

QUARTERLY REPORT

ORLANDO HEALTH, INC.

Quarter Ended December 31, 2017

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Interim Condensed Consolidated Financial Statements
Consolidated Balance Sheets (in 000's)

	December 31 2017	September 30 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 371,761	\$ 358,845
Assets limited as to use	49,895	38,701
Accounts receivable, less allowance for doubtful accounts	491,332	297,845
Other receivables	72,347	40,033
Inventory	67,438	51,355
Other current assets	48,962	36,690
Total current assets	1,101,735	823,469
Assets limited as to use:		
Debt service and reserve funds held by bond trustee	21,021	43,932
Interest rate swap collateral	13,343	14,258
Designated by board for malpractice self-insurance	45,799	13,428
	80,163	71,618
Less amount required to meet current obligations	(49,895)	(38,701)
	30,268	32,917
Assets held for sale	-	-
Long-term investments - unrestricted	1,595,792	1,185,747
Long-term investments - restricted	170,227	107,651
Investments in related parties	44,801	37,499
Other assets	295,304	268,259
Property and equipment, net	1,862,874	1,301,899
Total assets	<u>\$ 5,101,001</u>	<u>\$ 3,757,441</u>
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 282,396	\$ 256,546
Other current liabilities	144,289	122,718
Current portion of long-term debt	33,459	23,288
Total current liabilities	460,144	402,552
Long-term debt, less current portion	1,267,804	959,404
Accrued malpractice claims	132,350	105,178
Other noncurrent liabilities	114,425	96,935
Total liabilities	1,974,723	1,564,069
Net assets:		
Unrestricted		
Orlando Health, Inc. and Controlled Affiliates	2,920,616	2,018,745
Non-controlling interest in Controlled Affiliates	(1,164)	(878)
Total unrestricted	2,919,452	2,017,867
Temporarily restricted	203,905	174,122
Permanently restricted	2,921	1,383
Total net assets	3,126,278	2,193,372
Total liabilities and net assets	<u>\$ 5,101,001</u>	<u>\$ 3,757,441</u>

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

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Consolidated Statements of Operations and Changes in Net Assets (in 000's)

	Quarter ended December 31	
	2017	2016
Unrestricted revenues and other support		
Net patient service revenue (net of contractual allowances and discounts)	\$ 1,016,864	\$ 666,801
Provision for bad debts	(136,480)	(64,057)
Net patient service revenue less provision for bad debts	880,384	602,744
Other revenue	34,346	29,024
Net assets released from restrictions	1,066	1,142
Total unrestricted revenues and other support	915,796	632,910
Expenses		
Salaries and benefits	473,686	328,745
Supplies and other	294,337	202,764
Professional fees	11,530	9,375
Depreciation and amortization	45,112	30,273
Interest	15,739	10,577
Total expenses	840,404	581,734
Income from operations	75,392	51,176
Non-operating gains and losses		
Investment income (loss)	38,978	(5,279)
Gain on interest rate swap agreements	1,219	14,956
Gain on sale of assets	-	1,935
Non-operating gains and losses, net	40,197	11,612
Excess of revenues, other support, and gains over expenses and losses	115,589	62,788
Deficit (excess) of revenues, other support, and gains over expenses and losses attributed to non-controlling interests	286	(104)
Excess of revenues, other support, and gains over expenses and losses attributed to Orlando Health, Inc. and Controlled Affiliates	115,875	62,684

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

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Consolidated Statements of Operations and Changes in Net Assets (in 000's)(continued)

	Quarter ended December 31	
	2017	2016
Unrestricted net assets		
Excess of revenues, other support and gains over expenses and losses	\$ 115,589	\$ 62,788
Other changes in unrestricted net assets:		
Net assets released from restriction for property and equipment	5,403	-
Non-controlling interests and other changes	780,593	(185)
Increase in unrestricted net assets	901,585	62,603
Temporarily restricted net assets		
Contributions	4,930	6,922
Net assets released from restrictions	(6,455)	(1,142)
Net realized and unrealized gains on investments	1,023	(226)
Other changes	30,285	-
Increase in temporarily restricted net assets	29,783	5,554
Permanently restricted net assets		
Contributions	-	-
Other	1,538	-
Net realized and unrealized gains on investments	-	-
Increase in permanently restricted net assets	1,538	-
Increase in net assets	932,906	68,157
Net assets, beginning of period	2,193,372	1,854,901
Net assets, end of period	<u>\$ 3,126,278</u>	<u>\$ 1,923,058</u>

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

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Consolidated Statements of Cash Flows (in 000's)

	Quarter ended	
	December 31	
	2017	2016
Operating activities		
Change in net assets	\$ 932,906	\$ 68,157
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	45,112	30,273
Change in value of interest rate swap agreements	(1,219)	(14,956)
Net unrealized (gains) losses on investments	(24,915)	12,633
Gain on Sale of Lucerne property	-	(1,935)
Inherent contribution from business combination	(788,141)	-
Restricted contributions and investment income	(5,953)	(6,696)
Changes in operating assets and liabilities:		
Accounts receivable, net	(75,106)	(16,103)
Other operating assets	5,153	(994)
Accounts payable and accrued expenses	(44,397)	(36,682)
Other operating liabilities	17,780	3,633
Net cash provided by operating activities	<u>61,220</u>	<u>37,330</u>
Investing activities		
Purchases of property, equipment and other assets	(70,972)	(26,296)
Increase in assets limited as to use	74,205	43,939
Purchases of trading securities, net of sales	(13,923)	(47,384)
Other investing activities	(12,541)	(2,606)
Net cash used in investing activities	<u>(23,231)</u>	<u>(32,347)</u>
Financing activities		
Refunding and repayments of long-term debt	(31,026)	(20,644)
Restricted contributions and investment income	5,953	6,696
Net cash used in financing activities	<u>(25,073)</u>	<u>(13,948)</u>
Increase (decrease) in cash and cash equivalents	12,916	(8,965)
Cash and cash equivalents at beginning of period	358,845	270,712
Cash and cash equivalents at end of period	<u>\$ 371,761</u>	<u>\$ 261,747</u>

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

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Notes to Interim Consolidated Financial Statements

1. Basis of Presentation

The accompanying unaudited interim consolidated financial statements include the accounts and activity of the Corporation and its Controlled Affiliates. All significant intercompany transactions have been eliminated in consolidation for all periods presented.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information. However, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal and recurring nature. These unaudited interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the years ended September 30, 2017 and 2016.

2. Organization

Orlando Health, Inc. (Orlando Health) and Orlando Health Central, Inc. (Health Central) comprise the Obligated Group. Orlando Health is a tax-exempt organization pursuant to Section 501(c)(3) of the Internal Revenue Code, which controls a diversified healthcare delivery system headquartered in Orlando, Florida. Orlando Health includes the following hospitals operating in Central Florida: Orlando Regional Medical Center (ORMC), Dr. P. Phillips Hospital, Arnold Palmer Hospital for Children (APH), Winnie Palmer Hospital for Women and Babies (WPH), South Seminole Hospital and Health Central Hospital. APH and WPH are jointly referred to as the Arnold Palmer Medical Center (APMC). Health Central includes a hospital and Health Central Park, a skilled nursing facility. Orlando Health also has a home health services division and eight medical residency programs.

Controlled Affiliates are those entities Orlando Health controls as the sole or majority member, sole shareholder, or through board appointment and approval of all major transactions. Controlled Affiliates operate a variety of healthcare-related services, including physician practice groups (Orlando Health Physician Group, Inc., Orlando Physician Network, Inc., Orlando Cancer Center, Inc., Physician Associates, LLC (PAL), ORHI, LLC (ORHI), which operates five imaging centers, a fund-raising organization (Orlando Health Foundation, Inc.) and other healthcare-related services. Healthnet Services, Inc. and its subsidiaries are taxable corporations and are a part of the Controlled Affiliates. The Obligated Group, together with its Controlled Affiliates, is collectively referred to herein as the "System." These consolidated financial statements include the consolidated accounts of Orlando Health, Orlando Health Central, and their Controlled Affiliates. Significant transactions between entities have been eliminated.

Orlando Health has a 50% membership in South Lake Hospital, Inc. (South Lake), a not-for-profit acute care hospital. As Orlando Health does not hold a controlling interest in the accounts of South Lake, those accounts are excluded from the consolidated financial statements.

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Consolidating Balance Sheets as of December 31, 2017 (in 000's)

	Consolidated	Eliminations	Orlando Health Obligated Group	Controlled Affiliates
Assets				
Current Assets:				
Cash and cash equivalents	\$ 371,761	\$ -	\$ 327,544	\$ 44,217
Assets limited as to use	49,895	-	31,471	18,424
Accounts receivable, less allowance for doubtful accounts	491,332	-	310,223	181,109
Other receivables	72,347	(38,336)	64,442	46,241
Inventory	67,438	-	52,338	15,100
Other current assets	48,962	-	36,007	12,955
Total current assets	1,101,735	(38,336)	822,025	318,046
Assets limited as to use:				
Debt service and reserve funds held by bond trustee	21,021	-	12,985	8,036
Interest rate swap collateral	13,343	-	13,343	-
Malpractice self-insurance	45,799	-	13,397	32,402
	80,163	-	39,725	40,438
Less amount required to meet current obligations	(49,895)	-	(31,471)	(18,424)
	30,268	-	8,254	22,014
Long-term investments - unrestricted	1,595,792	-	1,213,990	381,802
Long-term investments - restricted	170,227	-	-	170,227
Investments in related parties	44,801	(56,459)	11,879	89,381
Other assets	295,304	(143,227)	308,254	130,277
Property and equipment, net	1,862,874	-	1,287,422	575,452
Total assets	\$ 5,101,001	\$ (238,022)	\$ 3,651,824	\$ 1,687,199
Liabilities and net assets				
Current Liabilities:				
Accounts Payable and accrued expenses	\$ 282,396	\$ -	\$ 194,274	\$ 88,122
Other current liabilities	144,289	(36,104)	114,963	65,430
Current portion of long-term debt	33,459	-	23,244	10,215
Total current liabilities	460,144	(36,104)	332,481	163,767
Long-term debt less current portion	1,267,804	-	930,478	337,326
Accrued malpractice claims	132,350	-	110,459	21,891
Other noncurrent liabilities	114,425	(36,471)	82,390	68,506
Total liabilities	1,974,723	(72,575)	1,455,808	591,490
Net assets:				
Unrestricted				
Orlando Health, Inc. and Controlled Affiliates	2,920,616	(56,460)	2,032,749	944,327
Noncontrolling interest in Controlled Affiliates	(1,164)	-	-	(1,164)
Total unrestricted	2,919,452	(56,460)	2,032,749	943,163
Temporarily restricted	203,905	(107,991)	162,511	149,385
Permanently restricted	2,921	(996)	756	3,161
Total net assets	3,126,278	(165,447)	2,196,016	1,095,709
Total liabilities and net assets	\$ 5,101,001	\$ (238,022)	\$ 3,651,824	\$ 1,687,199

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

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Consolidating Balance Sheets as of September 30, 2017 (in 000's)

	Consolidated	Eliminations	Orlando Health Obligated Group	Controlled Affiliates
Assets				
Current Assets:				
Cash and cash equivalents	\$ 358,845	\$ -	\$ 340,487	\$ 18,358
Assets limited as to use	38,701	-	38,701	-
Accounts receivable, less allowance for doubtful accounts	297,845	-	269,357	28,488
Other receivables	40,033	(24,766)	47,906	16,893
Inventory	51,355	-	49,261	2,094
Other current assets	36,690	-	36,039	651
Total current assets	823,469	(24,766)	781,751	66,484
Assets limited as to use:				
Debt service and reserve funds held by bond trustee	43,932	-	43,932	-
Interest rate swap collateral	14,258	-	14,258	-
Malpractice self-insurance	13,428	-	13,428	-
	71,618	-	71,618	-
Less amount required to meet current obligations	(38,701)	-	(38,701)	-
	32,917	-	32,917	-
Long-term investments - unrestricted	1,185,747	-	1,185,747	-
Long-term investments - restricted	107,651	-	-	107,651
Investments in related parties	37,499	(55,922)	11,895	81,526
Other assets	268,259	(134,690)	304,778	98,171
Property and equipment, net	1,301,899	-	1,278,887	23,012
Total assets	<u>\$3,757,441</u>	<u>\$ (215,378)</u>	<u>\$ 3,595,975</u>	<u>\$ 376,844</u>
Liabilities and net assets				
Current Liabilities:				
Accounts Payable and accrued expenses	\$ 256,546	\$ -	\$ 224,285	\$ 32,261
Other current liabilities	122,718	(23,684)	118,546	27,856
Current portion of long-term debt	23,288	-	22,004	1,284
Total current liabilities	402,552	(23,684)	364,835	61,401
Long-term debt less current portion	959,404	-	953,712	5,692
Accrued malpractice claims	105,178	-	105,178	-
Other noncurrent liabilities	96,935	(31,057)	81,465	46,527
Total liabilities	1,564,069	(54,741)	1,505,190	113,620
Net assets:				
Unrestricted				
Orlando Health, Inc. and Controlled Affiliates	2,018,745	(55,923)	1,926,066	148,602
Noncontrolling interest in Controlled Affiliates	(878)	-	-	(878)
Total unrestricted	2,017,867	(55,923)	1,926,066	147,724
Temporarily restricted	174,122	(103,718)	163,963	113,877
Permanently restricted	1,383	(996)	756	1,623
Total net assets	2,193,372	(160,637)	2,090,785	263,224
Total liabilities and net assets	<u>\$3,757,441</u>	<u>\$ (215,378)</u>	<u>\$ 3,595,975</u>	<u>\$ 376,844</u>

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

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Consolidating Statements of Operations for the Quarter Ended December 31, 2017 (in 000's)

	Consolidated	Eliminations	Orlando Health Obligated Group	Controlled Affiliates
Unrestricted revenues and other support				
Net patient service revenue	\$ 1,016,864	\$ -	\$ 677,960	\$ 338,904
Provision for bad debts	(136,480)	-	(73,754)	(62,726)
Net patient service revenue less provision for bad debts	880,384	-	604,206	276,178
Other revenue	34,346	(16,030)	29,471	20,905
Net assets released from restrictions	1,066	(1,666)	1,034	1,698
Total unrestricted revenues and other support	915,796	(17,696)	634,711	298,781
Expenses				
Salaries and benefits	473,686	-	265,025	208,661
Supplies and other	294,337	(16,113)	221,144	89,306
Professional fees	11,530	(1,880)	8,713	4,697
Depreciation and amortization	45,112	-	30,024	15,088
Interest	15,739	-	10,368	5,371
Total expenses	840,404	(17,993)	535,274	323,123
Income (loss) from operations	75,392	297	99,437	(24,342)
Nonoperating gains and losses				
Investment loss	38,978	-	28,784	10,194
Gain on interest rate swap agreements	1,219	-	1,219	-
Gain on Sale of Assets	-	-	-	-
Nonoperating gains and losses, net	40,197	-	30,003	10,194
Excess (deficiency) of revenues, other support and gains over expenses and losses	115,589	297	129,440	(14,148)
Plus noncontrolling interest	286	-	-	286
Excess (deficiency) of revenues, other support and gains over expenses and losses attributed to Orlando Health, Inc. and Controlled Affiliates	115,875	297	129,440	(13,862)

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

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Consolidating Statements of Operations for the Quarter Ended December 31, 2016 (in 000's)

	Consolidated	Eliminations	Orlando Health Obligated Group	Controlled Affiliates
Unrestricted revenues and other support				
Net patient service revenue	\$ 666,801	\$ -	\$ 590,013	\$ 76,788
Provision for bad debts	(64,057)	-	(59,012)	(5,045)
Net patient service revenue less provision for bad debts	602,744	-	531,001	71,743
Other revenue	29,024	(14,652)	25,980	17,696
Net assets released from restrictions	1,142	(1,351)	1,142	1,351
Total unrestricted revenues and other support	632,910	(16,003)	558,123	90,790
Expenses				
Salaries and benefits	328,745	-	239,790	88,955
Supplies and other	202,764	(11,923)	192,488	22,199
Professional fees	9,375	(1,574)	8,600	2,349
Depreciation and amortization	30,273	-	28,685	1,588
Interest	10,577	-	10,483	94
Total expenses	581,734	(13,497)	480,046	115,185
Income (loss) from operations	51,176	(2,506)	78,077	(24,395)
Nonoperating gains and losses				
Investment loss	(5,279)	-	(4,679)	(600)
Gain on interest rate swap agreements	14,956	-	14,956	-
Gain on Sale of Assets	1,935	-	1,935	-
Nonoperating gains and losses, net	11,612	-	12,212	(600)
Excess (deficiency) of revenues, other support and gains over expenses and losses	62,788	(2,506)	90,289	(24,995)
Less noncontrolling interest	(104)	-	-	(104)
Excess (deficiency) of revenues, other support and gains over expenses and losses attributed to Orlando Health, Inc. and Controlled Affiliates	62,684	(2,506)	90,289	(25,099)

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

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Operating and Statistical Information

Sources of Patient Revenues and Utilization of Patient Services

The table below lists the approximate percentage of gross patient charges for hospital services by payor category and patient services utilization statistics for the Obligated Group.

	Quarter ended December 31	
	2017	2016
<i>Payor Mix</i>		
Medicare (includes HMO's)	33.5%	34.3%
Medicaid (includes HMO's)	20.2%	18.1%
Managed Care	35.2%	34.8%
Commercial	3.7%	3.3%
Self Pay	5.6%	7.2%
Other	1.8%	2.3%
	100.0%	100.0%
<i>Average Licensed Beds</i>	2,048	1,921
<i>Average Beds in Service</i>	1,920	1,873
<i>Average Daily Census</i>		
Adult	1,144	1,048
Newborn and neonatal	204	190
	1,347	1,238
<i>Admissions</i>		
Adult	23,335	21,067
Newborn and neonatal	4,021	3,832
	27,356	24,899
<i>Observation Cases</i>		
Adult and neonatal	7,279	7,660
<i>Patient Days</i>		
Adult	105,224	96,433
Newborn and neonatal	18,727	17,495
	123,951	113,928
<i>Average Length of Stay (days)</i>		
Adult	4.5	4.6
Newborn and neonatal	4.7	4.6
<i>Percent Occupancy (beds in service)</i>		
Adult	70.1	65.2
Newborn and neonatal	71.1	71.8
<i>Outpatient Visits</i>		
Outpatient Visits	172,921	167,866
Outpatient Surgery Cases	7,078	6,793
Total Outpatient Visits	179,999	174,659
<i>Emergency Dept. Patients Treated</i>	78,166	78,246
<i>Case Mix Index</i>		
Medicare only	1.84	1.85
All payors	1.75	1.65
Source: Records of the Corporation		

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Management's Discussion and Analysis

The following discussion and analysis is on a consolidated basis which includes the consolidated operations and financial position of Orlando Health, Inc. and its Controlled Affiliates.

Quarter ended December 31, 2017 Compared to the Same Period of the Prior Year

Excess of revenues, other support and gains over expenses and losses was \$115.6 million for the quarter ended December 31, 2017, a \$52.8 million increase from the prior year period. Income from operations was \$75.4 million for the quarter, a \$24.2 million increase from the prior year period. Total unrestricted revenues increased \$282.9 million from the prior year period, of which \$277.6 million was from net patient service revenue. Total unrestricted revenues of the Obligated Group increased \$76.6 million or 14%. The large increase in total unrestricted revenue is attributed to the inclusion of Lakeland Regional Health Systems (LRHS) as a controlled affiliate effective October 1, 2017.

Revenue, Utilization, and Payor Mix

Net patient service revenue, less the provision for bad debts for the quarter ended December 31, 2017 increased \$277.6 million or 46.1% compared to the prior year period. This was due to increases in patient volumes, increases in rates from contracted managed care plans, an increase in case mix and the addition of LRHS. Obligated Group admissions increased 9.9% and case mix index increased 5.9% for the quarter ended December 31, 2017 compared to the prior year period.

Bad debt expense was \$136.5 million for the quarter ended December 31, 2017, an increase of \$72.4 million.

Obligated Group combined admissions and observation cases increased 6.4% and outpatient visits increased 3.1%. Total case mix index increased from 1.65 to 1.75.

Expenses

Total expenses for the quarter ended December 31, 2017 increased \$258.7 million or 44.5% compared to the prior year period. Total expenses of the Obligated Group increased \$55.2 million or 11% compared to the prior year period. The increase in expenses corresponds to the increases in net patient revenue and volume increases in supply intensive service lines, as well as the addition of LRHS.

Changes in Cash, Investments and Accounts Receivable during the Quarter ended December 31, 2017

Unrestricted cash and investments increased \$423 million or 27.4% during the current quarter.

Accounts receivable increased \$193.5 million or 65% during the current quarter. The Obligated Group's days of revenue in accounts receivable, based on one year of net patient service revenue, were 47.4 days at December 31, 2017, compared with 42.7 days at September 30, 2017.

Capital Expenditures

Construction-in-progress represents numerous construction and renovation projects. Estimated costs to complete these projects as of December 31, 2017, are approximately \$178.6 million which includes \$35.0 million for Freestanding ED-Osceola, \$11.3 million for DPH Oncology Regional Care Center, \$28.4 million for the Horizons West campus development, \$21.6 million for an on campus Cancer Center at Health Central, and \$31.3 million for an on campus Skilled Nursing Facility at Health Central.

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Significant Events

Effective October 1, 2017, the System completed an affiliation with Lakeland Regional Health System, Inc. (LRHS) to create an integrated regional health care system. The transaction was structured as a member substitution arrangement whereby the System became the sole corporate member of LRHS without the transfer of consideration. LRHS is a private not-for-profit health system located in Lakeland, Florida consisting of Lakeland Regional Medical Center (849 beds), the Hollis Cancer Center, and outpatient service locations.

In accordance with ASC 958-805, the System recognized an inherent contribution as the excess of acquisition date book values of the assets acquired and liabilities assumed over the consideration transferred. The determination of the fair value of the underlying assets acquired and liabilities assumed and any inherent contribution or goodwill is subject to a formal valuation process, which has not yet been completed. The major classes of assets and liabilities acquired will include cash, investments, patient receivables, property, equipment, trade payables and debt. Based on the timing of the acquisition and lack of available information, the System has determined it to be impracticable to disclose a preliminary fair value allocation at this time.