of discrimination or reprisal. Please be assured that expressing a complaint or concern will not compromise your care and will be addressed according to our policy. Concerns may be directed to any facility staff or the ASC Manager, or you may mail your comments to us.

If you feel it is necessary, complaints may also be shared with: **WASHINGTON STATE DEPARTMENT of HEALTH, HSQA COMPLAINT INTAKE, P.O. BOX 47857, OLYMPIA, WA 98504-7857, 360-236-4700, 1-800-633-6828, 360-236-2626(fax)** HSQAComplaintIntake@doh.wa.gov **or OFFICE OF THE MEDICARE BENEFICIARY OMBUDSMAN, 1-800-MEDICARE (1-800-633-4227),** www.medicare.gov/claims-and-appeals/medicare-rights/get-help/ombudsman.html.

ASC Patient Rights And Responsibilities - 080715

PROLIANCE SURGEONS

STATEMENT OF PHYSICIAN FINANCIAL INTERESTS OR OWNERSHIP

Your physician has an ownership interest in Proliance Surgeons, Inc., P.S. which includes the surgery center at which you are having your procedure. As with all of your care, you may request to have your procedure performed at another facility where your surgeon has privileges to practice.

EXHIBIT 12

PROLIANCE SURGEONS, INC., P.S.
CHARITY CARE POLICY

PROLIANCE SURGEONS®

POLICY

Policy Number:	BAR-0001	Policy Name:	Charity Care
Department:	All Proliance Workforce Members		
Effective Date:	January 1, 2006	Last Revision Date:	July 3, 2018
Approved By:	[signature]	Approved Date:	July 3, 2018

Purpose:
In an effort to provide care to the indigent population, Proliance Surgeons, Inc., P.S. allows a charity care discount of up to 100% off the total visit cost.

Policy:
The charity care discount of up to 100% will be extended to eligible patients upon notification from either the patient or the physician that the patient meets Proliance-identified criteria noted below.

Scope:
This policy applies to all Proliance workforce members.

Procedure:
In order to qualify for the charity care discount, patients must satisfy the following conditions:

1. If physician or clinic is an Apple/Medicaid, the patient's monthly income must be at, or below, 200% of the Federal Poverty Level (see table below); or

The 2018 Poverty Guidelines for the	
Persons in family	**Poverty guideline**
1	$24,280
2	$32,920
3	$41,560
4	$50,200
5	$58,840
6	$67,480
7	$76,120
8	$84,760
For families with more than 8 persons, add $4,320 for each additional person.	

2. If physician or clinic is not an Apple/Medicaid, and the patient presents with a valid, current Apple/Medicaid coupon:
   a. The physician elects to see the patient;
   b. The patient acknowledged financial responsibility.

Responsibility:
The physician or patient account representative shall determine the discount percentage or flat fee for the service based upon the patient's ability to pay. The discount percentage and the dollar amount shall be noted on the receipt. The discount shall be posted at the same time as the payment using a specific charity care discount code.

References:

1. United States Dept. of Health and Human Services Poverty Guidelines, 2018

COSJS Quality Improvement/Assurance Study: (Approved ??/??/?? by Governing Board)

Operating Room Turnover Times

Initiated 1st Quarer 2019 – A three month project

1. Statement of purpose/problem/significance to organization:
   To improve efficiency in the operating room, COSJS leadership identified a need to maximize operating room utilization as surgical volume increase by decreasing the turnover time between cases. Understanding the flow in the operating room and identifying areas of redundancy and waste may reduce the time between surgical cases. This is an important component that may improve access for surgeons to perform more procedures daily.
2. Identifying the measurable/quantitative performance goal:

   Enter internal benchmark data for comparison.

   SMART Goal:

3. Description of data to be collected:

   Data collection is based on direct observation using the collection sheet and are specific measurable moments key in the turnover process at COSJS:

   Turnover Data Collection Sheet

4. Evidenced of data collection:

   Data will be collected daily from the assigned observers and entered in report. (provide copies of the data collected

5. Data analysis describing frequency, severity, and source of the problem:

   There is no data for analysis at this time.

6. Performance comparison (current performance to performance goal):

   Current Performance will be demonstrated via report/graph. The line within the graph is the minimum goal.

7. Implementation of correction action:

   Corrective action implemented included: (pending/ as needed)

   Staff/education:

   Workflows/processes:

Other:

8. Re-measurement (interim/partial):

   Interim re-measurement will occur during the March Governing Board Meeting.

9. If initial correction actions did not achieve and/or sustain the desired improved performance; implementation of additional corrective actions and measurement:

10. Communication of findings:

    Progress on the study is communicated quarterly to the Governing Board. Final review of study and presentation of data will be provided to the Governing Board and Staff in June 2019. Meetings will be confirmed in Governing Board and staff meeting minutes. If findings indicate need for education, this will be incorporated into the staff education/training calendar.

Signature: ______________________________ Date: ____________________

EXHIBIT 13

PROLIANCE SURGEONS, INC., P.S.
ADMISSIONS POLICY

Policy Number:	3002	Subject:	ASC Admission Policy (Proliance Policy)
Effective Date:	March 15, 2016	Last Revision Date:	March 15, 2016 Reviewed 8/22/17
Approved By:		Approved Date:	March 15, 2016

PURPOSE
To establish guidelines for determining if a patient is an appropriate candidate for ambulatory surgery.

POLICY

1. The criteria for patient admission is stipulated in the Medical Staff By-Laws, Rules and Regulations.

2. Patient admission to the facility is through a credentialed member of the facility's medical staff with current privileges.

3. Credentialed medical staff members may only schedule procedures listed in the facility's Approved Procedures list and for which the physician has been specifically approved.

4. All procedures are scheduled on an elective basis.

5. Patients who may not be appropriate for elective procedures in the facility are as follows:
   a) Patients having an infectious disease - those patients with or having been exposed to an infectious disease, i.e. tuberculosis (active, under treatment, exposed to, exhibiting symptoms) and/or significant respiratory infection (incipient, existing, or convalescent) are not acceptable candidates for admission to the facility.
      1) During the pre-admission assessment, the pre-admission nurse and anesthesiologist will question and observe the patient for potential infectious disease.
      2) If a patient is identified as having an infectious disease during the pre-admission assessment or at admission, this will be reported to the Medical Director and/or anesthesiologist.
      3) The Medical Director and/or anesthesiologist will cancel the proposed surgery and advise the patient to contact their attending physician.
      4) Patients determined to have an infectious disease must be isolated immediately and kept in an isolated area until discharge.
      5) Any area occupied by the patient with an infectious disease must be terminally cleaned as soon as the patient is discharged or moved.
   b) Patients with the following conditions are not acceptable candidates for admission to the facility:
      1) Patients weighing over 400 pounds (depends on OR table rating and discretion of anesthesiologist)
      2) Patients known to have malignant hyperthermia
      3) Patients under 16 years of age
      4) Patients who have demonstrated incapacitating mental disorders
      5) Patients who require intracranial or cardiac intervention
      6) Pacemaker dependent patient or patient with AICD implant
      7) Patients with an ASA rating of IV or V
      8) The Center has the right to refuse care or dismiss a patient from care for the following reasons:

a) in the event the patient is disruptive, uncooperative, or belligerent
b) in the event that the patient is physically threatening to the staff or other patients.

c) Pregnant patients - medical clearance must be obtained by unanimous consent of both the attending physician and the anesthesiologist based on pregnancy status, type of procedure planned, and type of anesthesia to be utilized.

6. The following guidelines will assist in determining if a patient is eligible for elective procedures in the facility:

a) Patient must meet physical status classification 1, 2, or 3, as determined by the American Society of Anesthesiology):
    1) Class I - normal healthy patient
    2) Class II - patient with mild systemic disease
        Example: chronic bronchitis, moderate obesity, diet-controlled diabetes mellitus, old myocardial infarction, mild hypertension
    3) Class III - Patient with a severe systemic disease that limits activity but is not incapacitating (medical clearance required)
        Example: Coronary artery disease with angina, insulin-dependent diabetes mellitus, morbid obesity, moderate-to-severe pulmonary insufficiency

b) The facility has an established age eligibility criteria (5. b. 4 – 5)
c) Patients and/or persons signing the consent for an outpatient procedure must understand and agree with the concept of outpatient surgery/treatment.
d) Patients planning to undergo outpatient surgery must exhibit the ability to use judgment and follow instructions.
e) Patient must be available to be admitted at least a minimum of one hour prior to scheduled procedure.
f) Patient must be follow NPO guidelines (see Policy 3023) .
g) Patients must arrange to be accompanied and transported at discharge by a responsible adult if anesthesia or sedation is given.
h) Patient must have a responsible adult staying with them overnight if anesthesia or sedation is given (patient, physician, or facility arranged).
i) All minor age patients must be accompanied and transported by a parent or legal guardian. If a guardian, legal documentation of their guardianship must be brought to the facility at the pre-admission appointment. The parent or legal guardian of a minor age patient must remain in the facility until the patient is discharged.
j) Pre-admission testing per facility guidelines, or as deemed necessary by Anesthesia, must be completed prior to admission. Patients with significantly abnormal pre-admission findings must be cleared for surgery by the attending physician or anesthesiologist.
k) Patient must have an accompanying history and physical by a medical staff member at the time of admission.

Policy Number:	1004	Subject:	SCOPE OF CARE
Effective Date:	08/22/2017	Last Revision Date:	
Approved By:	Governing Board	Approved Date:	**08/22/2017**

PURPOSE

To define the surgery center, i.e., care provided, licensure/certification attained, and staffing.

POLICY

1. The scope of services and care provided at the facility is limited to urgent and elective procedures that are appropriate to the outpatient environment and are approved by the Governing Board.

2. Laboratory, pathology, radiology and other ancillary services are provided by agreement with outside providers. All contracts are reviewed on an annual basis.

3. The surgery center provides ambulatory surgery services in the specialties of:
   a) Spine
   b) Joint Replacement
   c) Pain Management
   d) Orthopedics

4. When state licensure and Medicare certification are completed, the facility accepts payment from Medicare, state assistance programs, private carriers, and contracted managed care Facilitys.

5. Patient population is limited to:

   a) Adults age 16 or over

   b) ASA physical status classifications Class 1, 2, and 3.

6. The medical staff consists of physicians credentialed in their specialty.

7. Nursing care activities are directed by a registered nurse.

8. Facility staff may vary with caseload. Registered nurses are the primary nursing caregivers at the facility.

9. Anesthesia is provided by a contracted anesthesia group and includes the following types of anesthesia:
   a) General (General Anesthesia may only be performed in the Operating Rooms)
   b) MAC (Monitored Anesthesia care may only be performed in the Operating Rooms)
   c) Regional/Spinal/Epidural (Regional anesthesia may be performed in the Operating Rooms or the pre/post op areas. Blocks may be performed in Pre-Op and Recovery Room as indicated and performed safely
   d) Local (May be performed in the OR's or other pre/post areas as indicated and performed safely).

EXHIBIT 14

PRO FORMA INCOME STATEMENT

Q27. COSJS Pro Forma (2019-2023)

		2019	2020	2021	2022	2023
Revenue						
		$ 5,723,172	$ 7,300,149	$ 8,974,108	$ 9,526,015	$ 10,111,865
Expenses						
	Employee Salaries	$ 781,140	$ 1,179,161	$ 1,547,742	$ 1,594,174	$ 1,641,999
	Employee Benefits	$ 117,360	$ 207,036	$ 289,884	$ 298,581	$ 307,538
	Supplies	$ 1,903,804	$ 2,020,888.47	$ 2,145,173.11	$ 2,277,101.26	$ 2,417,142.99
	Rent Building	$ 224,466	$ 230,077.42	$ 235,829.35	$ 241,725.09	$ 247,768.22
	Building Maintenance	$ 181,552	$ 186,091	$ 190,743	$ 195,512	$ 200,400
	Equip Mainteance	$ 156,262	$ 156,262	$ 156,262	$ 156,262	$ 156,262
	Depreciation*	$ 1,863,580	$ 1,863,580	$ 1,863,580	$ 1,863,580	$ 1,863,580
	Purchased Services	$ 45,492	$ 46,402	$ 47,330	$ 48,276	$ 49,242
	Malpractice	$ 5,256	$ 5,361	$ 5,468	$ 5,578	$ 5,689
	B&O tax	$ 85,848	$ 109,502	$ 134,612	$ 142,890	$ 151,678
	Other	$ 117,326	$ 119,673	$ 122,066	$ 124,507	$ 126,997
	Interet Expense-TI/Equip	$ 244,524	$ 244,524	$ 244,524	$ 244,524	$ 122,088
	Interet Expense-WC	32232	32232	0	0	0
	Operating Expenses	$ 5,726,610	$ 6,368,558	$ 6,983,213	$ 7,192,711	$ 7,290,385
	Loan Payments-TI/Equip	$ 1,037,820	$ 1,037,820	$ 1,037,820	$ 1,037,820	$ 518,184
	Loan Payments-WC	$ 609,384	$ 609,384	$ -	$ -	$ -
	Total Expenses	$ 6,764,430	$ 7,406,378	$ 8,021,033	$ 8,230,531	$ 7,808,569
Net Income		$ (1,041,258)	$ (106,229)	$ 953,075	$ 1,295,484	$ 2,303,296

*Depreciation note: for the purposes of our internal accounting, it is credited back to us on a cash basis, thus our net income accrual differs from net income on a cash basis and the net effect is that we are cash flow positive at all times

EXHIBIT 15

PROLIANCE SURGEONS, INC., P.S.
CONSOLIDATED FINANCIAL STATEMENTS FOR LAST THREE FULL YEARS

PROLIANCE SURGEONS®

CONSOLIDATED FINANCIAL STATEMENTS

AND CONSOLIDATING INFORMATION

DECEMBER 31, 2015 AND 2014

Berntson Porter & COMPANY PLLC

Certified Public Accountants & Consultants

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July 26, 2016

Board of Directors
Proliance Surgeons, Inc., P.S.
Seattle, Washington

Independent Auditors' Report

We have audited the accompanying consolidated financial statements of Proliance Surgeons, Inc., P.S., which comprise the consolidated balance sheet as of December 31, 2015 and 2014, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of MD Insurance Company Ltd., a consolidated entity, which statements reflect total assets of $3,273,188 and $3,431,814 as of December 31, 2015 and 2014, respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for MD Insurance Company Ltd., is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Proliance Surgeons, Inc., P.S. as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Berntson Porter & Co., PLLC

Berntson Porter & Company, PLLC
Certified Public Accountants

ASSETS

December 31,	2015	2014
CURRENT ASSETS		
Cash and cash equivalents	$ 16,347,164	$ 13,859,287
Short-term investments	2,558,398	1,923,765
Accounts receivable		
Trade, net	55,490,702	52,681,033
Other	160,072	187,805
Inventory	4,285,971	4,409,942
Prepaid expenses	9,349,755	14,227,972
Other current assets	25,415	109,766
Federal income taxes receivable	337,668	1,945,715
Deferred income taxes	39,943	20,907
Current portion of note receivable	-	163,541
TOTAL CURRENT ASSETS	88,595,088	89,529,733
EQUIPMENT AND LEASEHOLD IMPROVEMENTS, net	45,525,438	40,963,766
OTHER ASSETS		
Other noncurrent assets	600,696	587,111
Note receivable, less current portion	-	473,040
TOTAL OTHER ASSETS	600,696	1,060,151
GOODWILL	950,667	950,667
TOTAL ASSETS	$ 135,671,889	$ 132,504,317

LIABILITIES AND STOCKHOLDERS' EQUITY

	2015	2014
CURRENT LIABILITIES		
Line of credit	$ 17,000,000	$ 17,000,000
Accounts payable	6,087,996	5,075,613
Accrued liabilities	12,383,913	11,207,860
Medical claims payable	1,569,032	1,368,800
Provision for outstanding losses	728,437	1,018,337
Liability for unrecognized tax benefits	-	8,315,427
Deferred income taxes	18,719,851	7,519,972
Current portion of long-term debt	8,782,395	6,826,871
Current portion of capital lease obligations	1,105,864	1,337,353
TOTAL CURRENT LIABILITIES	66,377,488	59,670,233
LONG-TERM DEBT, less current portion	26,257,896	21,749,194
CAPITAL LEASE OBLIGATIONS, less current portion	1,407,816	1,838,692
DEFERRED RENT	138,188	-
DEFERRED INCOME TAXES	2,937,751	4,525,716
TOTAL LIABILITIES	97,119,139	87,783,835
STOCKHOLDERS' EQUITY	38,552,750	44,720,482
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 135,671,889	$ 132,504,317

The accompanying notes are an integral part of these financial statements.

Years Ended December 31,	2015	2014
Patient service revenue, net of contractual allowances and discounts	**$ 394,291,385**	$ 365,092,856
Bad debt expense (recoveries), net	**(574,156)**	259,327
Net patient service revenue	**394,865,541**	364,833,529
Operating expenses		
Nonphysician salaries	**91,243,257**	80,442,756
Medical and surgical supplies	**55,338,516**	42,236,966
Occupancy and use - facilities	**27,564,361**	25,121,914
Nonphysician fringe benefits	**21,707,134**	21,640,923
Purchased services	**11,330,130**	9,670,943
Occupancy and use - equipment	**9,402,517**	9,247,873
Depreciation and amortization	**8,954,659**	8,004,309
Business taxes and licenses	**6,644,951**	6,094,609
Professional liability insurance	**5,106,622**	4,118,634
Losses recovered	**(463,378)**	(239,990)
Miscellaneous	**9,423,728**	8,972,016
Total operating expenses	**246,252,497**	215,310,953
INCOME FROM OPERATIONS BEFORE PHYSICIANS' COMPENSATION	**148,613,044**	149,522,576
Physicians' compensation		
Physician salaries	**149,244,957**	132,311,364
Physician fringe benefits	**15,096,164**	14,053,999
Total physicians' compensation	**164,341,121**	146,365,363
INCOME (LOSS) FROM OPERATIONS	**(15,728,077)**	3,157,213
Other income (expense)		
Nonoperating revenue	**8,337,465**	7,531,420
Gain on the sale of care center assets	**2,052,041**	-
Interest income	**97,892**	114,811
Net unrealized and realized loss on sale of investments	**(71,097)**	(33,094)
Gain (loss) on disposal of equipment	**(170,836)**	171,049
Interest expense	**(1,239,185)**	(889,484)
Gain on acquisition	**-**	161,361
Total other income (expense), net	**9,006,280**	7,056,063
INCOME (LOSS) BEFORE TAXES	**(6,721,797)**	10,213,276
Federal income tax expense (benefit)		
Current	**(2,057,336)**	(1,936,255)
Deferred	**1,277,451**	3,534,628
Total federal income tax expense (benefit), net	**(779,885)**	1,598,373
NET INCOME (LOSS)	**(5,941,912)**	8,614,903
Net income attributable to noncontrolling interest	**(51,967)**	(71,525)
NET INCOME (LOSS) ATTRIBUTABLE TO PROLIANCE SURGEONS, INC., P.S.	**$ (5,993,879)**	$ 8,543,378

The accompanying notes are an integral part of these financial statements.

	Number of shares issued & outstanding	Common* stock	Retained earnings	Total	Noncontrolling interest	Total stockholders' equity
Balance at January 1, 2014	735,951	$ 653,490	$ 34,011,597	$ 34,665,087	$ -	$ 34,665,087
Acquisition of Overlake Surgery Center, LLC	-	-	-	-	1,573,968	1,573,968
Contributions	-	-	-	-	125,624	125,624
Repurchase of common stock	(10,000)	(10,000)	-	(10,000)	-	(10,000)
Issuance of common stock	75,000	75,000	-	75,000	-	75,000
Net income	-	-	8,543,378	8,543,378	71,525	8,614,903
Distributions	-	-	-	-	(324,100)	(324,100)
Balance at December 31, 2014	**800,951**	**718,490**	**42,554,975**	**43,273,465**	**1,447,017**	**44,720,482**
Repurchase of common stock	(55,000)	(55,000)	-	(55,000)	-	(55,000)
Issuance of common stock	30,000	30,000	-	30,000	-	30,000
Net income (loss)	-	-	(5,993,879)	(5,993,879)	51,967	(5,941,912)
Distributions	-	-	-	-	(200,820)	(200,820)
Balance at December 31, 2015	**775,951**	**$ 693,490**	**$ 36,561,096**	**$ 37,254,586**	**$ 1,298,164**	**$ 38,552,750**

* No par value; 250,000,000 shares authorized.

Years Ended December 31,	2015	2014
CASH FLOW FROM OPERATING ACTIVITIES		
Net income (loss)	$ (5,941,912)	$ 8,614,903
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	8,954,659	8,004,309
Provision for uncollectible accounts	(612,099)	111,445
(Gain) loss on disposal of equipment	170,836	(171,049)
Gain on acquisition	-	(161,361)
Gain on sale of care center assets	(2,052,041)	-
Loss on sale of investments	30,805	5,574
Unrealized loss on investments, net	25,182	15,965
Liability for unrecognized tax benefits	(8,315,427)	1,441,522
Deferred income taxes	9,592,878	2,093,106
Deferred rent	138,188	-
Changes in assets and liabilities		
Trade accounts receivable	(2,197,570)	(1,822,900)
Other receivables	27,733	372,539
Inventory	123,971	(753,117)
Prepaid expenses	4,878,217	(3,538,809)
Other current assets	84,351	(59,209)
Federal income taxes receivable	1,608,047	(1,685,476)
Other noncurrent assets	(13,585)	(63,857)
Accounts payable	1,012,383	557,058
Accrued liabilities	1,176,053	2,564,862
Medical claims payable	200,232	67,643
Provision for outstanding losses	(289,900)	(359,663)
Net cash provided by operating activities	8,601,001	15,233,485
CASH FLOW FROM INVESTING ACTIVITIES		
Purchases of equipment and leasehold improvements	(13,231,007)	(14,925,242)
Proceeds from sale of care center assets	2,331,884	-
Purchase of investments	(1,392,493)	(371,762)
Proceeds from sale of investments	701,873	327,782
Payments received on notes receivable	636,581	152,136
Proceeds from sale of assets	110,025	74,550
Investment in LLC	-	(279,582)
Net cash used in investing activities	(10,843,137)	(15,022,118)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	13,999,200	11,322,484
Principal payments on long-term debt	(7,534,974)	(6,217,561)
Principal payments on capital lease obligations	(1,508,393)	(1,259,355)
Distributions paid	(200,820)	(324,100)
Repurchase of common stock	(55,000)	(10,000)
Issuance of common stock	30,000	75,000
Net borrowings on line of credit	-	5,000,000
Contributions	-	125,624
Net cash provided by financing activities	4,730,013	8,712,092
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,487,877	8,923,459
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	13,859,287	4,935,828
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 16,347,164	$ 13,859,287

SUPPLEMENTAL INFORMATION

	2015	2014
Cash paid during the year for interest	$ 1,239,185	$ 889,484
Fixed assets acquired under capital leases	$ 846,028	$ 749,933
Cash paid during the year for taxes	$ 608,436	$ -

The accompanying notes are an integral part of these financial statements.

Note 1 - OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

OPERATIONS AND ORGANIZATION

Proliance Surgeons, Inc., P.S. ("the Company"), a Washington corporation which began operations on January 1, 1994, was organized to provide medical services primarily throughout the Puget Sound region. The financial statements include the accounts of each care center.

Overlake Surgery Center, LLC ("Overlake") is a limited liability company organized in June 1998 as a multi-specialty surgery center. Overlake is approximately 30.1% Overlake Hospital Medical Center owned, 51.0% Proliance Surgeons owned, and 18.9% physician owned. Orthopedic, pain management, and ear, nose and throat cases represent a significant amount of the current cases (Note 17).

MD Insurance Company Ltd. ("MDIC") was incorporated as an exempted company under the Companies Law of the Cayman Islands on December 2, 2003 and has been granted an Unrestricted Class "B(i)" Insurer's License under Section 4(2) of the Cayman Islands Insurance Law, as amended. MDIC's principal activity is to insure the professional liability risks of a group of surgeons. MDIC is a wholly owned subsidiary of the Company and, as a result, is required to be consolidated in these financial statements.

MDIC has no remaining exposures relating to insurance and reinsurance contracts entered into prior to 2008. Effective January 1, 2008, MDIC issued a Professional Liability Underlying Aggregate Excess of Loss Reinsurance Contract to MD Risk Retention Group, Inc. (MDRRG), a related party by virtue of common directorship. This policy is for $500,000 in excess of $500,000 per claim and in the annual aggregate and was renewed effective January 1, 2015.

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements have been prepared solely from the accounts of Proliance Surgeons, Inc., P.S. and its wholly owned (MDIC) and majority owned (Overlake) subsidiaries (collectively "the Company"). All significant intercompany accounts and transactions have been eliminated in consolidation.

BASIS OF PRESENTATION

The consolidated financial statements are prepared using the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recognized when earned and expenses are recognized when resources are used and a liability is incurred.

The Company's federal income tax return is prepared using the cash basis of accounting. Revenues from services are recognized when received and expenses are recognized when paid.

The Company uses the optional straight-line and accelerated depreciation methods for tax reporting. Management believes that depreciable lives for financial statement purposes do not materially differ from lives prescribed by the Internal Revenue Service. Accordingly, any differences in depreciation for financial and income tax reporting purposes are considered immaterial.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid debt instruments purchased with a remaining maturity of three months or less and funds held in money market funds, current and call accounts and cash held at brokers, to be cash equivalents.

ACCOUNTS RECEIVABLE, NET

Patient accounts receivable are stated at a standard charge less an allowance for contractual adjustments and uncollectible amounts. Interest is not accrued on outstanding accounts receivable. In evaluating the collectability of accounts receivable, the Company analyzes its negotiated contracts as well as past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. The provision for bad debts is determined based on an aggregate assessment of collections and write-offs over the preceding five years. For receivables associated with services provided to patients who have third-party coverage, the Company analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Company records a provision for bad debts in the period of service on the basis of past experience, which indicates certain patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts. Allowances for doubtful accounts and contractual adjustments totaled approximately $75,700,000 and $59,200,000 at December 31, 2015 and 2014, respectively.

PROVISION FOR OUTSTANDING LOSSES

MDIC determines its provision for reported cases on the basis of management's best estimate. Management has engaged the services of an independent consulting actuary to advise on the required level of the provision for outstanding losses including a provision for adverse loss development. The provision for outstanding losses is based upon the advice of these actuaries and management's best estimate and is included on an undiscounted basis.

Changes in estimates of the provision for outstanding losses resulting from the continuous review process and differences between estimates and payments are recognized in income in the period in which they are determined.

INVENTORY

Inventory consists primarily of drugs and medical supplies on hand. Inventory is based on a physical count and is stated at the lower of cost, using the average cost method of accounting or market.

EQUIPMENT AND LEASEHOLD IMPROVEMENTS

The cost of equipment and leasehold improvements is depreciated and amortized using accelerated and straight-line methods over the estimated useful lives of the assets, which range as follows:

Leasehold improvements	5-40 years
Medical equipment	3-7 years
Computer equipment	3-7 years
Office furniture and equipment	3-10 years

Construction in progress primarily represents leasehold improvements and equipment that will be placed in service and amortized once construction is complete.

NOTE RECEIVABLE

Note receivable is carried at the outstanding principal balance plus accrued interest less a valuation allowance, as deemed necessary. The Company evaluates the note receivable for collectibility on an annual basis. At December 31, 2014, the note is deemed fully collectible and no valuation allowance has been recorded. The note was repaid during 2015.

GOODWILL

The excess of the purchase price over the fair market value of assets is allocated to goodwill. Goodwill is not adjusted unless events or circumstances occur indicating that an impairment exists. Impairment losses, if any, are recorded in the consolidated statement of operations as part of income from operations. There was no change in the carrying value of goodwill during the years ended December 31, 2015 or 2014.

CAPITAL LEASES

The Company is leasing equipment and software under various capital leases. At the inception of the lease, the asset and liability under the capital lease is recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are being amortized over their estimated useful lives.

SELF-FUNDED INSURANCE PLAN

The Company acts as a self-insurer for medical, dental, and vision coverage of its employees. Accrued liabilities include $1,569,032 and $1,368,800 for unpaid employee medical, dental, and vision claims incurred as of December 31, 2015 and 2014, respectively. The self-insured program is insured with stop-loss coverage on an individual and cumulative claim basis.

DEFERRED RENT

The Company has recorded a deferred liability for rent expense associated with lease agreements for facilities related to rent abatement and escalating rental payments over the lease term. The rent abatement and escalating rental payments are amortized over the lease term and result in recognition of rental expense under the straight-line method.

NET PATIENT SERVICE REVENUE

The Company has agreements with third-party payors that provide for payments to the Company at amounts different from its established rates. The Company recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Company recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a portion of the Company's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Company records a provision for bad debts in the period the services are provided.

RECOGNITION OF REINSURANCE PREMIUM REVENUE

Reinsurance premiums assumed by MDIC are earned on a pro rata basis over the policy years. Policies are written on an annual basis with a December 31 expiration date.

NONCONTROLLING INTEREST

Noncontrolling interest on the consolidated statements of operations and stockholders' equity represents the minority members' proportionate shares of members' equity and income of Overlake.

USE OF ESTIMATES

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

Material estimates that are particularly susceptible to change relate to the determination of trade net accounts receivable, including uncollectible accounts receivable and contractual adjustments, provision for outstanding losses and medical claims payable.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company estimates that the carrying amount of all financial instruments approximate fair value, a Level 1 input under ASC 820.

CONCENTRATION OF RISK

Proliance Surgeons, Inc., P.S. and Overlake Surgical Center, LLC

Financial instruments that potentially subject the Company to concentrations of market and credit risk consist principally of cash deposits in excess of federally insured limits and accounts receivable. Concentrations of credit risk with respect to cash deposits are mitigated due to the Company's deposit of these balances with high credit quality financial institutions.

The accounts receivable credit risk of the Company is represented by unsecured net receivables on the balance sheet. The Company follows normal trade practices in granting credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Management does not anticipate any material adverse effect on the Company's financial position resulting from these credit risks.

MDIC

In the normal course of its business, MDIC holds various financial instruments, which may result in both market and credit risks, the amount of which is not apparent from the financial statements.

Market risk is the risk that changes in interest rates and foreign exchange rates will affect the positions held by MDIC. MDIC is exposed to market risk on its money market funds and investments that are valued at market prices. Further a risk exists that MDIC may not be able to readily dispose of its marketable securities when it chooses and also that the price obtained on disposal may be below that at which the investment is included in the Company's financial statements. The investment strategy of money market funds is to provide a high level of current income consistent with the liquidity and preservation of capital by investing in a diversified portfolio of high quality short-term investments. Management does not anticipate any material losses from this exposure.

Credit risk is the risk of counterparty default. Credit risk is generally higher when a non-exchange traded financial instrument is involved because the counterparty for the non-exchange traded financial instrument is not backed by an exchange clearing house. Financial assets that potentially expose MDIC to credit risk consist of cash and cash equivalents, investments, and interest receivable.

Cash and cash equivalents, investments, and interest receivable are held with high credit quality financial institutions. MDIC management does not anticipate any credit losses with these entities.

FAIR VALUE HIERARCHY

FASB ASC 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value and expands disclosure requirements regarding fair value measurements but does not change existing guidance about whether an asset or liability is carried at fair value.

The fair value of a financial asset or liability is defined using an "exit price" definition. It is the amount that would be received to sell the asset or the amount that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value hierarchy established under FASB ASC 820 gives the highest priority to unadjusted quoted prices in active markets for identical assets of liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of fair value hierarchy under FASB ASC 820 are described below:

Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model based valuation techniques for which all significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Company's own assumptions about the assumptions market participants would use in pricing the assets or liabilities.

INVESTMENTS

Investments are classified as "trading" and are recorded in the balance sheet at fair value as determined by the investment manager. Unrealized gains or losses are determined by comparing the fair value of securities with its cost. Changes in unrealized gains or losses and realized gains and losses on the sale of investments are included in the consolidated statement of operations. Realized gains and losses on the sale of investments are derived using the specific identification method for determining the cost of securities sold.

Note 2 - ADVANCES

Reflected in other current assets are advances that primarily consist of net amounts due to and due from stockholders, which are due within one year. These advances are unsecured and are non-interest bearing. The outstanding balance of amounts due totaled $75,415 and $75,119 at December 31, 2015 and 2014, respectively.

Note 3 - INVESTMENTS

At December 31, 2015, the cost, net unrealized loss, and fair value of investments are as follows:

	Cost	Unrealized loss	Fair market value
Corporate bonds, treasuries and equities	**$ 2,614,818**	**$ (56,420)**	**$ 2,558,398**

At December 31, 2014, the cost, net unrealized loss, and fair value of investments are as follows:

	Cost	Unrealized loss	Fair market value
Corporate bonds and treasuries	$ 1,955,003	$ (31,238)	$ 1,923,765

Note 4 - EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements at December 31 consists of the following:

	2015	2014
Leasehold improvements	**$ 37,770,794**	$ 34,056,304
Medical equipment	**34,057,810**	29,546,839
Computer equipment	**15,676,510**	14,726,716
Construction in progress	**7,954,693**	2,323,048
Office furniture and equipment	**5,013,924**	5,006,502
Total equipment and leasehold improvements, at cost	**100,473,731**	85,659,409
Less accumulated depreciation and amortization	**(54,948,293)**	(44,695,643)
Total equipment and leasehold improvements, net	**$ 45,525,438**	$ 40,963,766

Depreciation and amortization expense for the years ended December 31, 2015 and 2014, totaled $8,954,659 and $8,004,309, respectively.

Note 5 - LINE OF CREDIT

The Company maintains a $5,000,000 revolving line of credit payable to U.S. Bank, which is based on eligible collateral. The credit agreement includes temporary increases to $17,000,000 from December 15, 2015 through February 15, 2016 and December 15, 2014 through February 15, 2015, to fund capital expenditure purchases that will primarily be converted to permanent financing in the near term. The interest rate varies at the greater of 0% and 1.25% over LIBOR and matures October 31, 2016. The line of credit is collateralized by substantially all Company assets. The outstanding balance was $17,000,000 at December 31, 2015 and 2014.

The revolving line of credit agreement with U.S. Bank contains covenants which require the Company to maintain certain financial ratios.

Note 6 - LONG-TERM DEBT

Long-term debt at December 31 consists of the following:

	2015	2014
Notes payable to U.S. Bank, interest rates range from 1.84% to 6.24%, due in combined monthly installments of $786,972 including interest, maturing from June 2016 to January 2023, collateralized by substantially all Company assets	$ **31,499,145**	$ 25,291,037
Notes payable to former members of Overlake, interest rate varies at the prime rate as published by The Wall Street Journal, subject to repayment restrictions, unsecured	**1,503,415**	1,581,692
Note payable to Bank of America, interest rate varies at LIBOR plus 1.25%, due in variable monthly installments including interest, maturing August 2020, collateralized by substantially all Company assets	**1,410,998**	1,663,869

Equipment notes payable to U.S. Bank, interest rate varies at LIBOR plus 1.25%, interest only payments until June 2016, beginning July 2016 due in combined monthly installments of $20,357 including interest, matures June 2023, collateralized by substantially all Company assets, up to $1,625,000 available until conversion to term debt	**592,200**	-
Notes payable to related parties, 4.81%, due in annual installments of $4,933, maturing in April 2022, unsecured	**34,533**	39,467
Total long-term debt	**35,040,291**	28,576,065
Less current portion	**(8,782,395)**	(6,826,871)
Long-term portion	**$ 26,257,896**	$ 21,749,194

In accordance with the Overlake members' operating agreement, Overlake can redeem units held by the members. Payments for redeemed units may be delayed at the discretion of Overlake and may not exceed 5% of Overlake's collected revenues in any given month. Due to the nature of the payment provisions, future payments on the notes payable to former members are not estimable and are therefore not included in the schedule of future payments below.

Subsequent to year-end, the Company drew an additional $946,775 on the equipment notes payable to U.S. Bank. The additional borrowing has been used in calculating the current portion of long-term debt and included in the schedule of future payments to be made on long-term debt.

Maturities of long-term debt (excluding Overlake) based on interest rates and terms in effect at December 31, 2015 are as follows:

Year ending December 31,	
2016	$ 8,782,395
2017	7,916,168
2018	6,072,062
2019	4,693,762
2020	3,096,021
Thereafter	3,923,243
Total	$ 34,483,651

Certain debt agreements contain financial ratio and reporting covenants.

Note 7 - CAPITAL LEASE OBLIGATIONS

Capital lease obligations at December 31 consist of the following:

	2015	2014
Capital leases payable to U.S. Bank, due in combined monthly installments of $68,160 including imputed interest varying from 2.29% to 5.27%, maturing April 2016 through March 2019, collateralized by equipment	$ 1,525,900	$ 2,339,547
Capital lease payable to Bank of America, due in monthly installments of $11,800 including imputed interest of 2.84%, matures May 2020, collateralized by equipment	587,268	202,861
Capital lease payable to Alcon Laboratories, Inc., due in monthly installments of $3,327 including imputed interest of 3.00%, matures May 2020, collateralized by equipment	162,055	-
Capital leases payable to First American Equipment Finance, due in combined monthly installments of $8,667 including imputed interest varying from 2.33% to 10.07%, maturing December 2016 through January 2018, collateralized by equipment	124,352	219,430
Capital lease payable to Celtic Commercial Finance, due in monthly installments of $22,821 including imputed interest of 6.69%, matures May 2016, collateralized by equipment	114,105	387,957
Capital lease payable to Olympus America Inc., repaid during 2015	-	26,250
Total capital lease obligations	2,513,680	3,176,045
Less current portion	(1,105,864)	(1,337,353)
Long-term portion	$ 1,407,816	$ 1,838,692

Future payments to be made on these capital leases are as follows:

Year ending December 31,		
2016	$	1,165,003
2017		903,154
2018		320,322
2019		183,709
2020		60,510
Total payments		2,632,698
Less financing costs		(119,018)
Total capital lease obligations	$	2,513,680

Property recorded under capital leases is included in the accompanying balance sheet as leasehold improvements, medical equipment and computer equipment. The property is recorded at $7,135,261 and $6,719,477 and has accumulated amortization of $4,773,356 and $4,208,412 at December 31, 2015 and 2014, respectively. Amortization of capital leases is included with depreciation in the accompanying financial statements.

Note 8 - LEASE COMMITMENTS

The Company leases office space and facilities from related entities comprised of certain Company physicians and members. The Company's management believes the terms of all of the foregoing leases are comparable to those that could have been obtained from unrelated parties.

The Company also leases office space and various equipment from unrelated vendors under noncancellable and month-to-month operating lease agreements. The Company is generally responsible for property taxes, maintenance, and insurance. Minimum future payments under the noncancellable operating leases are as follows:

Year ending December 31,		
2016	$	18,720,769
2017		18,304,665
2018		16,761,805
2019		12,875,018
2020		10,094,707
Thereafter		27,177,494
Total	$	103,934,458

Total rent expense under noncancellable and month-to-month agreements totaled $22,830,603 and $21,159,278 for 2015 and 2014, respectively. Included in occupancy expense was approximately $10,767,000 and $10,128,000 of rent paid to related parties in 2015 and 2014, respectively.

Note 9 - CONTINGENCIES

INDUSTRY REGULATIONS

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditations, government health care program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Company is in compliance with fraud and abuse, as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

OTHER

The Company is a party to various legal actions and administrative proceedings and subject to various claims arising in the ordinary course of business. The Company does not believe that the ultimate disposition of these matters will have a material adverse effect on the financial position or results of operations of the Company.

Note 10 - EMPLOYEE BENEFIT PLAN

The Company provides a defined contribution plan, including 401(k) provisions, for employees meeting certain age and service requirements. Employee contributions are matched by the Company at a 100% rate up to a maximum employer contribution of 5% of the employee's eligible compensation, subject to statutory limitations. Additionally, profit sharing contributions are made on behalf of eligible employees and vary according to job classification. Employer contributions vest over a period of five years. The Company contributed $11,722,658 and $11,016,891 to the plan for the years ended December 31, 2015 and 2014, respectively.

Note 11 - FEDERAL TAXES ON INCOME

PROLIANCE SURGEONS, INC., P.S.

The Company has adopted the provisions of FASB ASC 740-10, *Income Taxes*, relating to accounting for uncertain tax positions. FASB ASC 740-10 defines a recognition threshold and measurement process for accounting for uncertain tax positions and also provides guidance on various related matters such as interest, penalties, derecognition and disclosures. FASB ASC 740-10 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company's tax returns to determine whether the tax returns were "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as tax expense in the current year.

The Company does not have any entity level uncertain tax positions at December 31, 2015. At December 31, 2014, the liability for unrecognized tax benefits was $8,315,427. The Company reports accrued interest and penalties related to unrecognized tax benefits as income tax expense. As of December 31, 2015 and 2014, the Company has not accrued interest or penalties related to uncertain tax positions.

The Company files their income tax return in the U.S. federal jurisdiction. In the normal course of business the Company is subject to examination by taxing authorities. The Company's federal income tax return for 2013, 2014 and 2015 is subject to examination by the Internal Revenue Service.

Income taxes are accounted for using an asset and liability approach, which requires the recognition of deferred tax assets and liabilities for the expected future benefits or tax consequences of temporary differences between the financial statements and tax bases of assets and liabilities at the enacted tax rates. FASB ASC 740-10 requires a valuation allowance against deferred tax assets if, based on the weight of the available evidence, it is more likely than not that some or all of its deferred tax assets will not be realized. Management believes that all deferred tax assets will be realized and no valuation allowance is necessary at December 31, 2015 and 2014. Other differences between book and taxable income and tax expense calculated at the statutory rates arise from permanent differences for a portion of business entertainment expenses.

Provision for deferred income taxes results from temporary differences between financial statement and taxable income. The temporary tax differences at December 31 are as follows:

		2015		2014
Current deferred tax assets (liabilities)				
Conversion from accrual basis to cash basis	$	**4,988,473**	$	5,504,829
Conversion from accrual basis to cash basis		**(23,708,324)**		(13,024,801)
Net current deferred tax liabilities	$	**(18,719,851)**	$	(7,519,972)
Noncurrent deferred tax assets (liabilities)				
Net operating loss carryforward and charitable contributions	$	**1,659,750**	$	331,796
Excess of financial statement basis of fixed assets over tax basis		**(4,597,501)**		(4,646,233)
Gain recorded on the installment method for tax purposes		**-**		(211,279)
Net noncurrent deferred tax liabilities	$	**(2,937,751)**	$	(4,525,716)

Realization of the deferred tax assets are dependent on generating sufficient taxable income. Although realization is not assured, management believes, based upon available information, it is more likely than not that the deferred assets will be realized in the normal course of operations. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income are reduced.

At December 31, 2015 and 2014, there was approximately $1,940,000 and $332,000, respectively, of net operating loss carryforwards that will begin to expire in the year 2036. Changes in ownership, as defined in Section 382 of the Internal Revenue Code, may limit the amount of net operating loss carryforwards used in any one year. Realization is also dependent on generating sufficient taxable income prior to the expiration of the loss carryforwards. Although realization is not assured, the Company's management believes, based upon available information, it is more likely than not that the net operating loss carryforwards will be realized and no valuation allowance has been recorded. The amount of the net operating loss carryforwards considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

In prior years, the Company was informed by the Internal Revenue Service that the validity of certain deductions taken on the 2003 and 2004 federal income tax returns was challenged. Additional examinations have been performed each year since and have primarily focused on the deductibility of insurance premiums paid for professional liability coverage, resulting in assessments of additional taxes or adjustments of the net operating loss carryforward. During 2010, the Company paid approximately $1,800,000 in additional taxes and interest as a result of the 2008 federal income tax return examination. Also during 2010, the examination of the 2007 federal income tax return concluded, resulting in no additional taxes or penalties, but did require adjustment of the net operating loss carryforward. During 2011, the examination of the federal income tax return for 2009 was concluded with no additional amounts assessed but adjustments to the net operating loss carryforward were recorded. During 2015, the examination of the federal income tax returns for 2010, 2011 and 2012 concluded, resulting in the payment of approximately $31,000 in additional taxes and interest.

The Company filed claims for refund of amounts paid related to the 2003 through 2008 federal income tax return examinations. The claims for refund for the 2003 through 2008 years had been denied by the Internal Revenue Service. The Company initiated litigation to resolve the deductibility of these items with respect to the 2003 through 2005 income tax years before the U.S. Court of Federal Claims. The Company settled the years 2003 through 2005 claims in March 2015 for approximately $2,100,000. As a result of the settlement, the Company has reflected a federal income tax refund receivable of $2,100,000 as of December 31, 2014 and reduced the income tax expense for the year ended December 31, 2014. During 2015, the Company settled the years 2006 through 2009 claims for approximately $3,800,000. This resulted in a reduction of income tax expense for the year ended December 31, 2015.

The Company's effective income tax rate is lower than what would be expected if the federal statutory rate were applied to income from continuing operations primarily because of expenses deductible for tax reporting purposes that are not deductible for financial reporting purposes, the net operating loss carryforward, and the impact of the settlement.

MDIC

MDIC made an irrevocable election under Section 953(d) of the Internal Revenue Code of 1986, as amended, to treat MDIC as a domestic insurance company for United States federal income tax purposes. As a result of this "domestic" election, MDIC is subject to U.S. income tax on its worldwide income as if it were a United States corporation. In addition, MDIC made an election under Section 831(b) of the Internal Revenue Code. This election allows MDIC to be taxed on its investment income for regular U.S. federal income tax purposes when its net written premiums (or direct written premiums, if greater) are less than $1,200,000.

MDIC has adopted the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in 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. A valuation allowance is established for deferred tax assets where it is more likely than not that future tax benefits will be realized. Interest or penalties, if any, related to income taxes are included in miscellaneous expenses.

Management is required to determine whether all tax positions of MDIC are more likely than not to be sustained upon examination by the applicable taxing authority based on the technical merits of the positions. When management's assessment indicates that it is more likely than not that unrecognized tax benefits, including deferred income tax assets, will not be realized a valuation allowance is recorded against the unrecognized tax benefits. The unrecognized tax benefits may only be recognized when the position is more likely than not to be sustained upon audit by the relevant tax authorities.

Management does not believe there are any tax positions taken by MDIC that are subject to uncertainty and as a result, no provisions or disclosures have been made in these financial statements.

MDIC is not obligated to pay any taxes in the Cayman Islands on either income or capital gains. MDIC has received an undertaking from the Governor in Cabinet pursuant to the Tax Concessions Law of the Cayman Islands, which exempts MDIC from any taxes until the year 2024.

Deferred income tax assets/(liabilities) are based upon temporary differences between the financial statement and tax bases of assets and liabilities. The tax effects of the temporary differences that give rise to the significant portions of the deferred tax assets/(liabilities) are as follows:

	2015	2014
Gross deferred tax assets		
Capital loss carryforward	$ **20,760**	$ 10,286
Unrealized loss on investments	**19,183**	10,621
Net deferred tax asset	$ **39,943**	$ 20,907

The computation of income taxes receivable is shown below:

		2015		2014
Income taxes receivable at beginning of year	$	**511**	$	5,896
Income tax expense for year		**(6,244)**		(5,385)
Income tax payments, net		**10,000**		-
Income taxes receivable at end of year	$	**4,267**	$	511

The provision for income taxes varies from the statutory rate of 34% of MDIC's income due to the following reasons:

		2015		2014
Income tax expense at statutory rate	$	**113,663**	$	58,049
831(b) adjustment		**(118,546)**		(53,168)
Graduated rates		**(7,909)**		(6,820)
Total	$	**(12,792)**	$	(1,939)

OVERLAKE

Overlake has adopted the provisions of FASB ASC 740-10, *Income Taxes*, relating to accounting for uncertain tax positions. ASC 740-10 defines a recognition threshold and measurement process for accounting for uncertain tax positions and also provides guidance on various related matters such as interest, penalties, derecognition and disclosures. Overlake does not have any entity level uncertain tax positions. Overlake files income tax returns in the U.S. federal jurisdiction. Overlake is no longer subject to U.S. federal examinations by tax authorities for years before 2012.

The LLC is taxed as a partnership under the Internal Revenue Code. As such, Overlake does not pay federal corporate income taxes on its taxable income. The members pay taxes on the LLC's taxable income on their federal income tax returns.

Note 12 - CONTRACTUAL ARRANGEMENTS

The Company has Stock Purchase and Repurchase Agreements whereby physicians approved for stockholder status purchase Company stock. The Board of Directors determines stock purchase and redemption prices. The Company is obligated to purchase a stockholder's share of the Company's common stock in the event of death, disability or termination of employment. The stock redemption price was $1 per share at the date of this report.

The Company repurchased common stock totaling $55,000 and $10,000 from departing physicians, during the years ended December 31, 2015 and 2014, respectively. During 2015 and 2014, the Company issued common stock totaling $30,000 and $75,000, respectively, to physicians.

The Company periodically enters into deferred compensation arrangements with key personnel. The amount of the future obligation is subject to actions on the part of the individuals and continuation of the arrangements at the discretion of the Company. Under terms of the arrangements, certain individuals are entitled to compensation based on the results of operations for a specified period of time after death, disability or retirement, as defined in the arrangement. The amounts paid under these arrangements are expensed in the period earned and paid to the individual. Approximately $378,000 and $1,490,000 was paid during the years ended December 31, 2015 and 2014, respectively, under these arrangements.

Note 13 - PROVISION FOR OUTSTANDING LOSSES

MDIC

The details with respect to provisions for outstanding losses are as follows:

		2015		2014
Provision for reported losses	$	**500,000**	$	100,000
Provision for adverse loss development		**228,437**		918,337
Total	$	**728,437**	$	1,018,337

Movements in the provision for outstanding losses during the years are as follows:

		2015		2014
Balance at beginning of year	$	**1,018,337**	$	1,378,000
Incurred related to:				
Current year		**500,000**		500,000
Prior years		**(789,900)**		(647,100)
Paid related to:				
Current year		-		-
Prior years		-		(212,563)
Balance at year-end	$	**728,437**	$	1,018,337

Incurred losses resulting from claims related to insured events for prior years were adjusted during the years ended December 31, 2015 and 2014, due to changes in estimates of the ultimate settlements costs of such losses.

The provision for outstanding losses is based upon an independent actuarial report prepared by Milliman, Inc. In their report dated March 2, 2016, the actuaries estimate that as at December 31, 2015 the required outstanding loss reserve at a 70% (2014: 70%) confidence level, undiscounted is $728,437 (2014: $1,024,903). MDIC has recorded a provision for outstanding losses in the amount of $728,437 (2014: $1,018,337) as a best estimate. In accordance with the accounting policy described in Note 1, the Directors of MDIC have determined that the provision is adequate to cover the ultimate cost of all claims reported at that date.

Consistent with most companies with similar insurance operations, MDIC's provision for outstanding losses is ultimately based on management's reasonable expectations of future events. It is reasonably possible that the expectations associated with these amounts could change in the near term (i.e. within one year) and that the effect of such changes could be material to the financial statements.

Note 14 - VALUATION OF INVESTMENTS

MDIC

	Fair value measurements at reporting date using:			
December 31, 2015	Level 1	Level 2	Level 3	Total
Assets:				
Non-U.S. corporate bonds	$ -	$ **1,074,562**	$ -	$ **1,074,562**
U.S. corporate bonds	-	**928,325**	-	**928,325**
U.S. equity	**334,104**	-	-	**334,104**
U.S. treasuries	**181,957**	-	-	**181,957**
Non-U.S. equity	**39,450**	-	-	**39,450**
Total	$ **555,511**	$ **2,002,887**	$ -	$ **2,558,398**

	Fair value measurements at reporting date using:			
December 31, 2014	Level 1	Level 2	Level 3	Total
Assets:				
Non-U.S. corporate bonds	$ -	$ 1,202,661	$ -	$ 1,202,661
U.S. corporate bonds	-	529,180	-	529,180
U.S. treasuries	191,924	-	-	191,924
Total	$ 191,924	$ 1,731,841	$ -	$ 1,923,765

Note 15 - CONTINGENT LIABILITY

In the event of no claims being paid from MDIC to MDRRG under the Professional Liability Underlying Aggregate Excess of Loss Reinsurance Contract discussed in Note 1, MDRRG is entitled to a no-claims bonus equal to fifty percent of the reinsurance premium assumed. The no-claims bonus is payable two years after the expiration of the policy. Payment to MDRRG shall constitute a complete release of liability of MDIC in respect of that contract year.

MDRRG elected to exercise the no-claims bonus option under the terms of the 2011 Professional Liability Underlying Aggregate Excess of Loss Reinsurance Contract relating to 2010 and 2011 policy years. As of December 31, 2015 and 2014 accrued liabilities includes no-claims bonuses payable of $93,598. As of December 31, 2015, no no-claims bonus election has been made for the 2012 policy year since MDIC paid a claim relating to this policy year. As of December 31, 2015, no no-claims bonus election has yet been made for the 2013 policy year and no claims have yet been paid for this policy year.

Note 16 - Variable interest entities

As defined under the provisions of FASB ASC 810-10, *Consolidation*, the Company is required to continuously analyze whether they are the primary beneficiary of a variable interest entity (VIE). The Company determined it continues to hold a variable interest in MD Risk Retention Group, Inc. ("MDRRG"), but is not the primary beneficiary.

The Company owns approximately 1% of the common stock of MDRRG at December 31, 2015 and 2014. MDRRG began operations in January 2006, is domiciled in the state of Montana and provides professional liability insurance for the Company and its affiliated healthcare providers through a master policy. The Company's involvement with MDRRG is limited to insurance premiums paid for professional liability coverage. There were no amounts owed to MDRRG by the Company at December 31, 2015 and 2014. Total premiums paid to MDRRG during 2015 and 2014 amounted to $5,106,622 and $4,118,634, respectively. Company management has determined the Company does not maintain a controlling financial interest in MDRRG under FASB ASC 810-10 considering the original intent of the entity, on-going management, and risk of loss.

Effective January 1, 2014, the Company has adopted FASB Accounting Standards Update (ASU) 2014-7, *Consolidation (Topic 810): Applying Variable Interest Entities (VIE) guidance to Common Control Leasing Arrangements* for private companies. Under the ASU, the private company lessee is no longer required to apply VIE consolidation guidance to the lessor with regards to certain leasing transactions with related parties. The Company's involvement with Edmonds Ambulatory Surgery Center, LLC; ASC Northwest Properties, LLC and Evergreen Orthopedic Surgery Center, LLC (Note 18) ("the LLCs") is limited to lease payments and loan guarantees. Total lease payments made to the LLCs during 2015 and 2014 amounted to $1,774,246 and $1,734,660, respectively. The guaranteed debt was $25,293 and $57,689 at December 31, 2015 and 2014, respectively. The guarantees expire through July 2016. The LLCs' debt is collateralized by substantially all the assets held by the LLCs. As of December 31, 2015, the LLCs are current with their debt payments.

Note 17 - Business combinations

During 2015, the Company merged four additional care centers into the Company. The mergers were made for the purpose of expanding the Company's operations in Washington. The following is a condensed balance sheet showing the approximate fair values of the assets acquired and the liabilities assumed as of the date of the acquisitions:

Equipment and leasehold improvements	$	40,316
Other liabilities		(221,923)
Net liabilities assumed	$	(181,607)

On August 8, 2014, Proliance Surgeons, Inc., P.S. purchased 51% of the units outstanding in Overlake Surgery Center, LLC, a company organized in the State of Washington. The purchase price was

$1,476,848 paid at closing. The acquisition was made for the purpose of providing additional resources for the Company's practicing surgeons. The accompanying consolidated financial statements include the results of operations since the acquisition (August 8, 2014 through December 31, 2015).

The following is a condensed balance sheet showing the fair value of assets acquired and liabilities assumed and noncontrolling interest as of the date of the acquisition:

Cash	$	1,197,266
Accounts receivable, net		1,255,829
Inventory		397,137
Prepaid expenses and other assets		197,462
Equipment and leasehold improvements		2,300,868
Accounts payable		(204,627)
Accrued liabilities		(242,134)
Note payable to related party		(1,689,626)
Noncontrolling interest		(1,573,966)
Gain on acquisition		(161,361)
Total net assets acquired	$	1,476,848

The fair value of the noncontrolling interest at the date of acquisition approximates book value of assets acquired. Due to the nature of the liabilities assumed in conjunction with the acquisition, the acquisition of Overlake resulted in a gain of $161,361, which is recorded as gain on acquisition and included with other income (expense) in the 2014 consolidated statement of income.

Costs related to the acquisition, which include legal, accounting and valuation fees, in the amount of approximately $18,000 have been charged directly to operations and are included with operating expenses in the 2014 consolidated statement of income.

During 2014, the Company merged two additional care centers into the Company. The mergers were made for the purpose of expanding the Company's operations in Washington. The following is a condensed balance sheet showing the approximate fair values of the assets acquired and the liabilities assumed as of the date of the acquisitions:

Cash	$	54,264
Equipment and leasehold improvements		715,968
Net assets acquired	$	770,232

Note 18 - WITHDRAWAL OF CARE CENTERS

During 2015, three care centers withdrew from the Company. The care centers held debt secured by Company assets. At the date of withdrawal, the debt obligations were retired. In conjunction with the withdrawal of these care centers, certain assets were sold resulting in a gain of approximately $2,052,000.

Note 19 - Subsequent events

Subsequent to December 31, 2015, one care center has joined the Company.

Through the report date, the company incurred $2,316,000 in additional debt obligations.

Management has evaluated subsequent events through July 26, 2016, the date the financial statements were available to be issued.

CONSOLIDATING INFORMATION

Berntson Porter
& COMPANY PLLC
Certified Public Accountants & Consultants

July 26, 2016

Board of Directors
Proliance Surgeons, Inc., P.S.
Seattle, Washington

Independent Auditors' Report on Consolidating Information

We have audited the consolidated financial statements of Proliance Surgeons, Inc., P.S. as of and for the years ended December 31, 2015 and 2014, and our report thereon dated July 26, 2016, which expressed an unmodified opinion on those financial statements, appears on page one. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 29 through 31 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, which insofar as it relates to MD Insurance Company Ltd., is based on the report of other auditors, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Berntson Porter & Co., PLLC

Berntson Porter & Company, PLLC
Certified Public Accountants

Berntson Porter & Company, PLLC
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ASSETS

December 31, 2015	Proliance Surgeons, Inc., P.S.	MD Insurance Company Ltd.	Overlake Surgery Center, LLC	Eliminations	Final
CURRENT ASSETS					
Cash and cash equivalents	$ 14,722,007	$ 657,600	$ 967,557	$ -	$ 16,347,164
Short-term investments	-	2,558,398	-	-	2,558,398
Accounts receivable					
Trade, net	54,609,002	-	881,700	-	55,490,702
Other	213,153	17,247	-	(70,328)	160,072
Note receivable from related party	467,500	-	-	(467,500)	-
Inventory	3,879,559	-	406,412	-	4,285,971
Prepaid expenses	9,249,507	-	100,248	-	9,349,755
Other current assets	25,415	-	-	-	25,415
Federal income taxes receivable	337,668	-	-	-	337,668
Deferred income taxes	-	39,943	-	-	39,943
TOTAL CURRENT ASSETS	83,503,811	3,273,188	2,355,917	(537,828)	88,595,088
EQUIPMENT AND LEASEHOLD IMPROVEMENTS, net	43,406,372	-	2,119,066	-	45,525,438
OTHER ASSETS					
Other noncurrent assets	465,696	-	135,000	-	600,696
INVESTMENT IN SUBSIDIARY	1,217,261	-	-	(1,217,261)	-
GOODWILL	950,667	-	-	-	950,667
TOTAL ASSETS	$ 129,543,807	$ 3,273,188	$ 4,609,983	$ (1,755,089)	$ 135,671,889

LIABILITIES AND EQUITY

	Proliance Surgeons, Inc., P.S.	MD Insurance Company Ltd.	Overlake Surgery Center, LLC	Eliminations	Final
CURRENT LIABILITIES					
Line of credit	$ 17,000,000	$ -	$ -	$ -	$ 17,000,000
Accounts payable	5,897,761	-	260,563	(70,328)	6,087,996
Accrued liabilities	12,052,540	138,981	192,392	-	12,383,913
Medical claims payable	1,569,032	-	-	-	1,569,032
Provision for outstanding losses	-	728,437	-	-	728,437
Liability for unrecognized tax benefits	-	-	-	-	-
Deferred income taxes	18,719,851	-	-	-	18,719,851
Current portion of long-term debt	8,782,395	-	-	-	8,782,395
Current portion of capital lease obligations	1,105,864	-	-	-	1,105,864
TOTAL CURRENT LIABILITIES	65,127,443	867,418	452,955	(70,328)	66,377,488
LONG-TERM DEBT, less current portion	24,754,481	-	1,503,415	-	26,257,896
CAPITAL LEASE OBLIGATIONS, less current portion	1,407,816	-	-	-	1,407,816
DEFERRED RENT	-	-	138,188	-	138,188
DEFERRED INCOME TAXES	2,937,751	-	-	-	2,937,751
TOTAL LIABILITIES	94,227,491	867,418	2,094,558	(70,328)	97,119,139
EQUITY					
Common stock	693,490	467,500	-	(467,500)	693,490
Distributions	-	-	(412,900)	212,080	(200,820)
Noncontrolling interest	-	-	1,447,017	51,967	1,498,984
Retained earnings	34,622,826	1,938,270	1,481,308	(1,481,308)	36,561,096
TOTAL EQUITY	35,316,316	2,405,770	2,515,425	(1,684,761)	38,552,750
TOTAL LIABILITIES AND EQUITY	$ 129,543,807	$ 3,273,188	$ 4,609,983	$ (1,755,089)	$ 135,671,889

See independent auditors' report on consolidating information.

Year Ended December 31, 2015	Proliance Surgeons, Inc., P.S.	MD Insurance Company Ltd.	Overlake Surgery Center, LLC	Eliminations	Final
Patient service revenue, net of contractual allowances and discounts	$ 384,858,526	$ -	$ 9,432,859	$ -	$ 394,291,385
Bad debt expense (recoveries), net	(616,156)	-	42,000	-	(574,156)
Net patient service revenue	385,474,682	-	9,390,859	-	394,865,541
Operating expenses					
Nonphysician salaries	87,253,616	-	3,989,641	-	91,243,257
Medical and surgical supplies	52,364,850	-	2,973,666	-	55,338,516
Occupancy and use - facilities	26,291,700	-	1,272,661	-	27,564,361
Nonphysician fringe benefits	21,707,134	-	-	-	21,707,134
Purchased services	11,249,680	80,450	-	-	11,330,130
Occupancy and use - equipment	9,402,517	-	-	-	9,402,517
Depreciation and amortization	8,737,854	-	216,805	-	8,954,659
Business taxes and licenses	6,467,019	14,031	163,901	-	6,644,951
Professional liability insurance	5,106,622	-	-	-	5,106,622
Losses recovered	-	(463,378)	-	-	(463,378)
Miscellaneous	9,225,951	20,236	633,906	(456,365)	9,423,728
Total operating expenses	237,806,943	(348,661)	9,250,580	(456,365)	246,252,497
INCOME FROM OPERATIONS BEFORE PHYSICIANS' COMPENSATION	147,667,739	348,661	140,279	456,365	148,613,044
Physicians' compensation					
Physician salaries	149,244,957	-	-	-	149,244,957
Physician fringe benefits	15,096,164	-	-	-	15,096,164
Total physicians' compensation	164,341,121	-	-	-	164,341,121
INCOME (LOSS) FROM OPERATIONS	(16,673,382)	348,661	140,279	456,365	(15,728,077)
Other income (expense)					
Nonoperating revenue	8,778,095	-	15,735	(456,365)	8,337,465
Gain on the sale of care center assets	2,052,041	-	-	-	2,052,041
Interest income	41,154	56,738	-	-	97,892
Income from subsidiary	54,088	-	-	(54,088)	-
Net unrealized and realized loss on sale of investments	-	(71,097)	-	-	(71,097)
Gain (loss) on disposal of equipment	(170,836)	-	-	-	(170,836)
Interest expense	(1,189,226)	-	(49,959)	-	(1,239,185)
Total other income (expense), net	9,565,316	(14,359)	(34,224)	(510,453)	9,006,280
INCOME (LOSS) BEFORE TAXES	(7,108,066)	334,302	106,055	(54,088)	(6,721,797)
Federal income tax expense (benefit)					
Current	(2,063,580)	6,244	-	-	(2,057,336)
Deferred	1,296,487	(19,036)	-	-	1,277,451
Total federal income tax expense (benefit), net	(767,093)	(12,792)	-	-	(779,885)
NET INCOME (LOSS)	(6,340,973)	347,094	106,055	(54,088)	(5,941,912)
Net income attributable to noncontrolling interest	-	-	-	(51,967)	(51,967)
NET INCOME (LOSS) ATTRIBUTABLE TO PROLIANCE SURGEONS, INC., P.S.	$ (6,340,973)	$ 347,094	$ 106,055	$ (106,055)	$ (5,993,879)

See independent auditors' report on consolidating information.

Year Ended December 31, 2015	Proliance Surgeons, Inc., P.S.	MD Insurance Company Ltd.	Overlake Surgery Center, LLC	Eliminations	Final
CASH FLOW FROM OPERATING ACTIVITIES					
Net income (loss)	$ (6,340,973)	$ 347,094	$ 106,055	$ (54,088)	$ (5,941,912)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities					
Depreciation and amortization	8,737,854	-	216,805	-	8,954,659
Provision for uncollectible accounts	(582,099)	-	(30,000)	-	(612,099)
Loss on disposal of equipment	170,836	-	-	-	170,836
Gain on sale of care center assets	(2,052,041)	-	-	-	(2,052,041)
Loss on sale of investments	-	30,805	-	-	30,805
Unrealized loss on investments, net	-	25,182	-	-	25,182
Income from investment in LLC	(54,088)	-	-	54,088	-
Liability for unrecognized tax benefits	(8,315,427)	-	-	-	(8,315,427)
Deferred income taxes	9,611,914	(19,036)	-	-	9,592,878
Deferred rent	-	-	138,188	-	138,188
Changes in assets and liabilities					
Trade accounts receivable	(2,548,334)	-	350,764	-	(2,197,570)
Other receivables	(38,479)	(4,116)	-	70,328	27,733
Inventory	81,279	-	42,692	-	123,971
Prepaid expenses	4,859,544	-	18,673	-	4,878,217
Other current assets	84,351	-	-	-	84,351
Federal income taxes receivable	1,608,047	-	-	-	1,608,047
Other noncurrent assets	(13,585)	-	-	-	(13,585)
Accounts payable	1,088,249	-	(5,538)	(70,328)	1,012,383
Accrued liabilities	1,386,420	(215,820)	5,453	-	1,176,053
Medical claims payable	200,232	-	-	-	200,232
Provision for outstanding losses	-	(289,900)	-	-	(289,900)
Net cash provided by (used in) operating activities	7,883,700	(125,791)	843,092	-	8,601,001
CASH FLOW FROM INVESTING ACTIVITIES					
Purchases of equipment and leasehold improvements	(13,153,970)	-	(77,037)	-	(13,231,007)
Proceeds from sale of care center assets	2,331,884	-	-	-	2,331,884
Purchase of investments	-	(1,392,493)	-	-	(1,392,493)
Proceeds from sale of investments	-	701,873	-	-	701,873
Payments received on notes receivable	636,581	-	-	-	636,581
Proceeds from sale of assets	110,025	-	-	-	110,025
Distributions from investment in LLC	212,080	-	-	(212,080)	-
Net cash used in investing activities	(9,863,400)	(690,620)	(77,037)	(212,080)	(10,843,137)
CASH FLOW FROM FINANCING ACTIVITIES					
Proceeds from issuance of long-term debt	13,999,200	-	-	-	13,999,200
Principal payments on long-term debt	(7,456,697)	-	(78,277)	-	(7,534,974)
Principal payments on capital lease obligations	(1,508,393)	-	-	-	(1,508,393)
Distributions paid	-	-	(412,900)	212,080	(200,820)
Repurchase of common stock	(55,000)	-	-	-	(55,000)
Issuance of common stock	30,000	-	-	-	30,000
Net cash provided by (used in) financing activities	5,009,110	-	(491,177)	212,080	4,730,013
NET CHANGE IN CASH AND CASH EQUIVALENTS	3,029,410	(816,411)	274,878	-	2,487,877
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	11,692,597	1,474,011	692,679	-	13,859,287
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 14,722,007	$ 657,600	$ 967,557	$ -	$ 16,347,164
SUPPLEMENTAL INFORMATION					
Cash paid during the year for interest	$ 1,189,226	$ -	$ 49,959	$ -	$ 1,239,185
Fixed assets acquired under capital leases	$ 846,028	$ -	$ -	$ -	$ 846,028
Cash paid during the year for taxes	$ 598,436	$ 10,000	$ -	$ -	$ 608,436

See independent auditors' report on consolidating information.

PROLIANCE SURGEONS®

CONSOLIDATED FINANCIAL STATEMENTS

AND CONSOLIDATING INFORMATION

DECEMBER 31, 2016 AND 2015

Berntson Porter & COMPANY PLLC

Certified Public Accountants & Consultants

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Berntson Porter
& COMPANY PLLC
Certified Public Accountants & Consultants

June 29, 2017

Board of Directors
Proliance Surgeons, Inc., P.S.
Seattle, Washington

Independent Auditors' Report

We have audited the accompanying consolidated financial statements of Proliance Surgeons, Inc., P.S., which comprise the consolidated balance sheet as of December 31, 2016 and 2015, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of MD Insurance Company Ltd., a consolidated entity, which statements reflect total assets of $3,352,001 and $3,273,188 as of December 31, 2016 and 2015, respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for MD Insurance Company Ltd., is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Proliance Surgeons, Inc., P.S. as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Berntson Porter & Co., PLLC

Berntson Porter & Company, PLLC
Certified Public Accountants

ASSETS

December 31,	2016	2015
CURRENT ASSETS		
Cash and cash equivalents	$ 7,769,342	$ 16,347,164
Short-term investments	2,556,007	2,558,398
Accounts receivable		
Trade, net	65,166,842	55,490,702
Other	103,059	160,072
Inventory	4,918,964	4,285,971
Prepaid expenses	9,708,086	9,349,755
Other current assets	65,771	25,415
Federal income taxes receivable	-	337,668
TOTAL CURRENT ASSETS	90,288,071	88,555,145
EQUIPMENT AND LEASEHOLD IMPROVEMENTS, net	46,502,781	45,525,438
OTHER ASSETS	783,924	600,696
GOODWILL	950,667	950,667
TOTAL ASSETS	$ 138,525,443	$ 135,631,946

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES		
Line of credit	$ 3,999,950	$ 17,000,000
Accounts payable	6,199,794	6,087,996
Accrued liabilities	20,082,500	12,383,913
Medical claims payable	1,331,865	1,569,032
Provision for outstanding losses	1,047,000	728,437
Federal income taxes payable	72,604	-
Current portion of long-term debt	9,680,961	8,782,395
Current portion of capital lease obligations	1,019,532	1,105,864
TOTAL CURRENT LIABILITIES	43,434,206	47,657,637
LONG-TERM DEBT, less current portion	25,062,245	26,257,896
CAPITAL LEASE OBLIGATIONS, less current portion	852,063	1,407,816
DEFERRED RENT	309,401	138,188
DEFERRED INCOME TAXES	24,400,649	21,617,659
TOTAL LIABILITIES	94,058,564	97,079,196
STOCKHOLDERS' EQUITY	44,466,879	38,552,750
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 138,525,443	$ 135,631,946

The accompanying notes are an integral part of these financial statements.

Years Ended December 31,	2016	2015
Patient service revenue, net of contractual allowances and discounts	$ 445,906,231	$ 394,291,385
Bad debt expense (recoveries), net	131,436	(574,156)
Net patient service revenue	445,774,795	394,865,541
Operating expenses		
Nonphysician salaries	103,388,243	91,243,257
Medical and surgical supplies	63,327,872	55,338,516
Occupancy and use - facilities	30,806,831	27,564,361
Nonphysician fringe benefits	23,710,397	21,707,134
Purchased services	14,042,030	11,330,130
Occupancy and use - equipment	10,578,265	9,402,517
Depreciation and amortization	8,491,801	8,954,659
Business taxes and licenses	7,281,472	6,644,951
Professional liability insurance	5,020,086	5,106,622
Losses incurred (recovered)	238,347	(463,378)
Miscellaneous	10,018,672	9,423,728
Total operating expenses	276,904,016	246,252,497
INCOME FROM OPERATIONS BEFORE PHYSICIANS' COMPENSATION	168,870,779	148,613,044
Physicians' compensation		
Physician salaries	151,153,796	149,244,957
Physician fringe benefits	16,554,487	15,096,164
Total physicians' compensation	167,708,283	164,341,121
INCOME (LOSS) FROM OPERATIONS	1,162,496	(15,728,077)
Other income (expense)		
Nonoperating revenue	7,836,469	8,337,465
Interest income	62,883	97,892
Gain on sale of care center assets	-	2,052,041
Net unrealized and realized loss on sale of investments	(1,148)	(71,097)
Loss on disposal of equipment and leasehold improvements	(90,760)	(170,836)
Interest expense	(1,252,723)	(1,239,185)
Total other income (expense), net	6,554,721	9,006,280
INCOME (LOSS) BEFORE TAXES	7,717,217	(6,721,797)
Federal income tax expense (benefit)		
Current	2,357	(2,057,336)
Deferred	2,782,990	1,277,451
Total federal income tax expense (benefit), net	2,785,347	(779,885)
NET INCOME (LOSS)	4,931,870	(5,941,912)
Net income attributable to noncontrolling interest	(42,341)	(51,967)
NET INCOME (LOSS) ATTRIBUTABLE TO PROLIANCE SURGEONS, INC., P.S.	$ 4,889,529	$ (5,993,879)

The accompanying notes are an integral part of these financial statements.

	Number of shares issued & outstanding	Common* stock	Retained earnings	Total	Noncontrolling interests	Total stockholders' equity
Balance at January 1, 2015	800,951	$ 718,490	$ 42,554,975	$ 43,273,465	$ 1,447,017	$ 44,720,482
Repurchase of common stock	(55,000)	(55,000)	-	(55,000)	-	(55,000)
Issuance of common stock	30,000	30,000	-	30,000	-	30,000
Net income (loss)	-	-	(5,993,879)	(5,993,879)	51,967	(5,941,912)
Distributions	-	-	-	-	(200,820)	(200,820)
Balance at December 31, 2015	**775,951**	**693,490**	**36,561,096**	**37,254,586**	**1,298,164**	**38,552,750**
Acquisition of Redmond Ambulatory Surgery Center, LLC	-	-	-	-	1,041,250	1,041,250
Repurchase of common stock	(55,000)	(55,000)	-	(55,000)	-	(55,000)
Issuance of common stock	115,000	115,000	-	115,000	-	115,000
Net income	-	-	4,889,529	4,889,529	42,341	4,931,870
Distributions	-	-	-	-	(118,991)	(118,991)
Balance at December 31, 2016	**835,951**	**$ 753,490**	**$ 41,450,625**	**$ 42,204,115**	**$ 2,262,764**	**$ 44,466,879**

* No par value; 250,000,000 shares authorized.

The accompanying notes are an integral part of these financial statements.

Years Ended December 31,	2016	2015
CASH FLOW FROM OPERATING ACTIVITIES		
Net income (loss)	$ 4,931,870	$ (5,941,912)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	8,491,801	8,954,659
Provision for uncollectible accounts	68,773	(612,099)
Loss on disposal of equipment and leasehold improvements	90,760	170,836
Gain on sale of care center assets	-	(2,052,041)
Loss on sale of investments	18,683	30,805
Unrealized (gain) loss on investments, net	(33,370)	25,182
Liability for unrecognized tax benefits	-	(8,315,427)
Deferred income taxes	2,782,990	9,592,878
Deferred rent	171,213	138,188
Changes in assets and liabilities		
Trade accounts receivable	(9,744,913)	(2,197,570)
Other receivables	57,013	27,733
Inventory	(632,993)	123,971
Prepaid expenses	(358,331)	4,878,217
Other current assets	(40,356)	84,351
Federal income taxes receivable	337,668	1,608,047
Other assets	(183,228)	(13,585)
Accounts payable	111,798	1,012,383
Accrued liabilities	7,698,587	1,176,053
Medical claims payable	(237,167)	200,232
Provision for outstanding losses	318,563	(289,900)
Federal income taxes payable	72,604	-
Net cash provided by operating activities	13,921,965	8,601,001
CASH FLOW FROM INVESTING ACTIVITIES		
Purchases of equipment and leasehold improvements	(9,046,408)	(13,231,007)
Investment in LLC	1,041,250	-
Proceeds from sale of investments	676,893	701,873
Purchase of investments	(659,815)	(1,392,493)
Proceeds from sale of equipment	1,640	110,025
Proceeds from sale of care center assets	-	2,331,884
Payments received on notes receivable	-	636,581
Net cash used in investing activities	(7,986,440)	(10,843,137)
CASH FLOW FROM FINANCING ACTIVITIES		
Net repayments on line of credit	(13,000,050)	-
Principal payments on long-term debt	(10,512,785)	(7,534,974)
Proceeds from issuance of long-term debt	10,215,700	13,999,200
Principal payments on capital lease obligations	(1,157,221)	(1,508,393)
Distributions paid	(118,991)	(200,820)
Issuance of common stock	115,000	30,000
Repurchase of common stock	(55,000)	(55,000)
Net cash provided by (used in) financing activities	(14,513,347)	4,730,013
NET CHANGE IN CASH AND CASH EQUIVALENTS	(8,577,822)	2,487,877
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	16,347,164	13,859,287
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 7,769,342	$ 16,347,164

SUPPLEMENTAL INFORMATION

Cash paid during the year for interest	$ 1,252,723	$ 1,239,185
Equipment acquired under capital leases	$ 515,136	$ 846,028
Cash paid during the year for taxes	$ 67,195	$ 608,436

The accompanying notes are an integral part of these financial statements.

Note 1 - OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

OPERATIONS AND ORGANIZATION

Proliance Surgeons, Inc., P.S. ("the Company"), a Washington corporation which began operations on January 1, 1994, was organized to provide medical services primarily throughout the Puget Sound region. The financial statements include the accounts of each care center.

Overlake Surgery Center, LLC ("Overlake") is a limited liability company organized in June 1998 as a multi-specialty surgery center. Overlake is approximately 51.0% Proliance Surgeons owned, 30.1% Overlake Hospital Medical Center owned, and 18.9% physician owned. Orthopedic, pain management, and ear, nose and throat cases represent a significant amount of the current cases.

Redmond Ambulatory Surgery Center, LLC (Redmond ASC) is a limited liability company organized in December 2015 as a multi-specialty surgery center. Redmond ASC is approximately 51% Proliance Surgeons owned and 49% Swedish Health Services owned. Redmond ASC has not yet begun principal operations (Note 17).

MD Insurance Company Ltd. ("MDIC") was incorporated as an exempted company under the Companies Law of the Cayman Islands on December 2, 2003 and has been granted an Unrestricted Class "B(i)" Insurer's License under Section 4(2) of the Cayman Islands Insurance Law, as amended. MDIC's principal activity is to insure the professional liability risks of a group of surgeons. MDIC is a wholly owned subsidiary of the Company and, as a result, is required to be consolidated in these financial statements.

MDIC is subject to a minimum capital requirement as established by CIMA of $100,000. At December 31, 2016 and 2015, the Company was in compliance with this requirement. MDIC has no remaining exposures relating to insurance and reinsurance contracts entered into prior to 2008. Effective January 1, 2008, MDIC issued a Professional Liability Underlying Aggregate Excess of Loss Reinsurance Contract to MD Risk Retention Group, Inc. (MDRRG), a related party by virtue of common directorship. This policy is for $500,000 in excess of $500,000 per claim and in the annual aggregate and was renewed effective January 1, 2016.

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements have been prepared solely from the accounts of Proliance Surgeons, Inc., P.S. and its wholly owned (MDIC) and majority owned (Overlake and Redmond ASC) subsidiaries (collectively "the Company"). All significant intercompany accounts and transactions have been eliminated in consolidation.

BASIS OF PRESENTATION

The consolidated financial statements are prepared using the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recognized when earned and expenses are recognized when resources are used and a liability is incurred.

The Company's federal income tax return is prepared using the cash basis of accounting. Revenues from services are recognized when received and expenses are recognized when paid.

The Company uses the optional straight-line and accelerated depreciation methods for tax reporting. Management believes that depreciable lives for financial statement purposes do not materially differ from lives prescribed by the Internal Revenue Service. Accordingly, any differences in depreciation for financial and income tax reporting purposes are considered immaterial.

Cash and cash equivalents

The Company considers all highly liquid debt instruments purchased with a remaining maturity of three months or less and funds held in money market funds, current and call accounts and cash held at brokers, to be cash equivalents.

Accounts receivable, net

Patient accounts receivable are stated at a standard charge less an allowance for contractual adjustments and uncollectible amounts. Interest is not accrued on outstanding accounts receivable. In evaluating the collectability of accounts receivable, the Company analyzes its negotiated contracts as well as past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. The provision for bad debts is determined based on an aggregate assessment of collections and write-offs over the preceding five years. For receivables associated with services provided to patients who have third-party coverage, the Company analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Company records a provision for bad debts in the period of service on the basis of past experience, which indicates certain patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts. Allowances for doubtful accounts and contractual adjustments totaled approximately $73,300,000 and $75,700,000 at December 31, 2016 and 2015, respectively.

Provision for outstanding losses

MDIC determines its provision for reported losses on the basis of management's best estimate. Management has engaged the services of an independent consulting actuary to advise on the required level of the provision for outstanding losses including a provision for adverse loss development. The provision for outstanding losses is based upon the advice of these actuaries and management's best estimate and is included on an undiscounted basis.

Changes in estimates of the provision for outstanding losses resulting from the continuous review process and differences between estimates and payments are recognized in income in the period in which they are determined.

Inventory

Inventory consists primarily of drugs and medical supplies on hand. Inventory is based on a physical count and is stated at the lower of cost, using the average cost method of accounting or market.

Equipment and leasehold improvements

The cost of equipment and leasehold improvements is depreciated and amortized using accelerated and straight-line methods over the estimated useful lives of the assets, which range as follows:

Leasehold improvements	5-40 years
Medical equipment	3-7 years
Computer equipment	3-7 years
Office furniture and equipment	3-10 years

Construction in progress primarily represents leasehold improvements and equipment that will be placed in service and amortized once construction is complete.

Goodwill

The excess of the purchase price over the fair market value of assets is allocated to goodwill. Goodwill is not adjusted unless events or circumstances occur indicating that an impairment exists. Impairment losses, if any, are recorded in the consolidated statement of income as part of income from operations. There was no change in the carrying value of goodwill during the years ended December 31, 2016 or 2015.

Capital leases

The Company is leasing equipment and software under various capital leases. At the inception of the lease, the asset and liability under the capital lease is recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are being amortized over their estimated useful lives.

Self-funded insurance plan

The Company acts as a self-insurer for medical, dental, and vision coverage of its employees. Accrued liabilities include $1,331,865 and $1,569,032 for unpaid employee medical, dental, and vision claims incurred as of December 31, 2016 and 2015, respectively. The self-insured program is insured with stop-loss coverage on an individual and cumulative claim basis.

Deferred rent

The Company has recorded a deferred liability for rent expense associated with lease agreements for facilities related to rent abatement and escalating rental payments over the lease term. The rent abatement and escalating rental payments are amortized over the lease term and result in recognition of rental expense under the straight-line method.

Net patient service revenue

The Company has agreements with third-party payors that provide for payments to the Company at amounts different from its established rates. The Company recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Company recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a portion of the Company's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Company records a provision for bad debts in the period the services are provided.

RECOGNITION OF REINSURANCE PREMIUM REVENUE

Reinsurance premiums assumed by MDIC are earned on a pro rata basis over the policy years. Policies are written on an annual basis with a December 31 expiration date.

NONCONTROLLING INTEREST

Noncontrolling interest on the consolidated statements of income and stockholders' equity represents the minority members' proportionate shares of members' equity and income (losses) of Overlake and Redmond ASC.

USE OF ESTIMATES

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

Material estimates that are particularly susceptible to change relate to the determination of trade net accounts receivable, including uncollectible accounts receivable and contractual adjustments, provision for outstanding losses and medical claims payable.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company estimates that the carrying amount of all financial instruments approximate fair value, a Level 1 input under ASC 820.

CONCENTRATION OF RISK

Proliance Surgeons, Inc., P.S., Overlake Surgical Center, LLC, and Redmond Ambulatory Surgery Center, LLC

Financial instruments that potentially subject the Company to concentrations of market and credit risk consist principally of cash deposits in excess of federally insured limits and accounts receivable. Concentrations of credit risk with respect to cash deposits are mitigated due to the Company's deposit of these balances with high credit quality financial institutions.

The accounts receivable credit risk of the Company is represented by unsecured net receivables on the balance sheet. The Company follows normal trade practices in granting credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Management does not anticipate any material adverse effect on the Company's financial position resulting from these credit risks.

MDIC

In the normal course of its business, MDIC holds various financial instruments, which may result in both market and credit risks, the amount of which is not apparent from the financial statements.

Market risk is the risk that changes in interest rates and foreign exchange rates will affect the positions held by MDIC. MDIC is exposed to market risk on its money market funds and investments that are valued at market prices. Further a risk exists that MDIC may not be able to readily dispose of its marketable securities when it chooses and also that the price obtained on disposal may be below that at which the investment is included in the Company's financial statements. The investment strategy of money market funds is to provide a high level of current income consistent with the liquidity and preservation of capital by investing in a diversified portfolio of high quality short-term investments. The Company manages this risk by actively reviewing market price information and engaging an investment manager to oversee the Company's portfolio. Management does not anticipate any material losses from this exposure.

Credit risk is the risk of counterparty default. Credit risk is generally higher when a non-exchange traded financial instrument is involved because the counterparty for the non-exchange traded financial instrument is not backed by an exchange clearing house. Financial assets that potentially expose MDIC to credit risk consist of cash and cash equivalents, investments, and interest receivable.

Cash and cash equivalents, investments, and interest receivable are held with high credit quality financial institutions. MDIC management, therefore, does not anticipate any material credit losses from these exposures.

Fair Value Hierarchy

FASB ASC 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value and expands disclosure requirements regarding fair value measurements but does not change existing guidance about whether an asset or liability is carried at fair value.

The fair value of a financial asset or liability is defined using an "exit price" definition. It is the amount that would be received to sell the asset or the amount that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value hierarchy established under FASB ASC 820 gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of fair value hierarchy under FASB ASC 820 are described below:

Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model based valuation techniques for which all significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Company's own assumptions about the assumptions market participants would use in pricing the assets or liabilities.

INVESTMENTS

Investments are classified as "trading" and are recorded in the balance sheet at fair value as determined by the investment manager. Unrealized gains or losses are determined by comparing the fair value of securities with its cost. Changes in unrealized gains or losses and realized gains and losses on the sale of investments are included in the consolidated statement of income. Realized gains and losses on the sale of investments are derived using the specific identification method for determining the cost of securities sold.

NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. In general, this standard will require the company to recognize revenue when it transfers goods or services to customers in the amount of anticipated consideration in which the company is entitled. This standard also requires additional disclosure requirements that result in the company providing financial statement users comprehensive information regarding the nature, amount, timing and uncertainty of revenue and cash flow from the company's contracts with customers. This standard will be effective for the calendar year ending December 31, 2019 with retrospective application required. The company has not determined the impact of adopting this standard on the accompanying financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*. In general, this standard requires a lessee to record a right-of-use asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. This standard will be effective for the calendar year ending December 31, 2020 with retrospective application required. The company has not determined the impact of adopting this standard on the accompanying financial statements.

Note 2 - ADVANCES

Reflected in other current assets are advances that primarily consist of net amounts due to and due from stockholders, which are due within one year. These advances are unsecured and are non-interest bearing. The outstanding balance of amounts due totaled $103,713 and $75,415 at December 31, 2016 and 2015, respectively.

Note 3 - INVESTMENTS

At December 31, 2016, the cost, net unrealized loss, and fair value of investments are as follows:

	Cost	Unrealized loss	Fair market value
Corporate bonds, treasuries and equities	$ **2,579,057**	$ **(23,050)**	$ **2,556,007**

At December 31, 2015, the cost, net unrealized loss, and fair value of investments are as follows:

	Cost	Unrealized loss	Fair market value
Corporate bonds, treasuries and equities	$ 2,614,818	$ (56,420)	$ 2,558,398

Note 4 - EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements at December 31 consists of the following:

	2016	2015
Leasehold improvements	$ **45,168,406**	$ 37,770,794
Medical equipment	**38,525,996**	34,057,810
Computer equipment	**16,855,781**	15,676,510
Office furniture and equipment	**5,497,296**	5,013,924
Construction in progress	**3,543,253**	7,954,693
Total equipment and leasehold improvements, at cost	**109,590,732**	100,473,731
Less accumulated depreciation and amortization	**(63,087,951)**	(54,948,293)
Total equipment and leasehold improvements, net	$ **46,502,781**	$ 45,525,438

Depreciation and amortization expense for the years ended December 31, 2016 and 2015, totaled $8,491,801 and $8,954,659, respectively.

Note 5 - LINE OF CREDIT

The Company maintains a $5,000,000 revolving line of credit payable to U.S. Bank, which is based on eligible collateral. The credit agreement includes temporary increases to $17,000,000 from November 15, 2016 through February 15, 2017 and December 15, 2015 through February 15, 2016, to fund capital expenditure purchases that will primarily be converted to permanent financing in the near term. The interest rate varies at the greater of 0% and 1.0% over LIBOR and matures October 31, 2017. The line of credit is collateralized by substantially all Company assets. The outstanding balance was $3,999,950 and $17,000,000 at December 31, 2016 and 2015.

The revolving line of credit agreement with U.S. Bank contains covenants which require the Company to maintain certain financial ratios.

Note 6 - LONG-TERM DEBT

Long-term debt at December 31 consists of the following:

		2016		2015
Notes payable to U.S. Bank, interest rates range from 1.84% to 6.24%, due in combined monthly installments of $899,184 including interest, maturing from January 2017 to December 2023, collateralized by substantially all Company assets	$	**32,088,331**	$	32,091,345
Notes payable to former members of Overlake, interest rate varies at the prime rate as published by The Wall Street Journal, subject to repayment restrictions, unsecured		**1,483,086**		1,503,415
Note payable to Bank of America, interest rate varies at LIBOR plus 1.25%, due in variable monthly installments including interest, maturing August 2020, collateralized by substantially all Company assets		**1,142,189**		1,410,998
Notes payable to related parties, 4.81%, due in annual installments of $4,933, maturing in April 2022, unsecured		**29,600**		34,533
Total long-term debt		**34,743,206**		35,040,291
Less current portion		**(9,680,961)**		(8,782,395)
Long-term portion	$	**25,062,245**	$	26,257,896

In accordance with the Overlake members' operating agreement, Overlake can redeem units held by the members. Payments for redeemed units may be delayed at the discretion of Overlake and may not exceed 5% of Overlake's collected revenues in any given month. Due to the nature of the payment provisions, future payments on the notes payable to former members are not estimable and are therefore not included in the schedule of future payments below.

Maturities of long-term debt (excluding Overlake notes payable to former members) based on interest rates and terms in effect at December 31, 2016 are as follows:

Year ending December 31,		
2017	$	9,680,961
2018		7,870,489
2019		6,340,916
2020		4,158,401

2021		2,930,584
Thereafter		2,278,769
Total	$	33,260,120

Certain debt agreements contain financial ratio and reporting covenants.

Note 7 - CAPITAL LEASE OBLIGATIONS

Capital lease obligations at December 31 consist of the following:

	2016	2015
Capital leases payable to U.S. Bank, due in combined monthly installments of $64,161 including imputed interest varying from 2.29% to 5.27%, maturing March 2017 through March 2019, collateralized by equipment	**$ 796,972**	$ 1,525,900
Capital lease payable to Bank of America, due in monthly installments of $11,800 including imputed interest of 2.84%, maturing May 2020, collateralized by equipment	**460,563**	587,268
Capital lease payable to Everbank Commercial Finance, Inc., due in monthly installments of $9,619 including imputed interest of 2.52%, maturing August 2019, collateralized by equipment	**310,195**	-
Capital lease payable to Alcon Laboratories, Inc., due in monthly installments of $3,327 including imputed interest of 3.00%, maturing May 2020, collateralized by equipment	**127,228**	162,055
Capital lease payable to De Lage Landen Financial Services, Inc., due in monthly installments of $2,480, interest at 0%, maturing September 2019, collateralized by equipment	**78,320**	-
Capital lease payable to Celtic Commercial Finance, due in monthly installments of $22,821 including imputed interest of 6.69%, repaid January 2017, collateralized by equipment	**45,643**	114,105

Capital lease payable to Stryker, due in monthly installments of $6,719 including imputed interest of 2.42%, maturing May 2017, collateralized by equipment	**27,114**	-
Capital lease payable to First American Equipment Finance, due in monthly installments of $2,374 including imputed interest of 10.07%, maturing January 2018, collateralized by equipment	**25,560**	124,352
Total capital lease obligations	**1,871,595**	2,513,680
Less current portion	**(1,019,532)**	(1,105,864)
Long-term portion	**$ 852,063**	$ 1,407,816

Future payments to be made on these capital leases are as follows:

Year ending December 31,	
2017	$ 1,087,884
2018	464,736
2019	271,392
2020	84,124
Total payments	1,908,136
Less financing costs	(36,541)
Total capital lease obligations	$ 1,871,595

Property recorded under capital leases is included in the accompanying balance sheet as leasehold improvements, medical equipment and computer equipment. The property is recorded at $4,733,512 and $7,135,261 and has accumulated amortization of $3,778,959 and $4,773,356 at December 31, 2016 and 2015, respectively. Amortization of capital lease assets is included with depreciation in the accompanying financial statements.

Note 8 - Lease commitments

The Company leases office space and facilities from related entities comprised of certain Company physicians and members. The Company's management believes the terms of all of the foregoing leases are comparable to those that could have been obtained from unrelated parties.

The Company also leases office space and various equipment from unrelated vendors under noncancellable and month-to-month operating lease agreements. The Company is generally responsible for property taxes, maintenance, and insurance. Minimum future payments under the noncancellable operating leases are as follows:

Year ending December 31,		
2017	$	21,332,527
2018		19,940,020
2019		16,829,158
2020		15,080,347
2021		11,613,782
Thereafter		56,413,718
Total	$	141,209,552

Total rent expense under noncancellable and month-to-month agreements totaled $25,568,747 and $22,830,603 for 2016 and 2015, respectively. Included in occupancy expense was approximately $11,431,000 and $10,767,000 of rent paid to related parties in 2016 and 2015, respectively.

Note 9 - Contingencies

Industry regulations

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditations, government health care program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Company is in compliance with fraud and abuse, as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

Other

The Company is a party to various legal actions and administrative proceedings and subject to various claims arising in the ordinary course of business. The Company does not believe that the ultimate disposition of these matters will have a material adverse effect on the financial position or results of operations of the Company.

Note 10 - Employee benefit plan

The Company provides a defined contribution plan, including 401(k) provisions, for employees meeting certain age and service requirements. Employee contributions are matched by the Company at a 100% rate up to a maximum employer contribution of 5% of the employee's eligible compensation, subject to statutory limitations. Additionally, profit sharing contributions are made on behalf of eligible employees and vary according to job classification. Employer contributions vest over a period of five years. The Company contributed $12,894,928 and $11,722,658 to the plan for the years ended December 31, 2016 and 2015, respectively.

Note 11 - FEDERAL TAXES ON INCOME

PROLIANCE SURGEONS, INC., P.S.

The Company has adopted the provisions of FASB ASC 740-10, *Income Taxes*, relating to accounting for uncertain tax positions. FASB ASC 740-10 defines a recognition threshold and measurement process for accounting for uncertain tax positions and also provides guidance on various related matters such as interest, penalties, derecognition and disclosures. FASB ASC 740-10 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company's tax returns to determine whether the tax returns were "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as tax expense in the current year.

The Company does not have any entity level uncertain tax positions at December 31, 2016 and 2015. The Company reports accrued interest and penalties related to unrecognized tax benefits as income tax expense. As of December 31, 2016 and 2015, the Company has not accrued interest or penalties related to uncertain tax positions.

The Company files their income tax return in the U.S. federal jurisdiction. In the normal course of business the Company is subject to examination by taxing authorities. The Company's federal income tax returns for 2014, 2015 and 2016 are subject to examination by the Internal Revenue Service.

Income taxes are accounted for using an asset and liability approach, which requires the recognition of deferred tax assets and liabilities for the expected future benefits or tax consequences of temporary differences between the financial statements and tax bases of assets and liabilities at the enacted tax rates. FASB ASC 740-10 requires a valuation allowance against deferred tax assets if, based on the weight of the available evidence, it is more likely than not that some or all of its deferred tax assets will not be realized. Management believes that all deferred tax assets will be realized and no valuation allowance is necessary at December 31, 2016 and 2015. Other differences between book and taxable income and tax expense calculated at the statutory rates arise from permanent differences for a portion of business entertainment expenses.

The Company has early adopted the provisions of FASB ASU 2015-17, *Income Taxes*. The provisions of ASU 2015-17 simplified the presentation of deferred income taxes which required that deferred tax liabilities and assets be classified as noncurrent in a classified balance sheet. The adoption of this ASU was retrospectively applied. The effect of this change was to decrease current assets by $39,943, decrease current liabilities by $18,719,851, and increase non-current liabilities by $18,759,794 at December 31, 2015.

Provision for deferred income taxes results from temporary differences between financial statement and taxable income. The temporary tax differences at December 31 are as follows:

	2016	2015
Deferred tax assets (liabilities)		
Conversion from accrual basis to cash basis	$ **7,392,637**	$ 4,988,473
Conversion from accrual basis to cash basis	**(27,398,373)**	(23,708,324)
Net operating loss carryforward and charitable contributions	**1,403,720**	1,659,750
Excess of financial statement basis of fixed assets over tax basis	**(5,798,633)**	(4,597,501)
Net deferred tax liabilities	$ **(24,400,649)**	$ (21,657,602)

Realization of the deferred tax assets are dependent on generating sufficient taxable income. Although realization is not assured, management believes, based upon available information, it is more likely than not that the deferred assets will be realized in the normal course of operations. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income are reduced.

At December 31, 2016 and 2015, there was approximately $1,404,000 and $1,660,000, respectively, of net operating loss carryforwards that will begin to expire in the year 2036. Changes in ownership, as defined in Section 382 of the Internal Revenue Code, may limit the amount of net operating loss carryforwards used in any one year. Realization is also dependent on generating sufficient taxable income prior to the expiration of the loss carryforwards. Although realization is not assured, the Company's management believes, based upon available information, it is more likely than not that the net operating loss carryforwards will be realized and no valuation allowance has been recorded. The amount of the net operating loss carryforwards considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

In prior years, the Company was informed by the Internal Revenue Service that the validity of certain deductions taken on the 2003 and 2004 federal income tax returns was challenged. Additional examinations have been performed each year since and have primarily focused on the deductibility of insurance premiums paid for professional liability coverage, resulting in assessments of additional taxes or adjustments of the net operating loss carryforward. During 2010, the Company paid approximately $1,800,000 in additional taxes and interest as a result of the 2008 federal income tax return examination. Also during 2010, the examination of the 2007 federal income tax return concluded, resulting in no additional taxes or penalties, but did require adjustment of the net operating loss carryforward. During 2011, the examination of the federal income tax return for 2009 was concluded with no additional amounts assessed but adjustments to the net operating loss carryforward were recorded. During 2015, the examination of the federal income tax returns for 2010, 2011 and 2012 concluded, resulting in the payment of approximately $31,000 in additional taxes and interest.

The Company filed claims for refund of amounts paid related to the 2006 through 2009 federal income tax return examinations. The claims for refund for the 2006 through 2009 years had been denied by the Internal Revenue Service. The Company initiated litigation to resolve the deductibility of these items with respect to the 2006 through 2009 income tax years before the U.S. Court of Federal Claims. During 2015, the Company settled the years 2006 through 2009 claims for approximately $3,800,000. This resulted in a reduction of income tax expense for the year ended December 31, 2015.

MDIC

MDIC made an irrevocable election under Section 953(d) of the Internal Revenue Code of 1986, as amended, to treat MDIC as a domestic insurance company for United States federal income tax purposes. As a result of this "domestic" election, MDIC is subject to U.S. income tax on its worldwide income as if it were a United States corporation. In addition, MDIC made an election under Section 831(b) of the Internal Revenue Code. This election allows MDIC to be taxed on its investment income for regular U.S. federal income tax purposes when its net written premiums (or direct written premiums, if greater) are less than $1,200,000.

MDIC has adopted the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in 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. A valuation allowance is established for deferred tax assets where it is more likely than not that future tax benefits will not be realized. Interest or penalties, if any, related to income taxes are included in miscellaneous expenses.

Management is required to determine whether all tax positions of MDIC are more likely than not to be sustained upon examination by the applicable taxing authority based on the technical merits of the positions. When management's assessment indicates that it is more likely than not that unrecognized tax benefits, including deferred income tax assets, will not be realized a valuation allowance is recorded against the unrecognized tax benefits. The unrecognized tax benefits may only be recognized when the position is more likely than not to be sustained upon audit by the relevant tax authorities.

Management does not believe there are any tax positions taken by MDIC that are subject to uncertainty and as a result, no provisions or disclosures have been made in these financial statements.

MDIC is not obligated to pay any taxes in the Cayman Islands on either income or capital gains. MDIC has received an undertaking from the Governor in Cabinet pursuant to the Tax Concessions Law of the Cayman Islands, which exempts MDIC from any taxes until the year 2024.

Deferred income tax assets/(liabilities) are based upon temporary differences between the financial statement and tax bases of assets and liabilities. The tax effects of the temporary differences that give rise to the significant portions of the deferred tax assets/(liabilities) are as follows:

	2016	2015
Gross deferred tax assets		
Capital loss carryforward	$ **15,108**	$ 20,760
Unrealized loss on investments	**7,837**	19,183
Gross deferred tax asset	**22,945**	39,943
Valuation allowance	**(22,945)**	-
Net deferred tax asset	$ **-**	$ 39,943

The computation of income taxes receivable is shown below:

	2016	2015
Income taxes receivable at beginning of year	$ **4,267**	$ 511
Income tax expense for year	**(5,899)**	(6,244)
Income tax payments, net	**1,695**	10,000
Income taxes receivable at end of year	$ **63**	$ 4,267

The provision for income taxes varies from the statutory rate of 34% of MDIC's income due to the following reasons:

	2016	2015
Income tax expense (benefit) at statutory rate	$ **(98,501)**	$ 113,663
831(b) adjustment	**117,187**	(118,546)
Graduated rates	**(7,652)**	(7,909)
Valuation allowance	**22,945**	-
Return to provision adjustment	**11,863**	-
Total	$ **45,842**	$ (12,792)

The Company recorded a valuation allowance of $22,945 during 2016 as MDIC Management believes the deferred tax asset will not be recognized. The Company has capital loss carryforwards of $44,436 that will begin to expire in 2017.

OVERLAKE

Overlake has adopted the provisions of FASB ASC 740-10, *Income Taxes*, relating to accounting for uncertain tax positions. ASC 740-10 defines a recognition threshold and measurement process for accounting for uncertain tax positions and also provides guidance on various related matters such as interest, penalties, derecognition and disclosures. Overlake does not have any entity level uncertain tax positions. Overlake files income tax returns in the U.S. federal jurisdiction. Overlake is no longer subject to U.S. federal examinations by tax authorities for years before 2013.

The LLC is taxed as a partnership under the Internal Revenue Code. As such, Overlake does not pay federal corporate income taxes on its taxable income. The members pay taxes on the LLC's taxable income on their federal income tax returns.

Redmond ASC

Redmond ASC has adopted the provisions of FASB ASC 740-10, *Income Taxes*, relating to accounting for uncertain tax positions. ASC 740-10 defines a recognition threshold and measurement process for accounting for uncertain tax positions and also provides guidance on various related matters such as interest, penalties, derecognition and disclosures. Redmond ASC does not have any entity level uncertain tax positions. Redmond ASC files income tax returns in the U.S. federal jurisdiction. Redmond ASC is no longer subject to U.S. federal examinations by tax authorities for years before 2016.

The LLC is taxed as a partnership under the Internal Revenue Code. As such, Redmond ASC does not pay federal corporate income taxes on its taxable income. The members pay taxes on the LLC's taxable income on their federal income tax returns.

Note 12 - Contractual arrangements

The Company has Stock Purchase and Repurchase Agreements whereby physicians approved for stockholder status purchase Company stock. The Board of Directors determines stock purchase and redemption prices. The Company is obligated to purchase a stockholder's share of the Company's common stock in the event of death, disability or termination of employment. The stock redemption price was $1 per share at the date of this report.

The Company repurchased common stock totaling $55,000 from departing physicians, during each of the years ended December 31, 2016 and 2015. During 2016 and 2015, the Company issued common stock totaling $115,000 and $30,000, respectively, to physicians.

The Company periodically enters into deferred compensation arrangements with key personnel. The amount of the future obligation is subject to actions on the part of the individuals and continuation of the arrangements at the discretion of the Company. Under terms of the arrangements, certain individuals are entitled to compensation based on the results of operations for a specified period of time after death, disability or retirement, as defined in the arrangement. The amounts paid under these arrangements are expensed in the period earned and paid to the individual. Approximately $0 and $378,000 was paid during the years ended December 31, 2016 and 2015, respectively, under these arrangements.

Note 13 - Provision for outstanding losses

MDIC

The details with respect to provisions for outstanding losses are as follows:

		2016		2015
Provision for reported losses	$	**500,000**	$	500,000
Provision for adverse loss development		**547,000**		228,437
Total	$	**1,047,000**	$	728,437

Movements in the provision for outstanding losses during the years are as follows:

		2016		2015
Balance at beginning of year	$	**728,437**	$	1,018,337
Incurred related to:				
Current year		**444,000**		500,000
Prior years		**(125,437)**		(789,900)
Paid related to:				
Current year		-		-
Prior years		-		-
Balance at year-end	$	**1,047,000**	$	728,437

Incurred losses resulting from claims related to insured events for prior years were adjusted during the years ended December 31, 2016 and 2015, due to changes in estimates of the ultimate settlements costs of such losses.

The provision for outstanding losses is based upon an independent actuarial report prepared by Milliman, Inc. In their report dated March 7, 2017, the actuaries estimate that as at December 31, 2016 the required outstanding loss reserve at a 70% (2015: 70%) confidence level, undiscounted is $1,047,000 (2015: $728,437). MDIC has recorded a provision for outstanding losses in the amount of $1,047,000 (2015: $728,437) as a best estimate. In accordance with the accounting policy described in Note 1, the Directors of MDIC have determined that the provision is adequate to cover the ultimate cost of all claims reported at that date.

Consistent with most companies with similar insurance operations, MDIC's provision for outstanding losses is ultimately based on management's reasonable expectations of future events. It is reasonably possible that the expectations associated with these amounts could change in the near term (i.e. within one year) and that the effect of such changes could be material to the financial statements.

Note 14 - Valuation of Investments

MDIC

December 31, 2016	Fair value measurements at reporting date using: Level 1	Level 2	Level 3	Total
Assets:				
U.S. corporate bonds	$ 971,339	$ 200,816	$ -	$ 1,172,155
Non-U.S. corporate bonds	368,916	500,383	-	869,299
U.S. equity	368,941	-	-	368,941
U.S. treasuries	120,249	-	-	120,249
Non-U.S. equity	25,363	-	-	25,363
Total	$ 1,854,808	$ 701,199	$ -	2,556,007

December 31, 2015	Fair value measurements at reporting date using: Level 1	Level 2	Level 3	Total
Assets:				
Non-U.S. corporate bonds	$ -	$ 1,074,562	$ -	$ 1,074,562
U.S. corporate bonds	-	928,325	-	928,325
U.S. equity	334,104	-	-	334,104
U.S. treasuries	181,957	-	-	181,957
Non-U.S. equity	39,450	-	-	39,450
Total	$ 555,511	$ 2,002,887	$ -	$ 2,558,398

Note 15 - Contingent Liability

In the event of no claims being paid from MDIC to MDRRG under the Professional Liability Underlying Aggregate Excess of Loss Reinsurance Contract discussed in Note 1, MDRRG is entitled to a no-claims bonus equal to fifty percent of the reinsurance premium assumed. The no-claims bonus is payable two years after the expiration of the policy. Payment to MDRRG shall constitute a complete release of liability of MDIC in respect of that contract year.

MDRRG elected to exercise the no-claims bonus option under the terms of the 2011 Professional Liability Underlying Aggregate Excess of Loss Reinsurance Contract relating to 2010 and 2011 policy years. As of December 31, 2016 accrued liabilities includes no-claims bonuses payable of $184,242 (2015: $93,598). As of December 31, 2016, a $90,644 no-claims bonus election was made for the 2013 policy year since MDIC paid a claim relating to this policy year. As of December 31, 2016, no no-claims bonus election has yet been made for the 2014 policy year and no claims have yet been paid for this policy year. However, MDIC is currently carrying insurance reserves for the 2014 policy year.

Note 16 - VARIABLE INTEREST ENTITIES

As defined under the provisions of FASB ASC 810-10, *Consolidation*, the Company is required to continuously analyze whether they are the primary beneficiary of a variable interest entity (VIE). The Company determined it continues to hold a variable interest in MD Risk Retention Group, Inc. ("MDRRG"), but is not the primary beneficiary.

The Company owns approximately 1% of the common stock of MDRRG at December 31, 2016 and 2015. MDRRG began operations in January 2006, is domiciled in the state of Montana and provides professional liability insurance for the Company and its affiliated healthcare providers through a master policy. The Company's involvement with MDRRG is limited to insurance premiums paid for professional liability coverage. There were no amounts owed to MDRRG by the Company at December 31, 2016 and 2015. Total premiums paid to MDRRG during 2016 and 2015 amounted to $5,020,086 and $5,106,622, respectively. Company management has determined the Company does not maintain a controlling financial interest in MDRRG under FASB ASC 810-10 considering the original intent of the entity, on-going management, and risk of loss.

Effective January 1, 2014, the Company has adopted FASB Accounting Standards Update (ASU) 2014-7, *Consolidation (Topic 810): Applying Variable Interest Entities (VIE) guidance to Common Control Leasing Arrangements* for private companies. Under the ASU, the private company lessee is no longer required to apply VIE consolidation guidance to the lessor with regards to certain leasing transactions with related parties. The Company's involvement with Edmonds Ambulatory Surgery Center, LLC; ASC Northwest Properties, LLC and Evergreen Orthopedic Surgery Center, LLC (Note 18) ("the LLCs") is limited to lease payments and loan guarantees. Total lease payments made to the LLCs during 2016 and 2015 amounted to $1,832,853 and $1,774,246, respectively.

Note 17 - BUSINESS COMBINATIONS

On June 27, 2016, Proliance Surgeons, Inc., P.S. and Swedish Health Services entered into an agreement to form Redmond Ambulatory Surgery Center, LLC, a company organized in the state of Washington. Proliance Surgeons, Inc. P.S. acquired 51% of the units outstanding. The agreement calls for capital contributions of not less than $4,335,000 by Proliance, $1,083,750 of which was made during 2016. The accompanying consolidated financial statements include the results of operations since the formation (June 27, 2016 through December 31, 2016).

Costs related to the acquisition, which include legal, accounting and valuation fees, in the amount of approximately $82,000 have been charged directly to operations and are included with operating expenses in the 2016 consolidated statement of income.

During 2016, the Company merged one additional care center into the Company. The merger was made for the purpose of expanding the Company's operations in Washington. As of the date of acquisition, the company acquired $1,138,713 in equipment and leasehold improvements.

During 2015, the Company merged four additional care centers into the Company. The mergers were made for the purpose of expanding the Company's operations in Washington. The following is a condensed balance sheet showing the approximate fair values of the assets acquired and the liabilities assumed as of the date of the acquisitions:

Equipment and leasehold improvements	$	40,316
Other liabilities		(221,923)
Net liabilities assumed	$	(181,607)

Note 18 - WITHDRAWAL OF CARE CENTERS

During 2016, one care center withdrew from the Company. The care center held debt secured by Company assets. At the date of withdrawal, the debt obligations were retired. In conjunction with the withdrawal of these care centers, certain assets were sold resulting in a gain of approximately $17,133 which is included with the loss on disposal of equipment in the statement of income.

During 2015, three care centers withdrew from the Company. The care centers held debt secured by Company assets. At the date of withdrawal, the debt obligations were retired. In conjunction with the withdrawal of these care centers, certain assets were sold resulting in a gain of approximately $2,052,000.

Note 19 - SUBSEQUENT EVENTS

Subsequent to December 31, 2016, one care center has joined the Company.

Subsequent to December 31, 2016. Two care centers withdrew from the Company.

Through the report date, the Company incurred $299,000 in additional debt obligations.

Management has evaluated subsequent events through June 29, 2017, the date the financial statements were available to be issued.

CONSOLIDATING INFORMATION

Berntson Porter
& COMPANY PLLC
Certified Public Accountants & Consultants

June 29, 2017

Board of Directors
Proliance Surgeons, Inc., P.S.
Seattle, Washington

Independent Auditors' Report on Consolidating Information

We have audited the consolidated financial statements of Proliance Surgeons, Inc., P.S. as of and for the years ended December 31, 2016 and 2015, and our report thereon dated June 29, 2017, which expressed an unmodified opinion on those financial statements, appears on page one. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 29 through 31 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, which insofar as it relates to MD Insurance Company Ltd., is based on the report of other auditors, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Berntson Porter & Co., PLLC

Berntson Porter & Company, PLLC
Certified Public Accountants

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ASSETS

December 31, 2016	Proliance Surgeons, Inc., P.S.	MD Insurance Company Ltd.	Overlake Surgery Center, LLC	Redmond ASC, LLC	Eliminations	Final
CURRENT ASSETS						
Cash and cash equivalents	$ 3,694,170	$ 782,007	$ 1,311,654	$ 1,981,511	$ -	$ 7,769,342
Short-term investments	-	2,556,007	-	-	-	2,556,007
Accounts receivable						
Trade, net	64,145,522	-	1,021,320	-	-	65,166,842
Other	209,470	13,987	-	638	(121,036)	103,059
Note receivable from related party	467,500	-	-	-	(467,500)	-
Inventory	4,512,552	-	406,412	-	-	4,918,964
Prepaid expenses	9,622,991	-	85,095	-	-	9,708,086
Other current assets	65,771	-	-	-	-	65,771
TOTAL CURRENT ASSETS	82,717,976	3,352,001	2,824,481	1,982,149	(588,536)	90,288,071
EQUIPMENT AND LEASEHOLD IMPROVEMENTS, net	43,984,593	-	2,400,399	117,789	-	46,502,781
OTHER ASSETS	648,924	-	135,000	-	-	783,924
INVESTMENT IN SUBSIDIARIES	2,221,208	-	-	-	(2,221,208)	-
GOODWILL	950,667	-	-	-	-	950,667
TOTAL ASSETS	$ 130,523,368	$ 3,352,001	$ 5,359,880	$ 2,099,938	$ (2,809,744)	$ 138,525,443

LIABILITIES AND EQUITY

	Proliance Surgeons, Inc., P.S.	MD Insurance Company Ltd.	Overlake Surgery Center, LLC	Redmond ASC, LLC	Eliminations	Final
CURRENT LIABILITIES						
Line of credit	$ 3,999,950	$ -	$ -	$ -	$ -	$ 3,999,950
Accounts payable	5,820,512	-	500,318	-	(121,036)	6,199,794
Accrued liabilities	19,656,493	234,783	191,224	-	-	20,082,500
Medical claims payable	1,331,865	-	-	-	-	1,331,865
Provision for outstanding losses	-	1,047,000	-	-	-	1,047,000
Federal income taxes payable	72,604	-	-	-	-	72,604
Current portion of long-term debt	9,533,575	-	147,386	-	-	9,680,961
Current portion of capital lease obligations	990,547	-	28,985	-	-	1,019,532
TOTAL CURRENT LIABILITIES	41,405,546	1,281,783	867,913	-	(121,036)	43,434,206
LONG-TERM DEBT, less current portion	23,313,048	-	1,749,197	-	-	25,062,245
CAPITAL LEASE OBLIGATIONS, less current portion	802,728	-	49,335	-	-	852,063
DEFERRED RENT	-	-	309,401	-	-	309,401
DEFERRED INCOME TAXES	24,400,649	-	-	-	-	24,400,649
TOTAL LIABILITIES	89,921,971	1,281,783	2,975,846	-	(121,036)	94,058,564
EQUITY						
Common stock	753,490	467,500	-	-	(467,500)	753,490
Contributions	-	-	-	1,083,750	(1,083,750)	-
Distributions	-	-	(242,865)	-	123,874	(118,991)
Noncontrolling interest	-	-	1,298,164	1,041,250	42,341	2,381,755
Retained earnings	39,847,907	1,602,718	1,328,735	(25,062)	(1,303,673)	41,450,625
TOTAL EQUITY	40,601,397	2,070,218	2,384,034	2,099,938	(2,688,708)	44,466,879
TOTAL LIABILITIES AND EQUITY	$ 130,523,368	$ 3,352,001	$ 5,359,880	$ 2,099,938	$ (2,809,744)	$ 138,525,443

Year Ended December 31, 2016	Proliance Surgeons, Inc., P.S.	MD Insurance Company Ltd.	Overlake Surgery Center, LLC	Redmond ASC, LLC	Eliminations	Final
Patient service revenue, net of contractual allowances and discounts	$ 436,940,693	$ -	$ 8,965,538	$ -	$ -	$ 445,906,231
Bad debt expense	110,956	-	20,480	-	-	131,436
Net patient service revenue	436,829,737	-	8,945,058	-	-	445,774,795
Operating expenses						
Nonphysician salaries	99,657,478	-	3,730,765	-	-	103,388,243
Medical and surgical supplies	60,555,703	-	2,772,169	-	-	63,327,872
Occupancy and use - facilities	29,474,403	-	1,332,428	-	-	30,806,831
Nonphysician fringe benefits	23,710,397	-	-	-	-	23,710,397
Purchased services	13,940,656	76,753	-	24,621	-	14,042,030
Occupancy and use - equipment	10,578,265	-	-	-	-	10,578,265
Depreciation and amortization	8,263,392	-	228,409	-	-	8,491,801
Business taxes and licenses	7,125,942	10,366	145,164	-	-	7,281,472
Professional liability insurance	5,020,086	-	-	-	-	5,020,086
Losses incurred	-	238,347	-	-	-	238,347
Miscellaneous	9,861,140	19,203	575,090	441	(437,202)	10,018,672
Total operating expenses	268,187,462	344,669	8,784,025	25,062	(437,202)	276,904,016
INCOME (LOSS) FROM OPERATIONS BEFORE PHYSICIANS' COMPENSATION	168,642,275	(344,669)	161,033	(25,062)	437,202	168,870,779
Physicians' compensation						
Physician salaries	151,153,796	-	-	-	-	151,153,796
Physician fringe benefits	16,554,487	-	-	-	-	16,554,487
Total physicians' compensation	167,708,283	-	-	-	-	167,708,283
INCOME (LOSS) FROM OPERATIONS	933,992	(344,669)	161,033	(25,062)	437,202	1,162,496
Other income (expense)						
Nonoperating revenue	8,269,095	-	4,576	-	(437,202)	7,836,469
Interest income	6,776	56,107	-	-	-	62,883
Income from subsidiaries	44,071	-	-	-	(44,071)	-
Net unrealized and realized loss on sale of investments	-	(1,148)	-	-	-	(1,148)
Loss on disposal of equipment	(90,760)	-	-	-	-	(90,760)
Interest expense	(1,198,588)	-	(54,135)	-	-	(1,252,723)
Total other income (expense), net	7,030,594	54,959	(49,559)	-	(481,273)	6,554,721
INCOME (LOSS) BEFORE TAXES	7,964,586	(289,710)	111,474	(25,062)	(44,071)	7,717,217
Federal income tax expense (benefit)						
Current	(3,542)	5,899	-	-	-	2,357
Deferred	2,743,047	39,943	-	-	-	2,782,990
Total federal income tax expense (benefit), net	2,739,505	45,842	-	-	-	2,785,347
NET INCOME (LOSS)	5,225,081	(335,552)	111,474	(25,062)	(44,071)	4,931,870
Net income attributable to noncontrolling interests	-	-	-	-	(42,341)	(42,341)
NET INCOME (LOSS) ATTRIBUTABLE TO PROLIANCE SURGEONS, INC., P.S.	$ 5,225,081	$ (335,552)	$ 111,474	$ (25,062)	$ (86,412)	$ 4,889,529

See independent auditors' report on consolidating information.

Year Ended December 31, 2016	Proliance Surgeons, Inc., P.S.	MD Insurance Company Ltd.	Overlake Surgery Center, LLC	Redmond ASC, LLC	Eliminations	Final
CASH FLOW FROM OPERATING ACTIVITIES						
Net income (loss)	$ 5,225,081	$ (335,552)	$ 111,474	$ (25,062)	$ (44,071)	$ 4,931,870
Adjustments to reconcile net income (loss) to net cash provided by operating activities						
Depreciation and amortization	8,263,392	-	228,409	-	-	8,491,801
Provision for uncollectible accounts	110,773	-	(42,000)	-	-	68,773
Loss on disposal of equipment	90,760	-	-	-	-	90,760
Loss on sale of investments	-	18,683	-	-	-	18,683
Unrealized gain on investments, net	-	(33,370)	-	-	-	(33,370)
Income from investment in LLC	(44,071)	-	-	-	44,071	-
Deferred income taxes	2,743,047	39,943	-	-	-	2,782,990
Deferred rent	-	-	171,213	-	-	171,213
Changes in assets and liabilities						
Trade accounts receivable	(9,647,293)	-	(97,620)	-	-	(9,744,913)
Other receivables	3,683	3,260	-	(638)	50,708	57,013
Inventory	(632,993)	-	-	-	-	(632,993)
Prepaid expenses	(373,484)	-	15,153	-	-	(358,331)
Other current assets	(40,356)	-	-	-	-	(40,356)
Federal income taxes receivable	337,668	-	-	-	-	337,668
Other assets	(183,228)	-	-	-	-	(183,228)
Accounts payable	(77,249)	-	239,755	-	(50,708)	111,798
Accrued liabilities	7,603,953	95,802	(1,168)	-	-	7,698,587
Medical claims payable	(237,167)	-	-	-	-	(237,167)
Provision for outstanding losses	-	318,563	-	-	-	318,563
Federal income taxes payable	72,604	-	-	-	-	72,604
Net cash provided by operating activities	13,215,120	107,329	625,216	(25,700)	-	13,921,965
CASH FLOW FROM INVESTING ACTIVITIES						
Purchases of equipment and leasehold improvements	(8,508,142)	-	(420,477)	(117,789)	-	(9,046,408)
Investment in LLC	(1,083,750)	-	-	2,125,000	-	1,041,250
Proceeds from sale of investments	-	676,893	-	-	-	676,893
Purchase of investments	-	(659,815)	-	-	-	(659,815)
Proceeds from sale of equipment	1,640	-	-	-	-	1,640
Net cash used in investing activities	(9,590,252)	17,078	(420,477)	2,007,211	-	(7,986,440)
CASH FLOW FROM FINANCING ACTIVITIES						
Net repayments on line of credit	(13,000,050)	-	-	-	-	(13,000,050)
Principal payments on long-term debt	(10,455,953)	-	(56,832)	-	-	(10,512,785)
Proceeds from issuance of long-term debt	9,765,700	-	450,000	-	-	10,215,700
Principal payments on capital lease obligations	(1,146,276)	-	(10,945)	-	-	(1,157,221)
Distributions paid	123,874	-	(242,865)	-	-	(118,991)
Issuance of common stock	115,000	-	-	-	-	115,000
Repurchase of common stock	(55,000)	-	-	-	-	(55,000)
Net cash used in financing activities	(14,652,705)	-	139,358	-	-	(14,513,347)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(11,027,837)	124,407	344,097	1,981,511	-	(8,577,822)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	14,722,007	657,600	967,557	-	-	16,347,164
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 3,694,170	$ 782,007	$ 1,311,654	$ 1,981,511	$ -	$ 7,769,342
SUPPLEMENTAL INFORMATION						
Cash paid during the year for interest	$ 1,198,588	$ -	$ 54,135	$ -	$ -	$ 1,252,723
Equipment acquired under capital leases	$ 425,871	$ -	$ 89,265	$ -	$ -	$ 515,136
Cash paid during the year for taxes	$ 65,500	$ 1,695	$ -	$ -	$ -	$ 67,195

See independent auditors' report on consolidating information.

PROLIANCE SURGEONS®

CONSOLIDATED FINANCIAL STATEMENTS AND CONSOLIDATING INFORMATION

DECEMBER 31, 2017 AND 2016

Berntson Porter & COMPANY PLLC

Certified Public Accountants & Consultants

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Berntson Porter
& COMPANY PLLC
Certified Public Accountants & Consultants

June 26, 2018

Board of Directors
Proliance Surgeons, Inc., P.S.
Seattle, Washington

Independent Auditors' Report

We have audited the accompanying consolidated financial statements of Proliance Surgeons, Inc., P.S., which comprise the consolidated balance sheet as of December 31, 2017 and 2016, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the 2016 financial statements of MD Insurance Company Ltd., a consolidated entity, which statements reflect total assets of $3,352,001 as of December 31, 2016. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for MD Insurance Company Ltd., as of December 31, 2016 and for the year then ended, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Proliance Surgeons, Inc., P.S. as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Berntson Porter & Co., PLLC

Berntson Porter & Company, PLLC
Certified Public Accountants

ASSETS

December 31,	2017	2016
CURRENT ASSETS		
Cash and cash equivalents	$ 14,606,982	$ 7,769,342
Short-term investments	-	2,556,007
Accounts receivable		
Trade, net	68,112,100	65,166,842
Other	45,287	103,059
Inventory	5,387,570	4,918,964
Prepaid expenses	11,843,128	9,708,086
Other current assets	103,105	65,771
TOTAL CURRENT ASSETS	100,098,172	90,288,071
EQUIPMENT AND LEASEHOLD IMPROVEMENTS, net	54,177,202	46,502,781
OTHER ASSETS	574,207	783,924
GOODWILL	950,667	950,667
TOTAL ASSETS	$ 155,800,248	$ 138,525,443

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES		
Line of credit	$ 17,000,000	$ 3,999,950
Accounts payable	7,455,864	6,199,794
Accrued liabilities	13,162,081	20,082,500
Medical claims payable	1,433,221	1,331,865
Provision for outstanding losses	-	1,047,000
Federal income taxes payable	-	72,604
Current portion of long-term debt	9,720,318	9,680,961
Current portion of capital lease obligations	495,534	1,019,532
TOTAL CURRENT LIABILITIES	49,267,018	43,434,206
LONG-TERM DEBT, less current portion	31,408,777	25,062,245
CAPITAL LEASE OBLIGATIONS, less current portion	425,557	852,063
DEFERRED RENT	463,809	309,401
DEFERRED INCOME TAXES	15,395,033	24,400,649
TOTAL LIABILITIES	96,960,194	94,058,564
STOCKHOLDERS' EQUITY	58,840,054	44,466,879
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 155,800,248	$ 138,525,443

The accompanying notes are an integral part of these financial statements.

Years Ended December 31,	2017	2016
Patient service revenue, net of contractual allowances and discounts	$ 460,563,564	$ 445,906,231
Bad debt expense (recoveries), net	(739,331)	131,436
Net patient service revenue	461,302,895	445,774,795
Operating expenses		
Nonphysician salaries	110,791,721	103,388,243
Medical and surgical supplies	66,735,641	63,327,872
Occupancy and use - facilities	33,108,497	30,806,831
Nonphysician fringe benefits	25,085,888	23,710,397
Purchased services	15,182,586	14,042,030
Occupancy and use - equipment	10,475,382	10,578,265
Depreciation and amortization	7,985,913	8,491,801
Business taxes and licenses	7,603,153	7,281,472
Professional liability insurance	5,987,320	5,020,086
Losses incurred	523,000	238,347
Miscellaneous	11,156,370	10,018,672
Total operating expenses	294,635,471	276,904,016
INCOME FROM OPERATIONS BEFORE PHYSICIANS' COMPENSATION	166,667,424	168,870,779
Physicians' compensation		
Physician salaries	151,401,191	151,153,796
Physician fringe benefits	17,720,631	16,554,487
Total physicians' compensation	169,121,822	167,708,283
INCOME (LOSS) FROM OPERATIONS	(2,454,398)	1,162,496
Other income (expense)		
Nonoperating revenue	5,903,772	7,836,469
Net unrealized and realized gain (loss) on sale of investments	53,056	(1,148)
Interest income	50,475	62,883
Loss on disposal of equipment and leasehold improvements	(107,118)	(90,760)
Interest expense	(1,161,052)	(1,252,723)
Total other income (expense), net	4,739,133	6,554,721
INCOME BEFORE TAXES	2,284,735	7,717,217
Federal income tax expense (benefit)		
Current	53,692	2,357
Deferred	(9,005,616)	2,782,990
Total federal income tax expense (benefit), net	(8,951,924)	2,785,347
NET INCOME	11,236,659	4,931,870
Net (income) loss attributable to noncontrolling interest	188,508	(42,341)
NET INCOME ATTRIBUTABLE TO PROLIANCE SURGEONS, INC., P.S.	$ 11,425,167	$ 4,889,529

The accompanying notes are an integral part of these financial statements.

	Number of shares issued & outstanding	Common* stock	Retained earnings	Total	Noncontrolling interests	Total stockholders' equity
Balance at January 1, 2016	775,951	$ 693,490	$ 36,561,096	$ 37,254,586	$ 1,298,164	$ 38,552,750
Acquisition of Redmond Ambulatory Surgery Center, LLC	-	-	-	-	1,041,250	1,041,250
Repurchase of common stock	(55,000)	(55,000)	-	(55,000)	-	(55,000)
Issuance of common stock	115,000	115,000	-	115,000	-	115,000
Net income	-	-	4,889,529	4,889,529	42,341	4,931,870
Distributions	-	-	-	-	(118,991)	(118,991)
Balance at December 31, 2016	**835,951**	**753,490**	**41,450,625**	**42,204,115**	**2,262,764**	**44,466,879**
Contributions	-	-	-	-	3,123,750	3,123,750
Repurchase of common stock	(32,500)	(32,500)	-	(32,500)	-	(32,500)
Issuance of common stock	140,000	140,000	-	140,000	-	140,000
Net income (loss)	-	-	11,425,167	11,425,167	(188,508)	11,236,659
Distributions	-	-	-	-	(94,734)	(94,734)
Balance at December 31, 2017	**943,451**	**$ 860,990**	**$ 52,875,792**	**$ 53,736,782**	**$ 5,103,272**	**$ 58,840,054**

* No par value; 250,000,000 shares authorized.

The accompanying notes are an integral part of these financial statements.

Years Ended December 31,	2017	2016
CASH FLOW FROM OPERATING ACTIVITIES		
Net income	$ 11,236,659	$ 4,931,870
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation and amortization	7,985,913	8,491,801
Provision for uncollectible accounts	(933,671)	68,773
Loss on disposal of equipment and leasehold improvements	107,118	90,760
(Gain) loss on sale of investments	(42,259)	18,683
Unrealized gain on investments, net	(23,050)	(33,370)
Deferred income taxes	(9,005,616)	2,782,990
Deferred rent	154,408	171,213
Changes in assets and liabilities		
Trade accounts receivable	(2,011,587)	(9,744,913)
Other receivables	57,772	57,013
Inventory	(468,606)	(632,993)
Prepaid expenses	(2,135,042)	(358,331)
Other current assets	(37,334)	(40,356)
Federal income taxes receivable	-	337,668
Other assets	209,717	(183,228)
Accounts payable	1,256,070	111,798
Accrued liabilities	(6,920,419)	7,698,587
Medical claims payable	101,356	(237,167)
Provision for outstanding losses	(1,047,000)	318,563
Federal income taxes payable	(72,604)	72,604
Net cash provided by (used in) operating activities	(1,588,175)	13,921,965
CASH FLOW FROM INVESTING ACTIVITIES		
Purchases of equipment and leasehold improvements	(17,623,609)	(9,046,408)
Proceeds from sale of investments	3,281,234	676,893
Investment in LLC	3,123,750	1,041,250
Proceeds from sale of equipment	1,973,421	1,640
Purchase of investments	(659,918)	(659,815)
Net cash used in investing activities	(9,905,122)	(7,986,440)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	23,577,677	10,215,700
Principal payments on long-term debt	(17,191,788)	(10,512,785)
Net borrowings (repayments) on line of credit	13,000,050	(13,000,050)
Principal payments on capital lease obligations	(1,067,768)	(1,157,221)
Issuance of common stock	140,000	(55,000)
Distributions paid	(94,734)	(118,991)
Repurchase of common stock	(32,500)	115,000
Net cash provided by (used in) financing activities	18,330,937	(14,513,347)
NET CHANGE IN CASH AND CASH EQUIVALENTS	6,837,640	(8,577,822)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	7,769,342	16,347,164
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 14,606,982	$ 7,769,342

SUPPLEMENTAL INFORMATION

Cash paid during the year for interest	$ 1,161,052	$ 1,252,723
Equipment acquired under capital leases	$ 117,264	$ 515,136
Cash paid during the year for taxes	$ 1,695	$ 67,195

The accompanying notes are an integral part of these financial statements.

Note 1 - OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

OPERATIONS AND ORGANIZATION

Proliance Surgeons, Inc., P.S. ("the Company"), a Washington corporation which began operations on January 1, 1994, was organized to provide medical services primarily throughout the Puget Sound region. The financial statements include the accounts of each care center.

Overlake Surgery Center, LLC ("Overlake") is a limited liability company organized in June 1998 as a multi-specialty surgery center. Overlake is approximately 51.0% Proliance Surgeons owned, 30.1% Overlake Hospital Medical Center owned, and 18.9% physician owned. Orthopedic, pain management, and ear, nose and throat cases represent a significant amount of the current cases.

Redmond Ambulatory Surgery Center, LLC ("Redmond ASC") is a limited liability company organized in December 2015 as a multi-specialty surgery center. Redmond ASC is approximately 51% Proliance Surgeons owned and 49% Swedish Health Services owned. Redmond ASC has not yet begun principal operations (Note 17).

MD Insurance Company Ltd. ("MDIC") was incorporated as an exempted company under the Companies Law of the Cayman Islands on December 2, 2003 and was granted an Unrestricted Class "B(i)" Insurer's License under Section 4(2) of the Cayman Islands Insurance Law, as amended.

On December 18, 2017, a Resolution by the Board of Directors of MDIC (the "Resolution") communicated that MDIC's Board of Directors (the "Board") reviewed the financial position and actuarial analysis of claim and claim reserves with regard to losses and reinsurance ceded between the Company and MDIC, and desired to accept the return of all risks and liabilities ceded to MD Insurance Company, Ltd., including all reserves, unearned premiums, liabilities, risks, assets, reinsurance proceeds and any and all other valuable consideration in exchange for MDIC, commuting all reinsurance ceded by the Corporation and accepting any and all liabilities from MDIC. Prior to the Resolution, MDIC's principal activity was to insure the professional liability risks of a group of surgeons. MDIC is a wholly owned subsidiary of the Company and, as a result, is required to be consolidated in these financial statements.

MDIC was subject to a minimum capital requirement as established by CIMA of $100,000. At December 31, 2016, the Company was in compliance with this requirement. MDIC has no remaining exposures relating to insurance and reinsurance contracts entered into prior to 2008. Effective January 1, 2008, MDIC issued a Professional Liability Underlying Aggregate Excess of Loss Reinsurance Contract to MD Risk Retention Group, Inc. (MDRRG), a related party by virtue of common directorship. This policy was for $500,000 in excess of $500,000 per claim and in the annual aggregate and was renewed effective January 1, 2016.

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements have been prepared solely from the accounts of Proliance Surgeons, Inc., P.S. and its wholly owned (MDIC) and majority owned (Overlake and Redmond ASC) subsidiaries (collectively "the Company"). All significant intercompany accounts and transactions have been eliminated in consolidation.

BASIS OF PRESENTATION

The consolidated financial statements are prepared using the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recognized when earned and expenses are recognized when resources are used and a liability is incurred.

The Company's federal income tax return is prepared using the cash basis of accounting. Revenues from services are recognized when received and expenses are recognized when paid.

The Company uses the optional straight-line and accelerated depreciation methods for tax reporting. Management believes that depreciable lives for financial statement purposes do not materially differ from lives prescribed by the Internal Revenue Service. Accordingly, any differences in depreciation for financial and income tax reporting purposes are considered immaterial.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid debt instruments purchased with a remaining maturity of three months or less and funds held in money market funds, current and call accounts and cash held at brokers, to be cash equivalents.

ACCOUNTS RECEIVABLE, NET

Patient accounts receivable are stated at a standard charge less an allowance for contractual adjustments and uncollectible amounts. Interest is not accrued on outstanding accounts receivable. In evaluating the collectability of accounts receivable, the Company analyzes its negotiated contracts as well as past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. The provision for bad debts is determined based on an aggregate assessment of collections and write-offs over the preceding five years. For receivables associated with services provided to patients who have third-party coverage, the Company analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Company records a provision for bad debts in the period of service on the basis of past experience, which indicates certain patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts. Allowances for doubtful accounts and contractual adjustments totaled approximately $70,100,000 and $73,300,000 at December 31, 2017 and 2016, respectively.

PROVISION FOR OUTSTANDING LOSSES

MDIC determines its provision for reported losses on the basis of management's best estimate. Management has engaged the services of an independent consulting actuary to advise on the required level of the provision for outstanding losses including a provision for adverse loss development. The provision for outstanding losses is based upon the advice of these actuaries and management's best estimate and is included on an undiscounted basis.

Changes in estimates of the provision for outstanding losses resulting from the continuous review process and differences between estimates and payments are recognized in income in the period in which they are determined.

INVENTORY

The company adopted the provisions of FASB ASU 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory.* The provisions of ASU 2015-11 require inventory, for which cost is measured using a method other than the LIFO or retail method, to be subsequently measured at the lower of cost or net realizable value. The adoption of these provisions have been prospectively applied and did not have a material impact on the accompanying financial statements.

Inventory consists primarily of drugs and medical supplies on hand. Inventory is based on a physical count and is stated at the lower of cost, using the average cost method of accounting or net realizable value.

EQUIPMENT AND LEASEHOLD IMPROVEMENTS

The cost of equipment and leasehold improvements is depreciated and amortized using accelerated and straight-line methods over the estimated useful lives of the assets, which range as follows:

Leasehold improvements	5-40 years
Medical equipment	3-7 years
Computer equipment	3-7 years
Office furniture and equipment	3-10 years

Construction in progress primarily represents leasehold improvements and equipment that will be placed in service and depreciated or amortized once construction is complete.

GOODWILL

The excess of the purchase price over the fair market value of assets is allocated to goodwill. Goodwill is not adjusted unless events or circumstances occur indicating that an impairment exists. Impairment losses, if any, are recorded in the consolidated statement of income as part of income from operations. There was no change in the carrying value of goodwill during the years ended December 31, 2017 or 2016.

CAPITAL LEASES

The Company is leasing equipment and software under various capital leases. At the inception of the lease, the asset and liability under the capital lease is recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are being amortized over their estimated useful lives.

SELF-FUNDED INSURANCE PLAN

The Company acts as a self-insurer for medical, dental, and vision coverage of its employees. Accrued liabilities include $1,433,221 and $1,331,865 for unpaid employee medical, dental, and vision claims incurred as of December 31, 2017 and 2016, respectively. The self-insured program is insured with stop-loss coverage on an individual and cumulative claim basis.

Deferred Rent

The Company has recorded a deferred liability for rent expense associated with lease agreements for facilities related to rent abatement and escalating rental payments over the lease term. The rent abatement and escalating rental payments are amortized over the lease term and result in recognition of rental expense under the straight-line method.

Net Patient Service Revenue

The Company has agreements with third-party payors that provide for payments to the Company at amounts different from its established rates. The Company recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Company recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a portion of the Company's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Company records a provision for bad debts in the period the services are provided.

Recognition of Reinsurance Premium Revenue

Reinsurance premiums assumed by MDIC are earned on a pro rata basis over the policy years. Policies are written on an annual basis with a December 31 expiration date.

Noncontrolling Interest

Noncontrolling interest on the consolidated statements of income and stockholders' equity represents the minority members' proportionate shares of members' equity and income (losses) of Overlake and Redmond ASC.

Use of Estimates

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

Material estimates that are particularly susceptible to change relate to the determination of trade net accounts receivable, including uncollectible accounts receivable and contractual adjustments, provision for outstanding losses and medical claims payable.

Fair Value of Financial Instruments

The Company estimates that the carrying amount of all financial instruments approximate fair value, a Level 1 input under ASC 820.

CONCENTRATION OF RISK

Proliance Surgeons, Inc., P.S., Overlake Surgical Center, LLC, and Redmond Ambulatory Surgery Center, LLC

Financial instruments that potentially subject the Company to concentrations of market and credit risk consist principally of cash deposits in excess of federally insured limits and accounts receivable. Concentrations of credit risk with respect to cash deposits are mitigated due to the Company's deposit of these balances with high credit quality financial institutions.

The accounts receivable credit risk of the Company is represented by unsecured net receivables on the balance sheet. The Company follows normal trade practices in granting credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Management does not anticipate any material adverse effect on the Company's financial position resulting from these credit risks.

MDIC

In the normal course of its business, MDIC holds various financial instruments, which may result in both market and credit risks, the amount of which is not apparent from the financial statements.

Market risk is the risk that changes in interest rates and foreign exchange rates will affect the positions held by MDIC. MDIC is exposed to market risk on its money market funds and investments that are valued at market prices. The investment strategy of money market funds is to provide a high level of current income consistent with the liquidity and preservation of capital by investing in a diversified portfolio of high quality short-term investments. The Company manages this risk by actively reviewing market price information and engaging an investment manager to oversee the Company's portfolio. Management does not anticipate any material losses from this exposure.

Credit risk is the risk of counterparty default. Credit risk is generally higher when a non-exchange traded financial instrument is involved because the counterparty for the non-exchange traded financial instrument is not backed by an exchange clearing house. Financial assets that potentially expose MDIC to credit risk consist of cash and cash equivalents, investments, and interest receivable.

Cash and cash equivalents, investments, and interest receivable are held with high credit quality financial institutions. MDIC management, therefore, does not anticipate any material credit losses from these exposures.

FAIR VALUE HIERARCHY

FASB ASC 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value and expands disclosure requirements regarding fair value measurements but does not change existing guidance about whether an asset or liability is carried at fair value.

The fair value of a financial asset or liability is defined using an "exit price" definition. It is the amount that would be received to sell the asset or the amount that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value hierarchy established under FASB ASC 820 gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of fair value hierarchy under FASB ASC 820 are described below:

Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model based valuation techniques for which all significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Company's own assumptions about the assumptions market participants would use in pricing the assets or liabilities.

INVESTMENTS

Investments are classified as "trading" and are recorded in the balance sheet at fair value as determined by the investment manager. Unrealized gains or losses are determined by comparing the fair value of securities with its cost. Changes in unrealized gains or losses and realized gains and losses on the sale of investments are included in the consolidated statement of income. Realized gains and losses on the sale of investments are derived using the specific identification method for determining the cost of securities sold.

COST INVESTMENTS

During 2017, the Company purchased a 5.93% interest in Northwest Medical Group Alliance, LLC for $6,400. This investment is accounted for using the cost method and is included with other assets in the accompanying consolidated balance sheet. The Company periodically evaluates the investment for potential impairment. An impairment loss would be recognized as the amount by which the cost of the investment exceeds the fair market value. The company determined there was no impairment at December 31, 2017.

NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. In general, this standard will require the company to recognize revenue when it transfers goods or services to customers in the amount of anticipated consideration in which the company is entitled. This standard also requires additional disclosure requirements that result in the company providing financial statement users comprehensive information regarding the nature, amount, timing and uncertainty of revenue and cash flow from the company's contracts with customers. This standard will be effective for the calendar year ending December 31, 2019 with retrospective application required. The company has not determined the impact of adopting this standard on the accompanying financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*. In general, this standard requires a lessee to record a right-of-use asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. This standard will be effective for the calendar year ending December 31, 2020 with retrospective application required. The company has not determined the impact of adopting this standard on the accompanying financial statements.

Note 2 - ADVANCES

Reflected in other current assets are advances that primarily consist of net amounts due to and due from stockholders, which are due within one year. These advances are unsecured and are non-interest bearing. The outstanding balance of amounts due totaled $103,105 and $103,713 at December 31, 2017 and 2016, respectively.

Note 3 - INVESTMENTS

At December 31, 2017, there were no investments held by the Company.

At December 31, 2016, the cost, net unrealized loss, and fair value of investments are as follows:

	Cost	Unrealized loss	Fair market value
Corporate bonds, treasuries and equities	$ 2,579,057	$ (23,050)	$ 2,556,007

Note 4 - EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements at December 31 consists of the following:

	2017	2016
Leasehold improvements	$ **45,813,995**	$ 45,168,406
Medical equipment	**39,588,872**	38,525,996
Computer equipment	**17,025,306**	16,855,781
Construction in progress	**14,232,756**	3,543,253
Office furniture and equipment	**5,383,955**	5,497,296
Total equipment and leasehold improvements, at cost	**122,044,884**	109,590,732
Less accumulated depreciation and amortization	**(67,867,682)**	(63,087,951)
Total equipment and leasehold improvements, net	$ **54,177,202**	$ 46,502,781

Depreciation and amortization expense for the years ended December 31, 2017 and 2016, totaled $7,985,913 and $8,491,801, respectively.

Note 5 - LINE OF CREDIT

The Company maintains a $5,000,000 revolving line of credit payable to U.S. Bank, which is based on eligible collateral. The credit agreement includes temporary increases to $17,000,000 from November 15, 2017 through February 15, 2018 and December 15, 2016 through February 15, 2017, to fund capital expenditure purchases that will primarily be converted to permanent financing in the near term. The interest rate varies at the greater of 0% and 1.0% over LIBOR and matures October 31, 2018. The line of credit is collateralized by substantially all Company assets. The outstanding balance was $17,000,000 and $3,999,950 at December 31, 2017 and 2016, respectively.

The revolving line of credit agreement with U.S. Bank contains covenants which require the Company to maintain certain financial ratios.

Note 6 - LONG-TERM DEBT

Long-term debt at December 31 consists of the following:

	2017	2016
Notes payable to U.S. Bank, interest rates range from 2.04% to 6.24%, due in combined monthly installments of $935,351 including interest, maturing from January 2018 to May 2025, collateralized by substantially all Company assets	$ 38,852,818	$ 32,088,331
Notes payable to former members of Overlake, interest rate varies at the prime rate as published by The Wall Street Journal, subject to repayment restrictions, unsecured	1,420,311	1,483,086
Note payable to Bank of America, interest rate varies at LIBOR plus 1.25%, due in variable monthly installments including interest, maturing August 2020, collateralized by substantially all Company assets	855,966	1,142,189
Notes payable to related parties, repaid during 2017	-	29,600
Total long-term debt	41,129,095	34,743,206
Less current portion	(9,720,318)	(9,680,961)
Long-term portion	$ 31,408,777	$ 25,062,245

In accordance with the Overlake members' operating agreement, Overlake can redeem units held by the members. Payments for redeemed units may be delayed at the discretion of Overlake and may not exceed 5% of Overlake's collected revenues in any given month. Due to the nature of the payment provisions, future payments on the notes payable to former members are not estimable and are therefore not included in the schedule of future payments below.

Maturities of long-term debt (excluding Overlake notes payable to former members) based on interest rates and terms in effect at December 31, 2017 are as follows:

Year ending December 31,		
2018	$	9,720,318
2019		8,317,389
2020		6,705,780
2021		5,550,443
2022		4,336,565
Thereafter		5,078,289
Total	$	39,708,784

Certain debt agreements contain financial ratio and reporting covenants.

Note 7 - CAPITAL LEASE OBLIGATIONS

Capital lease obligations at December 31 consist of the following:

		2017		2016
Capital lease payable to Bank of America, due in monthly installments of $11,800 including imputed interest of 2.84%, maturing May 2020, collateralized by equipment	$	**341,345**	$	460,563
Capital lease payable to Everbank Commercial Finance, Inc., due in monthly installments of $9,619 including imputed interest of 2.52%, maturing August 2019, collateralized by equipment		**212,808**		310,195
Capital leases payable to Alcon Laboratories, Inc., due in combined monthly installments of $4,932 including imputed interest of 3.00%, maturing May 2020 through August 2021, collateralized by equipment		**142,672**		127,228
Capital leases payable to U.S. Bank, due in combined monthly installments of $53,267 including imputed interest varying from 3.01% to 5.27%, maturing April 2018 through April 2019, collateralized by equipment		**134,227**		796,972

Capital lease payable to De Lage Landen Financial Services, Inc., due in monthly installments of $2,736, interest at 0%, maturing September 2019, collateralized by equipment	**53,874**	78,320
Capital lease payable to Siemens, due in monthly installments of $1,038 including imputed interest at 4.42%, maturing March 2019, collateralized by equipment	**15,100**	-
Capital lease payable to Smith & Nephew Capital, due in monthly installments of $1,264, interest at 0%, maturing September 2018, collateralized by equipment	**12,775**	-
Capital lease payable to GE Capital, due in monthly installments of $172 including imputed interest at 6.35%, maturing September 2022, collateralized by equipment	**8,290**	-
Capital lease payable to Celtic Commercial Finance, repaid during 2017	-	45,643
Capital lease payable to Stryker, repaid during 2017	-	27,114
Capital lease payable to First American Equipment Finance, repaid during 2017	-	25,560
Total capital lease obligations	**921,091**	1,871,595
Less current portion	**(495,534)**	(1,019,532)
Long-term portion	**$ 425,557**	$ 852,063

Future payments to be made on these capital leases are as follows:

Year ending December 31,	
2018	$ 517,258
2019	307,217
2020	96,955
2021	14,898
2022	1,546
Total payments	937,874
Less financing costs	(16,783)
Total capital lease obligations	$ 921,091

Property recorded under capital leases is included in the accompanying balance sheet as leasehold improvements, medical equipment and computer equipment. The property is recorded at $2,456,313 and $4,733,512 and has accumulated amortization of $2,024,464 and $3,778,959 at December 31, 2017 and 2016, respectively. Amortization of capital lease assets is included with depreciation in the accompanying financial statements.

Note 8 - LEASE COMMITMENTS

The Company leases office space and facilities from related entities comprised of certain Company physicians and members. The Company's management believes the terms of all of the foregoing leases are comparable to those that could have been obtained from unrelated parties.

The Company also leases office space and various equipment from unrelated vendors under noncancellable and month-to-month operating lease agreements. The Company is generally responsible for property taxes, maintenance, and insurance. Minimum future payments under the noncancellable operating leases are as follows:

Year ending December 31,		
2018	$	21,115,264
2019		20,617,050
2020		18,346,872
2021		14,932,657
2022		13,433,822
Thereafter		57,301,780
Total	$	145,747,445

Total rent expense under noncancellable and month-to-month agreements totaled $27,102,829 and $25,568,747 for 2017 and 2016, respectively. Included in occupancy expense was approximately $10,068,000 and $11,431,000 of rent paid to related parties in 2017 and 2016, respectively.

Note 9 - CONTINGENCIES

INDUSTRY REGULATIONS

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditations, government health care program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Company is in compliance with fraud and abuse, as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

OTHER

The Company is a party to various legal actions and administrative proceedings and subject to various claims arising in the ordinary course of business. The Company does not believe that the ultimate disposition of these matters will have a material adverse effect on the financial position or results of operations of the Company.

Note 10 - EMPLOYEE BENEFIT PLAN

The Company provides a defined contribution plan, including 401(k) provisions, for employees meeting certain age and service requirements. Employee contributions are matched by the Company at a 100% rate up to a maximum employer contribution of 5% of the employee's eligible compensation, subject to statutory limitations. Additionally, profit sharing contributions are made on behalf of eligible employees and vary according to job classification. Employer contributions vest over a period of five years. The Company contributed $13,594,278 and $12,894,928 to the plan for the years ended December 31, 2017 and 2016, respectively.

Note 11 - FEDERAL TAXES ON INCOME

PROLIANCE SURGEONS, INC., P.S.

The Company has adopted the provisions of FASB ASC 740-10, *Income Taxes*, relating to accounting for uncertain tax positions. FASB ASC 740-10 defines a recognition threshold and measurement process for accounting for uncertain tax positions and also provides guidance on various related matters such as interest, penalties, derecognition and disclosures. FASB ASC 740-10 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company's tax returns to determine whether the tax returns were "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as tax expense in the current year.

The Company does not have any entity level uncertain tax positions at December 31, 2017 and 2016. The Company reports accrued interest and penalties related to unrecognized tax benefits as income tax expense. As of December 31, 2017 and 2016, the Company has not accrued interest or penalties related to uncertain tax positions.

The Company files their income tax return in the U.S. federal jurisdiction. In the normal course of business the Company is subject to examination by taxing authorities. The Company is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2014.

Income taxes are accounted for using an asset and liability approach, which requires the recognition of deferred tax assets and liabilities for the expected future benefits or tax consequences of temporary differences between the financial statements and tax bases of assets and liabilities at the enacted tax rates. FASB ASC 740-10 requires a valuation allowance against deferred tax assets if, based on the weight of the available evidence, it is more likely than not that some or all of its deferred tax assets will not be realized. Management believes that all deferred tax assets will be realized and no valuation allowance is necessary at December 31, 2017 and 2016. Other differences between book and taxable income and tax expense calculated at the statutory rates arise from permanent differences for a portion of business entertainment expenses.

Provision for deferred income taxes results from temporary differences between financial statement and taxable income. The temporary tax differences at December 31 are as follows:

	2017	2016
Deferred tax assets (liabilities)		
Conversion from accrual basis to cash basis	**$ 4,039,844**	$ 7,392,637
Conversion from accrual basis to cash basis	**(17,615,281)**	(27,398,373)
Net operating loss carryforward and charitable contributions	**1,457,510**	1,403,720
Excess of financial statement basis of fixed assets over tax basis	**(3,277,106)**	(5,798,633)
Net deferred tax liabilities	**$ (15,395,033)**	$ (24,400,649)

The Tax Cuts and Jobs Act of 2017 was signed into law on December 22, 2017. The law includes significant changes to the U.S. corporate income tax system, including a federal corporate rate reduction from 35% to 21%. As a result of the federal corporate rate reduction, the company has revalued their deferred assets and liabilities. A reconciliation of federal income tax at the statutory rate to the Company's effective rate is as follows:

Income before taxes for the year ended December 31, 2017	$ 2,988,421	0.0%
Federal income tax expense (benefit)		
Current	43,692	1.5%
Deferred at statutory rate	1,045,947	35.0%
Deferred at anticipated effective rate	(10,051,563)	(336.4)%
Total federal income tax expense (benefit)	$ (8,961,924)	(299.9)%

Realization of the deferred tax assets are dependent on generating sufficient taxable income. Although realization is not assured, management believes, based upon available information, it is more likely than not that the deferred assets will be realized in the normal course of operations. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income are reduced.

At December 31, 2017 and 2016, there was approximately $1,437,000 and $1,404,000, respectively, of net operating loss carryforwards that will begin to expire in the year 2035. Changes in ownership, as defined in Section 382 of the Internal Revenue Code, may limit the amount of net operating loss carryforwards used in any one year. Realization is also dependent on generating sufficient taxable income prior to the expiration of the loss carryforwards. Although realization is not assured, the Company's management believes, based upon available information, it is more likely than not that the net operating loss carryforwards will be realized and no valuation allowance has been recorded. The amount of the net operating loss carryforwards considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

MDIC

MDIC made an irrevocable election under Section 953(d) of the Internal Revenue Code of 1986, as amended, to treat MDIC as a domestic insurance company for United States federal income tax purposes. As a result of this "domestic" election, MDIC is subject to U.S. income tax on its worldwide income as if it were a United States corporation. In addition, MDIC made an election under Section 831(b) of the Internal Revenue Code. This election allows MDIC to be taxed on its investment income for regular U.S. federal income tax purposes when its net written premiums (or direct written premiums, if greater) are less than $1,200,000.

MDIC has adopted the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in 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. A valuation allowance is established for deferred tax assets where it is more likely than not that future tax benefits will not be realized. Interest or penalties, if any, related to income taxes are included in miscellaneous expenses.

Management is required to determine whether all tax positions of MDIC are more likely than not to be sustained upon examination by the applicable taxing authority based on the technical merits of the positions. When management's assessment indicates that it is more likely than not that unrecognized tax benefits, including deferred income tax assets, will not be realized a valuation allowance is recorded against the unrecognized tax benefits. The unrecognized tax benefits may only be recognized when the position is more likely than not to be sustained upon audit by the relevant tax authorities.

Management does not believe there are any tax positions taken by MDIC that are subject to uncertainty and as a result, no provisions or disclosures have been made in these financial statements.

MDIC is not obligated to pay any taxes in the Cayman Islands on either income or capital gains. MDIC has received an undertaking from the Governor in Cabinet pursuant to the Tax Concessions Law of the Cayman Islands, which exempts MDIC from any taxes until the year 2024.

Deferred income tax assets/(liabilities) are based upon temporary differences between the financial statement and tax bases of assets and liabilities. The tax effects of the temporary differences that give rise to the significant portions of the deferred tax assets/(liabilities) are as follows:

	2017	2016
Gross deferred tax assets		
Capital loss carryforward	$ -	$ 15,108
Unrealized loss on investments	-	7,837
Gross deferred tax asset	-	22,945
Valuation allowance	-	(22,945)
Net deferred tax asset	$ -	$ -

The computation of income taxes receivable is shown below:

	2017	2016
Income taxes receivable at beginning of year	$ 63	$ 4,267
Income tax expense for year	-	(5,899)
Income tax payments, net	-	1,695
Income taxes receivable at end of year	$ 63	$ 63

The provision for income taxes varies from the statutory rate of 34% of MDIC's income due to the following reasons:

	2017	2016
Income tax expense (benefit) at statutory rate	$ 10,000	$ (98,501)
831(b) adjustment	-	117,187
Graduated rates	-	(7,652)
Valuation allowance	-	22,945
Return to provision adjustment	-	11,863
Total	$ 10,000	$ 45,842

The Company recorded a valuation allowance of $22,945 during 2016 as MDIC Management believes the deferred tax asset will not be recognized. The Company has capital loss carryforwards of $44,436 that will begin to expire in 2017.

Overlake

Overlake has adopted the provisions of FASB ASC 740-10, *Income Taxes*, relating to accounting for uncertain tax positions. ASC 740-10 defines a recognition threshold and measurement process for accounting for uncertain tax positions and also provides guidance on various related matters such as interest, penalties, derecognition and disclosures. Overlake does not have any entity level uncertain tax positions. Overlake files income tax returns in the U.S. federal jurisdiction. Overlake is no longer subject to U.S. federal examinations by tax authorities for years before 2014.

The LLC is taxed as a partnership under the Internal Revenue Code. As such, Overlake does not pay federal corporate income taxes on its taxable income. The members pay taxes on the LLC's taxable income on their federal income tax returns.

Redmond ASC

Redmond ASC has adopted the provisions of FASB ASC 740-10, *Income Taxes*, relating to accounting for uncertain tax positions. ASC 740-10 defines a recognition threshold and measurement process for accounting for uncertain tax positions and also provides guidance on various related matters such as interest, penalties, derecognition and disclosures. Redmond ASC does not have any entity level uncertain tax positions. Redmond ASC files income tax returns in the U.S. federal jurisdiction. Redmond ASC is no longer subject to U.S. federal examinations by tax authorities for years before 2016.

The LLC is taxed as a partnership under the Internal Revenue Code. As such, Redmond ASC does not pay federal corporate income taxes on its taxable income. The members pay taxes on the LLC's taxable income on their federal income tax returns.

The Tax Cuts and Jobs Act of 2017 was signed into law on December 22, 2017. The law includes significant changes to the U.S. corporate income tax system. The legislation is not expected to have a financial impact on Overlake or Redmond ASC as they do not pay federal income taxes.

Note 12 - Contractual Arrangements

The Company has Stock Purchase and Repurchase Agreements whereby physicians approved for stockholder status purchase Company stock. The Board of Directors determines stock purchase and redemption prices. The Company is obligated to purchase a stockholder's share of the Company's common stock in the event of death, disability or termination of employment. The stock redemption price was $1 per share at the date of this report.

The Company repurchased common stock totaling $32,500 and $55,000 from departing physicians, for the years ended December 31, 2017 and 2016, respectively. During 2017 and 2016, the Company issued common stock totaling $140,000 and $115,000, respectively, to physicians.

The Company periodically enters into deferred compensation arrangements with key personnel. The amount of the future obligation is subject to actions on the part of the individuals and continuation of the arrangements at the discretion of the Company. Under terms of the arrangements, certain individuals are entitled to compensation based on the results of operations for a specified period of time after death, disability or retirement, as defined in the arrangement. The amounts paid under these arrangements are expensed in the period earned and paid to the individual. There were no amounts paid during the years ended December 31, 2017 and 2016 under these arrangements.

Note 13 - Provision for Outstanding Losses

MDIC

The details with respect to provisions for outstanding losses are as follows:

	2017	2016
Provision for reported losses	$ -	$ 500,000
Provision for adverse loss development	-	547,000
Total	$ -	$ 1,047,000

Movements in the provision for outstanding losses during the years are as follows:

	2017	2016
Balance at beginning of year	$ **1,047,000**	$ 728,437
Incurred related to:		
Current year	**500,000**	444,000
Prior years	**(297,000)**	(125,437)

Paid related to:		
Current year	-	-
Prior years	**(1,250,000)**	-
Balance at year-end	$ -	$ 1,047,000

Incurred losses resulting from claims related to insured events for prior years were adjusted during the years ended December 31, 2017 and 2016, due to changes in estimates of the ultimate settlements costs of such losses.

The provision for outstanding losses is based upon an independent actuarial report prepared by Milliman, Inc. In their report dated December 10, 2017, the actuaries estimate that as at December 31, 2017 the required outstanding loss reserve at an 80% (2016: 70%) confidence level, undiscounted is $1,250,000 (2016: $1,047,000). In December 2017, MDIC entered into a communication and release agreement with MDRRG and the provision for outstanding losses was commuted for $1,250,000 (Note 1). MDIC has recorded a provision for outstanding losses in the amount of $0 (2016: $1,047,000).

Note 14 - Valuation of Investments

MDIC

There were no investments held at December 31, 2017.

	Fair value measurements at reporting date using:			
December 31, 2016	Level 1	Level 2	Level 3	Total
Assets:				
U.S. corporate bonds	$ 971,339	$ 200,816	$ -	$ 1,172,155
Non-U.S. corporate bonds	368,916	500,383	-	869,299
U.S. equity	368,941	-	-	368,941
U.S. treasuries	120,249	-	-	120,249
Non-U.S. equity	25,363	-	-	25,363
Total	$ 1,854,808	$ 701,199	$ -	$ 2,556,007

Note 15 - Contingent Liability

In the event of no claims being paid from MDIC to MDRRG under the Professional Liability Underlying Aggregate Excess of Loss Reinsurance Contract discussed in Note 1, MDRRG is entitled to a no-claims bonus equal to fifty percent of the reinsurance premium assumed. The no-claims bonus is payable two years after the expiration of the policy. Payment to MDRRG shall constitute a complete release of liability of MDIC in respect of that contract year.

MDRRG elected to exercise the no-claims bonus option under the terms of the 2011 Professional Liability Underlying Aggregate Excess of Loss Reinsurance Contract relating to 2010 and 2011 policy years. As of December 31, 2016 accrued liabilities includes no-claims bonuses payable of $184,242. As of December 31, 2016, a $90,644 no-claims bonus election was made for the 2013 policy year since MDIC paid a claim relating to this policy year.

Note 16 - Variable interest entities

As defined under the provisions of FASB ASC 810-10, *Consolidation*, the Company is required to continuously analyze whether they are the primary beneficiary of a variable interest entity (VIE). The Company determined it continues to hold a variable interest in MD Risk Retention Group, Inc. ("MDRRG"), but is not the primary beneficiary.

The Company owns approximately 1% of the common stock of MDRRG at December 31, 2017 and 2016. MDRRG began operations in January 2006, is domiciled in the state of Montana and provides professional liability insurance for the Company and its affiliated healthcare providers through a master policy. The Company's involvement with MDRRG is limited to insurance premiums paid for professional liability coverage. There were no amounts owed to MDRRG by the Company at December 31, 2017 and 2016. Total premiums paid to MDRRG during 2017 and 2016 amounted to $5,987,320 and $5,020,086, respectively. Company management has determined the Company does not maintain a controlling financial interest in MDRRG under FASB ASC 810-10 considering the original intent of the entity, on-going management, and risk of loss.

Note 17 - Business combinations

On June 27, 2016, Proliance Surgeons, Inc., P.S. and Swedish Health Services entered into an agreement to form Redmond Ambulatory Surgery Center, LLC, a company organized in the state of Washington. Proliance Surgeons, Inc. P.S. acquired 51% of the units outstanding. The agreement calls for capital contributions of not less than $4,335,000 by Proliance, $3,251,250 and $1,083,750 of which was made during 2017 and 2016, respectively. The accompanying consolidated financial statements include the results of operations since the formation (June 27, 2016 through December 31, 2017).

Costs related to the acquisition, which include legal, accounting and valuation fees, in the amount of approximately $82,000 have been charged directly to operations and are included with operating expenses in the 2016 consolidated statement of income.

During 2017, the Company merged three additional care centers into the Company. The transitions were made for the purpose of expanding the Company's operations in Washington. As of the date of transition, the company acquired $891,385 in equipment.

During 2016, the Company added one additional care center into the Company. The transition was made for the purpose of expanding the Company's operations in Washington. As of the date of transition, the company acquired $1,138,713 in equipment and leasehold improvements.

Note 18 - WITHDRAWAL OF CARE CENTERS

During 2017, two care centers withdrew from the Company. The care centers held debt secured by Company assets. At the date of withdrawal, the debt obligations were retired. In conjunction with the withdrawal of these care centers, certain assets were transferred resulting in a gain of approximately $216,832 which is included with the net loss on disposal of equipment in the statement of income.

During 2016, one care center withdrew from the Company. The care center held debt secured by Company assets. At the date of withdrawal, the debt obligations were retired. In conjunction with the withdrawal of these care centers, certain assets were sold resulting in a gain of approximately $17,133 which is included with the loss on disposal of equipment in the statement of income.

Note 19 - SUBSEQUENT EVENTS

Through the report date, the Company incurred $301,382 in additional debt obligations.

Management has evaluated subsequent events through June 26, 2018, the date the financial statements were available to be issued.

CONSOLIDATING INFORMATION

Berntson Porter
& COMPANY PLLC
Certified Public Accountants & Consultants

June 26, 2018

Board of Directors
Proliance Surgeons, Inc., P.S.
Seattle, Washington

Independent Auditors' Report on Consolidating Information

We have audited the consolidated financial statements of Proliance Surgeons, Inc., P.S. as of and for the years ended December 31, 2017 and 2016, and our report thereon dated June 26, 2018, which expressed an unmodified opinion on those financial statements, appears on page one. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 28 through 30 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, which insofar as it relates to MD Insurance Company Ltd., as of and for the year ending December 31, 2016, is based on the report of other auditors, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Berntson Porter & Co., PLLC

Berntson Porter & Company, PLLC
Certified Public Accountants

ASSETS

December 31, 2017	Proliance Surgeons, Inc., P.S.	MD Insurance Company Ltd.	Overlake Surgery Center, LLC	Redmond ASC, LLC	Eliminations	Final
CURRENT ASSETS						
Cash and cash equivalents	$ 7,856,207	$ 1,562,520	$ 1,227,884	$ 3,960,371	$ -	$ 14,606,982
Accounts receivable						
Trade, net	67,055,403	-	1,056,697	-	-	68,112,100
Other	487,450	63	-	638	(442,864)	45,287
Inventory	5,050,707	-	336,863	-	-	5,387,570
Prepaid expenses	11,776,181	-	66,947	-	-	11,843,128
Other current assets	103,105	-	-	-	-	103,105
TOTAL CURRENT ASSETS	92,329,053	1,562,583	2,688,391	3,961,009	(442,864)	100,098,172
EQUIPMENT AND LEASEHOLD IMPROVEMENTS, net	47,564,762	-	2,301,691	4,310,749	-	54,177,202
OTHER ASSETS	491,804	-	-	82,403	-	574,207
INVESTMENT IN SUBSIDIARIES	5,645,137	-	-	-	(5,645,137)	-
GOODWILL	950,667	-	-	-	-	950,667
TOTAL ASSETS	$ 146,981,423	$ 1,562,583	$ 4,990,082	$ 8,354,161	$ (6,088,001)	$ 155,800,248

LIABILITIES AND EQUITY

	Proliance Surgeons, Inc., P.S.	MD Insurance Company Ltd.	Overlake Surgery Center, LLC	Redmond ASC, LLC	Eliminations	Final
CURRENT LIABILITIES						
Line of credit	$ 17,000,000	$ -	$ -	$ -	$ -	$ 17,000,000
Accounts payable	7,131,262	-	324,602	-	-	7,455,864
Accrued liabilities	13,065,963	17,543	521,241	198	(442,864)	13,162,081
Medical claims payable	1,433,221	-	-	-	-	1,433,221
Current portion of long-term debt	9,569,307	-	151,011	-	-	9,720,318
Current portion of capital lease obligations	449,921	-	45,613	-	-	495,534
TOTAL CURRENT LIABILITIES	48,649,674	17,543	1,042,467	198	(442,864)	49,267,018
LONG-TERM DEBT, less current portion	29,872,953	-	1,535,824	-	-	31,408,777
CAPITAL LEASE OBLIGATIONS, less current portion	404,521	-	21,036	-	-	425,557
DEFERRED RENT	-	-	463,809	-	-	463,809
DEFERRED INCOME TAXES	15,395,033	-	-	-	-	15,395,033
TOTAL LIABILITIES	94,322,181	17,543	3,063,136	198	(442,864)	96,960,194
EQUITY						
Common stock	860,990	467,500	-	-	(467,500)	860,990
Contributions	-	-	-	6,375,000	(3,251,250)	3,123,750
Distributions	-	-	(193,354)	-	98,620	(94,734)
Noncontrolling interest	-	-	1,233,794	1,028,970	(188,508)	2,074,256
Retained earnings	51,798,252	1,077,540	886,506	949,993	(1,836,499)	52,875,792
TOTAL EQUITY	52,659,242	1,545,040	1,926,946	8,353,963	(5,645,137)	58,840,054
TOTAL LIABILITIES AND EQUITY	$ 146,981,423	$ 1,562,583	$ 4,990,082	$ 8,354,161	$ (6,088,001)	$ 155,800,248

Year Ended December 31, 2017	Proliance Surgeons, Inc., P.S.	MD Insurance Company Ltd.	Overlake Surgery Center, LLC	Redmond ASC, LLC	Eliminations	Final
Patient service revenue, net of contractual allowances and discounts	$ 452,327,748	$ -	$ 8,235,816	$ -	$ -	$ 460,563,564
Bad debt expense (recoveries), net	(752,256)	-	12,925	-	-	(739,331)
Net patient service revenue	453,080,004	-	8,222,891	-	-	461,302,895
Operating expenses						
Nonphysician salaries	108,032,598	-	3,153,645	15,440	(409,962)	110,791,721
Medical and surgical supplies	63,898,453	-	2,837,188	-	-	66,735,641
Occupancy and use - facilities	31,671,810	-	1,309,980	126,707	-	33,108,497
Nonphysician fringe benefits	25,085,888	-	-	-	-	25,085,888
Purchased services	15,147,244	58,130	-	(22,788)	-	15,182,586
Occupancy and use - equipment	10,475,382	-	-	-	-	10,475,382
Depreciation and amortization	7,732,543	-	253,370	-	-	7,985,913
Business taxes and licenses	7,454,438	-	148,460	255	-	7,603,153
Professional liability insurance	5,987,320	-	-	-	-	5,987,320
Losses incurred	-	523,000	-	-	-	523,000
Miscellaneous	10,548,332	36,510	603,267	1,361	(33,100)	11,156,370
Total operating expenses	286,034,008	617,640	8,305,910	120,975	(443,062)	294,635,471
INCOME (LOSS) FROM OPERATIONS BEFORE PHYSICIANS' COMPENSATION	167,045,996	(617,640)	(83,019)	(120,975)	443,062	166,667,424
Physicians' compensation						
Physician salaries	151,401,191	-	-	-	-	151,401,191
Physician fringe benefits	17,720,631	-	-	-	-	17,720,631
Total physicians' compensation	169,121,822	-	-	-	-	169,121,822
INCOME (LOSS) FROM OPERATIONS	(2,075,826)	(617,640)	(83,019)	(120,975)	443,062	(2,454,398)
Other income (expense)						
Nonoperating revenue	6,338,915	-	7,919	-	(443,062)	5,903,772
Net unrealized and realized loss on sale of investments	-	53,056	-	-	-	53,056
Interest income	1,069	49,406	-	-	-	50,475
Income from subsidiaries	(196,200)	-	-	-	196,200	-
Gain (loss) on disposal of equipment	4,652	-	(111,770)	-	-	(107,118)
Interest expense	(1,084,189)	-	(76,863)	-	-	(1,161,052)
Total other income (expense), net	5,064,247	102,462	(180,714)	-	(246,862)	4,739,133
INCOME (LOSS) BEFORE TAXES	2,988,421	(515,178)	(263,733)	(120,975)	196,200	2,284,735
Federal income tax expense (benefit)						
Current	43,692	10,000	-	-	-	53,692
Deferred	(9,005,616)	-	-	-	-	(9,005,616)
Total federal income tax expense (benefit), net	(8,961,924)	10,000	-	-	-	(8,951,924)
NET INCOME (LOSS)	11,950,345	(525,178)	(263,733)	(120,975)	196,200	11,236,659
Net loss attributable to noncontrolling interests	-	-	-	-	188,508	188,508
NET INCOME (LOSS) ATTRIBUTABLE TO PROLIANCE SURGEONS, INC., P.S.	$ 11,950,345	$ (525,178)	$ (263,733)	$ (120,975)	$ 384,708	$ 11,425,167

See independent auditors' report on consolidating information.

Year Ended December 31, 2017	Proliance Surgeons, Inc., P.S.	MD Insurance Company Ltd.	Overlake Surgery Center, LLC	Redmond ASC, LLC	Eliminations	Final
CASH FLOW FROM OPERATING ACTIVITIES						
Net income (loss)	$ 11,950,345	$ (525,178)	$ (263,733)	$ (120,975)	$ 196,200	$ 11,236,659
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities						
Depreciation and amortization	7,732,543	-	253,370	-	-	7,985,913
Provision for uncollectible accounts	(752,255)	-	(181,416)	-	-	(933,671)
(Gain) Loss on disposal of equipment	(4,652)	-	111,770	-	-	107,118
Gain on sale of investments	-	(42,259)	-	-	-	(42,259)
Unrealized gain on investments, net	-	(23,050)	-	-	-	(23,050)
(Income) Loss from investment in subsidiaries	196,200	-	-	-	(196,200)	-
Deferred income taxes	(9,005,616)	-	-	-	-	(9,005,616)
Deferred rent	-	-	154,408	-	-	154,408
Changes in assets and liabilities						
Trade accounts receivable	(2,157,626)	-	146,039	-	-	(2,011,587)
Other receivables	(277,980)	13,924	-	-	321,828	57,772
Inventory	(538,155)	-	69,549	-	-	(468,606)
Prepaid expenses	(2,153,190)	-	18,148	-	-	(2,135,042)
Other current assets	(37,334)	-	-	-	-	(37,334)
Other assets	157,120	-	135,000	(82,403)	-	209,717
Accounts payable	1,310,750	-	(175,716)	-	121,036	1,256,070
Accrued liabilities	(6,590,530)	(217,240)	330,017	198	(442,864)	(6,920,419)
Medical claims payable	101,356	-	-	-	-	101,356
Provision for outstanding losses	-	(1,047,000)	-	-	-	(1,047,000)
Federal income taxes payable	(72,604)	-	-	-	-	(72,604)
Net cash provided by (used in) operating activities	(141,628)	(1,840,803)	597,436	(203,180)	-	(1,588,175)
CASH FLOW FROM INVESTING ACTIVITIES						
Purchases of equipment and leasehold improvements	(13,180,825)	-	(249,824)	(4,192,960)	-	(17,623,609)
Proceeds from sale of investments	-	3,281,234	-	-	-	3,281,234
Investment in subsidiaries	(3,251,250)	-	-	6,375,000	-	3,123,750
Proceeds from sale of equipment	1,973,421	-	-	-	-	1,973,421
Purchase of investments	-	(659,918)	-	-	-	(659,918)
Net cash provided by (used in) investing activities	(14,458,654)	2,621,316	(249,824)	2,182,040	-	(9,905,122)
CASH FLOW FROM FINANCING ACTIVITIES						
Proceeds from issuance of long-term debt	23,577,677	-	-	-	-	23,577,677
Principal payments on long-term debt	(16,982,040)	-	(209,748)	-	-	(17,191,788)
Net borrowings on line of credit	13,000,050	-	-	-	-	13,000,050
Principal payments on capital lease obligations	(1,039,488)	-	(28,280)	-	-	(1,067,768)
Issuance of common stock	140,000	-	-	-	-	140,000
Distributions paid	98,620	-	(193,354)	-	-	(94,734)
Repurchase of common stock	(32,500)	-	-	-	-	(32,500)
Net cash provided by (used in) financing activities	18,762,319	-	(431,382)	-	-	18,330,937
NET CHANGE IN CASH AND CASH EQUIVALENTS	4,162,037	780,513	(83,770)	1,978,860	-	6,837,640
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3,694,170	782,007	1,311,654	1,981,511	-	7,769,342
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 7,856,207	$ 1,562,520	$ 1,227,884	$ 3,960,371	$ -	$ 14,606,982

SUPPLEMENTAL INFORMATION

Cash paid during the year for interest	$ 1,084,189	$ -	$ 76,863	$ -	$ -	$ 1,161,052
Equipment acquired under capital leases	$ 100,655	$ -	$ 16,609	$ -	$ -	$ 117,264
Cash paid during the year for taxes	$ -	$ 1,695	$ -	$ -	$ -	$ 1,695

EXHIBIT 16

MEDICAL DIRECTOR JOB DESCRIPTION

Policy Number:	1006	Subject:	GOVERNING BOARD – OPERATIONAL RESPONSIBILITIES
Effective Date:	08/22/2017	Last Revision Date:	
Approved By:	Governing Board	Approved Date:	**08/22/2017**

PURPOSE
To define the operational responsibilities of the Governing Board.

POLICY
1. The Governing Board abides by the adopted Medical Executive Responsibilities.

Authority and Responsibility

1. The Governing Board shall consist of all Proliance physician owners.

2. The Governing Board shall have the authority to appoint the Medical Director and a Director, They shall have authority to establish, approve, and amend the Medical Staff Bylaws, rules, and regulations of the facility. The Governing Board shall have final approval over all Medical Staff and affiliate appointments, reappointments, periodic reviews and privilege requests, as well as providing for the procedure of appeals.

3. The Governing Board shall inform state regulatory and/or accreditation entities as well as patients of any unanticipated outcomes and/or adverse events in accordance with 70.230.120 and 70.230.150.
   Intensive evaluation of such events will include root cause analysis.

4. The Governing Board shall meet at least quarterly, shall keep written minutes of such meetings, and shall make such minutes available to all of its members.

5. In order to conduct business and take action, the Governing Board must have a quorum at its meetings. A quorum shall consist of at least three-fourths of its voting members.

6. Authority may be delegated by the Governing Board to the Director or Medical Director, however, no such delegation of authority shall relieve the Governing Board of its general authority, control, and responsibility for the conduct of the facility. The Governing Board shall retain the right to rescind any such delegation of authority Governing Board Medical Executive Responsibilities

Duties and Powers
Appointments

1. The Governing Board shall appoint and periodically evaluate a full-time ***Medical Director***.
   a) *Authority and Responsibility:*
      1) The Medical Director shall be responsible for the establishment, maintenance, continuing improvement, and enforcement of acceptable professional and ethical standards of the Medical Staff, enforcing the Medical Staff by-laws, and ensuring that the quality of patient care is in accordance with the established policies and procedures.
      2) The Medical Director shall be continuously responsible for the

enforcement of compliance with standards of professional performance of all physicians commensurate with the authority conferred upon him/her by the Governing Board and consistent with the legal and professional requirements governing the operation of the facility.

3) The Medical Director may function as the Chairperson of the Medical Executive Committee and shall monitor Medical Staff participation in Performance Improvement activities.
4) The Medical Director is responsible for overseeing medical issues of day-to-day operations.
5) The Medical Director shall serve as a liaison between the Medical Staff and the Governing Board.
6) The Medical Director is responsible for overseeing the Radiology program.
6) The Medical Director is responsible to and reports to the Governing Board.

2. The Governing Board shall appoint an **Executive Director** who shall be responsible to the Governing Board for the management of the Facility in accordance with these Bylaws.

a) *Authority and Responsibility:*
1) The Executive Director shall be delegated the responsibility of seeing that the day-by-day activities of the Facility are carried out in accordance with the established policies and procedures. These responsibilities shall be commensurate with authority conferred upon him/her by the Governing Board and consistent with the legal and professional requirements governing the operation of the facility.
2) The Executive Director shall be an ex-officio member of the Governing Board.
4) The Executive Director is a member of the Medical Executive Committee.
5) The Executive Director is responsible to and reports to the Governing Board.

b) Review of Performance:
1) At least annually, the Governing Board shall review the performance of the Executive Director with respect to his/her duties, needs and goals of the Facility, and his/her compliance to job description criteria.

3. The Governing Board shall appoint a **Clinical Director** who shall be a registered professional nurse.

a) *Authority and Responsibility:*
1) The Clinical Director shall be responsible for the management of clinical services and shall be accountable for the identification and enforcement of applicable professional and ethical standards for the clinical staff.
2) The Clinical Director shall be responsible for ensuring patient care needs are met by maintaining staffing at appropriate levels, monitoring and evaluating staff competency and performance, and verifying that clinical services are provided in accordance with current standards of professional practice.
3) The Clinical Director is responsible to and reports to the Executive

Director.

4) Commensurate with the authority conferred upon him/her by the Governing Board, and consistent with the legal and professional requirements governing the operation of the Facility, the Clinical Director shall assume responsibility for the continuing evaluation of clinical staff performance relative to compliance with facility policies and procedures and professional standards.

5) The Clinical Director is a member of the Medical Executive Committee and shall monitor clinical staff participation in Performance Improvement, Safety, and Risk Management activities.

b) *Review of Performance:*

1) At least annually, the Governing Board shall designate the Medical Director and the Executive Director to review the performance of the Clinical Director with respect to his/her duties, needs and goals of the Facility, and his/her compliance to job description criteria. The Medical Director shall report the findings of the evaluation to the Governing Board.

4. The Corporation provides **a Risk Manager** for the facility

a) *Authority and Responsibility:*

1) The Risk Manager shall be responsible for the development, implementation, and oversight of the Risk Management Program.

2) The Risk Manager shall be responsible for risk control and agency reporting activities.

5. The Corporation provides a **Compliance Officer** for the facility

a) *Authority and Responsibility:*

1) The Compliance Officer shall be responsible for the implementation and maintenance of the Compliance Program.

6. The Governing Board shall appoint an **Medical Executive Committee** whose members shall include members from administration, the Medical Director, and the medical staff

a) *Authority and Responsibility:*

1) The Medical Executive Executive Committee shall meet at least quarterly to review the status of performance improvement monitors, incidents, risk analysis and appropriate reports.

2) The Medical Executive Committee shall appoint Redesign Teams to explore existing processes and outcome, evaluate the findings, and make recommendations to the Governing Board.

3) The Medical Executive Committee is responsible for reviewing summaries of Risk Management incident reports, identifying trends and/or concerns, and making recommendations to the Governing Board.

4) The Medical Executive Committee is responsible for implementation of problem solving plans to ensure successful resolution of the problem. It will present and receive recommendations from the Governing Board on issues requiring action at that level.

5) The Medical Executive Committee shall review the Peer review functions and report any recommendations to the Governing Board.

Duties and Powers
General

1. At least annually, the Governing Board shall review the performance/competence of the Facility's staff members with respect to his/her duties and the needs and goals of the Facility, and his/her compliance to job description criteria.

2. At least annually, the Governing Board shall review the content of the Facility's educational programs and inservices.

3. The Governing Board shall secure anesthesia services with an anesthesiologist or group, each of whom is licensed by and currently registered with the State of Washington and who is responsible to assure that anesthesia is administered in accordance with current standards of practice.

4. The Governing Board shall approve the Medical Staff Bylaws and any amendments thereto, and shall appoint members to the Medical Staff. The Governing Board shall delegate to the Medical Staff the authority to evaluate the professional competence of its member physicians and medical affiliates. The Medical Staff, through the Medical Executive Committee, is responsible for making recommendations to the Governing Board concerning initial staff appointments, reappointments, and the granting, curtailment, suspension, and revocation of clinical privileges. The Governing Board is responsible for reporting practitioners in accordance with RCW 70.230.120. The Medical Staff shall maintain such controls as shall ensure the achievement and maintenance of high standards of patient care and professional ethical practice.

5. The Governing Board shall require that every patient be admitted and remain under the care of a member of the active Medical Staff.

6. The Governing Board shall require that all medications, treatments, and procedures shall be administered upon specific orders of a member of the active Medical Staff.

7. The Governing Board shall require that all attending active Medical Staff members and podiatrists, who do not have admitting privileges at an acute care general hospital, shall have a written agreement from a physician with staff privileges at one or more acute care hospitals licensed by the state to accept any patient who requires continuing care; or ensure that there is a written facility agreement, with one or more acute care general hospitals licensed by the state, which shall admit any patient referred who requires continuing care.

8. The Governing Board shall specify the types of services to be provided in the facility and provide a list of authorized surgical procedures and an approved drug formulary.

9. The Governing Board shall be responsible for the establishment of management and operational policies of the Facility and shall not enter into any agreement limiting such responsibility.

10. The Governing Board shall be responsible for the annual review and amendment (if applicable) of the Facility's policies and procedures.

11. The Governing Board shall adopt accepted ambulatory surgery center standards of practice to ensure the delivery of high quality patient care.

12. Contracted services shall be reviewed by the Governing Board to ensure they are safe, cost-effective, and meet accepted standards.

13. The Governing Board shall assume fiduciary responsibilities by establishing and annually reviewing the budget, and maintaining an adequate source of Medical Executive funds

14. The Governing Board shall review facility financial reports on a monthly/quarterly basis and analyze these at the quarterly meeting.

15. The Governing Board shall continually strive to improve the facility's quality of care through the establishment and maintenance of effective Facility-wide Performance Improvement and Corporate Risk Management Programs. The Governing Body shall assess the quality of care being rendered by requiring a quality assessment and improvement plan and by reviewing the results from all quality assessment, benchmarking and improvement activities. Specifically, the Governing Body shall assess quality assessment, benchmarking and improvement activities on the part of the Medical Staff and of departments and personnel rendering direct and indirect services to patients. All Facility departments rendering services to patients, and including the Facility's Materials Management department, shall participate in a planned systematic program review to monitor quality assessment and improvement processes based on prioritized aspects of patient care. Such priorities may be based on high-risk, high-volume, problem-prone aspects of patient care, clinical operation or patient outcome. Such reviews may evaluate the (i) critical impact on patient care, (ii) significant impact on patient care, (iii) significant impact on financial viability, and (iv) significant impact on public relations. Expectations for the quality of care provided by the Facility are established by the leaders of the Facility. The Facility leaders shall develop plans and implement procedures to assess and improve the quality of the Facility's performance, management, clinical and support processes.

    a) The leaders shall:
        1) define essential plans consistent with the Facility's mission and values.
        2) be knowledgeable and current concerning the approaches and methods of performance improvement and risk management.
        3) set priorities for Facility-wide performance improvement and risk management activities designed to improve patient outcomes.
        4) measure and assess their effectiveness in improving performance and evaluate their performance to support sustained improvement

    b) The Facility shall allocate adequate resources for performance improvement and risk management through:
        1) development of an annual Medical Executive budget which includes a long-term capital expenditure plan for support of performance improvement/risk management activities;
        2) assignment of personnel, as needed, to participate in performance improvement and risk management activities;
        3) provision of adequate time for personnel to participate in performance

improvement and risk management activities; and

c) The leaders, in planning performance improvement priorities, shall identify how the Facility adjusts priorities in response to unusual or urgent events.

d) The leaders provide staff training in approaches to, and methods of performance improvement and risk management.

e) The leaders ensure that processes and activities that most affect patient outcomes are continually and systematically assessed and improved.

f) The leaders participate and appropriately communicate information from cross-Facility performance improvement and risk management.

g) The leaders analyze and evaluate the effectiveness of the Performance Improvement/ internal Risk Management program annually.

16. The Governing Board shall continually strive to maintain the facility's compliance with federal, state, and local rules and regulations through the establishment and maintenance of an effective Corporate-wide compliance program. Expectations for compliance are established by the leaders of the Facility. The Facility leaders shall assess and improve compliance in every aspect of the Facility's performance, management, clinical and support processes.

17. The Governing Board shall review, at least annually, the Radiation and Safety programs and make recommendations for amendment or deletion, if applicable.

18. The Governing Board shall actively participate in the process by which the Facility shall seek to achieve, and thereafter hold, licensure, Medicare certification, and accreditation through applicable review by certifying Boards and/or agencies.

19. The Governing Board shall encourage the educational advances of the Facility and its staff members.

20. The Governing Board shall evaluate the community's needs and review the Facility's goals, policies, and current programs designed to meet the community's needs.

These responsibilities of the Medical Director shall become effective when approved by the Governing Board and signed by the Medical Director as witnessed below.

Approved on: 08/22/17
By the Governing Board

____

By: Medical Director- Aric Christal, MD

____

Witness: Clinical Director- Stephanie Jaross BSN, RN

EXHIBIT 17

TRANSFER AGREEMENT BETWEEN OUTPATIENT SPINE AND JOINT REPLACEMENT SURGERY OF PUGET SOUND AND SWEDISH EDMONDS DATED SEPTEMBER 1, 2017

PATIENT TRANSFER AGREEMENT

This Patient Transfer Agreement ("Agreement") is entered into this 1st day of September, 2017 (the "Effective Date"), between Swedish Edmonds ("Hospital"), and Proliance Center for Outpatient Spine and Joint Surgery ("Transferring Facility").

To facilitate continuity of patient care and the timely transfer of patients and records from Transferring Facility to Hospital, the parties agree as follows:

1. If a determination is made by the attending physician that a patient requires transfer from the Transferring Facility to the Hospital, Hospital agrees to admit the patient as promptly as possible, as long as it has the available space, qualified personnel and appropriate services for the treatment of the patient, and the requirements of (i) Hospital's applicable polices/protocols, and (ii) applicable federal and state laws and regulation are met.

2. Transferring Facility has the responsibility for transferring the patient to the Hospital and agrees to use qualified personnel and necessary equipment, including medically appropriate life support measures, during the transfer.

3. Transferring Facility agrees to provide the Hospital with appropriate documentation as necessary to ensure continuity of patient care. This information should include, as a minimum, the patient's medical record (i.e., summary of physician findings, nursing notes, flow sheets, lab and radiological findings, including films or underlying studies, copy of EKG, relevant transfer forms, signed consent for transfer, etc.). This documentation will be sent to the Hospital at the time of transfer unless doing so would jeopardize the patient; in which case, the documentation will be sent as promptly as possible after the transfer.

4. To the extent possible, patients will be stabilized prior to transfer to ensure the transfer will not, within reasonable medical probability, result in harm to the patient or jeopardize their survival.

5. All transfers will be done in accordance with (i) Hospital's applicable polices/protocols, (ii) applicable federal and state laws and regulations and (iii) in accordance with the standards of The Joint Commission.

6. Transferring Facility will be responsible for the transfer or other appropriate disposition of the patient's personal effects, particularly money and valuables.

7. Charges for services performed by either party shall be collected by the party rendering the service from the patient, third party payor, or other sources normally billed by the

party. Neither party shall have any liability to the other for such charges, except to the extent such liability would exist separate from this Agreement. The parties shall cooperate with each other in exchanging information about financial responsibility for services rendered by them to patients transferred to the Hospital.

8. Transferring Facility shall indemnify, hold harmless and defend the Hospital, its agents and employees from and against any claim, loss damage, cost, expense or liability, including reasonable attorney's fees, arising out of or related to the performance or nonperformance by the Transferring Facility, its agents and employees of any duty or obligation of the Transferring Facility under this Agreement.

9. Hospital shall indemnify, hold harmless and defend the Transferring Facility, its agents and employees from and against any claim, loss damage, cost, expense or liability, including reasonable attorney's fees, arising out of or related to the performance or nonperformance by the Hospital, its agents and employees of any duty or obligation of the Hospital under this Agreement.

10. The parties shall maintain at their own expense comprehensive general and professional liability insurance and property damage insurance adequate to insure them against risks arising out of this Agreement, with limits no less than those customarily carried by similar facilities. Upon request, each party shall furnish the other party with evidence of such insurance. During the term of this Agreement, each party shall immediately notify the other of any material change in such insurance.

11. Nothing in this Agreement shall be construed as limiting the rights of either party to contract with any other facility or entity on a limited or general basis.

12. Transferring Facility represents and warrants that neither Transferring Facility nor Transferring Facility's shareholders, owners, principals, partners or members (if applicable) are presently debarred, suspended, proposed for debarment, declared ineligible, or excluded from participation in any federally funded health care program, including Medicare and Medicaid. Transferring Facility agrees to immediately notify Hospital of any threatened, proposed, or actual debarment, suspension, or exclusion from any federally funded health care program, including Medicare and Medicaid.

13. This Agreement shall be in effect on the date it is signed by both parties and shall continue until terminated as follows: (i) either party may terminate this Agreement immediately upon a breach of its terms by the other party, or (ii) either party may terminate this Agreement without cause by giving the other party not less than ninety (90) days written notice.

14. This Agreement may be signed in counterparts each of which will be considered an original.

15. This Agreement shall be interpreted and construed in accordance with laws of the state in which Hospital is located. Venue for any action to enforce its terms shall be in the county in which Hospital is located. This Agreement embodies the entire agreement of the parties relating to transfer of patients from Transferring Facility to Hospital, and supercedes all prior agreements, representations and understandings of the parties. This Agreement may only be modified or amended in writing. Amendments and modifications must be signed by both parties to be effective.

SIGNATURES APPEAR ON NEXT PAGE.

HOSPITAL:
SWEDISH EDMONDS

By: Sarah Zabel
Name: Sarah Zabel
Title: Chief Operating Officer

TRANSFERRING FACILITY:

By: Shelley Longgood
Name: Shelley Longgood
Title: Director

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