

E-010-15



ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD

CHANGE OF OWNERSHIP EXEMPTION APPLICATION
FOR AN EXISTING HEALTH CARE FACILITY
AUGUST 2013 EDITION

RECEIVED

SEP 04 2015

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

HEALTH FACILITIES &
SERVICES REVIEW BOARD

The attached form must be used for all transactions proposing a change of ownership of a health care facility. The requirements for issuance of an exemption are contained in 77 IAC 1130.520. Applicants should refer to IAC 1130.140 for definitions of a change of ownership and control of a health care facility. Applicants should also refer to 77 IAC 1130.220(a) for information on who the applicant(s) should be. Note the following requirements and guidelines pertaining to the Application for Exemption:

- 1 IAC 1130.520(a) prohibits any person from acquiring or entering into an agreement to acquire an existing health care facility prior to receiving approval from the State Board.
- 2 Complete the application with all applicable attachments. All pages and documents must be on single-sided paper size 8 1/2" x 11". Applicants should note that the required attachments to the application must be labeled and identified by attachment number. FAILURE TO DO SO WILL RESULT IN THE APPLICATION BEING DEEMED INCOMPLETE.
- 3 It is noted that all applications for exemption for the change of ownership of a health care facility are subject to the opportunity for a public hearing and public hearing requirements (77 IAC 1130.520(c) and (d)).
4. Applicants must submit a complete original application with original signature(s) and required appendices and attachments, as well as the APPLICATION FEE of \$2,500 payable by check or money order to the Illinois Department of Public Health. Submit the material to:

Courtney Avery, Administrator
Illinois Health Facilities and Services Review Planning Board
525 West Jefferson Street, Second Floor
Springfield, Illinois 62761-0001
5. Per IAC 1130.550(b), the State Agency is allowed 30 DAYS (from the date of receipt of the application) to determine the application's completeness. PLEASE REFRAIN FROM TELEPHONING THE STATE AGENCY FOR A STATUS REPORT ON YOUR APPLICATION. STAFF TIME ANSWERING PHONE INQUIRIES TAKES FROM STAFF TIME TO REVIEW APPLICATIONS. The State Agency will contact you if your application is incomplete.

NOTE: "The Illinois Health Facilities and Services Review Board does not discriminate on the basis of handicap in admission or access to, or treatment or employment in its programs and activities in compliance with Section 504 of the Rehabilitation Act of 1973, as amended. The Equal Employment Opportunity Officer is responsible for coordination of compliance efforts; voice (217) 785-2034; TDD (217) 785-2088."

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

RECEIVED

SEP 04 2015

HEALTH FACILITIES &
SERVICES REVIEW BOARD

1. INFORMATION FOR EXISTING FACILITY

Current Facility Name Dialysis Newco, Inc. d/b/a DSI Scottsdale Renal Center
Address 4651 W. 79th Street, #100
City Chicago Zip Code 60652 County Cook
Name of current licensed entity for the facility Dialysis Newco, Inc.
Does the current licensee: own this facility _____ OR lease this facility X (if leased, check if sublease ☐)
Type of ownership of the current licensed entity (check one of the following:) _____ Sole Proprietorship
_____ Not-for-Profit Corporation X For Profit Corporation _____ Partnership _____ Governmental
_____ Limited Liability Company _____ Other, specify _____
Illinois State Senator for the district where the facility is located: Sen. Jacqueline Y. Collins
State Senate District Number 16 Mailing address of the State Senator _____
M114 State Capitol Building, Springfield, IL 62706
Illinois State Representative for the district where the facility is located: Rep. Andre Thapedi
State Representative District Number 32 Mailing address of the State Representative _____
256-W Stratton Office Building, Springfield, IL 62706

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

3. **NAME OF APPLICANT** (complete this information for each co-applicant and insert after this page).

Exact Legal Name of Applicant See Attached for List of Applicants/Co-Applicants
Address _____
City, State & Zip Code _____
Type of ownership of the current licensed entity (check one of the following:) _____ Sole Proprietorship
_____ Not-for-Profit Corporation _____ For Profit Corporation _____ Partnership _____ Governmental
_____ Limited Liability Company _____ Other, specify _____

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

Exact Legal Name of Entity to be Licensed Dialysis Newco, Inc.
Address 4651 W. 79th Street, #100
City, State & Zip Code Chicago, Illinois 60652
Type of ownership of the current licensed entity (check one of the following:) _____ Sole Proprietorship
_____ Not-for-Profit Corporation X For Profit Corporation _____ Partnership _____ Governmental
_____ Limited Liability Company _____ Other, specify _____

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

Exact Legal Name of Entity That Will Own the Site A & R Katz Management Co.
Address 3175 Commercial Avenue, Suite 100
City, State & Zip Code Northbrook, Illinois 60062
Type of ownership of the current licensed entity (check one of the following:) _____ Sole Proprietorship
_____ Not-for-Profit Corporation X For Profit Corporation _____ Partnership _____ Governmental
_____ Limited Liability Company _____ Other, specify _____

APPLICANT INFORMATION

NAME OF APPLICANT (complete this information for each co-applicant and insert after this page).

Exact Legal Name of Applicant: Dialysis Newco, Inc.
Address 424 Church Street, Suite 1900

City, State & Zip Code Nashville, Tennessee 37219
Type of ownership of the current licensed entity (check one of the following:) ☐ Sole
Proprietorship ☐ Not-for-Profit Corporation ☒ For Profit Corporation
☐ Partnership ☐ Governmental ☐ Limited Liability Company
☐ Other, specify _____

NAME OF APPLICANT (complete this information for each co-applicant and insert after this page).

Exact Legal Name of Applicant: U.S. Renal Care, Inc.
Address 2400 Dallas Parkway, Suite 350

City, State & Zip Code Plano, Texas 75093
Type of ownership of the current licensed entity (check one of the following:) ☐ Sole
Proprietorship ☐ Not-for-Profit Corporation ☒ For Profit Corporation
☐ Partnership ☐ Governmental ☐ Limited Liability Company
☐ Other, specify _____

NAME OF APPLICANT (complete this information for each co-applicant and insert after this page).

Exact Legal Name of Applicant: Rangers Renal Holdings, LP
Address 2400 Dallas Parkway, Suite 350

City, State & Zip Code Plano, Texas 75093
Type of ownership of the current licensed entity (check one of the following:) ☐ Sole
Proprietorship ☐ Not-for-Profit Corporation ☐ For Profit Corporation
☒ Partnership ☐ Governmental ☐ Limited Liability Company
☐ Other, specify _____

6. TRANSACTION TYPE. CHECK THE FOLLOWING THAT APPLY TO THE TRANSACTION:

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

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

8. FUNDING. Indicate the type and source of funds which will be used to acquire the facility (e.g., mortgage through Health Facilities Authority; cash gift from parent company, etc.) and append as **ATTACHMENT #2**. Not Applicable.

9. ANTICIPATED ACQUISITION PRICE: \$ **\$0 (Not applicable. Proposed transaction is a stock swap transaction.)**

10. FAIR MARKET VALUE OF THE FACILITY: \$ \$2,542,829
(to determine fair market value, refer to 77 IAC 1130.140)

11. DATE OF PROPOSED TRANSACTION: **December 31, 2015**

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

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

14. TRANSACTION DOCUMENTS. Provide a copy of the complete transaction document(s) including schedules and exhibits which detail the terms and conditions of the proposed transaction (purchase, lease, stock transfer, etc). Applicants should note that the document(s) submitted should reflect the applicant's (and co-applicant's, if applicable) involvement in the transaction. The document must be signed by both parties and contain language stating that the transaction is contingent upon approval of the Illinois Health Facilities and Services Review Board. Append this document(s) to the application as **ATTACHMENT #5**. ***See Schedule 6.1(d) of the Contribution Agreement for language conditioning the closing of the transaction on Board approval.***

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

6. **TRANSACTION TYPE. CHECK THE FOLLOWING THAT APPLY TO THE TRANSACTION:**
- Purchase resulting in the issuance of a license to an entity different from current licensee;
 - Lease resulting in the issuance of a license to an entity different from current licensee;
 - Stock transfer resulting in the issuance of a license to a different entity from current licensee;
 - ✕ Stock transfer resulting in no change from current licensee;
 - Assignment or transfer of assets resulting in the issuance of a license to an entity different from the current licensee;
 - Assignment or transfer of assets not resulting in the issuance of a license to an entity different from the current licensee;
 - Change in membership or sponsorship of a not-for-profit corporation that is the licensed entity;
 - Change of 50% or more of the voting members of a not-for-profit corporation's board of directors that controls a health care facility's operations, license, certification or physical plant and assets;
 - Change in the sponsorship or control of the person who is licensed, certified or owns the physical plant and assets of a governmental health care facility;
 - Sale or transfer of the physical plant and related assets of a health care facility not resulting in a change of current licensee;
 - Any other transaction that results in a person obtaining control of a health care facility's operation or physical plant and assets, and explain in "Attachment 3 Narrative Description"
7. **APPLICATION FEE.** Submit the application fee in the form of a check or money order for \$2,500 payable to the Illinois Department of Public Health and append as **ATTACHMENT #1**.
8. **FUNDING.** Indicate the type and source of funds which will be used to acquire the facility (e.g., mortgage through Health Facilities Authority; cash gift from parent company, etc.) and append as **ATTACHMENT #2**. Not Applicable.
9. **ANTICIPATED ACQUISITION PRICE:** \$ \$0 (Not applicable. Proposed transaction is a stock swap transaction.)
10. **FAIR MARKET VALUE OF THE FACILITY:** \$ \$52,815,283
(to determine fair market value, refer to 77 IAC 1130.140)
11. **DATE OF PROPOSED TRANSACTION:** December 31, 2015
12. **NARRATIVE DESCRIPTION.** Provide a narrative description explaining the transaction, and append it to the application as **ATTACHMENT #3**.
13. **BACKGROUND OF APPLICANT** (co-applicants must also provide this information). Corporations and Limited Liability Companies must provide a current Certificate of Good Standing from the Illinois Secretary of State. Limited Liability Companies and Partnerships must provide the name and address of each partner/ member and specify the percentage of ownership of each. Append this information to the application as **ATTACHMENT #4**.
14. **TRANSACTION DOCUMENTS.** Provide a copy of the complete transaction document(s) including schedules and exhibits which detail the terms and conditions of the proposed transaction (purchase, lease, stock transfer, etc). Applicants should note that the document(s) submitted should reflect the applicant's (and co-applicant's, if applicable) involvement in the transaction. The document must be signed by both parties and contain language stating that the transaction is contingent upon approval of the Illinois Health Facilities and Services Review Board. Append this document(s) to the application as **ATTACHMENT #5**. *See Schedule 6.1(d) of the Contribution Agreement for language conditioning the closing of the transaction on Board approval.*
15. **FINANCIAL STATEMENTS.** (Co-applicants must also provide this information) Provide a copy of the applicants latest audited financial statements, and append it to this application as **ATTACHMENT #6**. If the applicant is a newly formed entity and financial statements are not available, please indicate by checking YES , and indicate the date the entity was formed

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

Name: Ed Clancy
Address: 70 West Madison, Suite 3500
City, State & Zip Code: Chicago, Illinois 60611
Telephone () Ext. (312) 977-4487

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

Name: Gretchen E. Harper
Address: 70 West Madison, Suite 3500
City, State & Zip Code: Chicago, Illinois 60611
Telephone () Ext. (312) 977-4143

18. CERTIFICATION

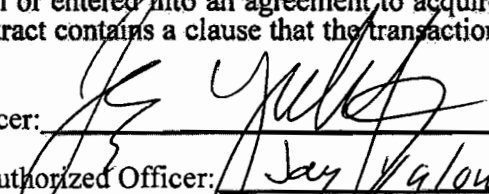
I certify that the above information and all attached information are true and correct to the best of my knowledge and belief. I certify that the number of beds within the facility will not change as part of this transaction. I certify that no adverse action has been taken against the applicant(s) by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

Signature of Authorized Officer _____ **Please see attached for Applicant certification pages.**
Typed or Printed Name of Authorized Officer _____
Title of Authorized Officer: _____
Address: _____
City, State & Zip Code: _____
Telephone () _____ Date: _____

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

CERTIFICATION - DIALYSIS NEWCO, INC.

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

Signature of Authorized Officer: 

Typed or Printed Name of Authorized Officer: Jay Glowitz

Title of Authorized Officer: Exp/Secretary

Address: 424 Church Street, Suite 1900

City, State & Zip Code: Nashville, Tennessee 37219

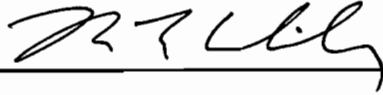
Telephone (615)

777-8200

Date: 8/27/2015

CERTIFICATION- U.S. RENAL CARE, INC.

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

Signature of Authorized Officer: 

Typed or Printed Name of Authorized Officer: Thomas L. Weinberg

Title of Authorized Officer: Executive Vice President and General Counsel

Address: 2400 Dallas Parkway, Suite 350

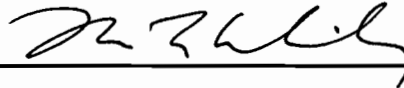
City, State & Zip Code: Plano, Texas 75093

Telephone (214) 736-2700 Date: 8/27/2015

CERTIFICATION- RANGERS RENAL HOLDINGS, LP

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

Signature of Authorized Officer: _____



Typed or Printed Name of Authorized Officer: Thomas L. Weinberg

Title of Authorized Officer: Senior Vice President and General Counsel

Address: 2400 Dallas Parkway, Suite 350

City, State & Zip Code: Plano, Texas 75093

Telephone (214) 736-2700

Date: 8/27/2015

**ATTACHMENT 1
APPLICATION FEE**

ATTACHMENT 2

FUNDING

No funds will change hands as part of this transaction. The Applicants propose a stock swap transaction, whereby the ultimate parent of Dialysis Newco, Inc., Dialysis Parent, LLC ("Dialysis Parent") will transfer and convey to Rangers Renal Holdings, LP ("Rangers"), the ultimate parent of U.S. Renal Care, Inc., 100% of the equity interests of Dialysis HoldCo, LLC ("Dialysis HoldCo"), a wholly owned subsidiary of Dialysis Parent and the sole shareholder of Dialysis Newco, Inc. In exchange for the equity interests in Dialysis HoldCo, Rangers will issue to Dialysis Parent shares of Rangers' Class A shares in an amount equivalent to the value of the equity interests of Dialysis HoldCo. The type and source of funds is not applicable.

ATTACHMENT 3 NARRATIVE

DSI Scottsdale Renal Center (the "Facility") is a 36-station in-center hemodialysis facility located at 4651 West 79th Street, Chicago, Illinois 60652. The current operator of the Facility is Dialysis Newco, Inc., a wholly owned subsidiary of Dialysis HoldCo, LLC. Dialysis Newco, Inc. does business as DSI Scottsdale Renal Center.

Pending Illinois Health Facilities and Services Review Board ("Board") approval, U.S. Renal Care, Inc. intends to enter into a stock swap transaction whereby it will acquire the stock of Dialysis Newco, Inc. d/b/a DSI Scottsdale Renal Center in exchange for partnership interests in U.S. Renal Care, Inc.'s ultimate parent, Rangers Renal Holdings, LP to the Facility's ultimate parent, Dialysis Parent, LLC.

The Contribution Agreement, included herein as **Attachment 5**, provides that the sole member of Dialysis HoldCo, LLC, Dialysis Parent, LLC, will contribute 100% of its membership interest in Dialysis HoldCo, LLC to Rangers Renal Holdings, LP, the ultimate parent of U.S. Renal Care, Inc. Dialysis HoldCo, LLC is the sole shareholder of Dialysis Newco, Inc.

In consideration for the membership interests in Dialysis HoldCo, LLC and the corresponding stock in Dialysis Newco/ownership of the Facility, the current member of Dialysis Newco, Inc., Dialysis Parent, LLC, will receive partnership interests in Rangers Renal Holdings, LP, the ultimate parent of U.S. Renal Care, Inc. No funds will change hands as a result of this transaction.

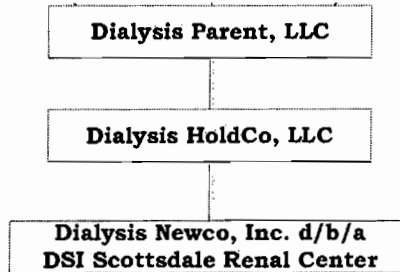
Following this transaction, Dialysis HoldCo, LLC will be a wholly-owned subsidiary of U.S. Renal Care, Inc. and the Facility will be controlled by U.S. Renal Care, Inc. Pre- and post-closing organizational charts are included as **Attachment 3A**.

Rangers Renal Holdings, LP, the ultimate parent entity; U.S. Renal Care, Inc., the Facility's new parent entity; and Dialysis Newco, Inc., the operating entity, hereby seek a Change of Ownership Exemption ("COE") from the Board to approve the proposed transaction.

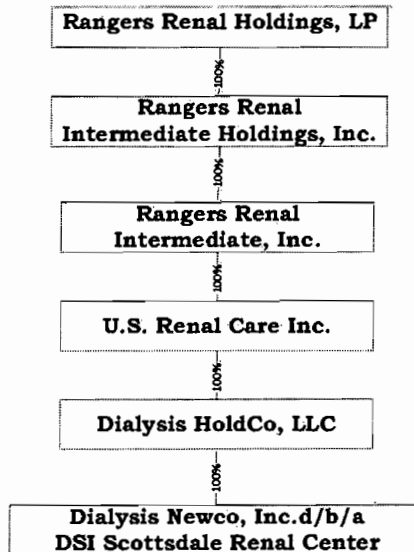
As this transaction is a stock transfer of the operating entity's parent company (U.S. Renal Care, Inc. acquiring Dialysis HoldCo, LLC), there will be no direct operational impact on Dialysis Newco, Inc. or the Facility. Notably, Dialysis Newco, Inc. will continue, as of the effective date of this transaction, to maintain its current and existing licenses, provider numbers and accreditations, and furnish the services they are currently furnishing. No change in square footage, number of stations, or day-to-day operations will take place as a result of the transaction, and there are no plans to make any additions or reductions in staffing at the Facility. Dialysis Newco, Inc. will remain the licensed entity with no change in the Facility's name or location.

**ATTACHMENT 3A
ORGANIZATIONAL CHART**

Pre-Closing Organizational Chart for DSI Scottsdale Renal Center



Post-Closing Organizational Chart for DSI Scottsdale Renal Center*



*Please note that Rangers Renal Intermediate Holdings, Inc. and Rangers Renal Intermediate, Inc. were not included as Applicants because both entities lack sufficient control over DSI Scottsdale Renal Center necessary to meet the requirements of necessary parties to the application under 77 Ill. Admin. Code 1130.220.

ATTACHMENT 4

BACKGROUND OF APPLICANT

Rangers Renal Holdings, LP, U.S. Renal Care, Inc. ("USRC") and Dialysis Newco, Inc. d/b/a DSI Scottsdale Renal Center (together the "Applicants") are fit, willing, and able, and have the qualifications, background and character to adequately provide dialysis services to the Chicago community. USRC is a leading provider of dialysis services in Illinois and throughout the United States with its mission to be the highest quality dialysis provider available for people living with chronic and acute renal disease. USRC works in partnership with nephrologists to develop, acquire, and operate outpatient treatment centers for persons suffering from chronic kidney failure, also known as End Stage Renal Disease ("ESRD").

According to the United States Renal Data System, over 114,000 new patients began treatment for ESRD in 2014. With an incident rate in the 80th percentile, Illinois has one of the highest ESRD patient populations in the country. The Facility's location is within Health Service Area ("HSA") 6, a community that has been at least 90 stations short of their calculated need over the last year. Currently, 97 additional stations are needed in HSA 6 in order to meet the community's need for ESRD stations.

USRC is well-positioned to serve the patients of Illinois and the Chicago community surrounding the Facility. USRC operates over 200 outpatient, home, and specialty dialysis programs in 19 states. With clinics in Bolingbrook, Downers Grove, Villa Park, and Streamwood, USRC is already an established Illinois dialysis provider. USRC supports its facilities with experienced clinical and operations management and a steadfast commitment to delivering the highest quality care. Under its ownership, patients in the community will benefit from a renal care provider committed to providing patient-focused, compassionate care through its highly-trained professional staff and state-of-the-art technology in a healing environment.

The patients of the Facility and the surrounding community will benefit from lower costs associated with the Facility's change in control. Serving more than 14,000 patients nationally, USRC has access to group purchasing and other contracting discounts that produce costs savings that will ultimately reach the patient.

The Facility will also benefit from the quality improvement programs established at all USRC facilities. USRC strictly adheres to Federal and state best practice guidelines for ESRD clinics in developing its comprehensive quality improvement program, and all clinic staff must be trained on complying with the quality assurance measures therein. USRC also implements various educational programs for patients and their caregivers that can help reduce or delay the progression of chronic kidney disease. Helping patients and their families understand their disease and therapeutic options is also critically important to maximize the benefits of therapy. With more than 200 dialysis facilities in 19 states and the Territory of Guam, USRC patients also have readily available treatment across the country and can access the same care provided at the Facility at a facility near where the patient may be traveling in order to ensure uninterrupted access to care.

Copies of Certificates of Good Standing for each Applicant are included herein as **Attachment 4A**. Information regarding the ownership interests of Rangers Renal Holdings, LP is included herein as **Attachment 4B**.

Dialysis Newco, Inc. is the operating entity that has and will continue to operate the Facility following the closing of the proposed transaction. As will be memorialized in Dialysis Newco's Bylaws, Dialysis Newco's Board will mirror the Board of Managers of Rangers Renal Holdings, LP post-transaction, and will include all of its five current Board members (John Baumer, Alyse Wagner, Chris Brengard, Bryan Cressey, and Barry Cosgrove), as well as four new Board members who are currently associated with and represent the major investment funds of Dialysis HoldCo, LLC.

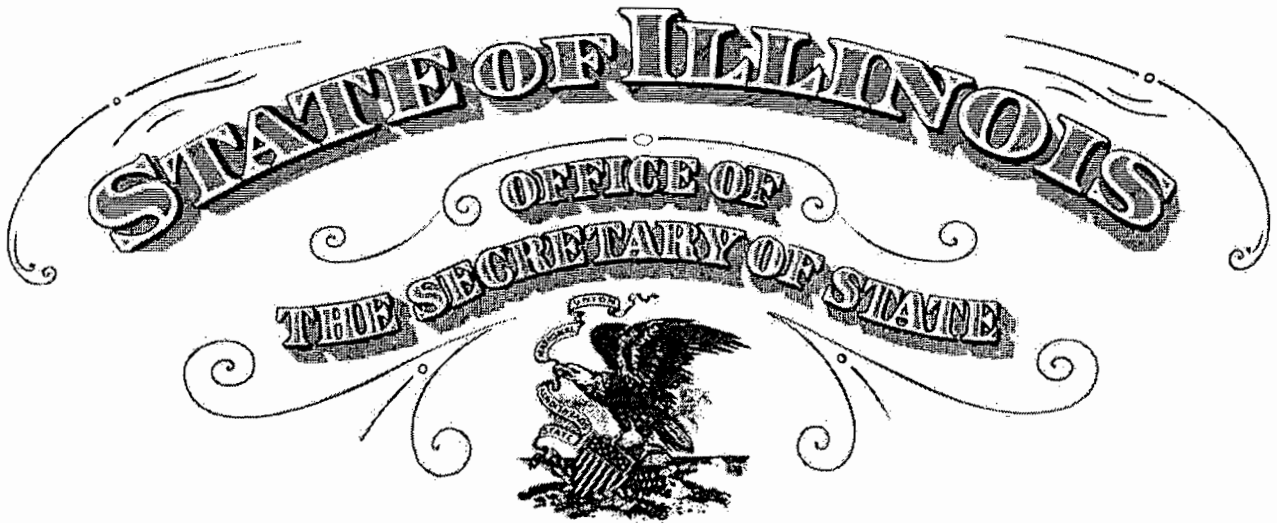
The Applicants attach attestation letters, certifying to the representations required pursuant to 77 Ill. Admin. Code 1130.520 included herein as **Attachment 4C**, as well as an impact and access statement required pursuant to Ill. Admin. Code 1110.240 included herein as **Attachment 4D**.

ATTACHMENT 4A
CERTIFICATES OF GOOD STANDING

Certificates of Good Standing for Rangers Renal Holdings, LP, U.S. Renal Care, Inc., and Dialysis Newco, Inc. are attached. Rangers Renal Holdings, LP does not do business in the State of Illinois. A Certificate of Good Standing for Rangers Renal Holdings, LP from the state of its incorporation, Delaware, is attached.

File Number

6800-549-3



To all to whom these Presents Shall Come, Greeting:

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

DIALYSIS NEWCO, INC., INCORPORATED IN DELAWARE AND LICENSED TO TRANSACT BUSINESS IN THIS STATE ON AUGUST 19, 2011, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE BUSINESS CORPORATION ACT OF THIS STATE RELATING TO THE PAYMENT OF FRANCHISE TAXES, AND AS OF THIS DATE, IS A FOREIGN CORPORATION IN GOOD STANDING AND AUTHORIZED TO TRANSACT BUSINESS IN THE STATE OF ILLINOIS.



***In Testimony Whereof, I hereto set
my hand and cause to be affixed the Great Seal of
the State of Illinois, this 2ND
day of SEPTEMBER A.D. 2015 .***

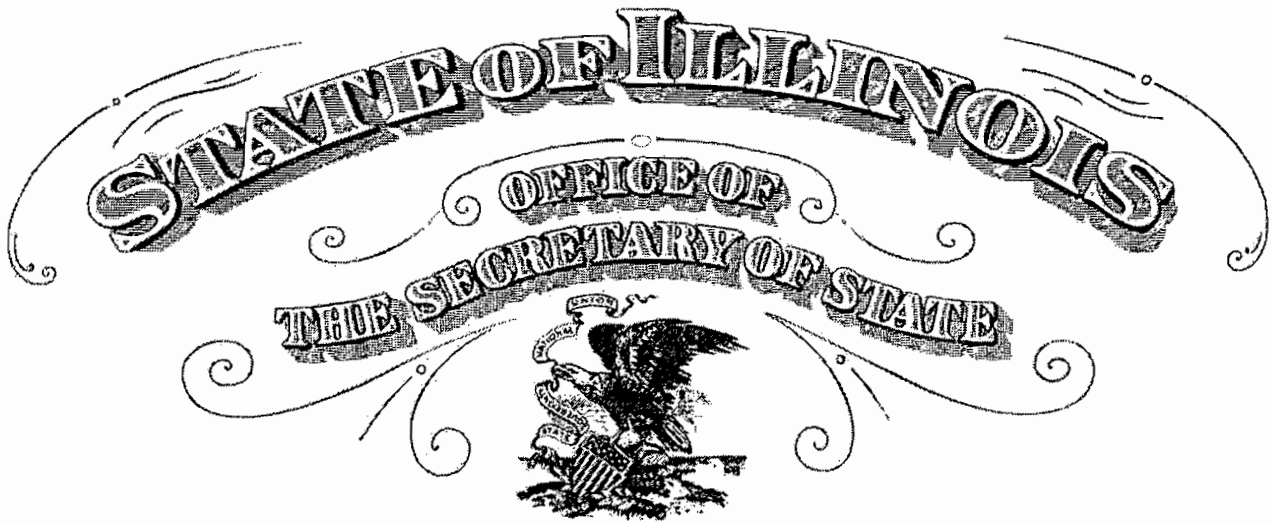
Jesse White

SECRETARY OF STATE

Authentication #: 1524502698 verifiable until 09/02/2016
Authenticate at: <http://www.cyberdriveillinois.com>

File Number

6788-501-5



To all to whom these Presents Shall Come, Greeting:

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

U.S. RENAL CARE, INC., INCORPORATED IN DELAWARE AND LICENSED TO TRANSACT BUSINESS IN THIS STATE ON MAY 17, 2011, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE BUSINESS CORPORATION ACT OF THIS STATE RELATING TO THE PAYMENT OF FRANCHISE TAXES, AND AS OF THIS DATE, IS A FOREIGN CORPORATION IN GOOD STANDING AND AUTHORIZED TO TRANSACT BUSINESS IN THE STATE OF ILLINOIS.



In Testimony Whereof, I hereto set
my hand and cause to be affixed the Great Seal of
the State of Illinois, this 24TH
day of AUGUST A.D. 2015 .

Jesse White

SECRETARY OF STATE

Authentication #: 1523602704 verifiable until 08/24/2016
Authenticate at: <http://www.cyberdriveillinois.com>

Delaware

PAGE 1

The First State

I, JEFFREY W. BULLOCK, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY "RANGERS RENAL HOLDINGS LP" IS DULY FORMED UNDER THE LAWS OF THE STATE OF DELAWARE AND IS IN GOOD STANDING AND HAS A LEGAL EXISTENCE SO FAR AS THE RECORDS OF THIS OFFICE SHOW, AS OF THE TWENTY-FOURTH DAY OF AUGUST, A.D. 2015.

AND I DO HEREBY FURTHER CERTIFY THAT THE SAID "RANGERS RENAL HOLDINGS LP" WAS FORMED ON THE FIFTEENTH DAY OF MAY, A.D. 2012.

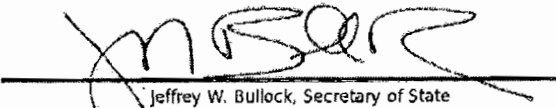
AND I DO HEREBY FURTHER CERTIFY THAT THE ANNUAL TAXES HAVE BEEN PAID TO DATE.

5154862 8300

151209652

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




Jeffrey W. Bullock, Secretary of State
AUTHENTICATION: 2671963

DATE: 08-24-15

ATTACHMENT 4B
RANGERS RENAL HOLDINGS, LP OWNERSHIP INTERESTS

The current owners of Rangers Renal Holdings, LP are listed below. Following the closing of the proposed transaction, the percent ownership will change to include the additional new shareholders.

Partner Name	Address	Percentage of Ownership
Green Equity Investors V, LP	11111 Santa Monica Boulevard Los Angeles California, 90025	36.50%
Green Equity Investors Side V, LP	11111 Santa Monica Boulevard Los Angeles California, 90025	11.02%
LGP Associates II, LLC	11111 Santa Monica Boulevard Los Angeles California, 90025	1.37%
Cressey & Company Fund IV, LP	155 N. Wacker Drive Suite 4500 Chicago, IL 60606	15.77%
SV Life Sciences Fund V, LP	One Boston Place 201 Washington Street Ste. 3900 Boston, MA 02108	8.83%
SV Life Sciences Fund V Strategic Partners LP	One Boston Place 201 Washington Street Ste. 3900 Boston, MA 02108	0.19%
J. Christopher Brengard	2400 Dallas Parkway, Suite 350 Plano, TX 75093	6.23%
John F. Egan	2400 Dallas Parkway, Suite 350 Plano, TX 75093	2.49%
Jack Harrington	2400 Dallas Parkway, Suite 350 Plano, TX 75093	1.41%
Steve Pirri	2400 Dallas Parkway, Suite 350 Plano, TX 75093	2.83%
Jim Shelton	2400 Dallas Parkway, Suite 350 Plano, TX 75093	2.84%
Stan Lindenfeld	2400 Dallas Parkway, Suite 350 Plano, TX 75093	1.36%
Thomas L. Weinberg	2400 Dallas Parkway, Suite 350 Plano, TX 75093	1.04%
Alison A and Thomas L. Weinberg Family Trust	2400 Dallas Parkway, Suite 350 Plano, TX 75093	0.59%
Charla Williams	2400 Dallas Parkway, Suite 350 Plano, TX 75093	0.55%
David Eldridge	2400 Dallas Parkway, Suite 350 Plano, TX 75093	0.69%
Tim Thomasson	2400 Dallas Parkway, Suite 350 Plano, TX 75093	0.45%
Lynelle McLain	2400 Dallas Parkway, Suite 350	0.26%

ATTACHMENT 4B

	Plano, TX 75093	
Barry C. Cosgrove Trust	9 Smithcliffs Road Laguna Beach, CA 92651	0.91%
Barry Cosgrove	9 Smithcliffs Road Laguna Beach, CA 92651	0.17%
Lauren McDowell	2400 Dallas Parkway, Suite 350 Plano, TX 75093	0.41%
Larry Jones	2400 Dallas Parkway, Suite 350 Plano, TX 75093	0.25%
John Dickenson	2400 Dallas Parkway, Suite 350 Plano, TX 75093	0.50%
Scott Sasserson	2400 Dallas Parkway, Suite 350 Plano, TX 75093	1.47%
Karen Walton Brown	2400 Dallas Parkway, Suite 350 Plano, TX 75093	0.19%
Joanne Zimmerman	2400 Dallas Parkway, Suite 350 Plano, TX 75093	0.19%
Unassigned	N/A	1.49%
Total		100.00%

**ATTACHMENT 4C
ATTESTATION LETTERS**

Illinois Health Facilities and Services Review Board
Springfield, Illinois

To Whom It May Concern:

This letter is being provided as part of the Certificate of Exemption application addressing the changes of ownership/changes of control of Dialysis Newco, Inc. d/b/a DSI Scottsdale Renal Center.

I hereby attest to the following:

1. The categories of service and number of stations as reflected in the Inventory of Health Care Facilities will not substantially change for the above-identified facility for at least 24 months following the completion date of the change of ownership/change of control.
2. A transaction document signed by all required parties has been provided, and that document contains a provision that the transaction is subject to the Illinois Health Facilities and Services Review Board ("HFSRB") issuance of a certificate of exemption, and that document contains the conditions and terms of the change of ownership/change of control.
3. No adverse action has been taken against any applicant by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois against any health care facility owned or operated by an applicant, directly or indirectly, within three years preceding the filing of this application.
4. The proposed transaction will not result in the restriction of patient admissions or reductions in access to care. The admission policies of the above-identified facility will not change due to the change in control proposed by this transaction, nor will the admission policies become more restrictive following completion of the proposed transaction.
5. Ownership and control of the above-identified facility is intended to be maintained for a minimum of three years.
6. Any projects for which Permits have been issued have been completed, are obligated, or will be completed or altered in accordance with 77 Ill. Admin. Code 1130.520.
7. Failure to complete the project in accordance with applicable provisions of Section 1130.500(d) no later than 24 months from the date of exemption approval (or by a later date established by HFSRB upon a finding that the project has proceeded with due diligence) and failure to comply with the material change requirements of this Section will invalidate the exemption.

Sincerely,

Dialysis Newco, Inc.

By: _____

Jay Yalowitz, EVP / Secretary

Date: August 27, 2015

Notarized.

Kayla Hudson



My Comm. Expires
January 9, 2018

Illinois Health Facilities and Services Review Board
Springfield, Illinois

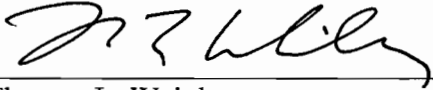
To Whom It May Concern:

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7. Failure to complete the project in accordance with applicable provisions of Section 1130.500(d) no later than 24 months from the date of exemption approval (or by a later date established by HFSRB upon a finding that the project has proceeded with due diligence) and failure to comply with the material change requirements of this Section will invalidate the exemption.

Sincerely,



Thomas L. Weinberg,
Executive Vice President & Secretary of
U.S. Renal Care, Inc.

Date: 8/27/2015

Notarized:

Subscribed and sworn before me this
27th day of August 2015

Lisa L Stewart



Illinois Health Facilities and Services Review Board
Springfield, Illinois

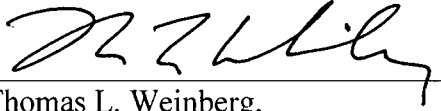
To Whom It May Concern:

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2. A transaction document signed by all required parties has been provided, and that document contains a provision that the transaction is subject to the Illinois Health Facilities and Services Review Board ("HFSRB") issuance of a certificate of exemption, and that document contains the conditions and terms of the change of ownership/change of control.
3. No adverse action has been taken against any applicant by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois against any health care facility owned or operated by an applicant, directly or indirectly, within three years preceding the filing of this application.
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5. Ownership and control of the above-identified facility is intended to be maintained for a minimum of three years.
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Sincerely,



Thomas L. Weinberg,
Senior Vice President & Secretary of
Rangers Renal Holdings, GP, LLC
the General Partner of
Rangers Renal Holdings, L.P.

Date: 8/27/2015

Notarized:

*Subscribed and sworn this 27th
day of August 2015*

Lisa L Stewart



ATTACHMENT 4D
IMPACT AND ACCESS STATEMENT

ATTACHMENT 4D
IMPACT AND ACCESS STATEMENT PER PART 1110.240

The proposed change of ownership will not result in the reduction or addition of stations at the existing certified dialysis facility. The current owner/operator of the facility is Dialysis Newco, Inc. (whose ultimate parent entity is Dialysis Parent, LLC) and will be owned/operated by Dialysis Newco, Inc. (whose ultimate parent entity will be Ranger Renal Holdings, LP), after the change of ownership. There will be no reduction in employees at the facility for a period of two years from the date of change of ownership other than in the normal course of business.

There will be no changes to patient admissions and no reduction in access to dialysis services as a result of the change of ownership. The admission policies of the facility involved will not become more restrictive. Facilities owned and operated by U.S. Renal Care, Inc. ("USRC") accept all patients regardless of ability to pay. They are "open" facilities from the standpoint of granting privileges to any physician who wishes to admit patients to the facility. The facility will continue to operate under its current Admission Policy, a copy of which is attached.

The preferred USRC model of ownership is for our facilities to be a joint venture with nephrologists; however we do have wholly owned facilities as well. The DSI Scottsdale Renal Center facility will be a wholly owned facility. Dialysis Newco, Inc. will maintain control of the governance, assets and operations of the facility.

No health care system is involved in this transaction.



Signature

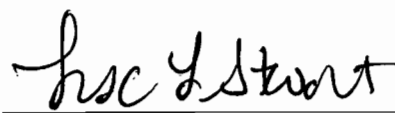
Thomas L. Weinberg, Executive Vice President and General Counsel

Printed Name/Title

8/27/2015

Date

SUBSCRIBED AND SWORN BEFORE ME THIS 27th
DAY OF August, 2015.



NOTARY PUBLIC





DSI Renal

100-16: POLICY/PROCEDURE: *CRITERIA FOR ADMISSION TO THE DIALYSIS CLINIC*

SCOPE: This policy applies to DSI Renal clinics.

PURPOSE: To define admission criteria in compliance with the Rehabilitation Act of 1973 and to delineate which patients will or will not be treated by the clinic. This policy will apply to all patients equally, in accordance with The Nondiscrimination Act without regard to health status or method of payment, e.g. private pay, Medicare or Medicaid.

POLICY:

1. It is the policy of DSI Renal that certain criteria be met prior to admitting a patient to any DSI dialysis clinic.
2. It is the practice of DSI Renal to admit patients without regard to HIV status. Patients with communicable diseases will be admitted if adequate isolation facilities are available to accommodate the individual without jeopardizing the health and safety of other patients.
3. DSI is committed to a policy of equitable access to care.

PROCEDURE:

Ensure that the following are met:

1. Patient should be relatively stable on dialysis and must be willing to cooperate with those caring for them in the areas of diet, fluid restriction, medication regimen, etc.
2. All patients with a Tracheostomy must have approval from regional vice president of operations prior to admission.
3. A staff nephrologist has evaluated the patient and a prescription for treatment is written. There is documentation of the following:
 - a. Primary cause of renal failure/diagnosis using ICD-9 code terminology (Uremia, ESRD or CRF alone are not acceptable).
 - b. Permanence or irreversibility of renal failure requiring a regular course of dialysis to maintain life.
 - c. Age, sex, weight and height.
 - d. Need or necessity for chronic dialysis as determined by admitting nephrologist. A completed 2728 must be submitted in CROWNWeb within 45 days. Print and obtain signatures from physician & patient in

Created 3/1/05

Revised 12/31/06; 2/1/07; 09/01/07; 10/01/08; 11/01/08; 7/15/09; 10/1/10; 4/1/11; 8/26/13; 5/1/15

Page 1 of 3

blue ink. Scan/index into PEARL and send original to the Social Security Administration office.

- e. A member of the medical staff (physician, NP, or PA as allowed by State regulations) must assess the patient before the initiation of the patient's first dialysis treatment in the clinic. This evaluation could be accomplished by review of medical records and consultation with the referring physician, and is not intended to require the medical staff member to "see" the patient in the clinic prior to this first treatment.

Note: These limits should be revised when factors such as age, body size or significant extrarenal disease(s) are present.

4. Other uremic symptoms, when attributable to chronic renal failure, may be a reason to initiate dialysis prior to the development of the conditions in #3.
 - a. Nausea and vomiting, anorexia, weight loss.
 - b. Weakness and fatigue that interferes with activity of daily living.
 - c. Lethargy, tremor, muscle cramps.
 - d. Bleeding tendency.
 - e. Pruritus.
 - f. Clouded sensorium asterixis.
 - g. Growth and development delay.
5. 2728 will *not* be submitted in CROWNWeb on these patients. A 2728 may be submitted once the patient meets the Medicare requirements for qualifying for ESRD (see #3 and #4). Such conditions may include:
 - a. Volume overload proven unmanageable by conservative (non-dialytic) medical therapy.
 - b. Hyperkalemia proven unmanageable by conservative (non-dialytic) medical therapy.
 - c. Uremic pericarditis.
 - d. Metabolic acidosis proven unmanageable by conservative (non-dialytic) medical therapy.
 - e. Uremic neuropathy.

Note: Chronic dialysis therapy is not a benign therapy substitute for other disease states such as terminal congestive heart failure.

6. Patient should have supplemental insurance in addition to Medicare A and B or pay the 20% not covered by Medicare for each treatment.
7. Transportation arrangements are the responsibility of the patient and must be arranged **prior** to starting treatments.
8. Appropriate admission paperwork is completed on the first day of admission.

9. Patient is at least 18 years of age. Patients less than 18 must have approval of senior management, the regional vice president, senior vice president of operations, and vice president of education and quality.
10. The HBV serological status (i.e. HBsAg, total anti-HBc, and HBsAb) of all patients should be drawn and resulted within 30 days prior to admission to the hemodialysis unit. If the results of this testing are not known at admission, Hepatitis labs will be drawn on the 1st treatment. Until Hepatitis status is known, dialyze patient in designated area for unknown status- see policies regarding infection control/Hepatitis B.
 - a. Until laboratory results are available, treat the patient as if he/she were HBsAg positive, using separate equipment (machine, BP cuff, etc.) and separate personal protective equipment, **without** placing the patient in an isolation area with HBsAg positive patients.
 - b. If possible, schedule the unknown Hepatitis B status patient at the end of the day.
 - c. Buffer the unknown Hepatitis B status patient by patients who are HBsAb positive.
11. **On the first day of admission, draw all admission labs.** If the start day is on Saturday, holiday or a day unable to send labs to the contracted national lab provider, draw the admission lab minimum panel, centrifuge and store lab tubes in the lab refrigerator to send on the first available day not to exceed 3 days. Schedule a Reminder in PEARL for a full admission lab panel.
12. **An assessment by a Registered Nurse must be completed** prior to the initiation of the first treatment in the clinic. This first treatment assessment must include at minimum:
 - a. Neurologic: level of alertness/mental status, orientation, identification of sensory deficits.
 - b. Subjective complaints.
 - c. Rest and comfort: pain status.
 - d. Activity: ambulation status, support needs, fall risk.
 - e. Access: assessment.
 - f. Respiratory: respirations description, lung sounds.
 - g. Cardiovascular: heart rate and rhythm, presence and location of edema.
 - h. Fluid gains, blood pressure and temperature pre-treatment.
 - i. Integumentary: skin color, temperature and as needed type/location of wounds.

ATTACHMENT 5
TRANSACTION DOCUMENTS

The Contribution Agreement cover and signature pages are attached, as well as Schedule 6.1(d), containing language that the closing of the proposed transaction is contingent upon Board approval. Pursuant to Public Act 099-154, a copy of the Facility's full transaction document is no longer required, so long as the application includes key terms of the transaction. Such key terms are provided herein in **Attachments 3 and 4**.

EXECUTION COPY

CONTRIBUTION AGREEMENT
BY AND BETWEEN
RANGERS RENAL HOLDINGS LP
AND
DIALYSIS PARENT, LLC

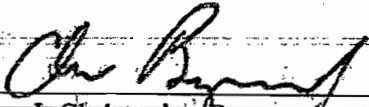
DATED AS OF AUGUST 21, 2015

IN WITNESS WHEREOF, each of the Parties has caused this Agreement to be executed and delivered by its duly authorized representative as of the date first written above.

RANGERS HOLDINGS:

RANGERS RENAL HOLDINGS LP

**By: RANGERS RENAL HOLDINGS GP LLC, its
General Partner**

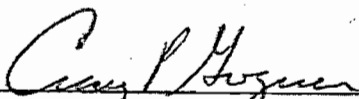
By: 

Name: J. Christopher Brengard

Title: CEO

DIALYSIS PARENT:

DIALYSIS PARENT, LLC

By: 

Name: Craig P. Goguen

Title: President & Chief Executive Officer

[Signature Page to Contribution Agreement]

Schedule 6.1(d)

Required Consents

1. Approval from Illinois Health Facilities and Services Review Board with respect to Certificate of Exemption Application or change of ownership Certificate of Need Application with respect to CON issued to DSI Renal for DSI Scottsdale Renal Center.
2. Approval from New York Public Health Council with respect to change of ownership Certificate of Need Application with respect to CON issued to DSI Dutchess Dialysis, Inc. for DSI Dutchess Dialysis.
3. Approval from Hawaii State Health Planning and Development Agency with respect to change of ownership Certificate of Need Application with respect to CONs issued to DSI Renal for DSI Aloha Dialysis, DSI Kapahulu Dialysis, DSI Honolulu Dialysis, DSI Kapolei Dialysis, DSI Windward Dialysis, DSI Pearlridge Dialysis, DSI Wahiawa Dialysis, DSI Ko'olau Dialysis, DSI Beretania Dialysis and DSI West Oahu Dialysis and the CON issued to DSI Waipahu, LLC with respect to DSI Waipahu Dialysis.

ATTACHMENT 6 FINANCIAL STATEMENTS

Audited financial statements of Dialysis HoldCo, LLC and U.S. Renal Care, Inc. for the fiscal years ended December 31, 2014 and 2013 are attached. Rangers Renal Holdings, LP does not perform external financial audits; in lieu of audited financial statements, its unaudited consolidated balance sheets and related consolidated statements of income and cash flows for the year ended December 31, 2014 are also attached. All financial statements have been prepared in accordance with GAAP applied on a consistent basis throughout the period indicated, except for the absence of footnotes in the case of the unaudited financial statements of Rangers Renal Holdings, LP.



DIALYSIS HOLDCO, LLC
(A Wholly Owned Subsidiary of Dialysis Parent, LLC)
Consolidated Financial Statements
December 31, 2014 and 2013
(With Independent Auditors' Report Thereon)



Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Dialysis HoldCo, LLC and its subsidiary as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Nashville, Tennessee
April 14, 2015

DIALYSIS HOLDCO, LLC
(A Wholly Owned Subsidiary of Dialysis Parent, LLC)

Consolidated Balance Sheets

December 31, 2014 and 2013

(In thousands)

Assets	2014	2013
Current assets:		
Cash and cash equivalents	\$ 55,719	49,057
Accounts receivable, less allowance for doubtful accounts of \$6,471 in 2014 and \$6,727 in 2013	69,889	46,021
Other receivables	12,673	11,123
Inventories	4,357	4,947
Prepaid expenses and other current assets	8,764	4,797
Total current assets	151,402	115,945
Property and equipment, net	63,177	59,807
Goodwill	233,837	233,837
Intangible assets, net	34,510	39,701
Other assets, net	11,298	11,815
Total assets	\$ 494,224	461,105
Liabilities and Equity (Deficit)		
Current liabilities:		
Accounts payable	\$ 11,397	10,711
Accrued compensation	12,535	12,706
Accrued expenses and other current liabilities	31,313	32,377
Current portion of long-term debt	4,474	2,594
Total current liabilities	59,719	58,388
Long-term debt, net of current portion	513,800	343,498
Deferred income taxes	14,789	9,250
Other long-term liabilities	8,024	8,373
Total liabilities	596,332	419,509
Noncontrolling interests with redemption rights	15,436	8,109
Equity:		
Member's deficit	(154,222)	(7,259)
Retained earnings	11,818	17,018
Accumulated other comprehensive loss	(23)	(110)
Dialysis HoldCo, LLC member's equity (deficit)	(142,427)	9,649
Noncontrolling interests	24,883	23,838
Total equity (deficit)	(117,544)	33,487
Total liabilities and equity (deficit)	\$ 494,224	461,105

See accompanying notes to consolidated financial statements.

DIALYSIS HOLDCO, LLC
(A Wholly Owned Subsidiary of Dialysis Parent, LLC)
Consolidated Statements of Income and Comprehensive Income
Years ended December 31, 2014 and 2013
(In thousands)

	<u>2014</u>	<u>2013</u>
Net revenue	\$ 380,156	324,177
Less provision for doubtful accounts	7,980	6,709
Total net revenue	<u>372,176</u>	<u>317,468</u>
Operating costs and expenses:		
Patient care costs	221,685	208,196
General and administrative expenses	32,812	26,830
Transaction and integration expenses	12,716	6,364
Stock compensation expense	16,864	—
Depreciation and amortization	20,025	17,707
Total operating costs and expenses	<u>304,102</u>	<u>259,097</u>
Income from operations	68,074	58,371
Interest expense, net	<u>30,198</u>	<u>21,144</u>
Income from operations before income taxes	37,876	37,227
Provision for income taxes	<u>10,920</u>	<u>11,631</u>
Net income	26,956	25,596
Net income attributable to noncontrolling interests	<u>8,657</u>	<u>7,570</u>
Net income attributable to Dialysis HoldCo, LLC	18,299	18,026
Change in fair value of interest rate swap agreements, net of tax	<u>87</u>	<u>66</u>
Comprehensive income, net of tax	<u>18,386</u>	<u>18,092</u>
Comprehensive income attributable to Dialysis HoldCo, LLC	<u>\$ 18,386</u>	<u>18,092</u>

See accompanying notes to consolidated financial statements.

DIALYSIS HOLDCO, LLC
(A Wholly Owned Subsidiary of Dialysis Parent, LLC;
Consolidated Statements of Changes in Member's Equity
Years ended December 31, 2014 and 2013

(In thousands)

	Noncontrolling interests with redemption rights	Member's equity (deficit)	Retained earnings (accumulated deficit)	Accumulated other comprehensive loss	Noncontrolling interests	Total equity (deficit)
Balance at December 31, 2012	\$ 6,052	173,426	(1,008)	(176)	21,205	193,447
Member's contributions	—	250	—	—	—	250
Member's distributions	—	(179,000)	—	—	—	(179,000)
Noncontrolling interest acquired in business combination	—	(703)	—	—	33	(670)
Distributions to, and purchases of, noncontrolling interests	(1,327)	(511)	—	—	(6,199)	(6,710)
Contributions from, and sale of, noncontrolling interests	—	1,461	—	—	2,431	3,892
Net income	1,202	—	18,026	—	6,368	24,394
Other comprehensive loss, net	—	—	—	66	—	66
Adjustment to redemption value of redeemable noncontrolling interests	2,182	(2,182)	—	—	—	(2,182)
Balance at December 31, 2013	8,109	(7,259)	17,018	(110)	23,838	33,487
Member's distributions	—	(144,560)	(23,499)	—	—	(168,059)
Distributions to, and purchases of, noncontrolling interests	(1,782)	—	—	—	(6,000)	(6,000)
Contributions from, and sale of, noncontrolling interests	484	35	—	—	4,575	4,610
Net income	1,954	—	18,299	—	6,703	25,002
Other comprehensive loss, net	—	—	—	87	—	87
Adjustment to redemption value of redeemable noncontrolling interests	6,671	(2,438)	—	—	(4,233)	(6,671)
Balance at December 31, 2014	\$ 15,436	(154,222)	11,818	(23)	24,883	(117,544)

See accompanying notes to consolidated financial statements.

DIALYSIS HOLDCO, LLC
(A Wholly Owned Subsidiary of Dialysis Parent, LLC)

Consolidated Statements of Cash Flows

Years ended December 31, 2014 and 2013

(In thousands)

	2014	2013
Operating activities:		
Net income	\$ 26,956	25,596
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	13,233	11,616
Amortization of intangible assets and deferred financing costs	6,943	6,952
Paid-in-kind interest	—	677
Amortization of original issue discount	466	211
Gain on fair value adjustments	—	(1,814)
Loss on exit and disposal activities	2,067	400
Provision for doubtful accounts	7,980	6,709
Deferred income taxes	6,370	8,128
Impairment loss	1,407	561
Gain on sale of assets	(7)	(41)
Stock compensation expense	16,864	—
Changes in operating assets and liabilities, net of effects from acquisitions		
Accounts receivable	(32,074)	13,380
Inventories	590	(1,241)
Prepaid expenses and other current assets	(4,798)	185
Other noncurrent assets	285	275
Accounts payable	686	2,574
Accrued compensation	(171)	(117)
Accrued expenses and other current liabilities	(68)	9,040
Other long-term liabilities	(210)	(581)
Net cash provided by operating activities	46,519	82,510
Investing activities:		
Cash paid for acquisitions, net of cash acquired	—	1,503
Purchases of property and equipment	(20,804)	(16,055)
Proceeds from sale of a facility	7	1,282
Net cash used in investing activities	(20,797)	(13,270)
Financing activities:		
Net borrowings (payments) under revolving line of credit	—	(4,000)
Proceeds from issuance of term loan	172,169	345,477
Proceeds from issuance of notes payable	2,159	217
Payments on notes payable	(408)	(158)
Payments on long-term debt	(2,390)	(191,107)
Payments of capital lease obligations	(133)	(96)
Payment of deferred financing costs	(1,522)	(3,871)
Distributions to noncontrolling interests	(7,782)	(7,474)
Noncontrolling interests contributions	3,230	1,743
Repurchases of noncontrolling interests	—	(563)
Proceeds from sale of majority interest	540	1,702
Member's contributions	—	250
Distributions to members	(184,923)	(179,000)
Net cash used in financing activities	(19,060)	(36,880)
Increase in cash and cash equivalents	6,662	32,360
Cash and cash equivalents at beginning of year	49,057	16,697
Cash and cash equivalents at end of year	\$ 55,719	49,057
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 25,237	16,178
Financed equipment	2,159	217
Noncash noncontrolling interest contributor	—	447
Writeoff of deferred financing costs	4,683	2,823

See accompanying notes to consolidated financial statements.

DIALYSIS HOLDCO, LLC
(A Wholly Owned Subsidiary of Dialysis Parent, LLC)

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(Dollars in thousands)

(1) Organization

Dialysis HoldCo, LLC and subsidiary (the Company) was formed on August 17, 2011. The Company's sole operating subsidiary is Dialysis Newco, Inc. doing business as DSI Renal (DSI Renal). Dialysis Parent, LLC (Parent) was formed on September 26, 2011, at which time the Company became the sole operating subsidiary of Parent. On October 1, 2011, DSI Renal acquired 31 clinics from DaVita Inc. (DVA).

DSI Renal owns and operates 88 and 86 dialysis facilities in 22 and 22 states, which provide care to end-stage renal disease patients, as of December 31, 2014 and 2013, respectively.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying consolidated financial statements include the financial position and results of operations of the Company for the period presented. The consolidated financial statements and accompanying notes are prepared in accordance with U.S. generally accepted accounting principles. The financial statements include the Company's subsidiary, DSI Renal. DSI Renal has entities that are wholly owned, majority-owned, or in which DSI Renal maintains a controlling financial interest. All significant intercompany transactions and balances have been eliminated. Noncontrolling interests in less-than-wholly owned consolidated subsidiaries of DSI Renal that are not redeemable are presented as a component of total equity to distinguish between the interests of DSI Renal and the interests of the noncontrolling owners. Noncontrolling interests that are redeemable or may become redeemable at a fixed or determinable price at the option of the holder or upon the occurrence of an event outside the control of DSI Renal are presented in mezzanine equity on the consolidated balance sheets.

The Company has evaluated subsequent events through April 14, 2015, which is the date the consolidated financial statements were available to be issued. On January 19, 2015, the Company entered into agreement with Corva, LLC to acquire its membership interests in Corva Clinics, LLC-Webster for \$4,048. Corva Clinics, LLC-Webster operates a facility in Houston, Texas. The transaction completed on January 30, 2015 and the Company became majority partner in Corva Clinics-Webster at that time.

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles 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 consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

DIALYSIS HOLDCO, LLC
(A Wholly Owned Subsidiary of Dialysis Parent, LLC)

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(Dollars in thousands)

Significant items subject to such estimates and assumptions include revenue recognition and accounts receivable, impairments of long-lived assets and valuation adjustments, accounting for income taxes, purchase accounting and other fair value estimates.

For the year ended December 31, 2014, the Company received collection on certain prior year receivables and made changes in its accounts receivable valuation estimates which increased 2014 revenue by approximately \$18.9 million, which related to prior years. The collection on prior year receivables and valuation change primarily related to changes in the collection and estimation of amounts collectible from noncontractual private payors.

(c) Cash Equivalents

The Company considers all highly liquid investments with original maturities at the date of purchase of three months or less to be cash equivalents.

(d) Inventories

Inventories consist of drugs, supplies, and parts used in dialysis treatments and are stated at the lower of cost or market. Cost is determined using the average-cost method for drugs and the first-in, first-out method for other supplies and parts.

(e) Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Routine maintenance and repairs are charged to expense as incurred. Depreciation is calculated on the straight-line method as follows: equipment and furniture, 5 to 7 years; and leasehold improvements, over the shorter of the related lease terms or the useful lives.

In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 360, *Property, Plant, and Equipment*, when events, circumstances, or operating results indicate that the carrying value of certain long-lived assets and related identifiable intangible assets (excluding goodwill) that are expected to be held and used might be impaired, the Company evaluates such assets for impairment based on estimated undiscounted cash flows expected to result from the use and eventual disposition of the assets. If related long-lived assets are identified as impaired, the impairment is equal to the amount by which the carrying value of the assets exceeds the fair value of those assets as determined by independent appraisals or estimates of discounted future cash flows. Impairment losses of \$1,407 and \$561 were recorded in depreciation expense during 2014 and 2013, respectively.

(f) Other Assets

Other assets primarily consist of deferred financing costs and cash held in escrow. Net deferred financing costs amounted to \$9,781 and \$9,818 with accumulated amortization of \$4,075 and \$2,523 at December 31, 2014 and 2013, respectively. Deferred financing costs of \$4,683 related to the Credit Agreement and \$2,823 related to the Credit Agreement and Senior Subordinated Loan Agreement were written off to transaction expense in 2014 and 2013, respectively.

DIALYSIS HOLDCO, LLC
(A Wholly Owned Subsidiary of Dialysis Parent, LLC)

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(Dollars in thousands)

(g) Goodwill and Other Intangibles

Goodwill is not amortized but is subject to annual tests for impairment or more often if events or circumstances indicate it may be impaired. Impairment testing for goodwill is done at the reporting unit level. An impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value. The Company completed its annual impairment test of goodwill during fiscal 2014 and 2013, noting no impairment.

Other intangible assets include noncompetition agreements that have determinate useful lives and a trade name that has an indefinite life. Noncompetition agreements are amortized over the terms of the agreements, typically 7 to 10 years, using the straight-line method.

See note 7 for the values of goodwill and other intangible assets.

(h) Noncontrolling Interests

Noncontrolling interests represent the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. The Company's accompanying consolidated financial statements include all assets, liabilities, revenues, and expense at their consolidated amounts, which include the amounts attributable to the Company and the noncontrolling interest. The Company recognizes as a separate component of equity and earnings the portion of income or loss attributable to noncontrolling interests based on the portion of the entity not owned by the Company.

Pursuant to FASB ASC Topic 810, *Consolidation*, DSI Renal clearly identifies and presents ownership interests in subsidiaries held by parties other than DSI Renal in the consolidated financial statements within the equity section. The amounts of consolidated net earnings attributable to DSI Renal and to the noncontrolling interests are presented on the face of the consolidated statements of operations. Certain of DSI Renal's noncontrolling interests are classified in the mezzanine section as these noncontrolling interests include redemption features that cause these interests not to meet the requirements of equity classification.

As of December 31, 2014 and 2013, DSI Renal was the controlling owner of 33 and 24 clinics that are included in 30 and 22 joint ventures, respectively.

(i) Net Revenue

Net revenue is recognized as services are provided and recorded at the estimated net realizable amount from Medicare, Medicaid, commercial insurers, other third-party payors and patients.

The Company's net revenue is largely derived from the following sources:

- Outpatient hemodialysis;
- Ancillary services associated with outpatient dialysis, primarily the administration of erythropoietin (EPO) and other drugs; and

DIALYSIS HOLDCO, LLC
(A Wholly Owned Subsidiary of Dialysis Parent, LLC)

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(Dollars in thousands)

- Home dialysis services.

The Medicare and Medicaid programs, along with certain third-party payors, reimburse the Company at amounts that are different from the Company's established rates. Contractual adjustments represent the difference between the amounts billed for these services and the amounts that are reimbursable by third-party payors. A summary of the basis for reimbursement with these payors is as follows:

Medicare

The Company is reimbursed by the Medicare program subject to Medicare's single bundled payment rate system, whereby reimbursements can be adjusted for certain patient characteristics and other factors. Revenue from Medicare approximated 43.1% and 49.0% of net revenue for the years ended December 31, 2014 and 2013, respectively.

Medicaid

Medicaid is a program funded by the federal and state governments. It is administered by the states, with reimbursements varying by state. The Medicaid programs are separately administered in each state in which the Company operates, and the state Medicaid programs reimburse the Company on prospective payment systems for dialysis services rendered. Revenue from Medicaid approximated 0.8% and 1.1% of net revenue for the years ended December 31, 2014 and 2013, respectively.

Other

Payments from commercial insurers, other third-party payors, and patients are received pursuant to a variety of reimbursement arrangements. Generally, payments from commercial insurers and other third-party payors are greater than those received from the Medicare and Medicaid programs. Revenue from uninsured patients approximated 0.3% and 0.5% of net revenue for the years ended December 31, 2014 and 2013, respectively.

The Company does not assess each patient's ability or the patient's source's ability to pay. As a result, the Company records bad debt expense as a component of net revenue.

(j) Due to Third-Party Payors

Due to third-party payors includes amounts received in excess of revenue recognized for specific billed charges. These amounts are commonly referred to as overpayments and recorded in accounts payable. Overpayments received from federally funded programs are reported to the federal program in accordance with the program's established procedures. These amounts remain classified as due to third-party payors until the Company makes a refund, the payor makes a recoupment, or the amount is otherwise recognized based on final resolution.

DIALYSIS HOLDCO, LLC
(A Wholly Owned Subsidiary of Dialysis Parent, LLC)

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(Dollars in thousands)

(k) Provision for Doubtful Accounts

The provision for doubtful accounts is determined as a function of payor mix, billing practices, and other factors. The Company reserves for doubtful accounts in the period in which the revenue is recognized based on management's estimate of the net collectibility of the accounts receivable. Management estimates and monitors the net collectibility of accounts receivable based upon a variety of factors. These factors include, but are not limited to, analyzing revenues generated from payor sources, performing subsequent collection testing, and regularly reviewing detailed accounts receivable agings.

(l) Income Taxes

Federal and state income taxes are computed at current enacted tax rates less tax credits using the asset and liability method. Deferred taxes are adjusted both for items that do not have tax consequences and for the cumulative effect of any changes in tax rates from those previously used to determine deferred tax assets or liabilities. Tax provisions include amounts that are currently payable, changes in deferred tax assets and liabilities that arise because of temporary differences between the timing of when items of income and expense are recognized for financial reporting and income tax purposes, changes in the recognition of tax positions and any changes in the valuation allowance caused by a change in judgment about the realizability of the related deferred tax assets. A valuation allowance is established when necessary to reduce deferred tax assets to amounts expected to be realized.

The Company uses a recognition threshold of more likely than not and a measurement attribute on all tax positions taken or expected to be taken in a tax return in order to be recognized in the financial statements. Once the recognition threshold is met, the tax position is then measured to determine the actual amount of benefit to recognize in the financial statements.

(m) Fair Value of Financial Instruments

Cash and Cash Equivalents

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents with original maturities approximate fair value based on their short-term maturity.

Accounts Receivable, Accounts Payable, and Accrued Liabilities

The carrying amounts reported in the consolidated balance sheets for accounts receivable, accounts payable, and accrued liabilities approximate fair value based on their short-term maturity. Accounts receivable are generally unsecured.

Debt

As of December 31, 2014 and 2013, the fair value of debt approximates \$517,862 and \$349,428 and the carrying value of debt totals \$515,364 and \$345,120, respectively. The estimated fair value was calculated using discounted cash flow techniques using unobservable inputs (Level 3).

DIALYSIS HOLDCO, LLC
(A Wholly Owned Subsidiary of Dialysis Parent, LLC)

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(Dollars in thousands)

(n) Concentration of Credit and Other Risks

The Company's primary concentration of credit risk exists within accounts receivable, which consist of amounts owed by various governmental agencies, insurance companies, and private patients. Receivables from Medicare represented 23.7% and 36.3% of net accounts receivable at December 31, 2014 and 2013, respectively. Concentration of credit risk relating to accounts receivable is limited to some extent by the diversity of the number of patients and payors and the geographic dispersion of the Company's operations.

DSI Renal administers EPO to most of its patients to treat anemia, a medical complication frequently experienced by dialysis patients. EPO is produced by a single manufacturer.

(o) Comprehensive Income

Comprehensive income consists of two components: net earnings and other comprehensive income. Other comprehensive income refers to revenues, expenses, gains and losses that under the FASB authoritative guidance related to accounting for comprehensive income are recorded as elements of equity, but are excluded from net earnings. The Company records the change in fair value of its interest rate swap agreements as comprehensive income or loss.

(p) Stock Compensation

In conjunction with the formation of Parent, Dialysis HoldCo, LLC and DSI Renal, effective September 30, 2011, the companies issued value units to certain employees of DSI Renal. The units vest only upon the occurrence of a liquidity event as defined in the Dialysis Parent LLC Agreement. To the extent the liquidity event occurs within the first four years after issuance of the units, the holders are entitled to 25% of the value units at the end of year one and are entitled to the remainder of the units over time in 36 equal monthly installments. If an employee is terminated or leaves the Company prior to the occurrence of a liquidity event, all value units held by that employee are forfeited. Based on ASC Topic 718, *Compensation - Stock Compensation*, and the fact that these value units only vest if and when there is a probable occurrence of liquidity, the Company has determined compensation cost related to these units is only recognized once the liquidity event actually occurs.

In April 2014, proceeds from the refinance of the 1st and 2nd Liens were used to pay a \$184.9 million distribution to Parent. Parent subsequently made a \$184.9 million distribution to its members. Of the \$184.9 million dividend paid, \$16.9 million was paid to employees and management of the Company based on value units held and the value unit distribution provisions outlined in the Dialysis Parent LLC Agreement. ASC Topic 718 provides that if employees are not required to return dividends on awards that are not expected to vest, the dividend should be recognized as compensation cost. Therefore, the \$16.9 million portion of the distribution paid to employees and management based on value units held was recognized as stock compensation expense in the consolidated statements of income and comprehensive income during the year ended December 31, 2014.

DIALYSIS HOLDCO, LLC
(A Wholly Owned Subsidiary of Dialysis Parent, LLC)

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(Dollars in thousands)

(q) New Accounting Pronouncements

In April 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360)*. ASU 2014-08 states a disposal of a component of an entity or group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. Examples of a strategic shift that has (or will have) a major effect on an entity's operations and financial results could include disposal of a major geographical area, a major line of business, a major equity method investment, or other major parts of an entity. ASU 2014-08 is effective for annual periods beginning on or after December 15, 2014 and early adoption is permitted. The Company's early adoption of this standard did not have a material impact on the Company's financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The ASU's core principal is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in this ASU will be effective for annual reporting periods beginning after December 15, 2017 with early adoption available for annual reporting periods beginning after December 15, 2016. The Company has not yet determined the effect that ASU 2014-09 will have on its financial statements and related disclosures.

(3) Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the ultimate collectibility of the Company's accounts receivable, the Company analyzed its historical cash collection experience and trends for each payor to estimate the adequacy of the allowance for doubtful accounts and the amount of the provision for doubtful accounts. Management regularly updates its analysis based upon the most recent information available to determine its current provision for uncollectible accounts and the adequacy of its allowance for doubtful accounts. For receivables associated with services provided to patients covered by Medicare, the Company receives 80% of the payment directly from Medicare as established under the government's bundled payment system and determines an appropriate allowance for doubtful accounts and provision for uncollectible account on the remaining balance due depending upon the Company's estimate of the amount ultimately collectible from other secondary coverage sources or from the patients. For receivables associated with services by patients covered by commercial payors and other non-Medicare government payors that are either based upon contractual terms or for noncontracted health plan coverage, the Company provides an allowance for doubtful accounts based upon its historical collection experience, potential inefficiencies in its billing processes, and for which collectibility is determined to be unlikely. Approximately 7% of the Company's accounts receivable are associated with patient pay and it is the Company's policy to reserve 100% of these outstanding accounts receivable balances when the amounts due are outstanding for more than 6 months.

DIALYSIS HOLDCO, LLC
(A Wholly Owned Subsidiary of Dialysis Parent, LLC)

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(Dollars in thousands)

During the year ended December 31, 2014, the Company's allowance for doubtful accounts decreased by \$256 and during the year ended December 31, 2013, the Company's allowance for doubtful accounts decreased by \$1,898.

The decrease in 2014 and 2013 was primarily due to improved collections associated with completion of the change of control process and accumulation of payment history associated with clinics acquired in connection with the FMC acquisition in 2012.

(4) Other Receivables

Other receivables comprise the following as of December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Supplier rebates and other nontrade receivables	\$ 4,458	3,339
Medicare bad debt claims	8,215	7,784
	<u>\$ 12,673</u>	<u>11,123</u>

(5) Property and Equipment

Property and equipment at December 31, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Leasehold improvements	\$ 51,619	42,749
Medical equipment	31,931	25,739
Furniture and fixtures	7,363	6,473
Computer software and equipment	10,798	9,181
Automobiles	12	12
Construction in progress	4,901	7,238
	106,624	91,392
Less accumulated depreciation	<u>(43,447)</u>	<u>(31,585)</u>
	<u>\$ 63,177</u>	<u>59,807</u>

Depreciation expense related to property and equipment was \$13,233 and \$11,616 for the years ended December 31, 2014 and 2013, respectively.

DIALYSIS HOLDCO, LLC
(A Wholly Owned Subsidiary of Dialysis Parent, LLC)

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(Dollars in thousands)

(6) Goodwill and Intangible Assets

	<u>Total</u>
Balance at December 31, 2012	\$ 220,908
FMC Acquisition	<u>12,929</u>
Balance at December 31, 2013	233,837
No activity	<u>—</u>
Balance at December 31, 2014	<u><u>\$ 233,837</u></u>

In 2013, the Company recorded \$13,634 of goodwill related to the New York clinic acquired from FMC. The remaining change in goodwill of \$705 relates to the finalization of purchase accounting associated with clinics acquired in 2012.

The Company's separately identifiable intangible assets, which consist of noncompetition agreements and the trade name, are as follows at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Trade names	\$ 10,450	10,450
Noncompete agreements and other intangibles net of accumulated amortization of \$15,721 and \$10,471, respectively	<u>24,060</u>	<u>29,251</u>
Net	<u><u>\$ 34,510</u></u>	<u><u>39,701</u></u>

Included in noncompete agreements and other intangibles are indefinite-lived intangibles of \$349 and \$154 at December 31, 2014 and 2013, respectively.

Separately identifiable intangible assets amortization expense was \$5,385 and \$5,531 for the years ended December 31, 2014 and 2013, respectively. Estimated amortization expense for each of the next five years and thereafter is as follows:

	<u>Amount</u>
Year ending December 31:	
2015	\$ 5,114
2016	4,731
2017	4,185
2018	3,398
2019	2,498
Thereafter	3,785

DIALYSIS HOLDCO, LLC
(A Wholly Owned Subsidiary of Dialysis Parent, LLC)

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(Dollars in thousands)

(7) Debt and Related Interest Rate Swap Agreements

Debt consisted of the following as of December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Term loan facility (1 st Lien) , bearing interest at a variable rate (4.50% and 5.25% at December 31, 2014 and 2013, respectively)	\$ 358,200	235,568
Term loan facility (2 nd Lien) , bearing interest at a variable rate (7.75% and 9.75% December 31, 2014 and 2013, respectively)	160,000	113,000
Other	<u>2,910</u>	<u>972</u>
Total debt principal outstanding	521,110	349,540
Less discount on long-term debt	<u>(2,836)</u>	<u>(3,448)</u>
Total debt	518,274	346,092
Less current portion	<u>(4,474)</u>	<u>(2,594)</u>
Total long-term debt	<u>\$ 513,800</u>	<u>343,498</u>

(a) Credit Agreement

DSI Renal entered into a credit agreement dated March 30, 2012 (Credit Agreement) totaling \$193 million with a group of financial institutions. On August 16, 2013, DSI amended its Credit Agreement. The term loan was paid in full and a 2013 senior credit facility was initiated. The amended senior credit facility was \$280 million, which included a \$227 million term loan, a \$40 million revolving facility, and a \$13 million delayed draw term loan. The term loan and delayed draw term loan bore interest at Libor plus 4.25%, with a 1% Libor floor. The revolving credit facility bore interest at Libor plus 4.25%. No amounts were outstanding under the revolving credit facility at December 31, 2013.

On December 18, 2013, DSI borrowed \$9.1 million on the delayed draw term loan.

On April 24, 2014, DSI entered into a new Credit Agreement. The 2013 senior credit facility was paid in full and a new senior credit facility was entered into. The new Credit Agreement (1st Lien) is \$400 million, which includes a \$360 million term loan and a \$40 million revolving facility. The 1st Lien bears interest at Libor plus 3.50%, with a 1% Libor floor. The revolving credit facility bears interest at Libor plus 3.50%. No amounts were outstanding under the revolving credit facility at December 31, 2014.

DIALYSIS HOLDCO, LLC
(A Wholly Owned Subsidiary of Dialysis Parent, LLC)

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(Dollars in thousands)

The \$360 million term loan (1st Lien) facility amortizes as follows and has a final maturity of April 23, 2021:

Year 1	\$ 2,700,000
Year 2	3,600,000
Year 3	3,600,000
Year 4	3,600,000
Year 5	3,600,000
Year 6	3,600,000
Year 7	339,300,000

The Company has guaranteed all of DSI Renal's obligations under the Credit Agreements. DSI Renal's obligations under the Credit Agreements are secured by a pledge of the assets of DSI Renal and of the equity interests DSI Renal holds in its joint ventures. The Credit Agreements includes financial covenants that are customary and are based on the amount outstanding and duration of the agreement.

(b) Senior Subordinated Loan Agreement

On March 30, 2012, DSI Renal issued \$57 million in senior subordinated notes.

On August 16, 2013, the senior subordinated loan was paid in full and a 2013 credit facility was initiated. The 2013 credit agreement was \$120 million and included a \$113 million term loan, and a \$7 million delayed draw term loan which expired December 31, 2013. The 2013 credit facility bore interest at Libor plus 8.50%, with a 1.25% Libor floor.

On April 24, 2014, the 2013 credit facility was paid in full and a new credit facility was entered into. The new credit agreement is a Term Loan (2nd Lien) of \$160 million and bears interest at Libor plus 6.75%, with a 1% Libor floor.

The \$160 million term loan facility does not amortize and will be paid in full at maturity on October 22, 2021.

A portion of the proceeds from the 1st Lien and 2nd Lien were used to pay a \$185 million distribution to Parent, and Parent distributed the \$185 million to its members.

(c) Interest Rate Swap Agreements

On June 12, 2012, DSI Renal entered into interest rate swap agreements to hedge the interest rate risk on \$66.3 million of its term loan. Under these interest rate swap agreements, DSI Renal will exchange variable rate interest payments based on \$66.3 million notional principal amount through March 2015. The LIBOR interest rate on the notional amount of \$66.3 million is fixed at 1.645%. The changes in cash flows under these agreements are expected to offset the changes in interest rate payments attributable to fluctuations in LIBOR. DSI Renal determined that this cash flow hedge was

DIALYSIS HOLDCO, LLC
(A Wholly Owned Subsidiary of Dialysis Parent, LLC)

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(Dollars in thousands)

effective. In connection with the amendment of the Credit Agreement, the Company reevaluated the effectiveness and determined that the cash flow hedge continued to be effective. Accordingly, no gain or loss has been reflected in the accompanying consolidated statements of income and comprehensive income and the related changes in fair value have been included in accumulated other comprehensive income as a component of member's equity. The estimated fair value represents the theoretical exit cost the Company would have to pay to transfer the obligations to a market participant with similar credit risk. The interest rate swap agreements are classified within Level 2 of the valuation hierarchy. The fair value of a financial instrument is the amount at which the instrument could be exchanged in an orderly transaction between market participants to sell the asset or transfer the liability. In accordance with FASB ASC Topic 820, *Fair Value Measurement*, the Company uses fair value measurements based on quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2), or unobservable inputs for assets or liabilities (Level 3), depending on the nature of the item being valued. The fair value of the swap liability was \$23 and \$110 at December 31, 2014 and 2013, respectively, and is included in other long-term liabilities.

(d) Maturities of Debt

The aggregate scheduled maturities of long-term debt at December 31, 2014 are as follows:

2015	\$	4,474
2016		4,293
2017		4,306
2018		4,069
2019		3,768
2020		3,600
Thereafter		<u>496,600</u>
	\$	<u><u>521,110</u></u>

DIALYSIS HOLDCO, LLC
(A Wholly Owned Subsidiary of Dialysis Parent, LLC)

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(Dollars in thousands)

(8) Income Taxes

Significant components of the provision for income taxes for the years ended December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Current:		
Federal	\$ 3,841	2,604
State and local	709	899
	<u>4,550</u>	<u>3,503</u>
Deferred:		
Federal	5,899	7,402
State and local	471	726
	<u>6,370</u>	<u>8,128</u>
Provision for income taxes	<u>\$ 10,920</u>	<u>11,631</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

DIALYSIS HOLDCO, LLC
(A Wholly Owned Subsidiary of Dialysis Parent, LLC)

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(Dollars in thousands)

The tax effects of temporary differences that give rise to deferred tax assets and liabilities at December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Deferred tax assets:		
Transaction costs	\$ 2,995	3,203
Accrued compensation and benefits	1,576	1,529
Net operating loss and other	—	2
Accrued expenses and other current liabilities	2,093	1,504
Intangible assets amortization	2,447	2,146
State depreciation	377	339
Interest rate swaps	9	42
Bad debts	279	678
Total deferred tax assets	<u>9,776</u>	<u>9,443</u>
Deferred tax liabilities:		
Goodwill amortization	(13,175)	(9,102)
Property and equipment depreciation	(3,244)	(3,415)
Partnership income/basis	(4,926)	(3,300)
Deferred financing costs	(1,505)	(330)
Total deferred tax liability	<u>(22,850)</u>	<u>(16,147)</u>
Net deferred tax (liability) asset	<u>\$ (13,074)</u>	<u>(6,704)</u>

FASB ASC Topic 740, *Income Taxes*, requires the Company to record a valuation allowance when it is “more likely than not that some portion or all of the deferred tax assets will not be realized.” Based upon the Company’s results of operations, and its expected profitability in future years, the Company concluded that all of its net deferred tax assets will be fully realized.

The Company’s significant rate reconciling items relate to state taxes, net of federal benefits, impact of noncontrolling interests, and certain fixed asset basis differences on assets utilized by the joint ventures due to financial statement presentation as compared to the effect on the income tax returns prepared.

DIALYSIS HOLDCO, LLC
(A Wholly Owned Subsidiary of Dialysis Parent, LLC)

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(Dollars in thousands)

(9) Operating Leases

DSI Renal rents office space and space for its dialysis facilities under lease agreements that are classified as operating leases for financial statement purposes. Lease agreements range from 7 to 20 years and frequently include renewal options for 3 to 5 years. DSI Renal's leases are primarily for buildings and equipment. At December 31, 2014, future minimum rental payments for noncancelable operating leases with terms of 1 year or more consisted of the following:

2015	\$	15,383
2016		13,525
2017		11,722
2018		10,816
2019		9,293
Thereafter		42,183
	\$	<u>102,922</u>

Certain leases of DSI Renal contain escalating payments and are recorded on a straight-line basis. Building rent expense was \$17,151 and \$16,463 for the years ended December 31, 2014 and 2013, respectively. Equipment rent expense was \$893 and \$1,048 for the years ended December 31, 2014 and 2013, respectively.

(10) Related-Party Transactions

The Company recorded \$4,751 and \$3,139 in management fee expense payable to owners of the Company for the years ended December 31, 2014 and 2013, respectively, which are recorded in general and administrative expense. For the year ended December 31, 2013, the Company paid owners of the Company \$3,000 in transaction fees and recorded \$1,815 as deferred financing costs and \$1,185 as transaction and integration expense. No transaction fees were paid to owners for the year ended December 31, 2014.

(11) Employee Benefits Plan

Defined-Contribution Plan

The Company has a qualified defined-contribution plan covering substantially all employees that permit participants to make voluntary contributions up to the maximum Internal Revenue Service (IRS) deferral. Employees over 21 years of age are eligible to make deferral contributions and matching discretionary contributions are made after the employee completes 1 year of service. The Company pays all general and administrative expenses of the plan and makes a discretionary matching contribution on behalf of each employee up to 50% of the first 6% of elective deferral. The Company expensed contributions relating to the plan totaling \$1,494 and \$1,326 for the years ended December 31, 2014 and 2013, respectively.

DIALYSIS HOLDCO, LLC
(A Wholly Owned Subsidiary of Dialysis Parent, LLC)

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(Dollars in thousands)

(12) Commitments and Contingencies

From time to time, the Company is party to or may be threatened with litigation, claims, or assessments arising in the ordinary course of business. Management regularly analyzes current information including, as applicable, the Company's defenses and insurance coverages and, as necessary, provides accruals for probable liabilities for the eventual disposition of these matters.

The Company, like other healthcare providers, conducts its operations under intense government regulation and scrutiny. The Company must comply with regulations that relate to or govern the safety and efficacy of medical products and supplies, the operation of dialysis clinics, and environmental and occupational health and safety. The Company must also comply with the Anti-Kickback Statute, the False Claims Act, the Stark Statute, and other federal and state fraud and abuse laws. Applicable laws or regulations may be amended, or enforcement agencies or courts may make interpretations that differ from the Company or the manner in which it conducts its business. Enforcement has become a high priority for the federal government and some states. In addition, the provisions of the False Claims Act authorizing payment of a portion of any recovery to the party bringing the suit encourage private plaintiffs to commence "whistle blower" actions. By virtue of this regulatory environment, the Company's business activities and practices are subject to extensive review by regulatory authorities and private parties, and continuing audits, investigative demands, subpoenas, other inquiries, claims, and litigation relating to the Company's compliance with applicable laws and regulations. The Company may not always be aware that an inquiry or action has begun, particularly in the case of "whistle blower" actions, which are initially filed under court seal.

As of December 31, 2014, DSI Renal operated 88 facilities throughout the United States of America. In such a decentralized system, it is often difficult to maintain the desired level of oversight and control over its employees. The Company relies upon its management structure, regulatory, and legal resources, and the effective operation of its compliance program to direct, manage, and monitor the activities of its employees. The Company may identify instances where employees, deliberately or inadvertently, have submitted inadequate or false billings. The actions of such persons may subject the Company to liability under the Anti-Kickback Statute, the Stark Statute, and the False Claims Act, among other laws.

Physicians, hospitals, and other participants in the healthcare industry are also subject to a large number of lawsuits alleging professional negligence, malpractice, product liability, worker's compensation, or related claims, many of which involve large claims and significant defense costs. The Company is subject to these suits due to the nature of the business and expects that those types of lawsuits may occur and continue. Although the Company maintains insurance at a level, which it believes to be prudent, it cannot assure that the coverage limits will be adequate or that insurance will cover all asserted claims. A successful claim against the Company in excess of insurance coverage could have a material adverse effect upon the Company and the results of its operations. Any claims, regardless of their merit or eventual outcome, could have a material adverse effect on the Company's reputation and business.

DIALYSIS HOLDCO, LLC
(A Wholly Owned Subsidiary of Dialysis Parent, LLC)

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(Dollars in thousands)

DSI Renal engages practicing board-certified nephrologists to serve as medical directors for its centers. Medical directors are responsible for the administration and monitoring of the Company's patient care policies, including patient education, administration of dialysis treatment, development programs, and assessment of all patients. DSI Renal pays medical director fees that are consistent with the fair market value of the required supervisory services. Such medical director agreements typically have a term of 7 to 10 years, with renewal options of 2 or 3 years. As of December 31, 2014, estimated commitments for medical director fees for 2015 are \$9,045 and over the remaining lives of the agreements are \$30,916.



U.S. RENAL CARE, INC. AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2014 and 2013

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 3100
717 North Harwood Street
Dallas, TX 75201-6585

Independent Auditors' Report

The Board of Directors
U.S. Renal Care, Inc.:

We have audited the accompanying consolidated financial statements of U.S. Renal Care, Inc. and subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations, changes in equity, and cash flows for the years then ended and the related notes to the consolidated 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 U.S. generally accepted accounting principles; 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. 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 from 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 auditors' 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, the consolidated financial statements referred to above present fairly in all material respects, the financial position of U.S. Renal Care, Inc. and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Dallas, Texas
May 28, 2015

U.S. RENAL CARE, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2014 and 2013

Assets	2014	2013
Cash and cash equivalents	\$ 60,289,420	45,946,996
Accounts receivable, net of allowances of \$31,293,746 and \$16,612,315	113,440,182	94,398,379
Inventories	6,111,260	14,671,116
Other receivables	32,868,284	29,551,325
Deferred tax asset	3,774,158	12,634,908
Other current assets	7,003,218	5,757,898
Total current assets	223,486,522	202,960,622
Property and equipment, net	119,868,834	108,217,337
Investments in unconsolidated affiliates	20,966,855	10,526,186
Amortizable intangibles, net	60,120,062	73,743,730
Other intangibles	11,894,000	11,894,000
Goodwill	1,264,142,972	1,174,682,640
Other long-term assets	1,868,019	2,686,098
Total assets	\$ 1,702,347,264	1,584,710,613
Liabilities and Equity		
Accounts payable	\$ 12,150,843	11,712,032
Accrued expenses	55,040,083	82,428,237
Current portion of long-term debt and capital lease obligations	11,220,967	13,284,079
Total current liabilities	78,411,893	107,424,348
Long-term debt and capital lease obligations, net of current portion	1,227,219,914	914,727,944
Other long-term liabilities	1,658,327	4,078,921
Deferred tax liability	22,238,894	22,938,503
Total liabilities	1,329,529,028	1,049,169,716
Commitments and contingencies		
U.S. Renal Care, Inc. equity:		
Common stock (\$0.01 par value. Authorized shares 100; issued and outstanding 100 shares)	1	1
Additional paid-in capital	83,146,633	346,429,171
Retained earnings (accumulated deficit)	29,632,250	(19,020,074)
Total U.S. Renal Care, Inc. stockholders' equity	112,778,884	327,409,098
Noncontrolling interests (including redeemable interests with redemption values of \$255,931,876 and \$224,106,533)	260,039,352	208,131,799
Total equity	372,818,236	535,540,897
Total liabilities and equity	\$ 1,702,347,264	1,584,710,613

See accompanying notes to consolidated financial statements.

U.S. RENAL CARE, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Net operating revenues:		
Net operating revenues before provision for doubtful accounts	\$ 696,463,435	462,729,184
Less provision for doubtful accounts	<u>23,800,473</u>	<u>12,107,483</u>
Net operating revenues	<u>672,662,962</u>	<u>450,621,701</u>
Operating expenses:		
Patient care costs	389,112,529	271,868,473
General and administrative	45,551,867	40,570,436
Legal cost/settlement	1,091,008	67,449
Transaction costs	3,510,148	5,288,139
Depreciation and amortization	41,478,591	34,495,949
Equity in earnings of unconsolidated affiliates	<u>(1,958,815)</u>	<u>(423,219)</u>
Total operating expenses	<u>478,785,328</u>	<u>351,867,227</u>
Operating income	193,877,634	98,754,474
Interest expense, net	69,104,556	47,194,835
Loss on early retirement of debt	<u>—</u>	<u>20,085,618</u>
Income before income taxes	124,773,078	31,474,021
Income tax provision	<u>30,772,535</u>	<u>4,856,516</u>
Net income	94,000,543	26,617,505
Less net income attributable to noncontrolling interests	<u>45,348,219</u>	<u>27,046,423</u>
Net income (loss) attributable to U.S. Renal Care, Inc.	<u>\$ 48,652,324</u>	<u>(428,918)</u>

See accompanying notes to consolidated financial statements.

U.S. RENAL CARE, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

Years ended December 31, 2014 and 2013

	Common stock		Additional paid-in capital	Retained earnings/ (accumulated deficit)	Total	Noncontrolling interest	Total
	Shares	Amount					
Balance at December 31, 2012	100	\$ 1	188,396,314	(18,591,156)	169,805,159	102,735,540	272,540,699
Dividend to Parent	—	—	(4,179,375)	—	(4,179,375)	—	(4,179,375)
Contribution from Parent	—	—	165,451,192	—	165,451,192	—	165,451,192
Class B Unit expense	—	—	1,453,569	—	1,453,569	—	1,453,569
Capital contribution by noncontrolling interests	—	—	—	—	—	1,226,184	1,226,184
Distributions to noncontrolling interests	—	—	—	—	—	(24,441,236)	(24,441,236)
Noncontrolling interest acquired in purchase business combinations	—	—	—	—	—	115,125,850	115,125,850
Exercise of noncontrolling interest put options	—	—	(4,692,529)	—	(4,692,529)	(13,560,962)	(18,253,491)
Net income	—	—	—	(428,918)	(428,918)	27,046,423	26,617,505
Balance at December 31, 2013	100	1	346,429,171	(19,020,074)	327,409,098	208,131,799	535,540,897
Dividend to Parent	—	—	(264,999,074)	—	(264,999,074)	—	(264,999,074)
Class B Unit expense	—	—	1,964,486	—	1,964,486	—	1,964,486
Capital contribution by noncontrolling interests	—	—	—	—	—	3,334,859	3,334,859
Distributions to noncontrolling interests	—	—	—	—	—	(38,451,610)	(38,451,610)
Noncontrolling interest acquired in purchase business combinations	—	—	—	—	—	46,667,000	46,667,000
Exercise of noncontrolling interest put options	—	—	(250,761)	—	(250,761)	(6,335,873)	(6,586,634)
Sales and disposals of noncontrolling interests	—	—	2,811	—	2,811	1,344,958	1,347,769
Net income	—	—	—	48,652,324	48,652,324	45,348,219	94,000,543
Balance at December 31, 2014	100	\$ 1	83,146,633	29,632,250	112,778,884	260,039,352	372,818,236

See accompanying notes to consolidated financial statements.

U.S. RENAL CARE, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Net income	\$ 94,000,543	26,617,505
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	41,478,591	34,495,949
Amortization of debt issuance costs	4,933,377	3,707,493
Lease agreement intangible amortization included in rent	340,698	(125,005)
Provision for doubtful accounts	23,800,473	12,107,483
Equity in earnings of unconsolidated affiliates, net of distributions received	(1,050,815)	(423,219)
Deferred income taxes	10,450,972	(6,079,225)
Stock compensation expense	1,964,486	1,453,569
Net (gain) loss on disposals	(895,409)	39,889
Loss on early retirement of debt	—	20,085,618
Changes in operating assets and liabilities, net of effect of acquisitions and divestitures:		
Accounts receivable	(41,591,743)	(13,602,734)
Inventories	8,685,147	(7,781,336)
Other receivables	(3,656,363)	(5,767,150)
Other current assets	(1,166,953)	(515,979)
Other long-term assets	861,716	41,274
Accounts payable and accrued expenses	(16,081,327)	22,839,044
Other long-term liabilities	(2,420,594)	(1,054,934)
Net cash provided by operating activities	<u>119,652,799</u>	<u>86,038,242</u>
Cash flows from investing activities:		
Acquisitions, net of cash acquired	(70,174,178)	(429,134,348)
Proceeds from sales of property and equipment	634,780	17,266,743
Additions of property and equipment, net	(31,807,859)	(18,068,137)
Purchase of noncontrolling interests	(15,375,000)	(22,730,950)
Proceeds from sales of businesses and noncontrolling interest, net	2,711,488	—
Net cash used in investing activities	<u>(114,010,769)</u>	<u>(452,666,692)</u>
Cash flows from financing activities:		
Proceeds from long-term debt borrowings	325,000,000	796,950,000
Payments on long-term debt and related-party notes payable	(9,002,973)	(514,380,241)
Deferred financing costs	(5,576,478)	(28,089,941)
Proceeds from capital leases	142,000	1,954,875
Capital lease payments	(1,746,330)	(1,962,174)
Equity contribution from Parent	—	165,451,192
Contributions from noncontrolling interests	3,334,859	1,226,184
Distributions to noncontrolling interests	(38,451,610)	(24,441,236)
Dividends paid to Parent	(264,999,074)	(4,179,375)
Net cash provided by financing activities	<u>8,700,394</u>	<u>392,529,284</u>
Net increase in cash and cash equivalents	14,342,424	25,900,834
Cash and cash equivalents at beginning of year	45,946,996	20,046,162
Cash and cash equivalents at end of year	\$ <u>60,289,420</u>	<u>45,946,996</u>

U.S. RENAL CARE, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Supplemental cash flow information:		
Cash paid for interest	\$ 64,626,269	42,670,081
Cash paid for taxes	12,240,315	10,638,360

See accompanying notes to consolidated financial statements.

U.S. RENAL CARE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(1) Organization and Significant Accounting Policies

(a) *Organization and Business*

U.S. Renal Care, Inc. (the Company) was formed in June 2000 and provides dialysis services to patients who suffer from chronic kidney failure, also known as end stage renal disease (ESRD). ESRD is the stage of advanced kidney impairment that requires continual dialysis treatments, or a kidney transplant, to sustain life. Patients suffering from ESRD generally require dialysis three times per week for the rest of their lives. The Company primarily provides these services through the operation of outpatient kidney dialysis clinics. As of December 31, 2014, the Company operated 176 outpatient dialysis clinics in Texas, Arkansas, Georgia, Maryland, New Jersey, Ohio, Pennsylvania, Virginia, South Carolina, New York, Oklahoma, Illinois, Missouri, California, Florida, New Mexico, Oregon, Wyoming, Alaska and the Territory of Guam; and the Company provided management services to 9 dialysis programs in California, Georgia, New York, and Massachusetts. In addition to its outpatient dialysis center operations, as of December 31, 2014, the Company provides acute dialysis services through contractual relationships with hospitals and dialysis to patients in their homes. The Company also has a noncontrolling interest in 9 outpatient dialysis clinics.

Pursuant to an Agreement and Plan of Merger (the 2012 Transaction), Rangers Renal Intermediate, Inc. (the Parent) acquired Rangers Renal Holdings GP LLC (the General Partner) and in turn, is the general partner of Rangers Renal Holdings LP (Holdings) and holds a nominal interest in Holdings with the limited partners comprised of affiliates of Leonard Green & Partners, L.P. (Leonard Green), Cressey and Company, L.P. (Cressey), SV Life Sciences, L.P. (SVLS) and members of the Company's management. Rangers Renal Intermediate Holdings, Inc. (Intermediate Holdings) is a wholly owned subsidiary of Holdings and in turn, wholly owns the Parent.

(b) *Principles of Consolidation*

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned and majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

(c) *Use of Estimates*

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities, at the date of the consolidated financial statements, as well as the reported amounts of revenues and expenses during the reporting period.

Although actual results in subsequent periods will differ from these estimates, such estimates are developed based upon the best information available to management and management's best judgments at the time made. The most significant estimates and assumptions involve revenue recognition, provisions for uncollectible accounts, determination of the fair value of assets and liabilities acquired, impairments and valuation adjustments, and accounting for income taxes.

U.S. RENAL CARE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(d) Cash and Cash Equivalents

Cash includes cash and highly liquid investments with a maturity of ninety days or less at date of purchase. Cash and cash equivalents at times may exceed the FDIC limits. The Company believes no significant concentration of credit risk exists with respect to these cash investments.

(e) Accounts Receivable and Allowance for Doubtful Accounts

Substantially all of the Company's accounts receivable are related to providing healthcare services to its patients and are due from the Medicare program, state Medicaid programs, managed care health plans, commercial insurance companies and individual patients. The estimated provision for doubtful accounts is recorded to the extent it is probable that a portion or all of a patient balance will not be collected. The Company considers a number of factors in evaluating the collectibility of accounts receivable including the age of the accounts, collection patterns and any ongoing disputes with payors.

(f) Amounts Due from Third-Party Payors

The amount due from third-party payors, which is included in other receivables, represents balances owed to the Company by the Medicare program for reimbursable bad debts related to Medicare beneficiaries. These reimbursements are part of the Company's annual cost report filings and as such, the actual payments may be delayed or subsequently adjusted pending review and audit by the Medicare program fiscal intermediaries.

(g) Amounts Due from Drug Rebates

The amount due from drug rebates, which is included in other receivables, represents balances owed to the Company by various pharmaceutical vendors. During 2014 and 2013, the Company had incentive contracts that reduced the invoice price based upon volume purchased. This incentive was payable to the Company on a quarterly basis.

(h) Inventories

Inventories consist primarily of pharmaceuticals and dialysis-related supplies and are stated at the lower of cost or market. Cost is determined using the first-in, first-out method. Market is determined on the basis of estimated realizable values.

(i) Property and Equipment

Property and equipment is carried at cost less accumulated depreciation. Property under capital lease agreements is stated at the present value of minimum lease payments less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets or the term of the lease as appropriate. The general range of useful lives is as follows:

Buildings	39 years
Leasehold improvements	Life of lease
Furniture and equipment	5 years
Computers	3 years

U.S. RENAL CARE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

Capital lease assets are amortized over the shorter of the lease term or the estimated useful life of the asset. Property and equipment acquired in acquisitions is recorded at fair value. The cost of improvements that extend asset lives is capitalized. Other repairs and maintenance charges are expensed as incurred.

Fully depreciated assets are retained in property and depreciation accounts until they are removed from service. When sold or otherwise disposed of, assets and related depreciation are removed from the accounts and the net amounts, less proceeds from disposal, are included in income.

(j) *Concentration of Credit Risk*

The Company's primary concentration of credit risk exists within accounts receivable, which consist of amounts owed by various governmental agencies, insurance companies, and private patients. Receivables from the Medicare program and various state Medicaid programs were approximately 54% and 56% of gross accounts receivable at December 31, 2014 and 2013. Concentration of credit risk relating to remaining accounts receivable is limited to some extent by the diversity of the number of patients and payors.

(k) *Amortizable Intangible Assets*

Amortizable intangible assets and liabilities include noncompetition and similar agreements, lease agreements, deferred debt issuance costs, and certain trade names. Noncompetition and similar agreements are amortized over the terms (three to ten years) of the agreements using the straight-line method. Lease agreement intangibles for favorable and unfavorable leases are amortized on a straight-line basis over the term of the lease.

Deferred debt issuance costs are amortized using the effective interest method as an adjustment to interest expense over the term of the related debt. In the case of debt repayments prior to the end of the term, the Company adjusts the amount of deferred financing costs at the date of repayment, which is included in interest expense.

(l) *Goodwill and Indefinite-Lived Intangible Assets*

Goodwill is recorded when the consideration paid for an acquisition exceeds the fair value of net tangible assets and identifiable intangible assets acquired. Goodwill and other indefinite-lived intangible assets are not amortized, but are instead tested for impairment at least annually. The annual evaluation for 2014 and 2013 resulted in no impairment charges.

(m) *Impairment of Long-Lived and Amortizable Intangible Assets*

The Company evaluates long lived-assets and amortizable intangibles for impairment whenever events or changes in circumstances indicate that an asset's carrying amount may not be recoverable or the useful life has changed. When undiscounted future cash flows are not expected to be sufficient to recover an asset's carrying amount, a loss is recognized, and the asset is written down to its fair value.

U.S. RENAL CARE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(n) *Fair Value of Financial Instruments*

U.S. GAAP describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value. The three levels of inputs are as follows:

- Level 1 – Quoted prices in active markets for identical assets and liabilities.
- Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities.

At December 31, 2014 and 2013, the carrying amount of the senior secured credit facility was \$1,231.4 million and \$915.4 million as compared to fair values of \$1,231.5 million and \$914.0 million, respectively. The estimates of the fair value of the Company's senior secured credit facility are based upon a discounted present value analysis of future cash flows and are considered to be Level 3 financial measures. Due to the existing uncertainty in the capital and credit markets, the actual rates that would be obtained to borrow under similar conditions could materially differ from the estimates the Company has used.

For the Company's other financial instruments, including the Company's cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses the Company estimates the carrying amounts approximate fair value due to their short-term maturity.

(o) *Net Operating Revenues and Accounts Receivable*

Net operating revenue before provision for doubtful accounts is recognized in the period services are provided. Revenue consists primarily of reimbursements from Medicare and commercial health plans for dialysis services provided to patients. A usual and customary fee schedule is maintained for the Company's dialysis treatment and other patient services. However, actual collected revenue is normally at a discount to this fee schedule. Contractual adjustments represent the differences between amounts billed for services and amounts paid by third-party payors.

The Company's dialysis facilities are certified to participate in the Medicare program. Revenues reimbursed by the Medicare program are recognized primarily on a prospective payment system for dialysis services (ESRD Program). Prior to January 2011, dialysis providers operating under the Medicare ESRD program received a composite payment rate to cover routine dialysis treatments and certain supplies. There was a separate payment for laboratory testing and pharmaceuticals such as EPO, vitamin D and iron supplements that were not included in the composite rate. However, beginning January 2011, Medicare implemented a new payment system in which most ESRD payments are now made under a single bundled payment rate that provides for an annual inflation adjustment based upon a market basket index, less a productivity improvement factor. The bundled payment rate provides a fixed rate to encompass goods and services provided during the dialysis treatment, including pharmaceuticals that were historically separately reimbursed to the dialysis

U.S. RENAL CARE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

providers. Most lab services that were previously paid directly to laboratories are also included in the new payment bundle. Now, as a result of the bundled payment system, the dialysis providers are at risk of variations in pharmaceutical utilization since reimbursement is set at a fixed average reimbursement rate.

On April 1, 2014, the President signed P.L. 113-93, the Protecting Access to Medicare Act (PAMA), which included several provisions concerning dialysis reimbursement. PAMA: (a) Delays inclusion of oral drugs in the bundle from 2016 until 2024; (b) mitigates the effects of previously promulgated rate reductions by eliminating them after 2015, and substitutes a payment policy in which the market basket adjustments (less productivity adjustments) that would ordinarily be applied to dialysis payments will be reduced by 1.25% in 2016 and 2017, and by 1% in 2018; (c) requires CMS in 2016 to establish a process, through promulgation of annual payment rules, for determining when a product is no longer an oral-only drug, and for including new injectable and intravenous products into the bundled payment; (d) establishes quality measures related to conditions treated by oral-only drugs; and (e) beginning with cost reports for 2012, requires audits of cost reports as required by MedPAC.

The *Budget Control Act of 2011*, enacted August 2, 2011, requires, among other things, mandatory reductions in federal spending, also known as "sequestration." Based on that legislation and absent further legislation or regulation, Medicare claims for dates of service on or after April 1, 2013, have been, and will continue to be, reduced by 2%. The claims payment adjustment is applied to all claims after determining coinsurance, any applicable deductible, and any applicable Medicare Secondary Payment adjustments.

Medicare presently pays 80% of the established payment rates for dialysis treatment furnished to patients. The remaining 20% may be paid by Medicaid if the patient is eligible, from private insurance funds, or from the patient's personal funds. If there is no secondary payor to cover the remaining 20%, and if the Company demonstrates prescribed collection efforts, Medicare may reimburse the Company for part of that balance as part of the Company's annual cost report filings subject to individual center Medicare economics. As a result, billing and collection of Medicare bad debt claims are often delayed significantly, and final payments are subject to audit.

On November 2, 2012, CMS finalized a rule affecting ESRD Medicare bad debt beginning in 2012, as required by the Middle Class Tax Extension and Job Creation Act of 2012. Medicare bad debt for ESRD facilities will be reduced from 100% of allowable Medicare bad debt in Fiscal Year (FY) 2012 to 88% in FY 2013, 76% in FY 2014, and 65% in FY 2015 and subsequent years. (United States fiscal years run from October 1 through September 30.) Beginning with the portion of cost reporting periods beginning on or after January 1, 2013, however, the Agency lifted the prior limit on ESRD facility bad debt payments that capped bad debt recovery by the facility's reasonable costs.

Medicaid programs are administered by state governments and are partially funded by the federal government. In addition to providing primary coverage for patients whose income and assets fall below state defined levels and are otherwise insured, Medicaid serves as a supplemental insurance program for the co-insurance portion not paid by Medicare. Medicaid reimbursement varies by state but is typically reimbursed pursuant to a prospective payment system for dialysis services rendered.

U.S. RENAL CARE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

Revenues associated with commercial health plans are estimated based upon patient-specific contractual terms between the Company and health plans for the patients with which the Company has formal agreements, upon commercial health plan coverage terms if known, or otherwise upon historical collection experience adjusted for refund and payment adjustment trends. Commercial revenue recognition involves substantial judgment. With several commercial insurers, the Company has multiple contracts with varying payment arrangements, and these contracts may include only a subset of the Company's dialysis centers. In addition, for services provided by noncontracted centers, final collection may require specific negotiation of a payment amount. Generally, payments for a dialysis treatment from commercial payors are greater than the corresponding amounts received from Medicare and Medicaid.

(p) Share-Based Compensation

The Company recognizes and accounts for stock-based compensation in accordance with the fair value recognition of Accounting Standards Codification (ASC) Topic 718, *Stock Compensation*. In conjunction with the 2012 Transaction, the Parent issued Class B Incentive Units to certain members of Company management as incentive compensation.

The Company granted 0 and 3,285,214 Class B Incentive Units during the years ended December 31, 2014 and 2013, respectively.

The fair value of each Incentive Unit grant is estimated on the date of grant and is determined from a valuation that used the Monte Carlo Simulation model. The weighted average fair value of incentive units granted for the years ended December 31, 2014 and 2013 was calculated based on the following assumptions: risk-free interest rate of 1.1%, expected volatility of 19.4% for the market value of the Company, expected life of five years, and expected dividend yield of 0%. Expected volatility was derived using data drawn from public dialysis company comparables. The Company currently estimates forfeitures based on the length of service of the employees to the Company and historical termination rates of the employee groups who have been granted Incentive Units. The weighted average fair value of the Incentive Units granted was \$363.26 for the year ended December 31, 2013. The weighted average fair value of unvested Incentive Units was \$378.24 and \$374.65 for the years ended December 31, 2014 and 2013, respectively.

(q) Noncontrolling Interest

Noncontrolling interest is required to be included in the equity section of the balance sheet and disclosed on the face of the consolidated statement of operations for the amounts of consolidated net income attributable to the consolidated parent and the noncontrolling interest.

Consolidated income (loss) is reduced (increased) by the proportionate amount of income or loss accruing to noncontrolling interests. Noncontrolling interest represents the equity interest of third-party owners in consolidated entities that are not wholly owned.

U.S. RENAL CARE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(r) *Investments in Unconsolidated Affiliates*

In connection with the acquisition of Alaska in 2014 (see note 3(a)) and ASA in 2013 (see note 3(c)), the Company acquired noncontrolling investments in nine dialysis businesses, all of which are accounted for under the equity method of accounting. The investments in unconsolidated businesses were approximately \$21.0 million at December 31, 2014.

(s) *Income Taxes*

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to the differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years 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 when it is more likely than not that the deferred tax assets will not be realized.

The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority. There were no unrecognized tax benefits as of December 31, 2014 and 2013.

The Company is subject to income taxes in the U.S. federal jurisdiction and various states. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. The Company is no longer subject to U.S. federal, state, or local income tax examinations by tax authorities for the years before 2011. In 2013, the IRS commenced its examination of the 2011 U.S. Corporation Income Tax Return of the Company's subsidiary, Pine Bluff Dialysis, Inc. which resulted in additional tax payments of \$20,268 for a depreciation related adjustment. In 2014, the IRS commenced its examination of the Company's 2011 U.S. Corporation Income Tax Return which resulted in no additional tax payment. In 2014, the IRS commenced its examination of the 2011 U.S. Return of Partnership Income for the Company's subsidiary USRC of SE Arkansas, LLC and has agreed to a proposed income adjustment of \$309,363 related to dividend income. The audit has not closed and no tax payments have been made. In January 2015, the IRS commenced its examination of the 2012 U.S. Return of Partnership Income of the Company's subsidiary Renal Centers of Guam, LLC and the examination is still ongoing.

The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses for all periods presented.

The Company's consolidated LLC and L.P. subsidiaries do not incur federal income taxes. Instead, their earnings and losses are included in the returns of, and taxed directly to, the members and partners of these subsidiaries.

U.S. RENAL CARE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(t) Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for the Company on January 1, 2018, with early adoption permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on the consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor determined the effect of the standard on its ongoing financial reporting.

(u) Reclassifications

Certain reclassifications have been made to the 2013 consolidated financial statement balances to conform with the 2014 presentation. Such reclassifications have no effect on earnings or stockholders' equity.

(2) Fixed Assets

At December 31, 2014 and 2013, property and equipment consists of the following:

	2014	2013
Facility equipment, furniture, and information systems	\$ 75,700,150	62,122,053
Land and buildings	2,490,000	3,809,744
Leasehold improvements	82,253,885	61,905,998
New center construction in progress	2,727,118	3,572,808
	163,171,153	131,410,603
Less accumulated depreciation and amortization	(43,302,319)	(23,193,266)
	<u>\$ 119,868,834</u>	<u>108,217,337</u>
	2014	2013
Depreciation and amortization expense on property and equipment	\$ 22,186,124	17,855,970

Net book value of equipment under capital leases at December 31, 2014 and 2013 was as follows:

	2014	2013
Equipment	\$ 11,107,485	13,236,730
Less accumulated depreciation	(4,764,059)	(2,787,214)
	<u>\$ 6,343,426</u>	<u>10,449,516</u>

U.S. RENAL CARE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(3) Acquisition and Dispositions

(a) Alaska

On September 15, 2014, the Company acquired a 58.5% interest in two joint ventures providing outpatient dialysis services in Alaska: Liberty Dialysis – Alaska, LLC (Liberty) and AD Partners II, LLC (AD Partners) for \$72.1 million, subject to adjustments for working capital. Both Liberty and AD Partners each wholly own one clinic. Additionally, AD Partners owns a noncontrolling interest in four clinics. The acquisition was funded by additional borrowings under the Company's Tranche B-2 First Lien Term Loans (see note 6(a)). The results of operations for these entities are included in the Company's financial statements beginning September 15, 2014.

The acquisition of Alaska was accounted for under the acquisition method of accounting prescribed in ASC 805. The purchase price was allocated to the assets, liabilities, and noncontrolling interests based on the estimated fair values on the date of acquisition, with the remainder allocated to goodwill. Goodwill in the amount of \$93.5 million was recognized in 2014 for the acquisition. Approximately \$63.1 million of the goodwill recorded as a result of the acquisition is deductible for tax purposes. The Company's allocation of the purchase price has been completed based upon information that is currently available to the Company.

A summary of the estimated fair values of the assets and liabilities assumed in the acquisition are as follows (in thousands):

Estimated fair value of net tangible assets acquired:

Cash	\$	2,334
Patient receivables		6,327
Other current assets		246
Property and equipment		4,677
Other assets		10,577
Current liabilities		(2,788)
Long-term debt		(910)
Other long-term liabilities		(423)
Noncontrolling interests		(46,667)
Net tangible assets acquired		(26,627)
Intangible assets acquired		5,240
Goodwill		93,492
	\$	<u>72,105</u>

(b) Innovative Health Services (IHS)

The Company entered into a Contribution and Asset Purchase Agreement (the IHS Agreement), dated November 12, 2014, with IHS of Georgia, LLC, IHS of Massachusetts, LLC, and IHS of New York, Inc. (collectively, the IHS entities), which are wholly owned subsidiaries of IHS Dialysis, Inc. The IHS entities are engaged in the business of providing hemodialysis, peritoneal dialysis and related services through the operation of five freestanding dialysis centers in Georgia, Massachusetts, and

U.S. RENAL CARE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

New York. The closing date of the IHS Agreement is dependent upon the state of New York and Massachusetts approving the Certificate of Need. Upon the closing date of the IHS Agreement, the Company will purchase 70% of the interest in the IHS entities for approximately \$16.8 million, subject to adjustments for working capital. Approximately, \$15.9 million of the purchase price is currently held in escrow and included in other receivables in the accompanying consolidated balance sheet as of December 31, 2014.

On December 1, 2014, the Company entered into management agreements with each of the IHS entities. The management fees earned by the Company are included in net operating revenues in the accompanying consolidated statement of operations for the year ended December 31, 2014.

(c) *Ambulatory Services of America, Inc.*

On August 12, 2013, the Company acquired all the outstanding common shares of ASA for approximately \$640.0 million, subject to adjustments for working capital and other items as noted below. Through its operating subsidiary Renal Services of America, Inc., which did business as Innovative Dialysis Systems (IDS), ASA owned, operated and managed facilities providing dialysis services. Through its operating subsidiary Radiation Oncology Services of America, Inc. (ROSA), ASA owned, operated and managed facilities providing radiation oncology services. ASA had operations in California, Florida, Georgia, Maryland, Michigan, Missouri, New Mexico, Ohio, Oregon, Pennsylvania, Texas, Virginia, Wyoming and the Territory of Guam.

The acquisition of ASA was valued at approximately \$655.6 million, subject to adjustments for working capital, indebtedness, certain specified liabilities and certain tax savings. The funds necessary to consummate the transaction were approximately \$683.9 million, including \$446.3 million to pay then current stockholders and equity award holders, approximately \$209.3 million to repay certain existing indebtedness, and approximately \$28.3 million to pay related fees and expenses. The ASA acquisition was financed by:

- borrowings by the Company of \$495.0 million in new senior secured credit facilities;
- a capital contribution by Parent of \$165.5 million; and
- approximately \$23.4 million of cash on hand.

The acquisition of ASA was accounted for under the acquisition method of accounting prescribed in ASC 805. The purchase price was allocated to the assets, liabilities, and noncontrolling interests based on the estimated fair values on the date of acquisition, with the remainder allocated to goodwill. Goodwill in the amount of \$641.6 million was recognized in 2013 for the acquisition.

The Company reduced goodwill by approximately \$4.2 million in 2014 due to measurement period adjustments primarily related to patient accounts receivable and credit balance liabilities.

U.S. RENAL CARE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

A summary of the estimated fair values of the assets and liabilities assumed in the acquisition are as follows (in thousands):

Estimated fair value of net tangible assets acquired:

Cash	\$ 17,808
Patient receivables	41,719
Assets held for sale	17,267
Other current assets	19,573
Property and equipment	44,735
Other assets	12,273
Current liabilities	(35,629)
Long-term debt	(201,809)
Deferred tax liability	(33,078)
Other long-term liabilities	(3,781)
Noncontrolling interests	(111,042)
Net tangible assets acquired	(231,964)
Intangible assets acquired	40,804
Goodwill	637,473
	<u>\$ 446,313</u>

On August 15, 2013, subsequent to the acquisition of ASA, the Company completed the disposition of 100% of the net assets of ROSA for \$19.0 million with \$1.7 million of net indebtedness assumed by the buyer, resulting in no gain or loss.

As a result of the change in control, 7 put rights of joint ventures owned by ASA were exercised subsequent to the acquisition of ASA due to tag along rights pursuant to the respective joint venture agreement. As a result, the Company paid approximately \$21.1 million and signed a \$5 million promissory note obligation (see note 6) for additional ownership in each of the 7 joint ventures. Additional paid-in capital in the amount of \$14.3 million was recorded as a result of the exercise.

(4) Noncontrolling Interests

The Company engages in the purchase and sale of equity interests with respect to its consolidated subsidiaries that do not result in a change of control. These transactions are accounted for as equity transactions, as they are undertaken among the Company, its consolidated subsidiaries, and noncontrolling interests, and their cash flow effect is classified within financing activities.

As of December 31, 2014, the Company was the majority owner in 142 joint ventures. Of the noncontrolling interests in those 142 joint ventures, 83 have put rights generally at fair value as defined in the agreement that are either currently exercisable or become exercisable at various future dates. The carrying amount of these redeemable noncontrolling interests totaled \$152.9 million and \$138.8 million as compared to redemption values of \$255.9 million and \$224.1 million at December 31, 2014 and 2013, respectively. The redemption value is calculated at the current value of the put payment that would be required to redeem the interest if the put is exercised regardless of whether such interest is currently exercisable. As of December 31,

U.S. RENAL CARE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

2014, \$97.8 million of put rights are currently exercisable and the remaining \$158.1 million generally become exercisable over the next three to five years.

(5) Intangible Assets

At December 31, 2014 and 2013, amortizable intangible assets consisted of the following:

	<u>2014</u>	<u>2013</u>
Noncompetition agreements	\$ 74,905,745	69,681,850
Lease agreements	1,117,228	1,019,935
Deferred debt issuance costs	32,415,502	26,809,518
Trade name	<u>1,582,000</u>	<u>1,582,000</u>
	110,020,475	99,093,303
Less accumulated amortization	<u>(49,900,413)</u>	<u>(25,349,573)</u>
Net amortizable intangible assets	<u>\$ 60,120,062</u>	<u>73,743,730</u>

Amortizable intangible liabilities, which are included in other long-term liabilities, consisted of lease agreements as follows:

	<u>2014</u>	<u>2013</u>
Lease agreements	\$ 3,753,000	3,753,000
Less accumulated amortization	<u>(1,568,696)</u>	<u>(354,979)</u>
Net amortizable intangible liabilities	<u>\$ 2,184,304</u>	<u>3,398,021</u>

Amortization of intangible assets and liabilities over the next five years is as follows:

	<u>Noncompetition agreements</u>	<u>Deferred debt issuance costs</u>	<u>Lease agreements, net</u>	<u>Tradename</u>
2015	\$ 13,645,186	5,245,250	446,616	316,400
2016	8,697,338	5,245,250	404,473	316,400
2017	6,136,312	5,245,250	326,825	226,400
2018	1,723,812	5,033,906	162,810	90,933
2019	1,666,959	3,454,872	131,937	—

The fair value of the identifiable intangibles acquired and the amount of goodwill recorded as a result of acquisitions are determined based upon independent third-party valuations and the Company's estimates. Amortization expense for the Company's intangible assets relates to the value associated with the noncompete, lease agreements, the Dialysis Corporation of America, Inc. (DCA) and ASA trade names. The noncompete intangible assets are amortized over the term of the noncompete agreements executed in connection with the acquisition transactions or the medical agreements entered into with certain physicians

U.S. RENAL CARE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

and the lease agreement intangibles are amortized over the term of the lease. The DCA and ASA trade names are amortized over their estimated remaining useful life of five years. Other intangibles of \$11.9 million consist of the U.S. Renal Care, Inc. trade name valued at \$7.4 million and Medicare licenses valued at \$4.5 million, both of which have indefinite lives.

Changes in the value of goodwill were as follows:

	<u>2014</u>	<u>2013</u>
Balance at January 1	\$ 1,174,682,640	528,701,611
The Alaska transaction	93,491,896	—
The ASA transaction	(4,159,963)	641,633,160
Other acquisitions	396,025	4,347,869
Other adjustments	(267,626)	—
Balance at December 31	\$ <u>1,264,142,972</u>	<u>1,174,682,640</u>

During 2014 and 2013, the Company paid \$0.4 million and \$1.1 million for other facility acquisitions resulting in \$0.4 million and \$4.3 million of goodwill recorded as a result of the acquisitions.

(6) Long-Term Debt

At December 31, 2014 and 2013, long-term debt and capital lease obligations consisted of the following:

	<u>2014</u>	<u>2013</u>
Senior secured credit facility:		
Term loan 1	\$ 926,354,652	635,357,625
Term loan 2	120,000,000	120,000,000
Incremental term loan	185,000,000	160,000,000
Other notes payable	—	5,000,000
Capital lease obligations	<u>7,086,229</u>	<u>7,654,398</u>
	1,238,440,881	928,012,023
Less current portion	<u>(11,220,967)</u>	<u>(13,284,079)</u>
	\$ <u>1,227,219,914</u>	<u>914,727,944</u>

(a) Term loan 1

On August 12, 2013, in connection with the acquisition of ASA, the Company entered into an Amendment Agreement to amend and restate the Company's Senior Secured Loans entered into on July 3, 2012 (as amended, the First Amended Agreement). The First Amended Agreement consisted of: (a) a \$636.95 million first lien Term Loan (First Lien Term Loan 1) and (b) a \$60 million Revolving Loan (Revolver) (collectively First Lien Loans).

U.S. RENAL CARE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

On December 19, 2013, the Company entered into a Second Amendment to amend and restate the Company's Senior Secured Loans entered into on July 3, 2012 and amended on August 12, 2013 (as amended, the Second Amended Agreement). The Second Amended Agreement, among other things, allowed the Company (a) to reduce the interest rate with respect to the First Lien Term Loan 1, and (b) to borrow new term loans in the amount of \$636.95 million (Tranche B-2 First Lien Term Loans). The proceeds obtained under the Tranche B-2 First Lien Term Loans, together with cash on hand from the Company, were utilized to fund the repayment in full of the First Lien Term Loan 1 and the prepayment premium on the First Lien Term Loan 1 in the amount of approximately \$6.4 million.

On March 28, 2014, in connection with the 2014 Dividend (see note 9), the Company entered into an Amendment Agreement to amend and restate the Company's Senior Secured Loans entered into on July 3, 2012 and amended on August 12, 2013 and December 19, 2013 (as amended, the Third Amended Agreement). The Third Amended Agreement, among other things, allowed the Company (a) to borrow an additional \$225 million of Tranche B-2 First Lien Term Loans, and (b) to borrow an additional \$25 million of Incremental Second Lien Term Loans (see note 6(c)). The proceeds obtained under the Third Amended Agreement, together with cash on hand, were utilized to fund the 2014 Dividend of \$255 million and to pay related fees and expenses.

On September 15, 2014, in connection with the acquisition of Alaska (see note 3(a)), the Company entered into an Amendment Agreement to amend and restate the Company's Senior Secured Loans entered into on July 3, 2012 and amended on August 12, 2013, December 19, 2013, and March 28, 2014 (as amended, the Fourth Amended Agreement). The Fourth Amended Agreement, among other things, allowed the Company to borrow an additional \$75 million of Tranche B-2 First Lien Term Loans. The proceeds obtained under the Fourth Amended Agreement were utilized to fund the Alaska acquisition (see note 3(a)).

Borrowings under the Tranche B-2 First Lien Term Loans bear interest based upon a spread in excess of LIBOR or the U.S. prime rate, as the benchmark, as adjusted, with a LIBOR floor of 1%. The Revolver also provides for an annual unused commitment fee of 0.50% based upon the average revolving credit commitment less outstanding borrowings on the Revolver and letters of credit, as adjusted based upon the Company's leverage ratio. As of December 31, 2014 and 2013, borrowings under the Tranche B-2 First Lien Term Loans and Revolver bore interest at 4.25% and 4.5%, respectively.

The Tranche B-2 First Lien Term Loans require quarterly principal payments of \$2,345,202 in each year from 2014 through 2019 with the balance of \$884,141,022 due on the maturity date of July 3, 2019.

At December 31, 2014, \$57.4 million of commitments were unused and available under the Revolver due to Letters of Credit in the amount of \$2.6 million issued in relation to the Company's workers' compensation insurance coverage. The Revolver matures on July 3, 2018.

(b) Term loan 2

On July 3, 2012, in connection with the 2012 Transaction, the Company entered into a \$120 million senior secured second lien term loan (Second Lien Term Loan 2).

U.S. RENAL CARE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

Borrowings under the Second Lien Term Loan 2 bear interest based upon a spread in excess of LIBOR or the U.S. prime rate, as the benchmark, as adjusted, with a LIBOR floor of 1.25%. The Second Lien Term Loan 2 requires a one-time payment of \$120 million due on the maturity date of January 3, 2020. As of December 31, 2014 and 2013, borrowings under the Second Lien Term Loan 2 bore interest at 10.25%.

(c) Incremental term loan

On August 12, 2013, in connection with the acquisition of ASA (see note 3(c)), the Company entered into a \$160 million second lien Term Loan (Incremental Second Lien Term Loan).

On March 28, 2014, in connection with the Third Amended Agreement, the Company borrowed an additional \$25 million of Incremental Second Lien Term Loans (see note 6(a)).

Borrowings under the Incremental Second Lien Term Loan bear interest based upon a spread in excess of LIBOR or the U.S. prime rate, as the benchmark, as adjusted, with a LIBOR floor of 1%. The Incremental Second Lien Term Loan requires a one-time payment of \$185 million due on the maturity date of January 3, 2020. As of December 31, 2014 and 2013, borrowings under the Incremental Second Lien Term Loan bore interest at 8.5%.

(d) Holdco loan

On August 12, 2013, the Company received a \$165.5 million capital contribution from Parent. The capital contribution came from the net proceeds of a third party loan (Holdco Loan) entered into by Intermediate Holdings, the holder of 100% of Parent's equity interests. The capital contribution of \$165.5 million was used to pay a portion of the ASA purchase price. On October 31, 2014 and 2013 the Company paid a dividend of approximately \$10.0 million and \$4.2 million, respectively to Parent (and Parent thereafter paid a dividend of approximately \$10.0 million and \$4.2 million, respectively to Intermediate Holdings). The proceeds of this dividend were used by Intermediate Holdings to pay interest on the Holdco Loan. The Company is not an obligor nor a guarantor of the Holdco Loan, and it is not obligated to pay interest or principal on the Holdco Loan. Intermediate Holdings has, at its sole discretion, the opportunity to elect, at least five business days prior to the interest payment date, (a) to pay interest entirely in cash, (b) to pay interest entirely in kind by capitalizing and adding it to the then outstanding principal amount of the loan, or (c) to pay 50% of the interest in cash and the remaining 50% in kind by capitalizing and adding it to the then outstanding principal amount of the loan. Interest paid in cash is payable at a rate of 10.75% per annum and interest payable in kind by capitalizing and adding such capitalized interest to the then outstanding principal amount on the applicable interest payment date is payable at a rate of 11.75% per annum. The Holdco Loan is due on July 4, 2020. The Company and the Parent are not contractually obligated to provide Intermediate Holdings with cash to satisfy its obligations pursuant to the Holdco Loan. Intermediate Holdings may utilize its investment in Parent or investments it may subsequently make to satisfy the amounts owed pursuant to the Holdco Loan.

U.S. RENAL CARE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

If Intermediate Holdings chose to pay the interest on the Holdco Loan in cash through maturity, the dividend obligations of the Company would consist of the following:

2015	\$	19,633,736
2016		19,687,528
2017		19,633,737
2018		19,633,737
2019		19,633,737
Thereafter		13,340,183

At December 31, 2014, \$19.9 million of commitments were unused and available under the Holdco Loan.

(e) *Prepayments*

Commencing with the fiscal year ended December 31, 2013, the Company is required to prepay its outstanding Tranche B-2 First Lien Term Loans, Second Lien Term Loan, and Incremental Second Lien Term Loan with 50% of excess cash flow as defined in the credit agreement, as adjusted based on the Company's leverage ratio. The Company is also required to prepay senior secured loan balances with: (a) 100% of the proceeds of certain asset sales or the proceeds received from casualty event settlements that are not reinvested or permitted pursuant to the terms of the credit agreement and are in excess of \$1,000,000 individually or \$5,000,000 in the aggregate, and (b) 100% of the proceeds of indebtedness that is incurred and not permitted pursuant to the credit agreement. Following satisfaction of any prepayment under the Tranche B-2 First Lien Term Loans, the Company is required to prepay the Second Lien Term Loan and Incremental Second Lien Term Loan balances with 100% of the proceeds of asset sales or the proceeds received from a casualty event settlement that are not reinvested or permitted pursuant to the terms of the credit agreement.

At December 31, 2014 and 2013, the Company had no prepayments required under these provisions.

(f) *Guarantors*

The Tranche B-2 Term Loans, Revolver, Second Lien Term Loan and Incremental Second Lien Term Loan are guaranteed, on a joint and several basis, by each of the Company's subsidiaries, subject to certain exceptions. Borrowings under the credit agreements are secured by substantially all of the Company's and its subsidiaries' assets, including accounts receivable, inventory, and fixed assets not subject to permitted capital leases. The liens securing the Second Lien Term Loan and Incremental Second Lien Term Loan are junior and subordinated to the liens securing the Tranche B-2 First Lien Term Loans and Revolver. The Tranche B-2 First Lien Term Loans, Second Lien Term Loan and Incremental Second Lien Term Loan agreements include various events of default and contain certain restrictions on the operations of the business, including restrictions on certain cash payments, including capital expenditures, investments and the payment of dividends. These loan agreements also include customary covenants and events of defaults. The Revolver also includes a covenant pertaining to total debt leverage, which is only in effect if the Company has more than \$10 million outstanding pursuant to the Revolver.

U.S. RENAL CARE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(g) Covenants

The Company believes it is in compliance with all covenants under the Tranche B-2 First Lien Term Loans, Second Lien Term Loan and Incremental Second Lien Term Loan agreements and has met all debt payment obligations.

(h) Other notes payable

The Company had one promissory note obligation owed to a noncontrolling interest holder in one of its subsidiaries. The note obligation was in an original amount of \$5.0 million and bore interest at 3.25%. The principal balance of \$5.0 million and all accrued interest of \$131,354 was repaid in full on June 30, 2014.

Scheduled maturities of long-term debt and capital lease obligations at December 31, 2014 were as follows:

	Long-term debt	Capital lease obligations
2015	\$ 9,380,807	2,237,360
2016	9,380,807	1,398,316
2017	9,380,807	1,293,256
2018	9,380,807	1,105,112
2019	888,831,424	866,070
Thereafter	305,000,000	1,576,170
	<u>\$ 1,231,354,652</u>	<u>8,476,284</u>
Less interest portion at 5.040%–8.561%		<u>(1,390,055)</u>
Total		<u>\$ 7,086,229</u>

(7) Income Taxes

Income tax expense (benefit) consisted of the following:

	2014	2013
Current:		
Federal	\$ 12,589,599	6,379,993
Foreign	—	396,176
State	8,074,387	4,159,572
Deferred:		
Federal	11,162,514	(4,145,092)
Foreign	—	—
State	(1,053,965)	(1,934,133)
	<u>\$ 30,772,535</u>	<u>4,856,516</u>

U.S. RENAL CARE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

The difference between the expected tax expense based on the federal statutory rate of 35% is primarily state income taxes, income attributable to noncontrolling interest and an increase in the valuation allowance for deferred tax assets related to a foreign tax credit.

Deferred tax assets and liabilities arising from temporary differences were as follows:

	<u>2014</u>	<u>2013</u>
Deferred tax assets:		
Accrued expenses and other liabilities for financial accounting purposes not currently deductible	\$ 9,877,172	16,031,542
Net operating loss carryforwards and contribution limitation	7,062,794	5,855,357
Alternative minimum and foreign tax credits	3,219,851	1,889,851
Flow through entities	669,564	11,177,567
Capital gain (loss)	18,819,340	19,195,931
Other	54,626	1,843,679
Total deferred tax assets	39,703,347	55,993,927
Valuation allowance	(20,261,724)	(19,691,880)
Total deferred tax assets, net	19,441,623	36,302,047
Deferred tax liabilities:		
Property and equipment and intangibles, principally due to differences in depreciation and amortization	(19,066,572)	(21,798,707)
Goodwill	(10,943,854)	(20,676,029)
Purchase accounting valuation adjustments	(4,826,058)	—
Other	(3,069,875)	(4,130,906)
Total deferred tax liabilities	(37,906,359)	(46,605,642)
Net deferred tax assets (liabilities)	\$ (18,464,736)	(10,303,595)

The Company recorded a valuation allowance of \$20.3 million on deferred tax assets related to capital losses and a foreign tax credit at December 31, 2014 as the Company does not believe it is more likely than not that this deferred tax asset will be realized.

(8) Equity

(a) Partner's Equity

The sole shareholder of the Company is the Parent which holds 100 shares of \$0.01 par value common stock in the Company. The Parent is a wholly owned subsidiary of Intermediate Holdings, which in turn is a wholly owned subsidiary of Holdings.

Holdings equity includes Class A Units and Holdings may grant incentive units as compensation to employees of the Company. Incentive unit means any award of Class B-1, Class B-2, Class B-3, or Class B-4 Units in Holdings granted to an eligible person under the 2012 Incentive Plan (see note 8(b)).

U.S. RENAL CARE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

Distributions to Holdings shareholders in the form of cash or other assets shall be distributed in the following order and priority:

First, each holder of Class A Units in proportion to and to the extent of the Class A Unreturned Capital Value, which is \$1,000 for each Class A Unit issued and outstanding, reduced by the aggregate amount of all distributions made by Holdings in respect of such Class A Units.

Second, after each holder of Class A Units has received aggregate distributions equal to 100% of its Class A capital value, to each holder of Class A and Class B-1 Units in proportion to the number of Class A and Class B-1 Units held by each such holder, until each holder of Class A Units has received aggregate distributions equal to 150% of such holder's Class A capital value.

Third, after each holder of Class A Units has received aggregate distributions equal to 150% of its Class A capital value, to each holder of Class A, Class B-1, and Class B-2 Units in proportion to the number of Class A, Class B-1, and Class B-2 Units held by each such holder, until each holder of Class A Units has received aggregate distributions equal to 200% of such holder's Class A capital value.

Fourth, after each holder of Class A Units has received aggregate distributions equal to 200% of its Class A capital value, to each holder of Class A, Class B-1, Class B-2, and Class B-3 Units in proportion to the number of Class A, Class B-1, Class B-2, and Class B-3 Units held by each such holder, until each holder of Class A Units has received aggregate distributions equal to 250% of such holder's Class A capital value.

Thereafter, after each holder of Class A Units has received aggregate distributions equal to 250% of its Class A capital value, to each holder of Class A, Class B-1, Class B-2, Class B-3, and Class B-4 Units in proportion to the number of Class A, Class B-1, Class B-2, Class B-3, and Class B-4 Units held by each such holder.

(b) Incentive Equity Plan

Under the 2012 Rangers Renal Holdings Incentive Equity Plan (2012 Incentive Plan), incentive units (Incentive Units) may be granted by Holdings as compensation to employees of the Company and its subsidiaries or others as the Board of Directors of Holdings may determine. The 2012 Incentive Plan is subject to the LP Agreement of Holdings, with applicable terms and provisions of the LP Agreement governing. The 2012 Incentive Plan shall terminate as to future awards ten years after the effective date, or July 3, 2022.

Incentive unit means any award of Class B-1, Class B-2, Class B-3, or Class B-4 Units of Holdings granted to an eligible person under the 2012 Incentive Plan. Incentive Units are granted as compensation with the intention to promote the interests of the Company by providing eligible persons with the opportunity to acquire interest, or otherwise increase their interest, in Holdings as an incentive for them to start employment with or continue in such employment or service to the Company. Recipients do not have to pay for the Incentive Units. All Incentive Units vest 20% annually from the date of grant, over a five-year period, and are initially unvested at the date of grant.

U.S. RENAL CARE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

There is no exercise option or price for the recipient and ultimate vesting is based on the holder's employment with the Company or service capacity to the Company. All Incentive Units unvested and outstanding at the time of a change in control, as defined in the LP Agreement of Holdings, shall automatically become vested Incentive Units. Forfeited or canceled Incentive Units (Forfeited Unit) become eligible for reissuance by Holdings and upon reissuance shall no longer constitute a Forfeited Unit. A total of 30,524.02 Incentive Units were reserved for grant under the 2012 Incentive Plan.

Compensation expense related to the Incentive Units is being recorded on a straight-line basis over the vesting period and are considered contributed capital from the Parent.

The following table summarizes the Incentive Unit transactions from years ended December 31, 2014 and 2013 including the Incentive Units that have vested:

	Class B-1	Class B-2	Class B-3	Class B-4	Total
Unvested at December 31, 2012	14,171.867	4,049.101	6,073.657	4,049.101	28,343.726
Granted	1,642.608	469.316	703.974	469.316	3,285.214
Vested	(2,834.373)	(809.820)	(1,214.731)	(809.820)	(5,668.744)
Forfeited	—	—	—	—	—
Unvested at December 31, 2013	12,980.102	3,708.597	5,562.900	3,708.597	25,960.196
Granted	—	—	—	—	—
Vested	(3,162.895)	(903.683)	(1,355.526)	(903.683)	(6,325.787)
Forfeited	—	—	—	—	—
Unvested at December 31, 2014	<u>9,817.207</u>	<u>2,804.914</u>	<u>4,207.374</u>	<u>2,804.914</u>	<u>19,634.409</u>

The total fair value of outstanding (either vested or unvested) Incentive Units as of December 31, 2014 is approximately \$9 million and is equal to the total compensation expense to be recorded over the vesting period on the Incentive Units. The Company uses the straight-line method to recognize compensation expense over the vesting term of the Incentive Units. The total fair value of Incentive Units vesting and recognized as stock-based compensation expense within general and administrative expenses in the accompanying consolidated statement of operations was approximately \$2.0 million and \$1.5 million for the years ended December 31, 2014 and 2013, respectively.

The remaining unrecognized stock-based compensation expense for Incentive Unit awards granted as of December 31, 2014 was approximately \$4.9 million, and the weighted average period of time over which this cost will be recognized is approximately 2.62 years.

(9) Shareholder Dividend

On March 28, 2014, the Board of Directors of the General Partner authorized the payment of a dividend (2014 Dividend) by the Company in the amount of \$255 million to the Parent, which then paid a dividend in the amount of \$255 million to Intermediate Holdings, which then paid a dividend in the amount of \$250 million to Holdings. Intermediate Holdings then paid \$5 million for certain fees payable in connection with borrowings under the Holdco Loan (see note 6(d)). Holdings then distributed \$250 million in cash to

U.S. RENAL CARE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

Holdings shareholders in the order and distribution discussed in note 8(a). The 2014 Dividend was paid using: (a) proceeds from an additional \$225 million borrowed under the Tranche B-2 First Lien Term Loans (see note 6(a)), (b) proceeds from an additional \$25 million borrowed under the Incremental Second Lien Term Loan (see note 6(c)), and (c) approximately \$9 million of cash on hand.

(10) Related-Party Transactions

Participation in the Medicare ESRD program requires that treatment at a dialysis center be under the general supervision of a director who is a physician. The Company has engaged physicians or groups of physicians to serve as medical directors for each of its centers. The Company has contracts with approximately 211 individual physicians and physician groups to provide medical director services. The compensation of medical directors is negotiated individually and depends in general on local factors such as competition, the professional qualifications of the physician, their experience, their tasks, and the workload at the clinic.

An ESRD patient generally seeks treatment at a dialysis center near his or her home and at which his or her treating nephrologist has practice privileges. Additionally, many physicians prefer to have their patients treated at dialysis centers where they or other members of their practice supervise the overall care provided as medical directors to the centers. As a result, and as is typical in the dialysis industry, the primary referral source for most of the Company's centers is often the physician or physician group providing medical director services to the center.

The Company's medical director agreements generally include covenants not to compete. Also, when the Company acquires a center from one or more physicians, or where one or more physicians owns interests in centers as co-owners with the Company, these physicians have agreed to refrain from owning interests in competing centers within a defined geographic area for various time periods. These agreements not to compete restrict the physicians from owning or providing medical director services to other dialysis centers. Most of these agreements not to compete continue for a period of time beyond expiration of the corresponding medical director agreements.

The Company leases space for 40 of its centers in which physicians or employees hold ownership interests, and subleases space to referring physicians at 26 centers. Future minimum lease payments payable under these leases is approximately \$29.4 million at December 31, 2014, exclusive of maintenance and other costs, and is subject to escalation. Total lease payments under these leases were approximately \$4.9 million and \$4.7 million for years ended December 31, 2014 and 2013, respectively. On June 21, 2010, the Company entered into a ten year corporate office lease agreement with an entity owned by two of its employees. The lease commenced on August 1, 2011. The future lease payments payable under this lease are approximately \$2.5 million. Total lease payments under this lease were approximately \$164,311 and \$127,796 for the years ended December 31, 2014 and 2013, respectively.

The Company's York, Pennsylvania dialysis center is leased from a limited liability partnership in which the Company has a 60% ownership interest with the remaining 40% owned by two doctors one of whom serves as the medical director for that facility. These doctors are also affiliated with the entity that owns a 40% minority ownership in the subsidiary that operates the facility.

The Company's Rosemead, California dialysis center is leased from a limited liability company in which the Company has a 40% ownership interest with the remaining 60% owned by two doctors one of whom serves

U.S. RENAL CARE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

as the medical director for that facility. These doctors are also affiliated with the entity that owns a 20% minority ownership in the subsidiary that operates the facility.

Some referring physicians (including medical directors in some cases) also own equity interests in entities that operate the Company's dialysis centers.

The Company believes that the leases and equity purchases are no less favorable to the Company and no more favorable to such physicians than would have been obtained in arm's-length bargaining between independent parties.

The Company had one promissory note obligation owed a noncontrolling interest holder in one of its subsidiaries that was paid in full during the year ended December 31, 2014 (see note 6(h)).

The Company paid a related party affiliated through common ownership \$959,388 and \$552,890 for the years ended December 31, 2014 and 2013, respectively, for the usage of an airplane.

Larry Jones, President of Innovative Dialysis Systems, a Company subsidiary, has equity ownership in three entities operating dialysis centers in Los Angeles County, California, for which the Company provides management services: Canyon Country Dialysis, LLC; Santa Clarita Kidney Center, Inc.; and The Kidney Care Center of the North Valley, Inc.

A member of the Company's board of directors provides consulting services primarily related to regulatory and reimbursement matters. The total expenses incurred by the Company related to these services were approximately \$233,333 and \$100,000 for the years ended December 31, 2014 and 2013, respectively.

Included in general and administrative expenses for the year ended December 31, 2014 and 2013 are management fees payable to affiliates of Leonard Green, Cressey, and SVLS, in the amount of \$1.5 million.

(11) Legislation, Regulations, and Market Conditions

The Company's dialysis operations are subject to extensive federal, state, and local government regulations. These regulations require the Company to meet various standards relating to, among other things, the operation of dialysis clinics, the provision of quality healthcare for patients, maintenance of proper ownership and records, quality assurance programs, and occupational, health, safety and environmental standards, and the provision of accurate reporting and billing to government and private payment programs. These laws are extremely complex, and in many instances, providers do not have the benefit of significant regulatory or judicial interpretation as to how to interpret and apply these laws and regulations in the normal course of conducting their business. Healthcare providers that do not comply with these laws and regulations may be subject to civil or criminal penalties, the loss of their licenses, or restriction in their ability to participate in various federal and state healthcare programs. The Company endeavors to conduct its business in compliance with applicable laws and regulations.

The Company's dialysis centers are certified (or are pending certification) by the Centers for Medicare and Medicaid Services, as is required for the receipt of Medicare payments, and are licensed and permitted by state authorities.

The Medicare and Medicaid Fraud and Abuse Amendments of 1977, as amended, generally referred to as the "anti-kickback statute," imposes sanctions on those who, among other things, offer, solicit, make or

U.S. RENAL CARE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

receive payments in return for referral of a Medicare or Medicaid patient for treatment. The federal False Claims Act imposes penalties on those who, among other things, knowingly present a false or fraudulent claim for payment to the federal government. Another federal law, commonly referred to as the "Stark Law," prohibits physicians, with certain exceptions, from referring Medicare patients to entities with which the physician has a financial relationship, states have analogous statutes. The Health Insurance Portability and Accountability Act of 1996 (HIPAA), among other things, includes provisions relating to the privacy of medical information and prohibits inducements to patients to select a particular healthcare provider. Congress, states and regulatory agencies continue to consider modifications to federal and state healthcare laws. The Company's dialysis centers are also subject to various state hazardous waste and nonhazardous medical waste disposal laws.

As of December 31, 2014, the Company owned a majority interest in numerous dialysis related joint ventures. In addition to these majority owned joint ventures, the Company also had a minority ownership in nine dialysis related joint ventures. Many of these joint ventures have physicians or physician groups that provide medical director services to the clinics that are owned by these joint venture entities. Some of these same physicians may have a direct or indirect ownership in the joint ventures. Due to the fact that the Company's relationship with its physicians are governed by federal and state anti-kickback statutes, and other applicable law, every effort is made to structure the joint ventures the Company is involved with to satisfy such laws. Although the Company believes it is in compliance with all relevant statutes as it relates to these joint ventures, they are subject to government scrutiny.

Sanctions for violations of these statutes could result in the imposition of significant fines and penalties, repayments for patient services previously billed, expulsion from government healthcare programs, and other civil or criminal penalties. Management believes that the Company is in material compliance with applicable government laws and regulations.

(12) Profit-Sharing Plan

The Company has a savings plan for employees who meet certain criteria that have been established pursuant to the provisions of Section 401(k) of the Internal Revenue Code. The plan allows employees to contribute a defined portion of their compensation on a tax-deferred basis. Since January 1, 2005, the plan allows for defined matching Company contributions for eligible employees. The plan was amended effective January 1, 2006 to allow vesting credit for prior years of service for employees of certain acquired businesses. The Company made matching contributions to the plan of \$1,619,966 and \$1,216,386 for the years ended December 31, 2014 and 2013, respectively.

The Company may also make discretionary profit-sharing contributions to the plan if approved by the board of directors. No such contributions were made in 2014 or 2013.

(13) Commitments and Contingencies

The Company may be subject to claims and suits in the ordinary course of business, including contractual disputes and professional and general liability claims. The Company has obligations to purchase the third-party interests in several of its joint ventures. These obligations are in the form of put provisions in joint venture agreements, and are exercisable at the third-party owners' discretion with some timing limitations. If these put provisions are exercised, the Company would be required to purchase the third-party owners' interests at fair market value (see note 4).

U.S. RENAL CARE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

The Company rents office space, medical facilities, and medical equipment under lease agreements that are classified as operating leases for financial reporting purposes. At December 31, 2014, the future minimum rental payments under noncancelable operating leases with terms of one year or more consist of the following:

2015	\$ 27,296,852
2016	26,838,579
2017	24,795,151
2018	21,021,998
2019	18,703,891
Thereafter	42,394,929

Rent expense was \$28,691,545 and \$19,320,458 for the years ended December 31, 2014 and 2013, respectively.

(14) Subsequent Events

The Company evaluated events subsequent to December 31, 2014 and through May 28, 2015, the date on which the consolidated financial statements were issued.

Rangers Renal Holdings LP
Income Statement
For the Quarter and Year Ending December 31, 2014

	<u>Q4 2014</u>	<u>YTD Q4 2014</u>
Net operating revenue:	-	-
Net Revenue	-	-
Operating expenses:		
Labor expense	-	-
General and administrative	-	-
Other operating expenses	-	-
Total operating expenses	-	-
Non-operating expenses:		
Interest expense	-	-
Legal/Transaction costs	-	-
Depreciation and amortization	-	-
Other non-operating expenses	-	-
Total non-operating expenses	-	-
Net Income before Income Taxes	-	-
Income Taxes	-	-
Net Income	-	-

Rangers Renal Holdings LP
Balance Sheet
December 31, 2014

Assets

Cash	100
A/R, net	-
Other receivables	-
Other current assets	-
Total current assets	<u>100</u>
PPE	-
Accumulated depreciation	-
PP&E, net	<u>-</u>
Goodwill	-
Other intangibles	-
Less: Accumulated amortization	-
Goodwill and other intangibles, net	<u>-</u>
Investment	(62,495,300)
Total Assets	<u>(62,495,200)</u>

Liabilities and Stockholder's Equity

Accounts Payable	-
Other accrued expenses	-
Accrued payroll	-
Current portion of LT debt	-
Total current liabilities	<u>-</u>
Capital leases	-
Long term debt	-
Other liabilities	-
Total long term liabilities	<u>-</u>
Total Liabilities	-
Stockholder's Equity	
Class A Units (\$1,000 par value. Authorized units 164,050.10; issued and outstanding 164,050.10)	187,504,800
Class B-1 Units	-
Class B-2 Units	-
Class B-3 Units	-
Class B-4 Units	-
Additional paid-in capital	(250,000,000)
Other Equity	-
Retained Earnings	-
Stockholder's Equity	<u>(62,495,200)</u>
Total Liabilities and Stockholder's Equity	<u>(62,495,200)</u>