

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2024

OR

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

For the transition period from _____ to _____.

Commission file number 001-42011

PACS Group, Inc.
(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

92-3144268

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

262 N. University Ave.
Farmington, Utah 84025

(Address of Principal Executive Offices) (Zip Code)

(801) 447-9829

Registrant's telephone number, including area code

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$0.001 per share	PACS	The New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☐ No ☒

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☐ No ☒

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☐
		Emerging growth company	☐

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

☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes ☐ No ☒

As of November 17, 2025, there were 156,615,144 shares of the registrant's common stock, par value \$0.001 per share, outstanding.

EXPLANATORY NOTE

Introduction

PACS Group, Inc. (“we,” “us,” “our,” the “Company” and “PACS”) is filing this Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2024 concurrently with its Annual Report on Form 10-K for the year ended December 31, 2024 and Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, June 30 and September 30, 2025. This Quarterly Report reflects the restatement (“Restatement”) of the Company’s (i) condensed combined/consolidated financial statements as of March 31, 2024, and for the three months then ended, included in our Quarterly Report on Form 10-Q filed with the U.S. Securities and Exchange Commission (the “SEC”) on May 13, 2024 (as amended on May 21, 2024) and (ii) condensed combined/consolidated financial statements as of June 30, 2024 and for the three and six months then ended, included in our Quarterly Report on Form 10-Q filed with the SEC on August 12, 2024 (collectively, the “Prior Financial Statements,” and each such quarterly period in the six months ended June 30, 2024, the “Impacted Periods”).

Audit Committee Investigation

As previously disclosed in the Company’s Form 8-K filed November 6, 2024, the Company’s independent Audit Committee, assisted by external counsel and forensic accountants retained by the Audit Committee, initiated an independent investigation concerning allegations made in a short seller report. The investigation’s scope ultimately included additional matters identified during the course of the investigation. The Audit Committee has now completed its investigation.

On June 16, 2025, the Company announced that, in connection with additional facts learned, including as a result of the Audit Committee’s independent investigation, and due to regulatory, compliance and Medicare Part B billing uncertainties, management determined that it is appropriate to reconsider the Company’s judgmental assessments of the compliance of its respiratory and certain other therapy services. Management also determined that it is appropriate to reconsider the application of certain aspects of revenue recognition guidance under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 606, Revenue from Contracts With Customers (“ASC 606”), including with respect to estimating variable consideration and constraining estimated variable consideration related to revenue from billings for such services. As a result, the Company determined that the revenue associated with the provision of respiratory services and certain other therapy services billed under Medicare Part B should not have been recognized as revenue in accordance with ASC 606 in the periods discussed below.

Accordingly, the Company determined that it would restate previously issued financial statements as of March 31, 2024, and for the three months then ended, included in the Company’s Quarterly Report on Form 10-Q filed with the SEC on May 13, 2024 (as amended on May 21, 2024) and as of June 30, 2024, and for the three and six months then ended, included in the Company’s Quarterly Report on Form 10-Q filed with the SEC on August 12, 2024.

Among the additional matters that came within the scope of the Audit Committee investigation were allegations that the Company’s Chief Financial Officer Derick Apt had accepted high-value items from individuals associated with a group of related entities with which the Company does business. As disclosed on Form 8-K filed September 8, 2025, the Audit Committee found that Mr. Apt’s receipt of these items violated company policies, including the Company’s Code of Conduct & Ethics. The Board asked for Mr. Apt’s resignation, and he then resigned and entered into a separation agreement with the Company. At that time, Mark Hancock replaced Mr. Apt as interim Chief Financial Officer.

In its investigation, the Audit Committee identified certain conduct that was determined to be inconsistent with the Company’s Code of Conduct & Ethics, related policies, and expectations involving certain Company personnel. The Audit Committee recommended, and the Board of Directors, including the Company’s founders, determined to take appropriate action and remedial measures as to these individuals. Beyond the restatement of certain financial statements referenced above, the Audit Committee did not identify any additional material financial misstatements or financial irregularities.

The Audit Committee also recommended remedial measures and enhancements, among other things, to further reinforce a culture of compliance, a care first mentality, the principles set forth in the Company’s Code of Business Conduct & Ethics, and the expectations of the Company’s founders and the Board of Directors. The Board of Directors adopted those recommendations, and management has been implementing them, with Board oversight. Also, in connection with the Audit Committee’s independent investigation, management, together with external counsel and outside advisors, undertook an intense review of its regulatory compliance program, retained a new interim Chief Compliance Officer to

oversee the ongoing review and the implementation of updates to the Company's compliance program, and implemented additional measures designed to enhance processes and controls surrounding regulatory compliance.

Material Weakness

In connection with the preparation of our combined/consolidated financial statements for the year ended December 31, 2024, together with facts learned during the course of the Audit Committee's independent investigation, our management identified control deficiencies that, individually or in the aggregate, constitute material weaknesses in our internal control over financial reporting. The material weaknesses identified by management were that we did not design and maintain an effective internal control environment commensurate with the financial reporting requirements of a public company. Specifically, we did not design and maintain sufficient processes to identify, assess, and communicate relevant risks to appropriate levels of the organization, including potential compliance issues received through the hotline process. In addition, we did not design and maintain adequate controls within the revenue process to appropriately recognize revenue for new services in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 606, Revenue from Contracts With Customers. These material weaknesses resulted in the restatement of our previously issued interim condensed combined/consolidated financial statements for the Impacted Periods. In addition, our Chief Executive Officer and our Interim Chief Financial Officer have concluded that, due to the material weaknesses, our disclosure controls and procedures, as such term is defined under Rules 13a-15(e) and 15(d)-15(e) under the Exchange Act, were not effective as of September 30, 2024. Management is committed to maintaining a strong internal control environment. In response to the identified material weaknesses above, management, with the oversight of the Audit Committee, is taking comprehensive actions to remediate the above material weaknesses. For additional information regarding the material weaknesses and our steps for remediation, please see "Part I, Item 4, Controls and Procedures."

Considering the material weaknesses described above, management performed additional analysis and other procedures to ensure that our combined/consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP). Accordingly, management believes that the condensed combined/consolidated financial statements included in this Quarterly Report on Form 10-Q fairly present, in all material respects, our financial position, results of operations, and cash flows as of and for the periods presented, in accordance with U.S. GAAP.

PACS GROUP, INC. AND SUBSIDIARIES
QUARTERLY REPORT ON FORM 10-Q
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2024
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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). All statements other than statements of historical facts contained in this Quarterly Report on Form 10-Q may be forward-looking statements. In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “could,” “intends,” “targets,” “projects,” “contemplates,” “believes,” “estimates,” “forecasts,” “predicts,” “potential” or “continue” or the negative of these terms or other similar expressions.

The forward-looking statements in this Quarterly Report on Form 10-Q are only predictions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition and results of operations. Forward-looking statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements, including, but not limited to, the important factors discussed in Part II, Item 1A “Risk Factors” in this Quarterly Report on Form 10-Q for the quarter ended September 30, 2024. The forward-looking statements in this Quarterly Report on Form 10-Q are based upon information available to us as of the date of this Quarterly Report on Form 10-Q, and while we believe such information forms a reasonable basis for such statements, such information may be limited or incomplete, and our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all potentially available relevant information. These statements are inherently uncertain and investors are cautioned not to unduly rely upon these statements.

You should read this Quarterly Report on Form 10-Q and the documents that we reference in this Quarterly Report on Form 10-Q and have filed as exhibits to this Quarterly Report on Form 10-Q with the understanding that our actual future results, performance and achievements may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements. These forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained in this Quarterly Report on Form 10-Q, whether as a result of any new information, future events or otherwise.

As used in this Quarterly Report on Form 10-Q, unless otherwise stated or the context requires otherwise, the terms “PACS Group,” the “Company,” “we,” “us,” and “our” refer to PACS Group, Inc. and its consolidated subsidiaries.

SUMMARY RISK FACTORS

Our business is subject to numerous risks and uncertainties, including those described in Part II, Item 1A “Risk Factors” in this Quarterly Report on Form 10-Q. You should carefully consider these risks and uncertainties when investing in our common stock. If any of these risks actually occur, it could have a material adverse effect on our business, financial condition, and results of operations. In such case, the trading price of our common stock would likely decline, and you could lose all or part of your investment. The principal risks affecting our business include, but are not limited to:

- We depend upon reimbursement from third-party payors, and our revenue, financial condition and results of operations could be negatively impacted by any changes in the acuity mix of patients in our facilities as well as changes in payor mix and payment methodologies and new cost containment initiatives by third-party payors;
- We may not be fully reimbursed for all services for which each facility bills through consolidated billing or bundled payments, which could have an adverse effect on our revenue, financial condition and results of operations.
- Increased competition for, or a shortage of, nurses, nurse assistants and other skilled personnel could increase our staffing and labor costs and subject us to monetary fines.
- State efforts to regulate or deregulate the healthcare services industry or the construction, expansion, or acquisition of healthcare facilities could impair our ability to expand our operations, or could result in increased competition.

- If we fail to attract patients and residents and to compete effectively with other healthcare providers, our revenue and profitability may decline and we may incur losses.
- We review and audit the care delivery, recordkeeping and billing processes of our operating subsidiaries. These reviews from time to time detect instances of noncompliance that we attempt to correct, which in some instances requires reduced or repayment of billed amounts or other costs.
- We are subject to litigation, which is commonplace in our industry, which could result in significant legal costs and large settlement amounts or damage awards, and our self-insurance programs may expose us to significant and unexpected costs and losses.
- We have identified material weaknesses in our internal control over financial reporting. If our remediation of such material weaknesses is not effective, or if we experience additional material weaknesses or otherwise fail to design and maintain effective internal control over financial reporting, our ability to accurately report our financial condition and results of operations in a timely manner or comply with applicable laws and regulations could be impaired, which may adversely affect investor confidence in us, subject us to litigation or significant financial or other penalties, and, as a result, affect the value of our common stock and our financial condition.
- If we are unable to provide consistently high quality of care, or if our employees or staff members engage in conduct (or fail to take action) that impacts our patients' health, safety, welfare or clinical treatment, our business will be adversely impacted and we may be subject to civil or criminal penalties, fines or other actions.
- We rely significantly on information technology, and any failure, inadequacy or interruption of that technology could harm our ability to effectively operate our business.
- We calculate certain operational metrics using internal systems and tools and do not independently verify such metrics. Certain metrics are subject to inherent challenges in measurement, and real or perceived inaccuracies in such metrics may harm our reputation and negatively affect our business.
- We may be unable to complete future facility or business acquisitions at attractive prices or at all, which may adversely affect our revenue; we may also elect to dispose of underperforming or non-strategic operating subsidiaries, which would decrease our revenue.
- We may not be able to successfully integrate acquired facilities and properties into our operations, and we may not achieve the benefits we expect from any of our facility acquisitions.
- In undertaking acquisitions, we may be adversely impacted by costs, liabilities and regulatory issues that may adversely affect our operations, and we may not be able to successfully integrate acquired facilities and properties into our operations, or achieve the benefits we expect from any of our facility acquisitions.
- We may have difficulty completing partnerships that increase our capacity consistent with our growth strategy.
- If we do not achieve or maintain competitive quality of care ratings from CMS or private organizations engaged in similar rating activities, our business may be negatively affected.
- If we are unable to obtain insurance, or if insurance becomes more costly for us to obtain, our business may be adversely affected.
- Our self-insurance programs may expose us to significant and unexpected costs and losses.
- The geographic concentration of our facilities could leave us vulnerable to an economic downturn, regulatory changes or acts of nature in those areas.
- The actions of national labor unions may adversely affect our revenue and profitability.
- Because we lease the majority of our facilities, we are subject to risks associated with leased real property, including risks relating to lease termination, lease extensions and special charges, any of which could have an adverse effect on our business, financial condition and results of operations.

- Failure to generate sufficient cash flow to cover required payments or meet operating covenants under our long-term debt, mortgages and long-term leases could result in defaults under those agreements and cross-defaults under other debt, mortgage or lease arrangements, which could harm our operating subsidiaries and cause us to lose facilities or experience foreclosures.
- We may need additional capital to fund our operating subsidiaries and finance our growth, and we may not be able to obtain it on terms acceptable to us, or at all, which may limit our ability to grow.
- We are subject to extensive and complex laws and government regulations. If we are not operating in compliance with these laws and regulations or if these laws and regulations change, we could be required to make significant expenditures or change our operations in order to bring our facilities and operations into compliance.
- Our founders, Jason Murray and Mark Hancock, have substantial control over us and hold a substantial portion of our outstanding common stock, and their interests may conflict, or appear to conflict, with our interests and the interests of other stockholders.
- We are a “controlled company” within the meaning of the corporate governance standards of the New York Stock Exchange. As a result, we may elect to rely on exemptions from certain corporate governance standards and you may not have the same protections afforded to stockholders of companies that are subject to such requirements.

Part I

Item 1. Financial Statements

PACS GROUP, INC. AND SUBSIDIARIES
CONDENSED COMBINED/CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except for share and per share values)

	(unaudited) September 30, 2024	December 31, 2023
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 49,519	\$ 73,416
Accounts receivable, net	574,642	547,807
Other receivables	49,325	52,259
Prepaid expenses and other current assets	61,293	48,665
Total Current Assets	734,779	722,147
Property and equipment, net	924,833	577,528
Operating lease right-of-use assets	2,557,026	2,007,812
Insurance subsidiary deposits and investments	47,200	—
Escrow funds	23,584	15,649
Goodwill and other indefinite-lived assets	65,291	65,291
Other assets	164,003	124,312
Total Assets	\$ 4,516,716	\$ 3,512,739
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts payable	\$ 154,744	\$ 140,947
Accrued payroll and benefits	155,390	92,234
Current operating lease liabilities	131,025	109,438
Current maturities of long-term debt	15,806	16,822
Current portion of accrued self-insurance liabilities	34,104	27,536
Refund liability	83,987	—
Other accrued expenses	106,666	69,949
Total Current Liabilities	681,722	456,926
Long-term operating lease liabilities	2,491,684	1,961,997
Lines of credit	—	520,000
Long-term debt, less current maturities, net of deferred financing fees	253,645	195,708
Accrued self-insurance liabilities, less current portion	188,192	146,167
Other liabilities	234,729	130,215
Total Liabilities	\$ 3,849,972	\$ 3,411,013
Commitments and contingencies (Note 14)		
Equity:		
PACS Group, Inc. stockholders' equity:		
Common stock: \$0.001 par value; 1,250,000,000 shares authorized, 155,177,511 shares issued and outstanding as of September 30, 2024, and 64,361,693,000 shares authorized, 128,723,386 shares issued and outstanding as of December 31, 2023	155	129
Additional paid-in capital	579,058	—
Retained earnings	80,835	95,997
Total stockholders' equity	660,048	96,126
Noncontrolling interest in subsidiary	6,696	5,600
Total Equity	\$ 666,744	\$ 101,726
Total Liabilities and Equity	\$ 4,516,716	\$ 3,512,739

See accompanying notes to unaudited condensed combined/consolidated financial statements.

PACS GROUP, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED COMBINED/CONSOLIDATED STATEMENTS OF INCOME
(dollars in thousands, except for share and per share values)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Revenue				
Patient and resident service revenue	\$ 1,024,276	\$ 788,933	\$ 2,878,946	\$ 2,257,183
Additional funding	—	—	—	375
Other revenues	2,029	253	2,900	734
Total Revenue	\$ 1,026,305	\$ 789,186	\$ 2,881,846	\$ 2,258,292
Operating Expenses				
Cost of services	849,599	638,491	2,347,738	1,768,078
Rent - cost of services	72,632	58,366	200,954	154,926
General and administrative expense	70,587	49,565	254,167	171,702
Depreciation and amortization	10,523	6,362	27,893	18,350
Total Operating Expenses	\$ 1,003,341	\$ 752,784	\$ 2,830,752	\$ 2,113,056
Operating income	22,964	36,402	51,094	145,236
Other Income (Expense)				
Interest expense	(9,029)	(10,217)	(35,040)	(36,159)
Gain on lease termination	—	—	8,046	—
Other income (expense), net	19,721	1,210	16,256	(993)
Total Other Income (Expense), Net	\$ 10,692	\$ (9,007)	\$ (10,738)	\$ (37,152)
Income before provision for income taxes	33,656	27,395	40,356	108,084
Provision for income taxes	17,446	7,468	21,203	29,339
Net Income	\$ 16,210	\$ 19,927	\$ 19,153	\$ 78,745
Less:				
Net income attributable to noncontrolling interest	590	2	594	5
Net Income Attributable To PACS Group, Inc.	\$ 15,620	\$ 19,925	\$ 18,559	\$ 78,740
Net Income Per Share Attributable To PACS Group, Inc.				
Basic	\$ 0.10	\$ 0.15	\$ 0.13	\$ 0.61
Diluted	\$ 0.10	\$ 0.15	\$ 0.13	\$ 0.61
Weighted-Average Common Shares Outstanding				
Basic	153,124,371	128,723,386	143,804,609	128,723,386
Diluted	158,453,331	128,723,386	145,737,883	128,723,386

See accompanying notes to unaudited condensed combined/consolidated financial statements.

PACS GROUP, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED COMBINED/CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(dollars in thousands, except for share and per share values)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Noncontrolling Interest	Accumulated Other Comprehensive Income	Total
	Shares	Amount					
Balance January 1, 2024	128,723,386	\$ 129	\$ —	\$ 95,997	\$ 5,600	\$ —	\$ 101,726
Dividends on common stock (\$0.1358 per share)	—	—	—	(17,474)	—	—	(17,474)
Other comprehensive income	—	—	—	—	—	201	201
Net income attributable to noncontrolling interest	—	—	—	—	2	—	2
Net income attributable to PACS Group, Inc. (as restated)	—	—	—	34,817	—	—	34,817
Balance March 31, 2024 (as restated)	128,723,386	\$ 129	\$ —	\$ 113,340	\$ 5,602	\$ 201	\$ 119,272
Contributions	—	—	—	—	502	—	502
Issuance of common stock	21,428,572	21	414,136	—	—	—	414,157
Employee stock-based compensation	3,847,652	4	90,932	—	—	—	90,936
Tax withholdings related to net share settlement of equity awards	(1,599,877)	(2)	(33,596)	—	—	—	(33,598)
Dividends on common stock (\$0.1066 per share)	—	—	—	(16,247)	—	—	(16,247)
Other comprehensive loss	—	—	—	—	—	(201)	(201)
Net income attributable to noncontrolling interest	—	—	—	—	2	—	2
Net loss attributable to PACS Group, Inc. (as restated)	—	—	—	(31,878)	—	—	(31,878)
Balance June 30, 2024 (as restated)	152,399,733	\$ 152	\$ 471,472	\$ 65,215	\$ 6,106	\$ —	\$ 542,945
Issuance of common stock	2,777,778	3	95,282	—	—	—	95,285
Employee stock-based compensation	—	—	12,304	—	—	—	12,304
Net income attributable to noncontrolling interest	—	—	—	—	590	—	590
Net income attributable to PACS Group, Inc.	—	—	—	15,620	—	—	15,620
Balance September 30, 2024	155,177,511	\$ 155	\$ 579,058	\$ 80,835	\$ 6,696	\$ —	\$ 666,744

	Common Stock		Additional Paid-In Capital	Retained Earnings	Noncontrolling Interest	Accumulated Other Comprehensive Income	Total
	Shares	Amount					
Balance January 1, 2023	128,723,386	\$ 129	\$ —	\$ 63,517	\$ 5,005	\$ —	\$ 68,651
Dividends on common stock (\$0.1438 per share)	—	—	—	(18,513)	—	—	(18,513)
Net income attributable to noncontrolling interest	—	—	—	—	1	—	1
Net income attributable to PACS Group, Inc.	—	—	—	37,597	—	—	37,597
Balance March 31, 2023	128,723,386	\$ 129	\$ —	\$ 82,601	\$ 5,006	\$ —	\$ 87,736
Dividends on common stock (\$0.1959 per share)	—	—	—	(25,215)	—	—	(25,215)
Net income attributable to noncontrolling interest	—	—	—	—	2	—	2
Net income attributable to PACS Group, Inc.	—	—	—	21,218	—	—	21,218
Balance June 30, 2023	128,723,386	\$ 129	\$ —	\$ 78,604	\$ 5,008	\$ —	\$ 83,741
Contributions	—	—	—	—	587	—	587
Dividends on common stock (\$0.1963 per share)	—	—	—	(25,265)	—	—	(25,265)
Net income attributable to noncontrolling interest	—	—	—	—	2	—	2
Net income attributable to PACS Group, Inc.	—	—	—	19,925	—	—	19,925
Balance September 30, 2023	128,723,386	\$ 129	\$ —	\$ 73,264	\$ 5,597	\$ —	\$ 78,990

See accompanying notes to unaudited condensed combined/consolidated financial statements.

PACS GROUP, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED COMBINED/CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	Nine Months Ended September 30,	
	2024	2023
Cash flows from operating activities		
Net income	\$ 19,153	\$ 78,745
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	27,893	18,350
Amortization and write-off of deferred financing fees	2,333	4,831
Stock-based compensation	103,240	—
Loss on investment in partnership	3,572	7
Gain on insurance subsidiary deposits and investments	(2,200)	—
Deferred taxes	(45,250)	(9,136)
Noncash lease expense	22,973	15,888
Other noncash operating activities, net	843	447
Change in operating assets and liabilities		
Accounts receivable, net	(26,835)	(116,603)
Other receivables	2,934	(17,413)
Prepaid expenses and other current assets	(5,112)	(12,264)
Other assets	(14,879)	(15,962)
Escrow funds	(7,935)	(68)
Operating lease liabilities	(20,913)	(1,529)
Accounts payable	10,339	16,832
Accrued payroll and benefits	61,651	30,725
Accrued self-insurance liabilities	48,593	50,200
Refund liability	83,987	—
Other accrued expenses	37,294	(25,975)
Other liabilities	1,070	56,323
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 302,751	\$ 73,398
Cash flows from investing activities		
Investment in partnerships	\$ (30,426)	\$ —
Non-operating distributions from investment in partnership	2,216	1,391
Purchase of available-for-sale securities	(45,000)	—
Acquisition of facilities	(224,761)	(84,435)
Purchase of property and equipment	(41,874)	(30,550)
Proceeds from the sale of assets	1,500	750
NET CASH USED IN INVESTING ACTIVITIES	\$ (338,345)	\$ (112,844)
Cash flows from financing activities		
Borrowing on lines of credit, net of deferred financing fees	\$ 402,000	\$ 262,065
Payments on lines of credit	(922,000)	(275,012)
Borrowings of long-term debt, net of deferred financing fees	70,116	397,152
Payments on long-term debt	(13,839)	(284,402)
Contributions from noncontrolling interest	502	587
Dividends on common stock	(33,721)	(68,993)
Proceeds from initial public offering, net of issuance costs	414,157	—
Proceeds from common stock offering, net of issuance costs	95,285	—
Taxes paid related to net share settlement of stock-based compensation awards	(33,598)	—
NET CASH (USED IN)/PROVIDED BY FINANCING ACTIVITIES	\$ (21,098)	\$ 31,397
Net change in cash	(56,692)	(8,049)
Cash, cash equivalents, and restricted cash - beginning of period	118,704	98,206
Cash, cash equivalents, and restricted cash - end of period	<u>\$ 62,012</u>	<u>\$ 90,157</u>
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest	\$ 39,346	\$ 35,390
Income taxes	\$ 77,540	\$ 51,842
Non-cash financing and investing activity		
Accrued capital expenditures	\$ 6,458	\$ 4,466
Assets acquired in operation expansions through settlement of notes receivable	\$ 500	\$ —

See accompanying notes to unaudited condensed combined/consolidated financial statements.

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NOTE 1. ORGANIZATION AND NATURE OF BUSINESS

PACS Group, Inc. (PACS Group or the Company), a Delaware corporation, was incorporated on March 24, 2023. PACS Group is a holding company which consolidates various operating and other subsidiaries. PACS Group's applicable operating subsidiaries operate various skilled nursing facilities (SNF) and assisted living facilities (ALF). PACS Group also owns other subsidiaries that are engaged in the acquisition, ownership, and leasing of health care-related properties. As of September 30, 2024, PACS Group subsidiaries operated 276 health care facilities in the states of Alaska, Arizona, California, Colorado, Idaho, Kansas, Kentucky, Missouri, Montana, Nevada, Ohio, Oregon, South Carolina, Texas, and Washington. PACS Group subsidiaries operated 27,467 skilled nursing beds and 2,244 assisted living beds as of that date. As of September 30, 2024, PACS Group subsidiaries operated 236 facilities under long-term lease arrangements and had options to purchase 13 of those facilities.

PACS Group owns subsidiaries that own real estate and related improvements that are leased to applicable affiliated SNF operating entities and one non-affiliated ALF operating entity. PACS Group's real estate portfolio includes 40 properties which are operated and managed by applicable PACS Group subsidiaries. PACS Group subsidiaries also have equity method investments in partnerships that own the underlying real estate and related improvements of 49 post-acute care facilities that are operated by other PACS Group subsidiaries and three post-acute care facilities that are operated by non-affiliated operating entities.

Providence Administrative Consulting Services, Inc., a California corporation, is a subsidiary of PACS Group and provides administrative support services, on a consulting basis, to other subsidiaries of PACS Group.

PACS Group also has a wholly-owned captive insurance subsidiary, Welsch Insurance Ltd. (Welsch). Welsch provides coverage to various consolidated operating subsidiaries related to professional liability and general liability (PLGL) insurance.

Reorganization

Prior to June 30, 2023, Providence Group, Inc. (PGI) owned the operating subsidiaries of PACS Group. On June 30, 2023, PGI and its consolidated subsidiaries reorganized (the Reorganization) to facilitate their entrance into a new credit agreement, dated June 30, 2023 (2023 Credit Agreement), between certain lenders party thereto, Truist Bank (Truist), as administrative agent, PACS Group, and PACS Holdings, LLC (PACS Holdings) as borrower thereunder. PACS Group and its wholly owned subsidiary PACS Holdings were created on March 24, 2023, and April 10, 2023, respectively, in anticipation of the Reorganization. The equity interests of certain other direct or indirect wholly-owned subsidiaries of PGI at the time of the Reorganization were also contributed to other new direct or indirect wholly-owned subsidiaries of PACS Group to facilitate the New Credit Agreement. PACS Group and its consolidated subsidiaries subsequent to the Reorganization are collectively referred to herein as the Company. The New Credit Agreement is described in Note 8, "Credit Facilities".

The Reorganization was effected by the two then-existing stockholders of PGI (which at the time was the direct or indirect parent company of all consolidated entities comprising the Company), contributing their respective shares in PGI to newly-formed PACS Holdings, in exchange for a proportionate interest of shares in newly-formed PACS Group (via issuance of shares of PACS Group), and thus became the sole stockholders of PACS Group.

As a result of the Reorganization, (i) for most practical purposes PACS Group in effect became the successor to the historical consolidated business of PGI, and (ii) both of the two stockholders of PGI immediately prior to the Reorganization became the sole stockholders of PACS Group, and maintained their respective pro rata ownership percentage in PACS Group that they held in PGI immediately prior to the Reorganization (which was and remained 50/50).

The Reorganization was accounted for as an equity reorganization between entities under common control. The Reorganization combined entities that historically have not been presented together resulting in financial statements that are effectively considered to be those of a different reporting entity. Accordingly, the historical financial statements for periods prior to the Reorganization are presented as combined financial statements and the financial statements after the Reorganization are presented as consolidated financial statements. The contribution of shares of PGI and receipt of shares of PACS Group were accounted for on a retrospective basis. Accordingly, all share and per share amounts in these

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condensed combined/consolidated financial statements and related notes have been retrospectively restated, where applicable, for all periods herein, to give effect to the current shares outstanding of PACS Group.

NOTE 2. RESTATEMENT OF PREVIOUSLY ISSUED QUARTERLY FINANCIAL STATEMENTS

As described in the Annual Report on Form 10-K for the year ended December 31, 2024 filed concurrently with this Quarterly Report on Form 10-Q (the “Quarterly Report”), the Company restated its condensed combined/consolidated financial statements as of and for the three months ended March 31, 2024, and as of and for the three and six months ended June 30, 2024 (the “Restatement”). The condensed consolidated financial statements as of September 30, 2024, and for the nine months then ended, included in this Quarterly Report are being disclosed for the first time herein and reflect the Restatement. Impacted quarterly financial information in the accompanying condensed combined/consolidated statements of shareholders’ equity is labeled as restated.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying condensed combined/consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP). The condensed combined/consolidated financial statements include the accounts of PACS Group, and its consolidated subsidiaries, or the Company as defined above. All intercompany transactions and balances have been eliminated in combination and consolidation. The Company presents noncontrolling interests within the equity section of its condensed combined/consolidated balance sheets and the amount of condensed combined/consolidated income that is attributable to the Company and the noncontrolling interest in its condensed combined/consolidated statements of income.

The accompanying condensed combined/consolidated financial statements as of September 30, 2024 and for the three and nine months ended September 30, 2024 and 2023 are unaudited. The December 31, 2023 balance sheet data was derived from audited financial statements; however, the accompanying notes to the condensed combined/consolidated financial statements do not include all of the annual disclosures required under GAAP and should be read in conjunction with the audited combined/consolidated financial statements included in the Company’s final prospectus filed with the SEC on April 12, 2024. Management believes that the condensed combined/consolidated financial statements reflect all adjustments which are of a normal and recurring nature necessary to present fairly the Company’s financial position and results of operations in all material respects. The results of operations presented in the condensed combined/consolidated financial statements are not necessarily representative of operations for the entire year.

Use of Estimates

The preparation of the condensed combined/consolidated financial statements in accordance with U.S. GAAP 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 condensed combined/consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates in the Company’s condensed combined/consolidated financial statements include those related to revenue, acquired property, business combinations, right-of-use assets, lease liabilities, impairment of long-lived assets, and general and professional liabilities included in accrued self-insurance liabilities. Actual results could materially differ from estimated amounts.

Restricted Cash, Cash and Cash Equivalents

Cash and cash equivalents consist of cash and short-term investments with original maturities of three months or less at the time of purchase and therefore approximate fair value. The Company considers highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The Company maintains its cash and short-term investment balances in several high-credit quality financial institutions.

Included in restricted cash are funds held for PLGL claims. Funds held in restricted cash are contractually obligated to be segregated from the Company’s other cash accounts and are legally restricted for the use of funding PLGL claims. See

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Note 6, “Fair Value Measurement”, for information on the use of restricted cash in other assets to purchase investments in the period.

At any point in time the Company has funds in operating accounts and restricted cash accounts that are with third-party financial institutions. While management monitors the cash balances in operating accounts, these cash and restricted cash balances could be impacted if the underlying financial institutions fail or could be subject to other adverse conditions in the financial markets.

The following presents all cash and cash equivalents and restricted cash on the condensed combined/consolidated balance sheets and reconcile to total cash included on the condensed combined/consolidated statements of cash flows as of September 30, 2024, December 31, 2023, September 30, 2023:

	September 30, 2024	December 31, 2023	September 30, 2023
Cash and cash equivalents	\$ 49,519	\$ 73,416	\$ 69,095
Restricted cash (included in prepaid expenses and other current assets)	12,493	4,977	7,933
Restricted cash (included in other assets)	—	40,311	13,129
Total cash, cash equivalents, and restricted cash	\$ 62,012	\$ 118,704	\$ 90,157

Cash in Excess of FDIC Limits

The Company currently has bank deposits with financial institutions in the U.S. that exceed FDIC insurance limits. FDIC insurance provides protection for bank deposits up to \$250,000. The Company has not experienced any losses in such accounts.

Insurance Subsidiary Deposits and Investments

The Company's captive insurance subsidiary cash and cash equivalents, deposits and investments are designated to support long-term insurance subsidiary liabilities and have been classified as short-term and long-term assets based on the timing of expected future payments of the Company's captive insurance liabilities.

Patient and Resident Service Revenue

Patient and resident service revenue is derived from services rendered, under short-term contracts, to patients for skilled and intermediate nursing, rehabilitation therapy, and assisted living services. Patient and resident service revenue is reported at the amount that reflects the consideration to which the Company expects to be entitled in exchange for providing patient services. These amounts are due from patients, governmental programs, and other third-party payors, and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations.

The Company recognizes revenue as its performance obligations are completed. Routine services are treated as a single performance obligation satisfied over time as services are rendered. These routine services represent a bundle of services that are not capable of being distinct. The performance obligations are satisfied over time as the patient simultaneously receives and consumes the benefits of the healthcare services provided. Additionally, there may be ancillary services which are not included in the daily rates for routine services, but instead are treated as separate performance obligations satisfied at a point in time when those services are rendered.

Accounts Receivable and Allowance for Credit Losses

Accounts receivable consist primarily of amounts due from Medicare and Medicaid, managed care health plans and private payor sources, net of estimates for variable consideration. At September 30, 2024 and December 31, 2023, the allowance for credit losses was immaterial to the condensed combined/consolidated financial statements.

The Company determines the transaction price based on established billing rates reduced by contractual adjustments provided to third-party payors. Contractual adjustments are based on contractual agreements and historical experience with

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those payors. The Company considers the patient's ability and intent to pay the amount of consideration upon admission and records an implicit price concession based on historical patient collection experience. The allowance for implicit price concession is routinely evaluated and any subsequent changes are recorded as an adjustment to patient and resident service revenue in the condensed combined/consolidated statements of income.

Property and Equipment, Net

Property and equipment are stated at historical cost less accumulated depreciation and amortization. Repair and maintenance charges which do not increase the useful lives of the assets are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful life of the property and equipment. The following is a summary of the estimated useful lives of the Company's depreciable assets:

- Buildings and improvements - minimum of 5 years to a maximum of 40 years, but generally 30 years
- Leasehold improvements - shorter of the lease term or the estimated useful life, generally 5 years to 15 years
- Furniture and equipment - minimum of 3 years to a maximum of 15 years

Upon sale or retirement, the cost and the related accumulated depreciation and amortization are eliminated from the respective accounts and the resulting gain or loss is included in other income (expense), net.

Leases

The Company leases skilled nursing facilities, assisted living facilities, and commercial office space. The Company determines if an arrangement is a lease (for accounting purposes) upon execution of each respective agreement.

Real estate leases are generally classified as operating leases and therefore the Company records rent expense on a straight-line basis over the term of the lease. The lease term is calculated from the date the Company is given control of the leased premises through the end of the lease term. Renewals are not assumed in the determination of the lease term unless they are deemed to be reasonably certain at the commencement of the lease. The Company has made an accounting policy election to keep leases with an initial term of 12 months or less off of the balance sheets and recognize those lease payments in the combined/consolidated statements of income on a straight-line basis over the lease term. The Company has also elected the practical expedient to not separate lease and non-lease components for all of its leases.

In determining the discount rate used to measure the right-of-use asset and lease liability, the Company uses rates implicit in the lease, or if not readily available, the Company will use its incremental borrowing rate. The Company's incremental borrowing rate is based on an estimated secured rate comprised of a risk-free rate plus a credit spread as secured by its assets. Determining a credit spread as secured by the Company's assets may require significant judgment.

The Company's real estate leases generally have initial lease terms often years or more and typically include one or more options to renew, with renewal terms that generally extend the lease term for an additional three to twenty years. Exercise of renewal options is generally subject to the satisfaction of certain conditions which vary by contract and generally follow payment terms that are consistent with those in place during the initial term, including contractual rent escalators.

Business Combinations

The Company accounts for acquisitions using the acquisition method of accounting in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 805, *Business Combinations* (ASC 805). Acquisitions are included in the combined/consolidated financial statements from their respective acquisition dates. Assets acquired and liabilities assumed, if any, are measured at fair value on the acquisition date. In determining the fair value of identifiable assets, the Company uses various valuation techniques. These valuation methods require management to make estimates and assumptions surrounding projected revenues and costs, future growth, and discount rates.

ASC 805 defines the definition of a business to assist entities with evaluating when a set of transferred assets and activities is deemed to be a business. Determining whether a transferred set constitutes a business is important because the accounting for a business combination differs from that of an asset acquisition. The definition of a business also affects the

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accounting for dispositions. When substantially all of the fair value of assets acquired is concentrated in a single asset, or a group of similar assets, the assets acquired would not represent a business and business combination accounting would not be required.

Goodwill and Other Indefinite-Lived Intangible Assets

Goodwill represents the excess of the purchase price of acquired businesses over the estimated fair value assigned to the individual assets acquired and liabilities assumed. The Company assesses goodwill for impairment at least annually on October 1st. The Company will perform an impairment assessment at other times if facts and circumstances indicate that it is more likely than not that the fair value of a reporting unit that has goodwill is less than its carrying value.

When assessing goodwill for impairment the Company may elect to first perform a qualitative assessment to determine if the quantitative impairment test is necessary. If the Company does not perform a qualitative assessment, or if the qualitative assessment indicates it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the Company performs a quantitative test. The Company recognizes an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized would not exceed the total amount of goodwill allocated to the reporting unit.

The Company's indefinite-lived intangible assets primarily consist of costs to obtain licenses. The Company reviews indefinite-lived intangible assets for impairment on an annual basis or more frequently if events or changes in circumstances indicate that the carrying amount of the intangible asset may not be recoverable.

The Company may elect to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying value. If the Company does not perform the qualitative assessment, or if the qualitative assessment indicates it is more likely than not that the fair value of the indefinite-lived intangible asset is less than its carrying amount, the Company calculates the estimated fair value of the indefinite-lived intangible asset. If the estimated fair value of the indefinite-lived intangible asset is lower than its carrying amount, an impairment loss is recognized for the difference.

Fair Value Measurements

The Company's financial instruments consist principally of cash and cash equivalents, accounts receivable, insurance subsidiary deposits, accounts payable and borrowings.

Fair value measurements are based on a three-tier hierarchy that prioritizes the inputs used to measure fair value. The three-tiers include: Level 1: observable inputs such as quoted market prices in active markets; Level 2: inputs other than quoted market prices included in Level 1 that are directly or indirectly observable for the asset or liability and Level 3: unobservable inputs for which little or no market data exists, thereby requiring management to develop their own estimates and assumptions.

Impairment of Long-Lived Assets

The Company's non-financial assets, which include goodwill, intangible assets, property and equipment and right-of-use assets, are not required to be measured at fair value on a recurring basis. In accordance with FASB ASC Topic 360, *Property, Plant, and Equipment* (ASC 360), long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Recoverability of these assets is determined based upon expected undiscounted future net cash flows from the operating subsidiaries to which the assets relate, utilizing management's best estimate, appropriate assumptions, and projections at the time. If the expected future cash flow from the use of the asset and its eventual disposition is less than the carrying amount of the asset, an impairment loss is recognized and measured using the fair value of the related assets. The Company did not identify any indicators of impairment of its long-lived assets during the nine months ended September 30, 2024 and 2023.

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Accrued Risk Reserves

The Company is principally self-insured for risks related to PLGL claims. Accrued risk reserves primarily represent the accrual for risks associated with PLGL claims. The accrued risk reserves include a liability for unpaid reported claims and estimates for incurred but unreported claims. The Company's policy with respect to its PLGL claims is to use an external actuary to assist management in estimating the Company's exposure for claims obligation (for both asserted and unasserted claims).

Investment in Partnerships

Investments in various partnerships, in which the Company exercises significant influence over operating and financial policies, are accounted for using the equity method of accounting. Under this method, the investment is carried at cost and is adjusted to recognize the investor's share of earnings or losses of the investee, after the date of acquisition, including amortization of certain basis differences, in the other (expense) income, net line in the Company's condensed combined/consolidated statements of income. Any difference between the carrying amount of the equity method investment on the Company's condensed combined/consolidated balance sheet and the underlying equity in net assets on the investee's balance sheet results in a basis difference which is adjusted as the related underlying assets are depreciated, amortized, or sold and the liabilities are settled. The investment is adjusted for impairment whenever it is determined that a decline in the fair value below the cost basis is other than temporary. The fair value of the investment then becomes the new cost basis of the investment, and it is not adjusted for subsequent recoveries in fair value. The Company's maximum exposure to loss on these equity method investments is the total invested capital. These investments are included in other assets in the Company's condensed combined/consolidated balance sheets. The Company evaluates its investments, including cost in excess of book value (equity method goodwill) for impairment whenever indicators of impairment exist. No indicators of impairment existed during the nine months ended September 30, 2024 and 2023.

Noncontrolling Interest

The Company is the majority-owner in a subsidiary which was formed to develop land, a building, and other assets to be leased to an entity operated by the Company upon completion which occurred subsequent to September 30, 2024. The noncontrolling interest in subsidiary is initially recognized at estimated fair value on the contribution date and is presented within total equity in the Company's condensed combined/consolidated balance sheets since these interests are not redeemable.

Advertising

Advertising costs are expensed as incurred. Advertising expenses included in the Company's condensed combined/consolidated statements of income were \$1,805 and \$1,772 for the three months ended September 30, 2024 and 2023, respectively, and were \$5,545 and \$5,345 for the nine months ended September 30, 2024 and 2023, respectively.

Income Taxes

The Company utilizes FASB ASC Topic 740, *Income Taxes* (ASC 740), which requires an asset and liability approach for financial accounting and reporting for income taxes. Under this guidance, deferred tax assets and liabilities are determined based upon differences between financial reporting and tax basis of assets and liabilities and are measured using the enacted tax laws that will be in effect when the differences are expected to reverse. 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. See Note 10, "Income Taxes", for further discussion of the Company's accounting for income taxes.

Under ASC 740, tax positions are evaluated for recognition using a more-likely-than-not threshold, and those tax positions requiring recognition are measured at the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. Liabilities for income tax matters include amounts for income taxes, applicable penalties, and interest thereon and are the result of the potential alternative interpretations of tax laws and the judgmental nature of the timing of recognition of taxable income.

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The Company recognizes deferred tax assets (DTAs) to the extent that it believes that the assets are more likely than not to be realized. In making such a determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, carryback potential if permitted under the tax law, and results of recent operations. The Company generally expects to fully utilize its DTAs; however, when necessary, the Company records a valuation allowance to reduce its net deferred tax assets to the amount that is more likely than not to be realized.

Concentration of Credit Risks

The Company's credit risks primarily relate to cash and cash equivalents, restricted cash, and accounts receivable. Cash and cash equivalents are primarily held in bank accounts and overnight investments. Restricted cash is primarily invested in commercial paper and certificates of deposit with financial institutions and other interest-bearing accounts. Accounts receivable consist primarily of amounts due from patients (funded through Medicare, Medicaid, other contractual programs and through private payors) and from other health care companies for management, accounting and other services. The collectability of account receivable balances is dependent on the availability of funds from certain programs that rely on governmental funding, primarily Medicare and Medicaid. The Company's receivables from Medicare and Medicaid programs accounted for 20% and 39% of total accounts receivable, respectively, at September 30, 2024 and 20% and 36% of total accounts receivable, respectively, at December 31, 2023. These receivables represent the only significant concentration of credit risk for the Company. The Company does not believe there are significant credit risks associated with these governmental programs.

The Company's operating subsidiaries, excluding the subsidiaries that exclusively operate assisted living and independent living facilities, have all of their skilled nursing beds designated for care of patients under federal Medicare and/or state Medicaid programs. Approximately 57% of the Company's skilled nursing beds are located in California.

Stock-based Compensation

The Company measures and recognizes compensation expense for all stock-based payment awards made to employees and directors based on estimated fair values, ratably over the requisite service period of the award. Net income reflects the recognition of the fair value of all restricted stock unit awards issued, the amount of which is based upon the number of grants and other variables. The Company accounts for award forfeitures as they occur.

Comprehensive Income

Comprehensive income consists of gains and losses affecting stockholders' equity that, under U.S. GAAP, are excluded from net income. For the nine months ended September 30, 2024, comprehensive income includes unrealized gains and losses on the Company's available-for-sale debt securities from previous 2024 quarters, offsetting to \$0 in the period. There were no components of comprehensive income for the nine months ended September 30, 2023. The Company does not have any components of other comprehensive income recorded within its condensed combined/consolidated financial statements to present and, therefore, does not separately present a statement of comprehensive income in its condensed combined/consolidated financial statements.

Segment Presentation

The Company's chief operating decision maker (CODM), the Chief Operating Officer, reviews the consolidated results of operations when making decisions about allocating resources and assessing the performance of the Company as a whole and, hence, the Company has only one reportable segment. The Company does not distinguish between markets or regions for the purpose of allocating resources.

Commitments and Contingencies

The Company has been, is currently, and expects in the future to be involved in claims, lawsuits, and regulatory and other government audits, investigations and proceedings arising in the ordinary course of business, some of which may involve material amounts. The defense and resolution of these claims, lawsuits, and regulatory and other government audits, investigations and proceedings may require the Company to incur significant expense. Loss contingency provisions

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are recorded for probable and estimable losses at the Company's best estimate of a loss or, when a best estimate cannot be made, at the Company's estimate of the minimum loss. These estimates are often developed prior to knowing the amount of the ultimate loss, require the application of considerable judgment, and are refined as additional information becomes known. Accordingly, the Company is often initially unable to develop a best estimate of loss and therefore, the estimated minimum loss amount, which could be zero, is recorded; then, as information becomes known, the minimum loss amount is updated, as appropriate. Occasionally, a minimum or best estimate amount may be increased or decreased when events result in a changed expectation.

Recent Accounting Standards Issued But Not Yet Adopted by the Company

In November 2023, the FASB issued ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*. The standard improves reportable segment disclosure requirements for public business entities primarily through enhanced disclosures about significant segment expenses that are regularly provided to the CODM and included within each reported measure of segment profit (referred to as the "significant expense principle"). The standard will become effective for the Company for the fiscal year 2024 annual financial statements and interim financial statements thereafter and will be applied retrospectively for all prior periods presented in the financial statements, with early adoption permitted. The Company is currently evaluating the impact this guidance will have on the disclosures included in the Notes to the combined/consolidated financial statements.

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures* which requires the Company to disclose disaggregated jurisdictional and categorical information for the tax rate reconciliation, income taxes paid and other income tax related amounts. This guidance is effective for annual periods beginning after December 15, 2024, which will be the Company's fiscal year 2025, with early adoption permitted.

In November 2024, the FASB issued ASU 2024-03, *Disaggregation of Income Statement Expenses*, which requires the Company to disaggregate key expense categories such as employee compensation, depreciation, and intangible asset amortization within its financial statements. This guidance is effective for annual periods beginning after December 15, 2026, which will be the Company's fiscal year 2027, and interim reporting periods beginning after December 15, 2027, which will be the Company's fiscal year 2028. Early adoption is permitted. The Company is currently evaluating the impact this guidance will have on the disclosures included in the Notes to the combined/consolidated financial statements.

NOTE 4. REVENUE AND ACCOUNTS RECEIVABLE

Patient and Resident Service Revenue

The Company's patient and resident service revenue is derived primarily from the Company's applicable subsidiaries providing healthcare services to their respective patients and residents. Revenue is recognized when services are provided to the patients at the amount that reflects the consideration to which the Company expects to be entitled. These amounts are due from residents, third-party payors (including health insurers and government payors), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits and other reviews by the payor. Generally, the licensed healthcare provider entity providing the applicable services bills the applicable payors monthly.

The healthcare services in skilled patient contracts include routine services in exchange for a contractual agreed-upon amount or rate. Revenue is recognized as the performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the applicable licensed healthcare provider entity. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Company believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to residents receiving services in the facility and, when applicable, residents receiving services in their homes (independent care or assisted living). The Company measures the performance obligation from admission into the facility, or the commencement of the service, to the point when the applicable licensed healthcare provider entity is no longer required to provide services to that resident, which is generally at the time that the resident discharges from the applicable facility or passes away.

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Revenue recognized from healthcare services is adjusted for estimates of variable consideration to arrive at the transaction price. The Company determines the transaction price based on contractually agreed-upon amounts or rates, adjusted for estimates of variable consideration. Variable consideration includes estimates of implicit price concessions so that the estimated transaction price is reflective of the amount to which the Company expects to be entitled in exchange for providing the healthcare services to customers. Variable consideration is estimated using the expected value method based on the Company's historical reimbursement experience. The amount of variable consideration constrains the transaction price, such that it is probable that a significant reversal in the amount of the cumulative revenue recognized will not occur in a future period. If actual amounts of consideration ultimately received differ from the Company's estimates, it adjusts these estimates, which would affect net service revenue in the period such variances become known.

The Company maintains a refund liability for consideration collected related to revenue that is not probable that a significant revenue reversal will not occur. The Company expects to refund some or all of that consideration back to the payor. The balance of the refund liability was \$83,987 and \$0 as of September 30, 2024 and December 31, 2023, respectively, and is presented within current liabilities on the Company's condensed combined/consolidated balance sheets.

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors is as follows:

Medicare: Payments for skilled nursing facility services rendered to Medicare program beneficiaries are based on prospectively determined daily rates which vary according to a patient diagnostic classification system. The applicable licensed healthcare provider entity is paid for certain reimbursable services at the approved rate with final settlement determined after submission of the annual cost report and audit thereof by the designated Medicare fiscal intermediary. Revenue from the Medicare program amounted to 34.4% and 32.8% of the Company's condensed combined/consolidated net patient and resident revenue for the three months ended September 30, 2024 and 2023, respectively, and 34.5% and 40.6% of the Company's condensed combined/consolidated net patient and resident revenue for the nine months ended September 30, 2024 and 2023, respectively.

Medicaid: Payments for skilled nursing facility services rendered to Medicaid (including Medi-Cal, which is the name of the state Medicaid program in California) program beneficiaries are based on an established daily reimbursement rate for eligible stays. The rate is adjusted periodically. The final settlement is determined after submission of an annual cost report and audits thereof by Medicaid. Revenue from the Medicaid program amounted to 40.0% and 42.3% of the Company's condensed combined/consolidated net patient and resident revenue for the three months ended September 30, 2024 and 2023, respectively, and 39.8% and 36.2% of the Company's condensed combined/consolidated net patient and resident revenue for the nine months ended September 30, 2024 and 2023, respectively.

Managed Care, Private and Other: Payments for services rendered to private payors and other primary payors included in the table below are based on established rates or on agreements with certain commercial insurance companies, health maintenance organizations, and preferred provider organizations, which provide for various discounts from the established rates. Revenue from these sources collectively amounted to 25.6% and 24.9% of the Company's condensed combined/consolidated net patient and resident revenue for the three months ended September 30, 2024 and 2023, respectively, and 25.7% and 23.2% of the Company's condensed combined/consolidated net patient and resident revenue for the nine months ended September 30, 2024 and 2023, respectively.

The Company's contracts are short term in nature with a duration of one year or less. The Company has minimal unsatisfied performance obligations at the end of the reporting period as patients are typically under no obligation to remain admitted in the Company's facilities or under the Company's care. As the period between the time of service and time of payment is typically one year or less, the Company does not adjust for the effects of a significant financing component.

Included in the Company's condensed combined/consolidated balance sheets are contract balances, comprised of billed accounts receivable and unbilled receivables, which are the result of differences between the timing of revenue recognition and billings and cash collections, as well as contract liabilities, which primarily represent payments the Company receives in advance of services provided. The Company has no material contract liabilities or contract assets as of September 30, 2024 and December 31, 2023.

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Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of audits and other reviews by governmental agencies or payor sources, health care providers from time to time receive requests for information and notices regarding billing audits and potential noncompliance with applicable laws and regulations, which, in some instances, can ultimately result in substantial monetary recoupments or other remedies being imposed on the healthcare provider. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. The Company believes that it is in compliance with all applicable laws and regulations.

The contracts the Company has with commercial payors also provide for retrospective audits and review of claims.

Settlements with third-party payors for retroactive adjustments due to audits or other reviews are considered variable consideration and are included in the determination of the estimated transaction price for providing resident services. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the Company's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as information becomes available, or as years are settled or are no longer subject to such audits or other reviews. Historically, differences between estimated settlements and actual settlements have been immaterial.

The Company disaggregates revenue from contracts with its patients by payors. The Company determined that disaggregating revenue into these categories achieves the disclosure objectives to depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. The composition of patient and resident service revenue by primary payors for the three and nine months ended September 30, 2024 and 2023 are as follows:

	Three Months Ended September 30,			
	2024	% of Revenue	2023	% of Revenue
Medicare	\$ 352,161	34.4 %	\$ 258,404	32.8 %
Medicaid	409,835	40.0 %	333,717	42.3 %
Managed care	208,871	20.4 %	154,057	19.5 %
Private and other	53,409	5.2 %	42,755	5.4 %
Total patient and resident service revenue	\$ 1,024,276	100.0 %	\$ 788,933	100.0 %

	Nine Months Ended September 30,			
	2024	% of Revenue	2023	% of Revenue
Medicare	\$ 992,443	34.5 %	\$ 915,690	40.6 %
Medicaid	1,146,178	39.8 %	816,743	36.2 %
Managed care	583,846	20.3 %	415,934	18.4 %
Private and other	156,479	5.4 %	108,816	4.8 %
Total patient and resident service revenue	\$ 2,878,946	100.0 %	\$ 2,257,183	100.0 %

Additional Funding and CARES Act

Through the CARES Act, the Company received funding from the U.S. Department of Health and Human Services (HHS) through the Provider Relief Fund (PRF) during the years ended December 31, 2022 and 2021. These funds were provided to healthcare providers who diagnose, test, or care for individuals with cases of COVID-19 and have health care related expenses and lost revenues attributable to COVID-19. The Company recorded these funds as deferred revenue upon receipt and revenue was recognized only to the extent that health-care related expenses or lost revenues had been incurred and were not reimbursed from other funding sources. The Company recognized an immaterial amount of revenue within additional funding on its condensed combined/consolidated statements of income in the nine months ended September 30, 2023 for funds received prior to 2023. The Company did not receive any additional funds related to this program during 2023 or 2024.

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The CARES Act also provided for refundable payroll tax credits known as the Employee Retention Tax Credit, which allowed qualified employers to receive a credit of 70% of the employee qualified wages and related payroll costs paid after December 31, 2020 through September 30, 2021, up to a maximum credit of \$7 per employee, per quarter, for a maximum of \$21 per employee in 2021. Due to uncertainty related to meeting the necessary qualifications, the Company recorded a reserve against the entire amount claimed. As of September 30, 2024 and December 31, 2023, the Company has recorded \$36,516 and \$36,477, respectively, in other liabilities to reflect the cash already received related to these credits which may need to be returned and potential penalties.

NOTE 5. PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following:

	September 30, 2024	December 31, 2023
Buildings and improvements	\$ 576,007	\$ 372,554
Leasehold improvements	73,814	58,958
Furniture, fixtures, and other	88,078	64,750
Construction in process	56,549	50,937
Land	78,213	55,593
Finance lease right-of-use assets	145,262	40,536
	1,017,923	643,328
Less: accumulated depreciation and amortization	(93,090)	(65,800)
Property and equipment, net	\$ 924,833	\$ 577,528

The Company did not record any impairment charges for the nine months ended September 30, 2024, and 2023.

See Note 13, "Operation Expansions", for information on expansions during the nine months ended September 30, 2024.

NOTE 6. FAIR VALUE MEASUREMENT

The Company's financial assets include insurance subsidiary deposits and highly liquid investments which are held by the consolidated captive insurance entity and are designated to support long-term insurance subsidiary liabilities and are recorded at fair value of \$47,200 and \$0 as of September 30, 2024 and December 31, 2023, respectively. As of September 30, 2024, the insurance subsidiary deposits and investments include net unrealized gains of \$2,200. Gains and losses on investments are recorded within other expense, net. Insurance subsidiary deposits and investments consist of holdings in investment grade bond mutual funds and are derived using Level 2 inputs. These assets are recorded in insurance subsidiary deposits and investments on our condensed combined/consolidated balance sheets and are classified as available-for-sale equity securities. These mutual funds are primarily valued utilizing calculations which incorporate observable inputs such as yield, maturity and credit quality.

NOTE 7. INVESTMENT IN PARTNERSHIPS

As of September 30, 2024 and December 31, 2023, the Company held \$37,000 and \$12,362, respectively, in multiple equity investments referred to as partnerships. These operations were formed to develop, own, and lease health care facilities. Some of the partnerships hold options to purchase the related real estate property holdings. Each of the entities is governed by a managing member who makes the significant decisions that impact the economic performance of the entity. The Company is not the managing member of any of the entities in which it is invested.

On July 1, 2024 the Company invested \$15,345 in the entity BRFS SNF Ventures V, LLC (BRFS) for a 50.0% ownership. As of September 30, 2024, this investment held three post-acute care facilities that were operated by non-affiliated operating entities. BRFS is a variable interest entity (VIE), however the Company does not consolidate the entity as it does not have the power to direct the activities that most significantly impact its economic performance. Therefore, the Company only accounts for its specific interest in the investment. As of September 30, 2024, the investment was \$15,457

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on the Company's condensed combined/consolidated balance sheet. On August 1, 2025, the Company took over the operations of these three post-acute care facilities.

In connection with the Prestige acquisition described in Note 13, "Operation Expansions", the Company invested \$10,000 in the entity Next Saddle Investors, LLC (Saddle) for a 25.8% ownership interest. Saddle acquired the operations for all 53 facilities included in the acquisition, and subsequently assigned them to the Company. Saddle also acquired the underlying real estate for 37 of the facilities from the Prestige acquisition, which it leases to the Company. The Company determined the Saddle manager to be a de facto agent to the Company under FASB ASC Topic 810, *Consolidation* (ASC 810). Saddle is a VIE; however, the Saddle manager is the primary beneficiary and therefore the Company does not consolidate the entity. As of September 30, 2024, the investment was \$10,221 on the Company's balance sheet.

All of the Company's other equity investments are individually immaterial with the largest investment of \$4,827 in an entity representing an ownership of 49.0%. Gain (loss) from the investments in partnerships was \$(716) and \$(7) for the three months ended September 30, 2024 and 2023, respectively, and was \$3,572 and \$(7) for the nine months ended September 30, 2024 and 2023, respectively.

NOTE 8. CREDIT FACILITIES

On February 28, 2023, the Company entered into a working capital loan agreement (the Working Capital Loan) in connection with the acquisition of various new facilities. The Working Capital Loan allowed the Company to borrow up to \$17,500 at an annual interest rate of 9%. On May 8, 2023, the Company drew on the Working Capital Loan in the amount of \$15,000. As described below, the Working Capital Loan was repaid during 2023 and, as such, had a zero balance as of September 30, 2024 and December 31, 2023.

On June 30, 2023, the Company and certain of its subsidiaries entered into a credit agreement with Truist Bank as administrative agent (Administrative Agent), and a syndicate of lenders (the 2023 Credit Agreement), that extended credit in the form of the revolving credit facility thereunder, (the 2023 Revolving Credit Facility), including letter of credit and swingline sub facilities and a term loan facility (Truist Term Loan), together referred to as the 2023 Credit Facility. The 2023 Credit Agreement provided for: (i) the 2023 Revolving Credit Facility with revolving commitments in an aggregate principal amount of \$150,000, including a letter of credit sub facility in an amount representing that portion of the aggregate revolving commitments that may be used by the borrower for the issuance of letters of credit in an aggregate face amount not to exceed \$30,000 and a swingline loan sub facility in an aggregate principal amount at any time outstanding not to exceed \$20,000 and (ii) the Truist Term Loan in an aggregate principal amount of \$275,000.

Outstanding borrowings under the 2023 Credit Facility accrued interest at either: (a) the Secured Overnight Financing Rate (SOFR) (plus a 1.0% credit spread adjustment) plus a margin ranging from 2.50% to 3.50% per annum; or (b) Base Rate (which was defined in a customary manner for credit facilities of this type) plus a margin ranging from 1.50% to 2.50% per annum. The applicable margin was based on the Company's debt to income ratio as calculated in accordance with the terms of the 2023 Credit Agreement. In addition, the Company agreed to pay a commitment fee on the unused portion of the 2023 Revolving Credit Facility, which ranged from 0.30% to 0.50% per annum, depending on the same debt to income ratio.

In connection with executing the 2023 Credit Agreement, deferred financing costs associated with lines-of-credit and long-term debt, of \$109, were written off, and additional deferred financing costs of \$9,662 were capitalized during the year ended December 31, 2023. In addition, on the closing date of the 2023 Credit Agreement, the Company drew \$75,000 on the 2023 Revolving Credit Facility and borrowed the entirety of the \$275,000 Truist Term Loan. The Company used approximately \$142,000 of the net proceeds to repay certain outstanding indebtedness on prior lines of credit and the Working Capital Loan.

On December 7, 2023, the Company amended and restated the 2023 Credit Facility (the Amended and Restated 2023 Credit Facility). The Amended and Restated 2023 Credit Facility provided for an increase of the 2023 Revolving Credit Facility to an aggregate principal amount of \$600,000, which Revolving Commitments (as defined in the Amended and Restated 2023 Credit Facility) may also be utilized for (x) the issuance of letters of credit in an aggregate face amount not to exceed \$50,000 and/or (y) the borrowing of swingline loans in aggregate principal amount not to exceed \$20,000 at any time outstanding.

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Outstanding borrowings under the Amended and Restated 2023 Credit Facility bear interest at the option of the Company equal to either (a) SOFR (plus 0.10% credit spread adjustment) plus a margin ranging from 2.25% to 3.25% per annum; or (b) the Base Rate (which is defined consistent with the 2023 Credit Facility) plus a margin ranging from 1.25% to 2.25% per annum. The applicable margin is based on the Company's debt to income ratio as calculated consistent with the 2023 Credit Facility. In addition, the Company will pay a commitment fee ranging from 0.25% to 0.45% per annum on the unused portion of the Revolving Commitment, depending on the same debt to income ratio.

Upon the closing of the Amended and Restated 2023 Credit Facility, the Company borrowed \$460,000 of revolving loans, the proceeds of which were used to repay and refinance all term loans and revolving loans under the 2023 Credit Facility, to repay certain other outstanding indebtedness, and to pay transaction costs in connection with the Amended and Restated 2023 Credit Facility. Deferred financing costs associated with both lines-of-credit and long-term debt of \$519 were written off as part of the refinancing transactions during the year ended December 31, 2023.

The Amended and Restated 2023 Credit Facility contains certain financial and non-financial covenants and restrictions. Default by the applicable credit party on any covenant or restriction could affect the lender's commitment to lend, and, if not waived or corrected, could make the outstanding balances due on demand. Under the Amended and Restated 2023 Credit Facility, the Company must maintain a debt-to-income ratio of not greater than 3.00:1.00. The Amended and Restated 2023 Credit Facility also requires that the Company maintain a minimum interest/rent coverage ratio of not less than 1.10:1.00.

On May 16, 2024, the Company entered into an amendment to the Amended and Restated 2023 Credit Facility that, among other things, waived an event of default that had occurred and was then continuing under the Amended and Restated 2023 Credit Facility and modified the affirmative covenants thereunder requiring the joinder of certain subsidiaries of the Company to the Amended and Restated 2023 Credit Facility, as further set forth therein. On November 14, 2024, the Company entered into another amendment to the Amended and Restated 2023 Credit Facility that, among other things, extended the deadline for the delivery of unaudited quarterly financial statements for the fiscal quarter ended September 30, 2024. On March 27, 2025, and May 29, 2025, the Company entered into further amendments to the Amended and Restated 2023 Credit Facility that, among other things, extended the deadline for delivery of audited annual financial statements for the fiscal year ended December 31, 2024. The May 29, 2025 amendment also supplemented the Amended and Restated Credit Agreement's financial covenants requiring the Company to maintain unrestricted cash and certain permitted investments of at least \$100,000 until the Company delivers audited financial statements for the fiscal year ended December 31, 2024 (the "Liquidity Requirement").

On July 24, 2025 and August 13, 2025 the Company entered into two separate forbearance agreements with the Administrative Agent and the lenders, pursuant to which the lenders agreed to temporarily forbear from exercising remedies under the Amended and Restated 2023 Credit Facility with respect to certain technical events of default, including without limitation matters relating to inaccuracies in certain representations and warranties made, which inaccuracies also triggered an event of default under the Third Consolidated Master Lease, dated June 30, 2023 (as amended, restated, amended and restated, supplemented or otherwise modified from time to time, the "Omega Master Lease"), which in turn triggered an additional event of default under the Amended and Restated 2023 Credit Facility. In addition, a separate representation and warranty event of default occurred under the Omega Master Lease, which triggered an event of default under the Amended and Restated Credit Agreement (all such technical events of default under the Amended and Restated 2023 Credit Facility, the "Initial Technical Events of Default"). The August 13, 2025 Forbearance Agreement and Fifth Amendment to the Credit Agreement required that the Liquidity Requirement remain in place for the entirety of the forbearance period and further extended the delivery period with respect to the fiscal year 2024 financial statements. The forbearance period was scheduled to run until October 31, 2025, subject to extension by the Administrative Agent through November 30, 2025, or by the Required Lenders (as defined in the Amended and Restated Credit Agreement) thereafter, or earlier termination upon the occurrence of certain specified events of default.

On October 21, 2025, the Company entered into a third forbearance agreement (the "October Forbearance Agreement"). Under the October Forbearance Agreement, the lenders again agreed to temporarily forbear from exercising rights and remedies under the Amended and Restated Credit Agreement with respect to the Initial Technical Events of Default, as well as certain additional technical events of default including without limitation matters relating to the designation of certain immaterial conflicted subsidiaries; failure to join certain subsidiaries to the loan documents; noncompliance with cash management requirements; and inaccuracies in certain representations and warranties made as a

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result of the foregoing (collectively, with the Initial Technical Events of Default, the “Technical Events of Default”). The Technical Events of Default also triggered an event of default under the Omega Master Lease, which in turn triggered an additional event of default under the Amended and Restated Credit Agreement.

The October Forbearance Agreement provides for the same forbearance period as the prior forbearance agreements. Following the October Forbearance Agreement, the Administrative Agent agreed to extend the forbearance period thereunder through November 30, 2025. During the forbearance period, the Company is required to comply with certain additional specified conditions, including the continued maintenance of minimum liquidity of \$100,000, limitations on certain investments and acquisitions, and a prohibition on the borrowing of new loans under the Amended and Restated 2023 Credit Facility. The October Forbearance Agreement is intended to provide the Company with temporary relief while addressing the Technical Events of Default and does not constitute a waiver of the Technical Events of Default or amendment to the Amended and Restated Credit Agreement beyond the amended terms specified therein.

The Company was in compliance with all such covenants and restrictions, as amended and allowable by forbearance, as of September 30, 2024.

The Company maintains the Amended and Restated 2023 Credit Facility as its single line-of-credit. At September 30, 2024, the total commitment limit continued to be \$600,000 and was secured by Company assets. The agreements mature on December 7, 2028. The balance outstanding on all applicable lines was \$0 and \$520,000 at September 30, 2024 and December 31, 2023. The Company had \$13,323 in letters of credit outstanding as of September 30, 2024 and had no letters of credit outstanding as of December 31, 2023.

Net deferred financing fees on lines-of-credit were \$12,641 and \$14,906 as of September 30, 2024 and December 31, 2023, respectively. Expense recognized relating to deferred financing fees on lines-of-credit is included in interest expense on the condensed combined/consolidated statements of income. For the three months ended September 30, 2024 and 2023 this interest expense was \$755 and \$526, respectively, and for the nine months ended September 30, 2024 and 2023 this interest expense was \$2,265 and \$877, respectively.

On April 15, 2024, the Company completed an Initial Public Offering (IPO), as described in Note 15, “Capital Stock”, receiving initial net proceeds of \$23,000. The Company used \$370,000 of the net proceeds from the IPO, which represented 87.5% of the net proceeds from the IPO, to repay amounts outstanding under the Amended and Restated 2023 Credit Facility, and used the remaining amount for general corporate purposes to support the growth of the business. On September 9, 2024, the Company completed an underwritten public offering, as described in Note 15, “Capital Stock”, receiving initial net proceeds of \$96,414. The Company used 100% of the net proceeds from the offering to repay amounts outstanding under the Amended and Restated 2023 Credit Facility.

NOTE 9. LONG-TERM DEBT

During the nine months ended September 30, 2024 and the year ended December 31, 2023, certain of the Company's subsidiaries entered into Department of Housing and Urban Development (HUD)-insured mortgage loans in the aggregate amount of \$65,631 and \$88,809, respectively. As a result, 12 of the Company's subsidiaries had mortgage loans insured by HUD in the aggregate amount of \$229,520 as of September 30, 2024, of which \$3,669 is classified as current and the remaining \$225,851 is classified as non-current. As of December 31, 2023, the Company's subsidiaries had HUD-insured mortgage loans in the aggregate amount of \$166,181 of which \$2,346 was classified as current and the remaining \$163,835 was classified as non-current. These subsidiaries are subject to HUD-mortgage oversight and periodic inspections. As of September 30, 2024, the Company's HUD-insured mortgage loans bear fixed interest rates ranging from 2.4% to 6.3% per annum and have various maturity dates through September 30, 2059. In addition to the interest rate, the Company incurs other fees for HUD placement, including but not limited to audit fees. Amounts borrowed under the mortgage loans may be prepaid, subject to prepayment fees based on the principal balance on the date of prepayment. The original terms for all the HUD-insured mortgage loans are 24 to 35 years. Subsequent to September 30, 2024, in December 2024 the Company converted a \$22,463 construction loan to a HUD-insured mortgage loan.

In addition to the HUD-insured mortgage loans above, the Company's subsidiaries had 11 other mortgage loans or promissory notes. The non-HUD insured mortgage loans and notes bear interest rates that range from 2.0% to 7.5% per annum with various maturity dates through June 1, 2027. As of September 30, 2024 the Company had \$3,057 of debt

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principal outstanding under the non-HUD mortgage loans and promissory notes, of which \$12,137 is classified as current and the remaining \$30,920 is classified as non-current. As of December 31, 2023 the Company had \$48,829 of debt principal outstanding under the non-HUD mortgage loans and promissory notes, of which \$14,476 is classified as current and the remaining \$34,353 is classified as non-current.

The Company was in compliance with all applicable loan covenants with respect to the foregoing as of September 30, 2024 and December 31, 2023. The notes and loans above are secured through guarantees by the Company and certain stockholders. Additionally, various loans are secured by facility assets and real property with a carrying value amounting to \$263,958 and \$438,645 at September 30, 2024 and December 31, 2023, respectively.

Long-term debt consists of the following:

	September 30, 2024	December 31, 2023
HUD-insured mortgage loans	\$ 229,520	\$ 166,181
Other non-HUD mortgage loans and promissory notes	43,057	48,829
Less: current maturities	(15,806)	(16,822)
Less: deferred financing fees, net	(3,126)	(2,480)
Total	\$ 253,645	\$ 195,708

Deferred financing fees on long-term debt are being amortized over the life of the respective loans. Expense recognized related to deferred financing fees on long-term debt is included in interest expense and amounted to \$27 and \$26 for the three months ended September 30, 2024 and 2023, respectively, and \$68 and \$844 for the nine months ended September 30, 2024 and 2023, respectively.

As discussed in Note 8, "Credit Facilities", on June 30, 2023, the Company borrowed under the Truist Term Loan in connection with the execution of the 2023 Credit Agreement. Under the Truist Term Loan, the Company borrowed \$275,000. The Truist Term Loan had a maturity date of June 30, 2028. Upon closing of the Truist Term Loan, the Company paid off certain other mortgage loans and promissory notes in the aggregate amount of \$224,802. The Truist Term Loan was repaid on December 7, 2023 in connection with the closing of the Amended and Restated 2023 Credit Facility and as such, had a zero balance as of September 30, 2024.

NOTE 10. INCOME TAXES

The Company recorded income tax expense of \$21,203 and \$29,339 during the nine months ended September 30, 2024, and 2023, respectively, or 52.5% of earnings before income taxes for the nine months ended September 30, 2024, compared to 27.1% for the nine months ended September 30, 2023. The change in effective tax rate in the nine months ended September 30, 2024, compared to the nine months ended September 30, 2023, was primarily due to the change in forecasted pre-tax book income and an increase in non-deductible expenses, including non-deductible compensation in 2024.

The Company is not, to its knowledge, under examination by any federal or state income tax authority. The Company's federal returns for tax years 2020 and forward are subject to examination, and state returns for tax years 2019 and forward are subject to examination. The Company does not believe the federal or state statute lapses or any other event will significantly impact the balance of unrecognized tax benefits in the next twelve months. The net balance of unrecognized tax benefits was not material to the condensed consolidated financial statements for the nine months ended September 30, 2024 and 2023, respectively.

The Company's balance of net deferred tax assets or net deferred tax liabilities is included within other assets or other liabilities, respectively, on the condensed combined/consolidated balance sheets as of September 30, 2024 and 2023, respectively.

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NOTE 11. LEASES

Operating Leases

The Company leases most of its skilled nursing and assisted living facilities, as well as its office space and certain vehicles and equipment, under various non-cancelable operating lease agreements. These operating leases expire at various dates through 2049.

Substantially all operating leases for skilled nursing and assisted living facilities are on a “triple-net” basis, which require lessees to pay for all insurance, repairs, utilities, and real property taxes assessed on the leased property, and most of the leases are guaranteed by the Company and/or its stockholders.

For 11 of the facility operating leases, the Company holds an option to purchase the real estate which can be exercised at varying times until March 31, 2038. At lease inception it was determined that the exercise of each of the purchase options was not reasonably certain. Options on three of the leases have become subject to disagreement with the landlord regarding whether the option exercise window has closed, and the Company is working with the landlord to resolve the disagreement.

All facility leases provide for an additional percentage rent based upon specified rates per the terms of the agreements. This additional percentage rent is variable and is expensed as incurred.

Finance Leases

The Company leases certain skilled nursing and assisted living facilities under finance lease agreements. The lease terms of two of the facility finance leases allow for purchase options to be exercised at varying times until May 22, 2027. The Company has determined that it is reasonably certain to exercise the purchase option at the end of each purchase option window. Therefore the Company has calculated the lease term through the end of the purchase option window for each such lease.

In addition, for six of the facility finance leases, the lessor holds an option which could require the Company to purchase the associated real estate. The total obligation to purchase such real estate is approximately \$86,751 and can be exercised by the lessor through June 14, 2026 (the “Lessor Options”). For other facility finance leases, the duration of the lease term represented the major part of the remaining economic life of the facility at inception.

Finance lease right-of-use assets are included in property and equipment and have a balance of \$140,514 and \$37,850 as of September 30, 2024 and December 31, 2023, respectively. The current portion of finance lease liabilities is included in other accrued expenses and has a balance of \$1,181 and \$942 as of September 30, 2024 and December 31, 2023, respectively. The non-current portion of finance lease liabilities is included in other liabilities and has a balance of \$145,700 and \$40,766 as of September 30, 2024 and December 31, 2023, respectively.

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The components of lease expense were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Operating lease expense				
Rent - cost of services ⁽¹⁾	\$ 72,632	\$ 58,366	\$ 200,954	\$ 154,926
General and administrative expense	607	233	2,024	941
Other variable lease costs ⁽²⁾	7,045	6,507	24,078	18,471
Total operating lease expense	\$ 80,284	\$ 65,106	\$ 227,056	\$ 174,338
Finance lease expense				
Amortization of right-of-use assets	\$ 947	\$ 322	\$ 2,285	\$ 943
Interest on lease liabilities	2,164	327	5,074	656
Total financing lease expense	\$ 3,111	\$ 649	\$ 7,359	\$ 1,599
Total Lease Expense	\$ 83,395	\$ 65,755	\$ 234,415	\$ 175,937

(1) Rent - cost of services includes variable lease costs such as Consumer Price Index (CPI) increases and other rent adjustments of \$ 633 and \$566 for the three months ended September 30, 2024 and 2023, respectively, and \$1,826 and \$2,144 for the nine months ended September 30, 2024 and 2023, respectively.

(2) Other variable lease costs of facilities, including property taxes and insurance, are classified in cost of services in the Company's unaudited condensed combined/consolidated statements of income .

The following table summarizes supplemental cash flow information related to leases:

	Nine Months Ended September 30,	
	2024	2023
Operating cash paid for amounts included in the measurement of operating lease liabilities	\$ 180,006	\$ 139,979
Operating cash paid for amounts included in the measurement of finance lease liabilities	5,074	657
Financing cash paid for amounts included in the measurement of finance lease liabilities	577	1,442
Operating lease right-of-use assets obtained in exchange for lease liabilities	784,291	723,584
Finance lease right-of-use assets obtained in exchange for lease liabilities	18,298	2,028
Decrease in finance lease right-of-use assets and liabilities due to lease termination/modification	(2,272)	—

Information relating to the lease term and discount rate is as follows:

	As of September 30, 2024
Weighted-average remaining lease term (years)	
Operating leases	13
Finance leases	7
Weighted-average discount rate	
Operating leases	6.0 %
Finance leases	6.1 %

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Maturities of lease liabilities as of September 30, 2024 were as follows:

	Finance Leases	Operating Leases	Total
2024 (remainder)	\$ 2,531	\$ 70,313	\$ 72,844
2025	29,891	280,539	310,430
2026	92,513	281,184	373,697
2027	19,132	280,095	299,227
2028	1,949	282,587	284,536
2029	1,588	284,217	285,805
Thereafter	54,734	2,421,350	2,476,084
Total lease payments	\$ 202,338	\$ 3,900,285	\$ 4,102,623
Less: present value discount	(55,457)	(1,277,576)	(1,333,033)
Present value of lease liabilities	\$ 146,881	\$ 2,622,709	\$ 2,769,590

Maturities of finance leases include amounts the Company would pay in the earliest period in which the lessor can exercise the Lessor Options.

In addition to its lessee activity, the Company generates an immaterial amount of revenue from arrangements where it is a lessor of certain facilities. Revenue from those arrangements is included in other revenue on the condensed combined/consolidated statements of income.

NOTE 12. RELATED PARTY TRANSACTIONS

On July 1, 2021, the Company entered into a Consulting and Strategic Advisory Services Agreement with Helios Consulting, LLC (Helios), a limited liability company owned by Jason Murray, the Company's Chief Executive Officer and Chairman of its board of directors, and Mark Hancock, Executive Vice Chairman of its board of directors, (Helios Consulting Agreement) which automatically renewed for successive one-year terms. The Helios Consulting Agreement provided for a cash consulting fee of approximately \$4,000 annually, paid in monthly installments, for consulting and strategic advisory services provided to the Company by Helios. For the three months ended September 30, 2024 and 2023, the Company paid \$0 and \$1,000 (inclusive of \$0 and \$38, respectively, paid to a subsidiary of Helios), respectively. For the nine months ended September 30, 2024 and 2023, the Company paid \$0 and \$3,000 (inclusive of \$0 and \$113, respectively, paid to a subsidiary of Helios), respectively. As of December 31, 2023, the Company terminated the Helios Consulting Agreement.

On March 24, 2023, the Company entered into subscription agreements with Mr. Murray and Mr. Hancock, pursuant to which Mr. Murray and Mr. Hancock each purchased 10,000 shares of the Company's common stock for a purchase price of \$0.001 per share, in a private placement concurrent with the Company's incorporation in the State of Delaware and in anticipation of effecting the reorganization on June 30, 2023.

NOTE 13. OPERATION EXPANSIONS

2024 Expansions

On September 1, 2024, for nominal consideration, the Company finalized the acquisition of operations for 32 skilled nursing and 21 assisted living and independent living facilities inclusive of 2,511 and 1,334 skilled nursing and assisted living beds, respectively. This acquisition from the former operator, Prestige (Prestige acquisition), expanded the Company's operations in eight states, five of which were new operating states. In connection with the Prestige acquisition, the Company invested \$10,000 for a 25.8% interest in a newly formed entity, Saddle. This investment is recorded as an investment in partnership within other assets on the Company's condensed combined/consolidated balance sheets. Saddle acquired the operations for all 53 facilities included in the Prestige acquisition, and subsequently assigned them to the Company. Saddle acquired 37 properties from the sellers of the skilled nursing and assisted living and independent living facilities. The Company then leased these 37 properties from Saddle. The Company also assumed eight leases from the prior operator and negotiated new leases for the remaining eight facilities with unaffiliated third-party landlords. The

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Company has recorded the associated right of use assets and right of use liabilities for all 53 leases. This transaction was classified as a business combination in accordance with ASC 805.

The table below represents the purchase price allocation to total identifiable assets acquired and net liabilities assumed using the acquisition method, based on their respective fair values as of September 1, 2024.

	Amount
Prepaid expenses and other current assets	\$ 832
Operating lease right-of-use assets	76,351
Other assets	9,600
Current operating lease liabilities	(4,970)
Long-term operating lease liabilities	(58,301)
Deferred tax liability	(6,327)
Bargain purchase gain	(17,185)
Total purchase price	\$ —

Prepaid expenses and other current assets acquired consist of on-hand supplies at the facilities. Other assets acquired consist of contracts assumed with local hospitals, wherein the Company agrees to hold a specified number of beds available for potential hospital discharge, for a set date range. The fair value of these hospital contracts was determined using the income approach. This approach utilized significant assumptions including management's best estimates of the expected future cash flows and renewal rates of the contracts.

Right-of-use assets specified in the table above are related specifically to the eight leases assumed as part of the transaction excluding the new lease agreements for 37 properties leased from Saddle and eight properties leased from unaffiliated third-party landlords. The value of the right-of-use assets was determined under a market approach. The market approach utilized significant assumptions based on estimated market rent assessments for the acquired lease contracts.

The deferred tax liability recognized is due to the Company having no tax basis in the assets acquired and liabilities assumed. The Company did not assume any liabilities other than those associated with the post-assumption obligations under the assumed leases.

Total fair value of the net assets acquired exceeds consideration transferred, resulting in a bargain purchase gain. The Company reassessed whether it correctly identified all of the assets acquired and all of the liabilities assumed prior to recognition of the gain, in accordance with ASC 805. This bargain purchase gain is recorded within other income (expense), net on the Company's condensed combined/consolidated statements of income.

The unaudited pro-forma results presented below include the effects of the Prestige acquisition as if it had been consummated as of January 1, 2023, with adjustments to give effect to pro forma events that are directly attributable to the Prestige acquisition which includes adjustments related to the rent - cost of services expense. The unaudited pro forma results do not reflect any operating efficiency or potential cost savings which may result from the consolidation of the acquired operations of the facilities. Accordingly, these unaudited pro forma results are presented for informational purposes only and are not necessarily indicative of what the actual results of operation of the combined company would have been if the Prestige acquisition had occurred at the beginning of the period presented nor are they indicative of future results of operations and are not necessarily indicative of results that might have been achieved had the Prestige acquisition been consummated as of January 1, 2023.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Revenue	\$ 1,082,734	\$ 896,291	\$ 3,159,813	\$ 2,568,790
Income before provision for income taxes	34,723	29,115	45,611	107,224

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For the three and nine months ended September 30, 2024, the acquired facilities contributed revenue of \$54,272. For the three and nine months ended September 30, 2024, income before provision for income taxes related to the facilities was \$483.

In addition to the Prestige acquisition, during the nine months ended September 30, 2024, the Company's operations expanded with the addition of 15 stand-alone facilities which included the acquisition of 1,879 skilled nursing beds and 174 assisted living beds operated by the Company's affiliated operating subsidiaries. In connection with the new operations obtained through long-term leases, the Company did not acquire any material assets or assume any liabilities other than the tenant's post-assumption rights and obligations under the long-term lease. The Company entered into a separate operations transfer agreement with each prior operator as part of each transaction. During this same period, the Company's real estate portfolio grew with 11 real estate purchases. Of the 11 real estate purchases, four of the properties were acquired in conjunction with the operations of the associated facility. For the other seven acquired properties, the Company's subsidiaries previously operated the respective facilities and have now acquired the real estate associated with those operations. The aggregate purchase price for these real estate purchases was \$225,261.

The Company's expansion strategy has been focused on identifying both opportunistic and strategic acquisitions within its target markets that offer strong opportunities to improve both clinical and financial performance of the acquired facility. The operations added by the Company are frequently underperforming financially and have regulatory and clinical challenges to overcome. Financial information, especially with underperforming operations, is often inadequate, inaccurate or unavailable. The Company believes that prior operating results are not typically a meaningful representation of the Company's current operating results or indicative of the integration potential of its newly acquired operating subsidiaries. The assets added during the nine months ended September 30, 2024 and through the issuance of the condensed combined/consolidated financial statements were not material operations to the Company individually or in the aggregate. Accordingly, other than as disclosed above, pro forma financial information is not presented. The additions have been included in the September 30, 2024 condensed combined/consolidated balance sheets of the Company, and the operating results have been included in the condensed combined/consolidated statements of income of the Company since the date the Company gained effective control.

Expansions and Divestitures After Period End

Subsequent to September 30, 2024, the Company's operations grew into two new states and expanded in five existing states with the addition of 45 stand-alone facilities, 39 of which were acquired through long-term leases, four through real estate purchases, and two of which the Company previously owned the real estate for. The new operations added 5,030 skilled nursing beds and 271 assisted living beds operated by the Company's affiliated operating subsidiaries. Additionally, during the same period the Company expanded its portfolio of owned properties by acquiring five properties associated with the Lessor Options. The aggregate purchase price for each of these acquisitions was \$138,059.

Subsequent to September 30, 2024, the Company also divested of one leased facility which included 120 skilled nursing beds.

NOTE 14. COMMITMENTS AND CONTINGENCIES

Regulatory Matters

Laws and regulations governing Medicare and Medicaid programs are complex and subject to review and interpretation. Compliance with such laws and regulations is evaluated regularly, the results of which can be subject to future governmental review and interpretation, and can include significant regulatory action including fines, penalties, and exclusion from certain governmental programs. Included in these laws and regulations is monitoring performed by the Office of Civil Rights which covers the Health Insurance Portability and Accountability Act of 1996, the terms of which require healthcare providers (among other things) to safeguard the privacy and security of certain patient protected health information.

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Regulatory Investigations

The Company is subject to various governmental inspections, audits, and investigations that arise in the ordinary course of its business. The following governmental investigations are ongoing, although the government entities conducting these investigations have not asserted claims against the Company in connection with these investigations.

On April 8, 2024, Providence Administrative Consulting Services (“Providence”) and Paradise Valley Healthcare Center (“Paradise Valley”) received a Civil Investigative Demand (“CID”) from the U.S. Department of Justice (“DOJ”) requesting information and documents relating to an investigation of Paradise Valley and Providence to determine whether Paradise Valley and Providence violated the False Claims Act by submitting false claims to Medicare. The investigation relates to whether Providence and Paradise Valley improperly induced patient referrals through remuneration in violation of the Anti-Kickback Statute. The CID includes requests for information relating to referral source relationships, including relationships with medical directors and other individuals. The Company is cooperating with the investigation, which is ongoing.

On September 11, 2024, the Company received a CID from the DOJ requesting information and documents relating to an investigation of the Company’s California-based skilled nursing facilities to determine whether the Company violated the False Claims Act by submitting false claims to Medicare for reimbursement under the patient-driven payment model (PDPM) for skilled nursing and rehabilitation services. The CID includes requests for information relating to the Company’s practices and incentives pertaining to the completion and submission of Minimum Data Set Assessments and the resulting PDPM rates. The Company is cooperating with the investigation, which is ongoing.

On September 30, 2024, Providence Group, Inc. (“Providence Group”) received a CID from the DOJ requesting information and documents relating to an investigation of its skilled nursing facilities, specifically including Bishop Care Center (“Bishop”) to determine whether Providence Group violated the False Claims Act by submitting false claims to Medicare for reimbursement under the COVID-19 related Hospital Stay Waiver (otherwise known as the 1135 waiver). The CID includes requests for information relating to 1135 COVID Waiver practices at Bishop. The Company is cooperating with the investigation, which is ongoing.

On February 26, 2025, the Company received a subpoena from the DOJ per the Health Insurance Portability and Accountability Act of 1996 (“HIPAA”) relating to an investigation into possible violations of various sections of 18 U.S.C. that prohibit the making of fraudulent or false statements to any branch of the government of the United States. The subpoena includes requests for information relating to PACS’ 1135 COVID Waiver practices, billing of Medicare Part B for respiratory and sensory integration therapy services, change of insurance enrollment, cost waivers for co-pays, deductibles, and co-insurance, and claim reimbursement from Medicare for bad debt. The Company is cooperating with the investigation, which is ongoing.

SEC Investigation

The SEC’s Division of Enforcement is conducting an investigation into matters that relate to the Company’s accounting and financial reporting and disclosure, and the Company’s internal controls over financial reporting and disclosure controls.

The Company is cooperating with each of the regulatory investigations identified above and the SEC investigation to produce the requested information and documentation. At this time, the Company cannot predict the outcome of any of these investigations and there can be no assurance that one or more of these investigations will not result in suits or actions alleging, or findings of, violations of federal or state laws that could lead to the imposition of damages, fines, penalties, restitution, other monetary liabilities, sanctions, settlements or changes to our business practices or operations that could have a material adverse effect on our business, financial condition or results of operations. The legal costs associated with responding to the regulatory investigations and SEC investigations can be substantial, regardless of the outcome.

The Company is unable at this time to estimate a loss or range of loss that may arise in the event that a claim is asserted against it in connection with any of these investigations for reasons including that these matters are in early stages, no factual issues have been resolved in these matters, and there is uncertainty as to the outcome of these matters, which can result in large settlement amounts or damage awards.

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Litigation

The skilled nursing business involves a significant risk of liability given the age and health of the patients and residents served by the Company's independent operating subsidiaries. The Company, and others in the industry are subject to an increasing number of claims and lawsuits, including professional liability claims, alleging that services provided have resulted in personal injury, elder abuse, wrongful death or other related claims. In addition, the Company, its independent operating subsidiaries, and others in the industry are subject to claims and lawsuits in connection with COVID-19 and a facility's preparation for and/or response to COVID-19.

Healthcare litigation (including class action litigation) is common and is filed based upon a wide variety of claims and theories. The Company and other companies in its industry are routinely subjected to varying types of claims and suits, including class-actions. Class-action suits have the potential to result in large jury verdicts and settlements, and may result in significant legal costs. The Company expects the plaintiffs' bar to continue to be aggressive in their pursuit of claims.

The Company has been, and continues to be, subject to other claims and legal actions that arise in the normal course of business, including potential claims filed by patients or others on their behalf related to patient care and treatment (professional negligence claims), as well as employment related claims filed by current or former employees. For example, the Company has been subjected to, and is currently involved in, litigation alleging violations of state and federal wage and hour laws resulting from the alleged failure to pay wages, to timely provide and authorize meal and rest breaks, and related causes of action.

In addition to the litigations described above, the Company is also subject to the following litigation:

Litigation – Securities Class Action and Shareholder Derivative Actions

On November 13, 2024, a putative securities class action captioned *Manchin v. PACS Group, Inc., et al.*, Case No. 1:24-cv-08636-LJL (S.D.N.Y.) ("*Manchin* Action") was filed against the Company, individual defendants Jason Murray, Derick Apt, Mark Hancock, Jacqueline Millard, and Taylor Leavitt; and underwriter defendants Citigroup Global Markets Inc., J.P. Morgan Securities LLC, Truist Securities, Inc., RBC Capital Markets, LLC, Goldman Sachs & Co. LLC, Stephens Inc., KeyBanc Capital Markets Inc., Oppenheimer & Co. Inc., and Regions Securities LLC. The complaint brings claims under Sections 11 and 15 of the Securities Act, and Section 10(b), and 20(a) of the Exchange Act, and alleges the Company and its leadership engaged in a multi-year scheme to inflate revenue and profitability by (i) exploiting a COVID-era Medicare waiver to "flip" long-term Medicaid patients to higher-paying Medicare coverage, (ii) billing unnecessary Medicare Part B respiratory and sensory integration therapies, and (iii) falsifying licensure and staffing documentation. On January 7, 2025, the court consolidated the *Manchin* action with a similar action brought by plaintiff New Orleans Employees' Retirement System, and on February 11, 2025 the court appointed 1199SEIU Health Care Employees Pension Fund as lead plaintiff, and its counsel, Labaton Keller Sucharow LLP, as lead counsel. Pursuant to the parties' stipulation and as ordered by the court on May 29, 2025, the Lead Plaintiff's consolidated complaint is not due until 14 days after the Company files its Quarterly Report on Form 10-Q for the period ended September 30, 2024 and its Annual Report on Form 10-K for the year ended December 31, 2024. Defendants' motion to dismiss the consolidated complaint is due 60 days after the complaint is filed, Plaintiffs' opposition is due 60 days after the filing of the motion to dismiss, and Defendants' reply is due 45 days after the filing of the opposition.

On February 14, 2025, a derivative action originally filed by plaintiff Theresa Howard-Hines ("*Howard-Hines* Action") captioned *IN RE PACS GROUP, INC. DERIVATIVE LITIGATION* Lead Case No. 1:25-cv-01343-LJL (S.D.N.Y.) was filed against defendants Jason Murray, Derick Apt, Mark Hancock, Michelle Lewis, Jacqueline Millard, Taylor Leavitt, and Evelyn Dilsaver, with the Company named as nominal defendant. The complaint brings claims of breach of fiduciary duties, unjust enrichment, waste of corporate assets, and contribution, based on substantially similar allegations as in the *Manchin* Action. On April 8, 2025, the court consolidated the *Howard-Hines* action with a similar derivative action filed by plaintiff Adam Beckman, under the name *In re PACS Group, Inc. Derivative Litigation*. On June 9, 2025, the parties filed a joint stipulation staying the action until the earlier of the dismissal of the *Manchin* Action, the denial of any motion to dismiss in the *Manchin* Action, or the termination of the stay.

On August 19, 2025, a derivative action captioned *Boers v. Murray, et al.*, Case No. 1:25-cv-00119-DAK-DBP (D. Utah) was filed against the same defendants and alleging substantially the same claims and theories as *IN RE PACS*

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GROUP, INC. DERIVATIVE LITIGATION. The defendants have not yet been served in this action. The parties have tentatively agreed to stay the Utah Derivative Action pending resolution of the anticipated motion to dismiss the securities class action. No dispositive rulings have issued, discovery is not proceeding, and there are no settlement ranges or agreements in principle. Future developments may include motions to dismiss and other dispositive motions, and potential coordination with the securities class action if the stays are lifted.

Legal proceedings can be complex and take many months, or even years, to reach resolution, with the final outcome depending on a number of variables, some of which are not within our control. Therefore, although the Company will vigorously defend itself in each of the actions described above and any other legal proceedings, their ultimate resolution and potential financial and other impacts on the Company are uncertain but could be material. Regardless of final outcomes, however, any such proceedings, claims, and investigations may nonetheless impose a significant burden on management and employees and be costly to defend, with unfavorable preliminary, interim or final rulings.

The Company accrues a liability amount when it believes that it is both probable that a liability has been incurred, and the amount can be reasonably estimated. Significant judgment is required to determine both probability and the estimated amount. Such legal matters are inherently unpredictable and subject to significant uncertainties, some of which are beyond the Company's control. The Company is unable to estimate a loss or range of loss in connection with the Securities Class Action and Shareholder Derivative Actions at this time for reasons including that these matters are in early stages, no factual issues have been resolved in these matters, and there is uncertainty as to the outcome of these matters.

The defense of any of the litigations described above may result in significant legal costs, regardless of the outcome, and can result in large settlement amounts or damage awards. While there can be no assurance, based on the Company's evaluation of information currently available, management does not believe the results of such litigations would have a material adverse effect on the results of operations, financial position or cash flows of the Company, taken as a whole. However, the Company's assessment may evolve based upon further developments in the proceedings at issue. The results of legal proceedings are inherently uncertain, and material adverse outcomes are possible.

Insurance Claims

The Company purchased PLGL claims made insurance policies to cover applicable claims through an unrelated insurer. The PLGL policies are claims-made high deductible self-insured policies whereby the Company is responsible for the first layer of coverage, generally ranging from \$350 to \$500 per claim, as well as an additional aggregate one-time deductible generally ranging from \$4,975 to \$6,000 per policy, with the unrelated insurer typically covering up to \$10,000 in aggregate claims paid per policy year. The Company uses its wholly-owned captive insurance company for the purpose of insuring certain portions of its risk retained under its PLGL programs. Accordingly, the Company is in essence self-insured for claims that are less than policy deductible amounts, claims not covered by such policies, and claims that exceed policy limits. It is the Company's policy to use an external actuary to assist management in estimating the expense and related self-insurance liabilities for PLGL claims, both asserted and unasserted, on an undiscounted basis. Included as part of accrued self-insurance liabilities in the accompanying condensed combined/consolidated balance sheets are PLGL self-insurance liabilities amounting to \$200,609 and \$162,976 as of September 30, 2024 and December 31, 2023, respectively, which include \$35,396 and \$34,676, respectively, of estimated PLGL claims that will be covered by the unrelated insurer. PLGL self-insurance liabilities as of September 30, 2024 and December 31, 2023 include \$65,105 and \$43,083, respectively, that were related to unasserted claims. The Company recorded an asset for the estimated PLGL claims that will be covered by the unrelated insurer. As of September 30, 2024 this asset amounted to \$6,017 and \$29,378 recorded within other receivables and other assets, respectively, and as of December 31, 2023, this asset amounted to \$5,895 and \$28,781 recorded within other receivables and other assets, respectively, as the PLGL claims and the anticipated insurance recoveries are recorded on a gross rather than net basis in accordance with U.S. GAAP.

Indemnities

From time to time, the Company enters into certain types of contracts that contingently require it to indemnify parties against third-party claims. These contracts primarily include (i) certain real estate leases, under which the Company may be required to indemnify property owners or prior facility operators for post-transfer environmental or other liabilities and other claims arising from the Company use of the applicable premises, (ii) operations transfer agreements, in which the Company agrees to indemnify past operators of facilities against certain liabilities arising from the transfer of the operation

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and/or the operation thereof after the transfer to the Company's independent operating subsidiary, (iii) certain lending agreements, under which the Company may be required to indemnify the lender against various claims and liabilities, and (iv) certain agreements with the Company officers, directors and others, under which the Company may be required to indemnify such persons for liabilities arising out of the nature of their relationship to the Company. The terms of such obligations vary by contract and, in most instances, do not expressly state or include a specific or maximum dollar amount. Generally, amounts under these contracts cannot be reasonably estimated until a specific claim is asserted. Consequently, because no claims have been asserted, no liabilities have been recorded for these obligations on the combined/consolidated balance sheets for any of the periods presented.

NOTE 15. CAPITAL STOCK

The Reorganization on June 30, 2023 referred to in Note 1, "Organization and Nature of Business", resulted in the Common Shares outstanding being converted from 600 shares of PGI to 20,000 shares of PACS Group (a 1 to 33.33 conversion ratio). On March 31, 2024, the Company's board of directors approved a 1 to 6,436.1693 stock split of its issued and outstanding common stock, which was effective by amendment to the Company's charter on April 1, 2024. As part of the amendment, the number of authorized shares of common stock was revised to 1,250,000,000 with the par value remaining at \$0.001 per share, and the number of authorized shares of preferred stock was approved to be 50,000,000 with a par value of \$0.001. All issued and outstanding common stock and per share amounts contained in the condensed combined/consolidated financial statements have been retrospectively adjusted to give effect to the stock split for all periods presented.

On April 15, 2024, the Company completed an IPO in which the Company issued and sold 21,428,572 shares of common stock at a public offering price of \$21.00 per share, generating aggregate gross proceeds of \$450,000 before underwriter discounts and commissions, fees, and other expenses of \$35,843. In addition, the underwriters exercised their 30-day option to purchase an additional 3,214,284 shares of the Company's common stock at the initial public offering price from the selling stockholders, less underwriting discounts and commissions. The Company did not receive any proceeds from any sale of shares by the selling stockholders.

On September 9, 2024, the Company completed an underwritten public offering in which the Company issued and sold 2,777,778 shares of common stock at a public offering price of \$36.25 per share, generating gross proceeds of \$100,694 before underwriter discounts and commissions, fees, and other expenses of \$5,409. As part of the offering, selling stockholders sold 13,773,946 shares at the public offering price less underwriter discounts and commissions. In addition, the underwriters exercised their 30-day option to purchase an additional 2,482,758 shares of the Company's common stock at the offering price from the selling stockholders, less underwriting discounts and commissions. The Company did not receive any proceeds from any sale of shares by the selling stockholders.

As of September 30, 2024, the amount of issued and outstanding shares of common stock was 155,177,511. The Company has not issued any shares of preferred stock.

NOTE 16. COMPUTATION OF NET INCOME PER COMMON SHARE

Basic net income per share is calculated by dividing net income attributable to the common stockholders by the weighted-average shares of Common Stock outstanding for the period. The computation of diluted net income per share is similar to the computation of basic net income per share, except that the denominator is increased to include the number of additional shares of common stock that would have been outstanding if the dilutive potential shares of common stock had been issued, which are comprised of restricted stock units using the treasury stock method.

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A reconciliation of the numerator and denominator used in the calculation of basic net income per common share follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Numerator:				
Net income	\$ 16,210	\$ 19,927	\$ 19,153	\$ 78,745
Less: net income attributable to noncontrolling interest	590	2	594	5
Net income attributable to PACS Group, Inc.	\$ 15,620	\$ 19,925	\$ 18,559	\$ 78,740
Denominator:				
Weighted average common shares outstanding	153,124,371	128,723,386	143,804,609	128,723,386
Basic net income per common share	\$ 0.10	\$ 0.15	\$ 0.13	\$ 0.61

A reconciliation of the numerator and denominator used in the calculation of diluted net income per common share follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Numerator:				
Net income	\$ 16,210	\$ 19,927	\$ 19,153	\$ 78,745
Less: net income attributable to noncontrolling interest	590	2	594	5
Net income attributable to PACS Group, Inc.	\$ 15,620	\$ 19,925	\$ 18,559	\$ 78,740
Denominator:				
Weighted average common shares outstanding	153,124,371	128,723,386	143,804,609	128,723,386
Plus: effect of diluted shares	5,328,960	—	1,933,274	—
Adjusted weighted average common shares outstanding	158,453,331	128,723,386	145,737,883	128,723,386
Diluted net income per common share	\$ 0.10	\$ 0.15	\$ 0.13	\$ 0.61

NOTE 17. STOCK AWARDS

Stock-based compensation expense consists of stock-based payment awards made to employees and directors, comprised of restricted stock units, based on their estimated fair values. Stock-based compensation expense recognized in the Company's condensed combined/consolidated statements of income for the three and nine months ended September 30, 2024 and 2023 was based on the vesting of awards granted to date.

2024 Incentive Award Plan (2024 Plan)

On March 31, 2024, the Company's board of directors and stockholders approved the 2024 Plan, which became effective on the date immediately preceding the date on which the Company's IPO registration statement was declared effective by the Securities and Exchange Commission (SEC). The 2024 Plan allows the Company to make equity-based and cash-based incentive awards to its officers, employees, directors and consultants. The number of shares initially available for issuance under awards granted pursuant to the 2024 Plan (which number includes 15,390,579 shares of common stock issuable upon the vesting of restricted stock unit (RSU) awards granted in connection with the IPO) was equal to 10.25% of the number of shares of common stock outstanding immediately following the completion of the IPO (disregarding the shares issuable under the 2024 Plan). The number of shares available for issuance under the 2024 Plan increases annually on the first day of the year by an amount equal to up to 2% of the aggregate number of shares outstanding on the final day of the immediately preceding calendar year. As of September 30, 2024, the total number of shares available for issuance under the 2024 Plan was 1,580,986.

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2024 Employee Stock Purchase Plan (2024 ESPP)

On March 31, 2024, the Company's board of directors and stockholders approved the 2024 ESPP, which became effective on the date immediately preceding the date on which the Company's registration statement was declared effective by the SEC. The number of shares initially available for issuance pursuant to the 2024 ESPP was equal to the number of shares equal to 1% of the number of shares of common stock outstanding as of immediately following the completion of the IPO (disregarding the shares issuable under the 2024 Plan). The number of shares available for issuance under the 2024 ESPP increases annually on the first day of the year by an amount equal to up to 1% of the aggregate number of shares outstanding on the final day of the immediately preceding calendar year. As of September 30, 2024 the total number of shares available for issuance under the 2024 ESPP was 1,501,520 as there have been no shares issued under this plan.

Restricted Stock Unit Awards

Pursuant to the 2024 Plan, the Company granted RSU awards to key executives and directors of 15,409,470 and 0 shares during the nine months ended September 30, 2024 and 2023, respectively. For certain awards granted to key executives, the stock price used to determine the award fair value was the initial public offering price of \$21.00 per share. Subsequent grants to non-employee directors used the market price on the date of respective grant to determine the award fair value. Awards granted to key executives at the time of the IPO vested 25% upon issuance with the remaining shares scheduled to vest in equal increments on an annual basis over the next five years as the grantee meets the requisite service condition. Other awards granted vest over one year. The fair value per share of RSU awards granted during the nine months ended September 30, 2024 ranged from \$21.00 to \$24.85. The fair value per share includes awards to non-employee directors.

A summary of the status of the Company's non-vested RSU awards for the nine months ended September 30, 2024 is presented below (there was no such activity prior to the approval of the 2024 Plan, including in 2023):

	Non-Vested Restricted Stock Unit Awards	Weighted Average Grant Date Fair Value
Non-vested at January 1, 2024	—	\$ —
Granted	15,409,470	21.00
Vested	(3,847,652)	21.00
Forfeited	—	—
Non-vested at September 30, 2024	11,561,818	\$ 21.01

During the nine months ended September 30, 2024, the Company granted 18,891 RSU awards to non-employee directors for their service on the Company's board of directors from the 2024 Plan. The fair value per share of these awards were \$24.85 based on the market price on the grant date. Subsequent to September 30, 2024, the Company granted 1,962,425 RSU awards to employees from the 2024 Plan. The fair value per share of these awards were \$3.72 based on the market price on the grant date.

Stock-based compensation expense

Stock-based compensation expense recognized for the Company's equity incentive plans was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Stock-based compensation expense related to restricted stock unit awards	\$ 12,304	\$ —	\$ 103,240	\$ —
Total stock-based compensation expense	\$ 12,304	\$ —	\$ 103,240	\$ —

In future periods, the Company expects to recognize \$220,432 in stock-based compensation expense for unvested RSU awards that were outstanding as of September 30, 2024. Future stock-based compensation expense will be recognized over 4.5 weighted average years for unvested RSU awards.

PACS GROUP, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED COMBINED/CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except for share and per share values)

NOTE 18. SUBSEQUENT EVENTS

On November 19, 2025, the Audit Committee of the Company's Board of Directors concluded an independent investigation that was initially disclosed in a press release issued on November 6, 2024, furnished as Exhibit 99.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 6, 2024.

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

The following discussion should be read in conjunction with the unaudited condensed combined/consolidated financial statements and accompanying notes, which appear elsewhere in this Quarterly Report on Form 10-Q. We urge you to carefully review and consider the various disclosures made by us in this report and in our other reports filed with the Securities and Exchange Commission (SEC), including our audited combined/consolidated financial statements and related notes as disclosed in our final prospectus dated April 12, 2024 in connection with our IPO, which includes for the year ended December 31, 2023, and discusses our business and related risks in greater detail, as well as subsequent reports we may file from time to time on Form 10-Q and Form 8-K, for additional information. The section titled "Risk Factors" contained in Part II, Item 1A of this Quarterly Report on Form 10-Q, and similar discussions in our other SEC filings, also describe some of the important risk factors that may affect our business, financial condition, results of operations and/or liquidity. You should carefully consider those risks, in addition to the other information in this Quarterly Report on Form 10-Q and in our other filings with the SEC, before deciding to purchase, hold or sell our common stock.

Overview

We are a leading post-acute healthcare company primarily focused on delivering high-quality skilled nursing care through a portfolio of independently operated facilities. Founded in 2013, we are one of the largest skilled nursing providers in the United States based on number of facilities. We also provide senior care, assisted living, and independent living options in some of our communities. As of September 30, 2024, our portfolio consisted of 276 post-acute care, assisted living, and independent living facilities across 15 states serving over 26,400 patients daily. We believe our significant historical growth has been primarily driven by our expertise in acquiring underperforming long-term custodial care skilled nursing facilities and transforming them into higher acuity, high value-add short-term transitional care skilled nursing facilities. We believe our success is driven in significant part by our decentralized, local operating model, through which we empower local leaders at each facility to operate their facility autonomously and deliver excellence in clinical quality and a superior experience for our patients. We provide our independently operated facilities with a comprehensive suite of technology, support, and back-office services that allow local leadership teams to focus more of their time and effort on providing quality care to patients. We believe our operating model delivers value to all of our healthcare stakeholders, including patients and families, referring providers, payors, and administrators and clinicians.

We aim to create value by identifying and acquiring underperforming custodial care facilities and converting them into higher-value short-term transitional care facilities by investing in clinical teams and processes and upgrading technology, equipment, training, staffing, aesthetics, and other aspects of the business. We believe the resources and guidance offered by PACS Services is key to rapid integration of new facilities and provides our local leadership teams with an effective technology infrastructure, support tools, and regional support teams that allow local leadership to focus on operational improvements. Our facilities generally undergo an up to three-year post-acquisition transition period. During this period, we seek to implement best practices designed to realize and sustain the facility's full potential. These practices often result in significant improvements to clinical quality and other operational metrics, including skilled mix, occupancy rates and payor contracting. We believe the results of our acquisition strategy are demonstrated by our high average QM Star rating and occupancy rate for Mature facilities of 4.2 and 95%, respectively, as of September 30, 2024. As of September 30, 2024, the average QM Star rating and occupancy rate for New facilities, which we define as facilities purchased less than 18 months prior to the measurement date, was 3.7 and 83%, respectively.

Industry Trends

We operate in the post-acute care industry, which is an essential component of the healthcare delivery ecosystem, serving high need, medically fragile patients. The post-acute care industry has evolved to meet the growing demand for post-acute and custodial healthcare services generated by an aging population, increasing life expectancies and the trend toward shifting patient care to lower cost settings. The industry continues to evolve, driven by several trends, including the following:

SNFs are an Integral and Essential Part of the Post-Acute Care Continuum SNFs play an essential role in post-acute patient care. SNFs provide higher-acuity skilled nursing care to patients that cannot be adequately treated in community-based care settings, such as assisted living or independent living facilities, and who are no longer appropriate candidates for hospital care. Despite the wide array of services and variety of needs addressed, SNFs are the lowest cost facility-based post-acute healthcare. As reimbursement and coverage continues to shift toward value-based models with greater emphasis on controlling costs, SNFs are integral to post-acute care and can continue to drive high-quality outcomes in low-cost settings.

Large, Fragmented Industry Comprised of Mostly Small and Independent Operators According to the National Center for Health Statistics (NCHS) 2020 National Post-acute and Long-term Care Study, the SNF industry in the United States encompasses approximately 15,000 facilities and serves approximately 1.3 million patients annually. The industry is highly fragmented, with the top 10 operators, each having greater than approximately 100 facilities, representing approximately 11% of total number of SNFs in the United States, according to CMS data as of September 2024, approximately 5,000 smaller and independent operators of less than 100 facilities making up the remainder. According to this data, approximately 73% and 27% of SNFs are located in urban and rural areas, respectively. In addition, approximately 73%, 21%, and 6% of SNFs are operated as for-profit, non-profit, and by the government, respectively, according to such data. We believe this fragmented landscape creates opportunities for larger providers with greater scale to serve patients better and meet regulatory requirements nation-wide by effectively addressing staffing, quality standards, and billing processes. In addition, due to the increasing demands from hospitals and insurance carriers to implement sophisticated and expensive reporting systems, we believe this fragmentation provides us with significant acquisition and consolidation opportunities.

Growing Demand Outpacing Supply of Skilled Nursing Facilities The demand for healthcare services in the United States has increased in recent years and is expected to continue growing, largely due to a rapidly aging population and an increasing prevalence of chronic conditions. While demand has increased for SNFs, the number of SNFs has declined in recent years from approximately 15,650 in 2017 to approximately 14,800 in 2024. We believe this is due to a variety of factors, including an inability of many facilities to comply with the industry's stringent regulatory compliance obligations and with quality standards, rigorous staffing, and billing requirements, as well as a lack of technology and sophistication at small and independent operators. Furthermore, new operators to this highly regulated industry face multiple barriers to entry, including the requirements to obtain a Certificate of Need, complex licensure and regulatory compliance requirements, lack of operating experience, and significant capital requirements. As a result, the addition of new SNFs has not kept pace with the number of SNFs exiting the market, amplifying the need for skilled nursing to serve an aging population.

Favorable Reimbursement Environment. According to CMS, approximately 72% of SNF revenue in 2022 was derived from government sources, including Medicaid and Medicare. Medicaid represents 51% of industry revenue, while Medicare represents approximately 21%. The remainder comprises managed care, private pay, and other payors. Medicare and Medicaid reimbursement has steadily increased over the past few years. Medicare reimbursement per patient day increased at a CAGR of approximately 3.6% from 2012 to 2021, while Medicaid reimbursement per patient day increased at a CAGR of approximately 1.9% from 2012 to 2021. During that time, the industry experienced over 9 years of growth in reimbursement rates.

Regulatory Environment. The SNF industry is highly regulated with stringent regulatory compliance obligations. In the ordinary course of business, providers are subject to federal, state and local laws and regulations relating to, among other things, billing and reimbursement, relationships with vendors, business relationships with physicians and other healthcare providers and facilities, as well as licensure, accreditation, enrollment, quality, adequacy of care, physical plant, life safety, personnel, staffing and operating requirements. Changes in law or new interpretations of existing laws and regulations may have a significant impact on revenue, costs and business operations of providers and other industry participants. In addition, governmental and other authorities periodically inspect the SNFs, senior living facilities and outpatient rehabilitation agencies to verify continued compliance with applicable regulations and standards and may impose citations and other regulatory penalties for regulatory deficiencies. Such regulatory penalties include but are not limited to civil monetary penalties, temporary payment bans, suspension or revocation of a state operating license and loss of certification as a provider in the Medicare or Medicaid program, which may be temporary or permanent in nature. This regulatory environment and related enforcement can have an adverse effect on providers and other industry participants. See the section titled "Regulatory Matters."

Facility Information

The following table provides summary information regarding the location of our post-acute care facilities and operational beds by property type as of September 30, 2024:

	Leased		Owned		Total	
	Facilities	Beds/Units	Facilities	Beds/Units	Facilities	Beds/Units
Alaska	1	102	—	—	1	102
Arizona	10	1,352	—	—	10	1,352
California	113	13,053	26	2,814	139	15,867
Colorado	19	2,219	1	242	20	2,461
Idaho	6	407	—	—	6	407
Kansas	3	378	—	—	3	378
Kentucky	5	596	2	340	7	936
Missouri	2	190	3	424	5	614
Montana	1	64	—	—	1	64
Nevada	6	411	2	165	8	576
Ohio	6	637	—	—	6	637
Oregon	21	1,481	—	—	21	1,481
South Carolina	21	2,352	4	488	25	2,840
Texas	3	290	2	246	5	536
Washington	19	1,460	—	—	19	1,460
	236	24,992	40	4,719	276	29,711

During the nine months ended September 30, 2024, we expanded our operations with the addition of 46 stand-alone skilled nursing operations and 22 assisted living facilities. These new operations added a total of 4,390 skilled nursing beds and 1,508 assisted living beds to be operated by our affiliated operating subsidiaries.

Subsequent to September 30, 2024, our operations grew in two new states and expanded in five existing states with the addition of 45 stand-alone facilities, 39 of which were acquired through long-term leases, four through real estate purchases, and two of which we previously owned the real estate for. Further, we expanded our portfolio of owned properties through five additional real estate purchases. For each of these five acquired properties, we previously operated the respective facilities and have now acquired the real estate associated with those operations. The aggregate purchase price for these acquisitions was \$138,059. The new operations added 5,030 skilled nursing beds and 271 assisted living beds operated by our affiliated operating subsidiaries. Additionally during the period subsequent to September 30, 2024, we divested of one leased facility which included 120 skilled nursing beds. For further discussion of our real estate properties and expansions, see Note 13, “Operation Expansions”, in the Notes to the condensed combined/consolidated financial statements.

Key Skilled Services Metrics and Non-GAAP Financial Measures

We use the following key skilled services metrics and non-GAAP financial measures to help us evaluate our business, identify trends that affect our financial performance, and make strategic decisions.

Key Skilled Services Metrics

We monitor the below key skilled services metrics across all of our facilities and by Mature facilities, Ramping facilities, and New facilities. Mature facilities are defined as facilities purchased more than 36 months prior to a respective measurement date. Ramping facilities are defined as facilities purchased within 18 to 36 months prior to a respective measurement date. New facilities are defined as facilities purchased or built less than 18 months prior to a respective measurement date.

- **Skilled nursing services revenue** — Skilled nursing services revenue reflects the portion of patient and resident service revenue generated from all patients in skilled nursing facilities, excluding revenue generated from our assisted and independent living services.
- **Skilled mix** — We measure both revenue and nursing patient days by payor. Medicare and managed care patients, whom we refer to as high acuity patients, typically require a higher level of skilled nursing care. As a result, Medicare and managed care reimbursement rates are typically higher than those from other payors. In most states, Medicaid reimbursement rates are generally the lowest of all payor types. Changes in the payor mix can

significantly affect our revenue and profitability. To monitor this performance, we evaluate two different measures of skilled mix:

- **Skilled mix by revenue** — Skilled mix by revenue represents the portion of routine revenue generated from treating high acuity Medicare and managed care patients. Routine revenue refers to skilled nursing services revenue generated by contracted daily rates charged for skilled nursing services. Services provided outside of routine contractual agreements are recorded separately as ancillary revenue, including Medicare Part B therapy services, and are not routine revenue. The inclusion of therapy and other ancillary treatments in the contracted daily rate varies by payor source and by contract. Revenue associated with calculating skilled mix is based on contractually agreed-upon amounts or rates, excluding the estimates of variable consideration under the revenue recognition standard, Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers* (ASC 606).
- **Skilled mix by nursing patient days** — Skilled mix by nursing patient days represents the number of days our high acuity Medicare and managed care patients receive skilled nursing services at skilled nursing facilities as a percentage of the total number of days that patients from all payor sources receive skilled nursing services at skilled nursing facilities for any given period.
- **Occupancy** — The total number of patients occupying a bed in a skilled nursing facility as a percentage of the beds in such facility that are available for occupancy during the period.
- **Number of facilities** — The total number of skilled nursing facilities that we operate. Excludes 27 and five assisted living and independent living facilities for the nine months ended September 30, 2024 and 2023, respectively.
- **Number of operational beds** — The total number of operational beds associated with the skilled nursing facilities that we own.

The following tables present the above key skilled services metrics by category for all skilled nursing facilities, and for the skilled nursing facilities in each of the three facility cohorts, as of and for the three months ended September 30, 2024 and 2023:

	Total Facility Results Three Months Ended September 30,			
	2024	2023	Change	% Change
	(dollars in thousands)			
Skilled nursing services revenue	\$ 1,010,277	\$ 783,834	\$ 226,443	28.9 %
Skilled mix by revenue	50.5 %	49.4 %		1.1 %
Skilled mix by nursing patient days	29.3 %	27.9 %		1.4 %
Occupancy for skilled nursing services:				
Available patient days	2,399,563	1,986,215	413,348	20.8 %
Actual patient days	2,171,432	1,795,214	376,218	21.0 %
Occupancy rate (operational beds)	90.5 %	90.4 %		0.1 %
Number of facilities at period end	249	197	52	26.4 %
Number of operational beds at period end	27,467	22,231	5,236	23.6 %

Mature Facility Results				
Three Months Ended September 30,				
	2024	2023	Change	% Change
	(dollars in thousands)			
Skilled nursing services revenue	\$ 315,154	\$ 271,602	\$ 43,552	16.0 %
Skilled mix by revenue	54.3 %	54.6 %		(0.3) %
Skilled mix by nursing patient days	32.1 %	31.9 %		0.2 %
Occupancy for skilled nursing services:				
Available patient days	690,783	640,228	50,555	7.9 %
Actual patient days	652,967	597,732	55,235	9.2 %
Occupancy rate (operational beds)	94.5 %	93.4 %		1.1 %
Number of facilities at period end	80	65	15	23.1 %
Number of operational beds at period end	8,515	6,959	1,556	22.4 %

Ramping Facility Results				
Three Months Ended September 30,				
	2024	2023	Change	% Change
	(dollars in thousands)			
Skilled nursing services revenue	\$ 432,870	\$ 314,826	\$ 118,044	37.5 %
Skilled mix by revenue	54.2 %	52.1 %		2.1 %
Skilled mix by nursing patient days	31.2 %	30.0 %		1.2 %
Occupancy for skilled nursing services:				
Available patient days	934,132	746,104	188,028	25.2 %
Actual patient days	877,092	697,036	180,056	25.8 %
Occupancy rate (operational beds)	93.9 %	93.4 %		0.5 %
Number of facilities at period end	93	74	19	25.7 %
Number of operational beds at period end	10,686	8,188	2,498	30.5 %

New Facility Results				
Three Months Ended September 30,				
	2024	2023	Change	% Change
	(dollars in thousands)			
Skilled nursing services revenue	\$ 262,253	\$ 197,406	\$ 64,847	32.8 %
Skilled mix by revenue	40.4 %	38.1 %		2.3 %
Skilled mix by nursing patient days	24.0 %	20.3 %		3.7 %
Occupancy for skilled nursing services:				
Available patient days	774,648	599,883	174,765	29.1 %
Actual patient days	641,373	500,446	140,927	28.2 %
Occupancy rate (operational beds)	82.8 %	83.4 %		(0.6) %
Number of facilities at period end	76	58	18	31.0 %
Number of operational beds at period end	8,266	7,084	1,182	16.7 %

The following tables present the above key skilled services metrics by category for all facilities, Mature facilities, Ramping facilities, and New facilities as of and for the nine months ended September 30, 2024 and 2023:

Total Facility Results
Nine Months Ended September 30,

	2024		2023		Change	% Change
	(dollars in thousands)					
Skilled nursing services revenue	\$	2,849,806	\$	2,245,707	\$ 604,099	26.9 %
Skilled mix by revenue		51.2 %		56.8 %		(5.6) %
Skilled mix by nursing patient days		29.4 %		33.9 %		(4.5) %
Occupancy for skilled nursing services:						
Available patient days		6,788,832		5,345,945	1,442,887	27.0 %
Actual patient days		6,165,899		4,873,494	1,292,405	26.5 %
Occupancy rate (operational beds)		90.8 %		91.2 %		(0.4) %
Number of facilities at period end		249		197	52	26.4 %
Number of operational beds at period end		27,467		22,231	5,236	23.6 %

Mature Facility Results
Nine Months Ended September 30,

	2024		2023		Change	% Change
	(dollars in thousands)					
Skilled nursing services revenue	\$	877,803	\$	816,081	\$ 61,722	7.6 %
Skilled mix by revenue		55.0 %		60.2 %		(5.2) %
Skilled mix by nursing patient days		32.2 %		36.8 %		(4.6) %
Occupancy for skilled nursing services:						
Available patient days		1,959,687		1,857,644	102,043	5.5 %
Actual patient days		1,850,627		1,732,234	118,393	6.8 %
Occupancy rate (operational beds)		94.4 %		93.2 %		1.2 %
Number of facilities at period end		80		65	15	23.1 %
Number of operational beds at period end		8,515		6,959	1,556	22.4 %

Ramping Facility Results
Nine Months Ended September 30,

	2024		2023		Change	% Change	
	(dollars in thousands)						
Skilled nursing services revenue	\$	1,227,925	\$	585,935	\$ 641,990	109.6	%
Skilled mix by revenue		55.9	%	55.3	%	0.6	%
Skilled mix by nursing patient days		32.7	%	32.7	%	—	%
Occupancy for skilled nursing services:							
Available patient days		2,613,520		1,373,686	1,239,834	90.3	%
Actual patient days		2,467,398		1,280,714	1,186,684	92.7	%
Occupancy rate (operational beds)		94.4	%	93.2	%	1.2	%
Number of facilities at period end		93		74	19	25.7	%
Number of operational beds at period end		10,686		8,188	2,498	30.5	%

New Facility Results
Nine Months Ended September 30,

	2024		2023		Change	% Change
	(dollars in thousands)					
Skilled nursing services revenue	\$	744,078	\$	843,691	\$ (99,613)	(11.8) %
Skilled mix by revenue		39.3 %		54.6 %		(15.3) %
Skilled mix by nursing patient days		22.3 %		31.9 %		(9.6) %
Occupancy for skilled nursing services:						
Available patient days		2,215,625		2,114,615	101,010	4.8 %
Actual patient days		1,847,874		1,860,546	(12,672)	(0.7) %
Occupancy rate (operational beds)		83.4 %		88.0 %		(4.6) %
Number of facilities at period end		76		58	18	31.0 %
Number of operational beds at period end		8,266		7,084	1,182	16.7 %

The following tables present additional detail regarding our skilled mix, including our percentage of nursing patient days and revenue by payor source for all facilities, and for each of the three facility cohorts, for the three months ended September 30, 2024 and 2023:

Skilled mix by revenue	Three Months Ended September 30,							
	Mature		Ramping		New		Total	
	2024	2023	2024	2023	2024	2023	2024	2023
Medicare	37.0 %	36.8 %	36.6 %	32.3 %	23.7 %	24.3 %	33.3 %	31.8 %
Managed care	17.3	17.8	17.6	19.8	16.7	13.8	17.2	17.6
Skilled mix	54.3	54.6	54.2	52.1	40.4	38.1	50.5	49.4
Medicaid	38.4	38.6	37.4	40.6	50.4	53.0	41.2	43.1
Private and other	7.3	6.8	8.4	7.3	9.2	8.9	8.3	7.5
Total	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

Skilled mix by nursing patient days	Three Months Ended September 30,							
	Mature		Ramping		New		Total	
	2024	2023	2024	2023	2024	2023	2024	2023
Medicare	18.5 %	17.8 %	18.5 %	16.3 %	11.4 %	10.9 %	16.4 %	15.3 %
Managed care	13.6	14.1	12.7	13.7	12.6	9.4	12.9	12.6
Skilled mix	32.1	31.9	31.2	30.0	24.0	20.3	29.3	27.9
Medicaid	59.6	58.9	59.7	60.4	65.3	69.8	61.4	62.5
Private and other	8.3	9.2	9.1	9.6	10.7	9.9	9.3	9.6
Total	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

The following tables present additional detail regarding our skilled mix, including our percentage of nursing patient days and revenue by payor source for all facilities, and for each of the three facility cohorts, for the nine months ended September 30, 2024 and 2023:

Skilled mix by revenue	Nine Months Ended September 30,							
	Mature		Ramping		New		Total	
	2024	2023	2024	2023	2024	2023	2024	2023
Medicare	37.3%	43.4%	37.9%	35.8%	22.9%	39.5%	33.6%	39.9%
Managed care	17.7	16.8	18.2	19.5	16.4	15.1	17.6	16.9
Skilled mix	55.0	60.2	55.9	55.3	39.3	54.6	51.2	56.8
Medicaid	38.1	34.1	36.3	37.6	51.5	38.9	40.9	36.8
Private and other	6.9	5.7	7.8	7.1	9.2	6.5	7.9	6.4
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Skilled mix by nursing patient days	Nine Months Ended September 30,							
	Mature		Ramping		New		Total	
	2024	2023	2024	2023	2024	2023	2024	2023
Medicare	18.5 %	23.1 %	19.3 %	18.6 %	10.3 %	20.7 %	16.4 %	21.0 %
Managed care	13.7	13.7	13.4	14.1	12.0	11.2	13.0	12.9
Skilled mix	32.2	36.8	32.7	32.7	22.3	31.9	29.4	33.9
Medicaid	59.7	54.8	58.3	57.6	67.1	59.6	61.4	57.3
Private and other	8.1	8.4	9.0	9.7	10.6	8.5	9.2	8.8
Total	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

- Average daily rates — The routine revenue by payor source for a period at the skilled nursing facilities divided by actual patient days for that revenue source for that given period. Revenue associated with calculating average daily rates is based on contractually agreed-upon amounts or rates, excluding the estimates of variable consideration under ASC 606. These rates also exclude additional state relief funding, which includes payments we recognized as part of The Families First Coronavirus Response Act (FFCRA).

The following table presents average daily rates by payor source, excluding services that are not covered by the daily rate, for the three months ended September 30, 2024 and 2023:

Average daily rate	Three Months Ended September 30,							
	Mature		Ramping		New		Total	
	2024	2023	2024	2023	2024	2023	2024	2023
Medicare	\$ 947.82	\$ 926.59	\$ 982.32	\$ 903.64	\$ 880.10	\$ 885.56	\$ 949.62	\$ 908.98
Managed care	603.54	566.65	684.92	657.24	560.68	584.03	623.48	608.48
Total for skilled patient payors ⁽¹⁾	802.49	767.66	861.20	790.79	712.35	745.64	805.90	772.87
Medicaid	305.80	294.37	310.83	306.84	326.88	300.71	314.41	301.03
Private and other	416.36	330.73	455.01	343.76	365.64	355.55	414.55	342.97
Total ⁽²⁾	\$ 474.28	\$ 448.68	\$ 495.71	\$ 455.75	\$ 423.64	\$ 396.36	\$ 467.98	\$ 436.85

(1) Represents weighted average of revenue generated by Medicare and managed care payor sources.

(2) Represents weighted average.

The following table presents average daily rates by payor source, excluding services that are not covered by the daily rate, for the nine months ended September 30, 2024 and 2023:

Average daily rate	Nine Months Ended September 30,							
	Mature		Ramping		New		Total	
	2024	2023	2024	2023	2024	2023	2024	2023
Medicare	\$ 942.70	\$ 872.15	\$ 971.79	\$ 885.51	\$ 910.87	\$ 871.03	\$ 950.39	\$ 874.85
Managed care	604.12	571.34	671.59	638.68	565.06	614.30	621.24	605.06
Total for skilled patient payors ⁽¹⁾	798.75	760.34	848.20	779.24	725.35	780.75	804.11	772.49
Medicaid	299.12	289.54	309.23	300.68	314.85	297.62	308.12	295.69
Private and other	396.81	318.32	430.88	336.55	355.44	349.58	395.91	335.12
Total ⁽²⁾	\$ 468.14	\$ 465.36	\$ 496.61	\$ 460.72	\$ 410.54	\$ 456.30	\$ 462.27	\$ 460.68

(1) Represents weighted average of revenue generated by Medicare and managed care payor sources.

(2) Represents weighted average.

Non-GAAP Financial Measures

In addition to our results provided throughout that are determined in accordance with GAAP, we also present the following non-GAAP financial measures: EBITDA, Adjusted EBITDA and Adjusted EBITDAR (collectively, Non-GAAP Financial Measures). EBITDA and Adjusted EBITDA are performance measures. Adjusted EBITDAR is a valuation measure. These Non-GAAP Financial Measures have no standardized meaning defined by GAAP, and therefore have limitations as analytical tools, and they should not be considered in isolation, or as a substitute for analysis of our results as reported in accordance with GAAP. You should review the reconciliation of net income to the Non-GAAP Financial Measures in the table below, together with our condensed combined/consolidated financial statements and the related notes in their entirety, and should not rely on any single financial measure. Additionally, other companies may define these or similar Non-GAAP Financial Measures with the same or similar names differently, and because these Non-GAAP Financial Measures are not standardized, it may not be possible to compare these financial measures to those of other companies.

Performance Measures

We use EBITDA and Adjusted EBITDA to facilitate internal comparisons of our historical operating performance on a more consistent basis, as well as for business planning and forecasting purposes. In addition, we believe the presentation of EBITDA and Adjusted EBITDA is useful to investors, analysts and other interested parties in comparing our operating performance across reporting periods on a consistent basis by excluding items that we do not believe are indicative of our ongoing operating performance.

EBITDA – We calculate EBITDA as net income, adjusted for net losses attributable to noncontrolling interest, before: interest expense; provision for income taxes; and depreciation and amortization.

Adjusted EBITDA – We calculate Adjusted EBITDA as EBITDA further adjusted for non-core business items, which for the reported periods includes, to the extent applicable, costs incurred to acquire operations that are not capitalizable,

losses incurred from debt restructuring, gains on lease termination, stock-based compensation expense, loss from equity method investment, forfeiture of a seller's note, recognition of a bargain purchase gain, and certain one-time expenses that are not representative of our underlying operating performance. Costs related to acquisitions include costs related to our acquisition of SNF facilities and providers, including related costs such as legal fees, financial and tax due diligence, consulting and escrow fees. The loss related to our equity method investment is a loss allocated to us from a discrete disposal recognized by one of our equity method investments. The bargain purchase gain was recognized as part of our acquisition from the former operator Prestige.

Valuation Measure

We use Adjusted EBITDAR as a measure to determine the value of prospective acquisitions and to assess the enterprise value of our business without regard to differences in capital structures and leasing arrangements. In addition, we believe that Adjusted EBITDAR is also a commonly used measure by investors, analysts and other interested parties to compare the enterprise value of different companies in the healthcare industry without regard to differences in capital structures and leasing arrangements, particularly for companies with operating and finance leases. For example, finance lease expenditures are recorded in depreciation and interest and are therefore removed from Adjusted EBITDA, whereas operating lease expenditures are recorded in rent expense and are therefore retained in Adjusted EBITDA. Adjusted EBITDAR is a financial valuation measure that is not specified in GAAP, and is not displayed as a performance measure as it excludes rent expense, which is a normal and recurring cash operating expense, and is therefore presented only for the current period. While we believe that Adjusted EBITDAR provides useful insight regarding our underlying operations, excluding the impact of our operating leases, we must still incur cash operating expenses related to our operating leases and rent and such expenses are necessary to operate our leased operations. As a result, Adjusted EBITDAR may understate the extent of our cash operating expenses for the respective period relative to our actual cash needs to operate our leased operations and business.

Adjusted EBITDAR – We calculate Adjusted EBITDAR as Adjusted EBITDA less rent-cost of services.

The table below presents a reconciliation of EBITDA, Adjusted EBITDA, and Adjusted EBITDAR to net income, the most directly comparable financial measure calculated in accordance with GAAP, on a combined/consolidated basis for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
	(in thousands)			
Net income	\$ 16,210	\$ 19,927	\$ 19,153	\$ 78,745
Less: Net income attributable to noncontrolling interest	590	2	594	5
Add: Interest expense	9,029	10,217	35,040	36,159
Provision for income taxes	17,446	7,468	21,203	29,339
Depreciation and amortization	10,523	6,362	27,893	18,350
EBITDA	\$ 52,618	\$ 43,972	\$ 102,695	\$ 162,588
Adjustments to EBITDA:				
Acquisition related costs	845	227	1,537	935
Loss resulting from debt restructuring	—	—	—	3,109
Gain on lease termination	—	—	(8,046)	—
Stock-based compensation expense	12,304	—	103,240	—
Loss from equity method investment	—	—	2,736	—
Forfeiture of seller's note	500	—	500	—
Bargain purchase gain	(17,185)	—	(17,185)	—
Adjusted EBITDA	\$ 49,082	\$ 44,199	\$ 185,477	\$ 166,632
Rent - cost of services	72,632	58,366	200,954	154,926
Adjusted EBITDAR	\$ 121,714		\$ 386,431	

Components of Results of Operations

Revenue

Patient and Resident Service Revenue

Patient and resident service revenue typically represents over 99% of our total revenue. Patient and resident service revenue comprises skilled nursing services revenue, revenue generated from our senior assisted living services and revenue generated from certain ancillary services provided outside of routine contractual agreements. For the three and nine months ended September 30, 2024 and 2023, skilled nursing services revenue represented over 98% of patient and resident service revenue.

We derive patient and resident service revenue from services rendered, under short-term contracts, to patients for skilled and intermediate nursing, rehabilitation therapy, and assisted living services. This revenue is reported at the amount that reflects the consideration to which we expect to be entitled in exchange for providing patient services. These amounts are due from patients, governmental programs, and other third-party payors, and include variable consideration for retroactive revenue adjustments due to settlement of audits and reviews. Within our skilled nursing operations, we generate revenue from payor sources including Medicaid, Medicare and other payors such as commercial insurance companies, health maintenance organizations, and preferred provider organizations.

We expect patient and resident service revenue to continue to represent the vast majority of our total revenue and that such revenue will continue to increase to the extent we successfully execute on our acquisition strategy.

Additional Funding

We received funding from the U.S. Department of Health and Human Services (HHS) through the PRF as we are the healthcare providers who diagnose, test, or care for individuals with cases of COVID-19 and have health care related expenses and lost revenues attributable to COVID-19. In 2023, this program ended and we do not expect to recognize any revenue based on funding through the PRF in the future.

Other Revenue

Other revenue relates to ancillary revenue generating activities and primarily consists of revenue associated with arrangements in which we are a lessor of certain facilities. Other revenue typically represents an immaterial portion of our total revenue and we expect this to continue for the foreseeable future.

Cost of Services (exclusive of rent and depreciation and amortization shown separately)

Our cost of services represents the costs of operating our operating subsidiaries, which primarily consist of payroll and related benefits, supplies, purchased services, and ancillary expenses such as the cost of pharmacy and therapy services provided to patients. Cost of services also includes the cost of general and professional liability insurance, rent expenses related to leasing our operational facilities (such as taxes, insurance, impounds, capital reserves or other charges payable under the applicable lease agreements), dietary services, contracted services and other administrative general cost of services with respect to our operations. As we continue to execute on our acquisitions strategy and grow our business, we expect that our cost of services will continue to increase.

Rent - Cost of Services

Rent - cost of services consists solely of base rent amounts payable under lease agreements to third-party real estate owners. Our operating subsidiaries lease and operate, but do not own the underlying real estate of, 236 facilities and these amounts do not include taxes, insurance, impounds, capital reserves or other charges payable under the applicable lease agreements. As we continue to execute on our acquisitions strategy and expand our network of facilities, we expect that our rent - cost of services will continue to increase.

General and Administrative Expense

General and administrative expense consists primarily of payroll and related benefits and travel expenses for our PACS Services personnel, including training and other operational support. General and administrative expense also includes professional fees (including accounting and legal fees) and costs relating to our information systems. Historically, our general and administrative expense has not included any stock-based compensation. In connection with our IPO in

April 2024, we adopted the 2024 Plan and the 2024 ESPP. From this point forward, our general and administrative expense includes stock-based compensation.

We expect general and administrative expense to increase on an absolute dollar basis for the foreseeable future as we continue to increase investments to support our growth. Our costs related to legal, audit, accounting, regulatory and tax-related services associated with maintaining compliance with exchange listing and SEC requirements, director and officer insurance costs, investor and public relations costs, and other expenses that we did not incur as a private company are higher as a public company. Legal and professional fees incurred associated with the Audit Committee's independent investigation and with ongoing investigations are included in general and administrative expense. We anticipate that general and administrative expense as a percentage of revenue will vary from period to period, but we expect to leverage these expenses over time as we grow our revenue.

Depreciation and Amortization

Property and equipment are recorded at their original historical cost. Depreciation is computed using the straight-line method over the estimated useful lives of the depreciable assets. The following is a summary of the estimated useful lives of our depreciable assets:

- Buildings and improvements - minimum of 5 years to a maximum of 40 years, generally 30 years
- Leasehold improvements - shorter of the lease term or the estimated useful life, generally 5 years to 15 years
- Furniture and equipment - minimum of 3 years to a maximum of 15 years

Other Expense, net

Other expense, net consists primarily of interest expense related to our debt, as well as income from gains and losses from investments in partnerships, including joint ventures, and gains from lease termination.

Provision for Income Taxes

Provision for income taxes consists primarily of income taxes in certain jurisdictions in which we conduct business.

Results of Operations

Three Months Ended September 30, 2024 Compared to the Three Months Ended September 30, 2023

	Three Months Ended September 30,		Change	
	2024	2023	\$	%
(in thousands)				
Revenue				
Patient and resident service revenue	\$ 1,024,276	\$ 788,933	\$ 235,343	29.8 %
Other revenues	2,029	253	1,776	702.0 %
Total Revenue	\$ 1,026,305	\$ 789,186	\$ 237,119	30.0 %
Operating Expenses				
Cost of services	849,599	638,491	211,108	33.1 %
Rent - cost of services	72,632	58,366	14,266	24.4 %
General and administrative expense	70,587	49,565	21,022	42.4 %
Depreciation and amortization	10,523	6,362	4,161	65.4 %
Total Operating Expenses	\$ 1,003,341	\$ 752,784	\$ 250,557	33.3 %
Operating income	22,964	36,402	(13,438)	(36.9)%
Other Income (Expense)				
Interest expense	(9,029)	(10,217)	1,188	(11.6)%
Other income, net	19,721	1,210	18,511	N.M.
Total Other Income (Expense), Net	\$ 10,692	\$ (9,007)	\$ 19,699	(218.7)%
Income before provision for income taxes	33,656	27,395	6,261	22.9 %
Provision for income taxes	17,446	7,468	9,978	133.6 %
Net Income	\$ 16,210	\$ 19,927	\$ (3,717)	(18.7)%

N.M.: Not meaningful

Revenue

Patient and resident service revenue - Patient and resident service revenue increased by \$235.3 million to \$1.0 billion for the three months ended September 30, 2024, a 29.8% increase compared to the three months ended September 30, 2023. For the three months ended September 30, 2024 and 2023, skilled nursing services revenue represented more than 98% of patient and resident service revenue.

Skilled nursing services revenue increased by 28.9%, or \$226.4 million, to \$1.0 billion for the three months ended September 30, 2024, compared to the three months ended September 30, 2023. This change was driven by an increase in patient days of 376,218 or 21.0% primarily due to an increase in operational beds of 5,236, or 23.6%, from September 30, 2023 to September 30, 2024. New facilities experienced a slight decrease in occupancy, from 83.4% for the three months ended September 30, 2023 to 82.8% for the three months ended September 30, 2024 due to our large number of recent new acquisitions, which generally have lower occupancy rates than ramping or mature facilities. Our relatively high occupancy rate across all facilities of 90.5% for the three months ended September 30, 2024, reflects a slight increase compared to 90.4% for the three months ended September 30, 2023, driven by increases in both the Ramping and Mature facility cohorts.

Our skilled nursing services revenue was positively impacted by developments in our average daily rates and fluctuations in our payor source mix. Our average Medicare daily rates increased by 4.5%, for the three months ended September 30, 2024, compared to the three months ended September 30, 2023. This increase in the Medicare daily rate is attributable, in part, to the 6.4% Medicare Part A increase that became effective in October 2023, as well as a higher mix of patients requiring a higher acuity level.

Our average Medicaid rates increased 4.4% due to state reimbursement increases and our participation in supplemental Medicaid payment programs and quality improvement programs in various states. Medicaid rates exclude the amount of state relief revenue we recorded.

Other revenue - Other revenue increased to \$2.0 million for the three months ended September 30, 2024, compared to \$0.3 million for the same period in the prior year due to an increase in lease income during the extended execution of the Prestige acquisition.

Cost of services

Cost of services increased by \$211.1 million to \$849.6 million, for the three months ended September 30, 2024, compared to the three months ended September 30, 2023. The 33.1% increase was primarily driven by an increase of \$124.7 million in salaries and wages. Our total number of post-acute care facilities, inclusive of skilled nursing facilities and assisted living facilities, increased from 201 as of September 30, 2023 to 276 as of September 30, 2024, an increase of 37.3%. Of the salaries and wages increase, those attributable to New facilities purchased after September 30, 2023 accounted for \$75.8 million or 60.8% of the increase. Headcount and operational changes attributable to Ramping and Mature facilities accounted for the remaining change in salaries and wages. Aside from labor costs, the increase in cost of services was due to increases of \$32.3 million in administrative expenses for facilities; \$28.0 million in contracted services made up of \$3.7 million from New facilities, or 13.3%, and the remaining \$24.3 million from Ramping and Mature facilities; and \$12.3 million in nursing and dietary expenses, made up of \$2.0 million from New facilities; with the remainder spread out across various expense types.

Rent - cost of services

Rent - cost of services increased to \$72.6 million for the three months ended September 30, 2024, compared to \$58.4 million for the three months ended September 30, 2023. The increase was primarily attributable to the addition of new facilities with operating leases throughout the year, as well as to annual escalators on existing facilities' rent.

General and administrative expense

General and administrative expense increased by \$21.0 million, to \$70.6 million for the three months ended September 30, 2024, compared to \$49.6 million for the three months ended September 30, 2023. This increase was due to stock compensation expense recognized during the quarter, associated with restricted stock units that were granted at the time of our IPO, which accounted for \$12.3 million of the increase. The change was also impacted by an increase in salaries and wages of \$10.9 million, or 35.1%, driven by growth in operations, offset by a decrease in costs associated with professional and general liability insurance within general and administrative expense in 2023 of \$3.4 million.

Depreciation and amortization

Depreciation and amortization increased by \$4.2 million to \$10.5 million, for the three months ended September 30, 2024, compared to the three months ended September 30, 2023. This increase is directly attributable to new real estate obtained through acquisitions as well as growth of our finance lease portfolio.

Other income (expense), net

Other income (expense), net was \$10.7 million for the three months ended September 30, 2024, a decrease of \$19.7 million compared to the three months ended September 30, 2023. Other income (expense), net consists of interest expense which decreased by \$1.2 million, to \$9.0 million for the three months ended September 30, 2024, driven by a decrease in amounts drawn on lines of credit and long-term debt of \$338.3 million from September 30, 2023 to September 30, 2024. Additionally, other income, net increased by \$18.5 million compared to the three months ended September 30, 2023, driven by an increase in unrealized gains on investments.

Provision for income taxes

Provision for income taxes totaled \$17.4 million for the three months ended September 30, 2024, representing an effective tax rate of 51.8%, compared to a provision for income tax of \$7.5 million and an effective tax rate of 27.3% for the three months ended September 30, 2023. The change in effective tax rate in the three months ended September 30, 2024 compared to the three months ended September 30, 2023 was primarily due to the change in forecasted pre-tax book income and an increase in non-deductible expenses, including non-deductible compensation in 2024. See Note 10 "Income Taxes", in our condensed combined/consolidated financial statements for more information.

Nine Months Ended September 30, 2024 Compared to the Nine Months Ended September 30, 2023

	Nine Months Ended September 30,		Change	
	2024	2023	\$	%
(in thousands)				
Revenue				
Patient and resident service revenue	\$ 2,878,946	\$ 2,257,183	\$ 621,763	27.5 %
Additional funding	—	375	(375)	(100.0)%
Other revenues	2,900	734	2,166	295.1 %
Total Revenue	\$ 2,881,846	\$ 2,258,292	\$ 623,554	27.6 %
Operating Expenses				
Cost of services	2,347,738	1,768,078	579,660	32.8 %
Rent - cost of services	200,954	154,926	46,028	29.7 %
General and administrative expense	254,167	171,702	82,465	48.0 %
Depreciation and amortization	27,893	18,350	9,543	52.0 %
Total Operating Expenses	\$ 2,830,752	\$ 2,113,056	\$ 717,696	34.0 %
Operating income	51,094	145,236	(94,142)	(64.8)%
Other (Expense) Income				
Interest expense	(35,040)	(36,159)	1,119	(3.1)%
Gain on lease termination	8,046	—	8,046	100.0 %
Other income (expense), net	16,256	(993)	17,249	N.M.
Total Other Expense, Net	\$ (10,738)	\$ (37,152)	\$ 26,414	(71.1)%
Income before provision for income taxes	40,356	108,084	(67,728)	(62.7)%
Provision for income taxes	21,203	29,339	(8,136)	(27.7)%
Net Income	\$ 19,153	\$ 78,745	\$ (59,592)	(75.7)%

N.M.: Not meaningful

Revenue

Patient and resident service revenue - Patient and resident service revenue increased by \$621.8 million to \$2.9 billion for the nine months ended September 30, 2024, a 27.5% increase compared to the nine months ended September 30, 2023. For the nine months ended September 30, 2024 and 2023, skilled nursing services revenue represented more than 99% of patient and resident service revenue.

Skilled nursing services revenue increased by 26.9%, or \$604.1 million, to \$2.8 billion for the nine months ended September 30, 2024, compared to the nine months ended September 30, 2023. This change was driven by an increase in patient days of 1,292,405 or 26.5% primarily due to an increase in operational beds of 5,236, or 23.6%, from September 30, 2023 to September 30, 2024. New facilities experienced a decrease in occupancy, from 88.0% for the nine months ended September 30, 2023, to 83.4% for the nine months ended September 30, 2024, due to recent new acquisitions, which generally have lower occupancy rates than ramping or mature facilities. Our relatively high occupancy rate across all facilities of 90.8% for the nine months ended September 30, 2024, reflects a slight decrease compared to 91.2% for the nine months ended September 30, 2023, driven by increases in both the Ramping and Mature facility cohorts.

Our skilled nursing services revenue was positively impacted by developments in our average daily rates and fluctuations in our payor source mix. Our average Medicare daily rates increased by 8.6%, for the nine months ended September 30, 2024, compared to the nine months ended September 30, 2023. This increase in the Medicare daily rate is attributable, in part, to the 5.1% Medicare Part A increase that became effective in October 2023, as well as a higher mix of patients requiring a higher acuity level.

Our average Medicaid rates increased 4.2% for the nine months ended September 30, 2024, compared to the nine months ended September 30, 2023, due to state reimbursement increases and our participation in supplemental Medicaid

payment programs and quality improvement programs in various states. Medicaid rates exclude the amount of state relief revenue we recorded.

Additional funding - Additional funding revenue was \$0 for the nine months ended September 30, 2024, compared to \$0.4 million for the nine months ended September 30, 2023. The decrease was due to the termination of additional funding from the HHS under the Pandemic PHE in 2023.

Other revenue - Other revenue increased to \$2.9 million for the nine months ended September 30, 2024, compared to \$0.7 million for the same period in the prior year due to an increase in lease income during the extended execution of the Prestige acquisition.

Cost of services

Cost of services increased by \$579.7 million to \$2.3 billion, for the nine months ended September 30, 2024, compared to the nine months ended September 30, 2023. The 32.8% increase was primarily driven by an increase of \$344.8 million in salaries and wages. Our total number of post-acute care facilities, inclusive of skilled nursing facilities and assisted living facilities, increased from 201 as of September 30, 2023 to 276 as of September 30, 2024, an increase of 37.3%. Of the salaries and wages increase, those attributable to New facilities purchased after September 30, 2023 accounted for \$139.5 million or 40.5% of the increase. Headcount and operational changes attributable to Ramping and Mature facilities accounted for the remaining change in salaries and wages. Aside from labor costs, the increase in cost of services was due to increases of \$106.9 million in administrative expenses for facilities driven by a \$57.5 million increase in professional and general liability insurance; \$66.5 million in contracted services made up of \$11.5 million from New facilities, or 17.3%, and \$55.0 million from Ramping and Mature facilities; and \$35.3 million in nursing and dietary expenses, made up of \$7.7 million from New facilities; with the remainder spread out across various expense types.

Rent - cost of services

Rent - cost of services increased to \$201.0 million for the nine months ended September 30, 2024, compared to \$154.9 million for the nine months ended September 30, 2023. The increase was primarily attributable to the addition of new facilities throughout the year, as well as to annual escalators on existing facilities' rent.

General and administrative expense

General and administrative expense increased by \$82.5 million, to \$254.2 million for the nine months ended September 30, 2024, compared to \$171.7 million for the nine months ended September 30, 2023. This increase was due to the increase in stock compensation expense recognized during the year, associated with restricted stock units that were granted at the time of our IPO, which accounted for an increase of \$103.2 million. The change was also impacted by an increase in salaries and wages of \$18.4 million, or 20.0%, driven by growth in operations, offset by a decrease in costs associated with professional and general liability insurance within general and administrative expense in 2023 of \$38.1 million.

Depreciation and amortization

Depreciation and amortization increased by \$9.5 million to \$27.9 million, for the nine months ended September 30, 2024, compared to the nine months ended September 30, 2023. This increase is directly attributable to new real estate obtained through acquisitions as well as growth of our finance lease portfolio.

Other expense, net

Other expense, net was \$10.7 million for the nine months ended September 30, 2024, a decrease of \$26.4 million compared to the nine months ended September 30, 2023. Other expense, net consists of interest expense which decreased by \$1.1 million, to \$35.0 million for the nine months ended September 30, 2024, driven by a decrease in amounts drawn on lines of credit and long-term debt of \$338.3 million from September 30, 2023 to September 30, 2024. Additionally, in the nine months ended September 30, 2024, other expense, net included a gain of \$8.0 million recognized upon the termination of a lease. Additionally, during the nine months ended September 30, 2024, other expense, net included other income of \$16.3 million, an increase of \$17.2 million from the nine months ended September 30, 2023. This increase was primarily driven by the recognition of a bargain purchase gain following our acquisition from the former operator Prestige during the nine months ended September 30, 2024.

Provision for income taxes

Provision for income taxes totaled \$21.2 million for the nine months ended September 30, 2024, representing an effective tax rate of 52.5%, compared to a provision for income tax of \$29.3 million and an effective tax rate of 27.1% for the nine months ended September 30, 2023. The change in effective tax rate in the nine months ended September 30, 2024 compared to the nine months ended September 30, 2023 was primarily due to the change in forecasted pre-tax book income and an increase in non-deductible expenses, including non-deductible compensation in 2024. See Note 10, "Income Taxes" in our condensed combined/consolidated financial statements for more information.

Holding Company Status

We are a holding company with no significant direct operating assets, employees or revenues. Our operating subsidiaries are operated by separate, independent entities, each of which has its own management, employees and assets. In addition, through a separate wholly-owned subsidiary, we provide centralized accounting, payroll, human resources, information technology, legal, risk management and other consulting and centralized services to the other operating subsidiaries through contractual relationships with those subsidiaries. We also have a wholly-owned captive insurance subsidiary that provides some claims-made coverage to our operating subsidiaries for professional liability and general liability insurance.

Liquidity & Capital Resources

Prior to our IPO our liquidity was generally derived from our cash flows from operations, mortgage loans (including both Housing and Urban Development (HUD)-insured and non-HUD mortgage loans), and credit facilities maintained with commercial banks.

On April 15, 2024, we completed an IPO receiving initial net proceeds of \$423.0 million. We used \$370.0 million of the net proceeds from the IPO to repay amounts outstanding under our Amended and Restated 2023 Credit Facility (as defined below) and used the remaining amount for general corporate purposes to support the growth of the business. On September 9, 2024, we completed an underwritten follow-on offering receiving initial net proceeds of \$96.4 million, of which we used \$95.3 million to repay amounts outstanding under our Amended and Restated 2023 Credit Facility.

As of September 30, 2024 and September 30, 2025, we had cash and cash equivalents (which include short-term investments with original maturities of three months or less at the time of purchase) of \$49.5 million and \$355.7 million, respectively. The total principal amount outstanding under our Amended and Restated 2023 Credit Facility as of September 30, 2024 and September 30, 2025, was \$0 and \$100.0 million, respectively. In addition, we had outstanding letters of credit of \$13.3 million and \$13.9 million, as of September 30, 2024 and September 30, 2025, respectively.

As described in more detail below, we are in a state of forbearance with the lenders associated with the Amended and Restated 2023 Credit Facility and as a result, we are currently unable to borrow additional amounts. We are in active discussions with the Required Lenders (as defined in the Amended and Restated Credit Agreement) regarding the terms of an amendment and waiver to our Amended and Restated 2023 Credit Facility and expect to reach an agreement before the end of the forbearance period to be able to borrow additional amounts.

, resulting in potential borrowing capacity of up to \$586.7 million and \$486.1 million, respectively, net of letter of credit usage.

The terms of the Amended and Restated 2023 Credit Facility permit optional prepayments from time to time without premium or penalty. We expect to continue to use the Amended and Restated 2023 Credit Facility, subject to entrance into the agreement described above, as our single line-of-credit and to fund the potential acquisition of additional property and operations, as well as for working capital and for general corporate purposes. Cash paid to fund real estate acquisitions was \$224.8 million for the nine months ended September 30, 2024, compared to \$84.4 million, for the nine months ended September 30, 2023.

We believe our current cash balances and our cash flow from operations and the proceeds from our IPO will be sufficient to cover our operating needs for at least the next 12 months. We may, in the future, seek to raise additional capital to fund growth, capital renovations, operations and other business activities, but such additional capital may not be available on acceptable terms, on a timely basis, or at all.

The following table presents selected data from our condensed combined/consolidated statement of cash flows for the periods presented:

	Nine Months Ended September 30,	
	2024	2023
	(in thousands)	
Net cash provided by/(used in):		
Operating activities	\$ 302,751	\$ 73,398
Investing activities	(338,345)	(112,844)
Financing activities	(21,098)	31,397
Net change in cash	\$ (56,692)	\$ (8,049)
Cash, cash equivalents, and restricted cash - beginning of period	118,704	98,206
Cash, cash equivalents, and restricted cash - end of period	\$ 62,012	\$ 90,157

Operating activities

Cash provided by operating activities is net income adjusted for certain non-cash items and changes in operating assets and liabilities.

Net cash provided by operating activities for the nine months ended September 30, 2024 of \$302.8 million increased by \$229.4 million as compared with the same period in 2023. The increase was driven by an increase in operational performance across our existing portfolio of facilities as well as the incremental operational performance across our 75 facilities acquired since September 30, 2023. This increase was further driven by an increase in cash flows from the change in operating assets and liabilities of \$205.9 million due primarily to the timing of accounts receivable collections as well as the timing of payables and other accrued liabilities. The impact of collections to net income is driven by growth in operating facilities period-over-period, offset by an increase in days sales outstanding of 3.1, from 54.7 as of September 30, 2023 to 57.8 as of September 30, 2024. This growth in days sales outstanding is primarily due to the increase of newly acquired facilities during the year which typically have a longer collection period during the facility ownership transition.

Investing activities

Investing cash flows consist primarily of capital expenditures, investment activities, proceeds from sale of property and equipment and cash used for acquisitions.

Net cash used in investing activities for the nine months ended September 30, 2024 of \$338.3 million increased by \$225.5 million as compared with the same period in 2023. The increase in cash used was attributable to an increase of \$140.3 million used to acquire real estate facilities and an increase of \$11.3 million used to purchase property and equipment, in excess of cash used for these purposes in the nine months ended September 30, 2023. In the nine months ended September 30, 2024 we also purchased investments, consisting of holdings in investment grade bond mutual funds, of \$45.0 million through our captive insurance subsidiary using funds held as long-term restricted cash previously held in other assets (see Note 6, "Fair Value Measurement") and we made an additional \$30.4 million investment in partnerships during the period, as opposed to no cash used for these purposes in the same period in 2023.

Financing activities

Financing cash flows consist primarily of payments and draws on lines of credit, distributions and repayment of short-term and long-term debt, borrowings on lines of credit, contributions from noncontrolling interest, and proceeds from equity offerings.

Net cash used in financing activities for the nine months ended September 30, 2024 of \$21.1 million increased by \$52.5 million as compared to the net cash provided by financing activities of \$31.4 million during the same period in 2023. Cash provided by financing activities was driven by a year-over-year increase in cash inflows from net IPO proceeds and follow on offering proceeds of \$414.2 million and \$95.3 million, respectively. Offsetting these inflows were decreases in net cash flows of \$507.1 million and \$56.5 million from lines of credit and long-term debt, respectively. The total long-term debt additions of \$70.1 million during the nine months ended September 30, 2024 had more favorable terms, as

compared to our then existing debt, including the additions to the HUD-insured mortgage loans of \$65.6 million with interest rates ranging from 2.9% to 5.5% and remaining terms of 24 to 35 years.

Credit facility amendments

On May 16, 2024, we entered into an amendment to the Amended and Restated 2023 Credit Facility that, among other things, waived an event of default that had occurred and was then continuing under the Amended and Restated 2023 Credit Facility and modified the affirmative covenants thereunder requiring the joinder of certain subsidiaries of PACS Group, Inc. to the Amended and Restated 2023 Credit Facility, as further set forth therein. On November 14, 2024, we entered into another amendment to the Amended and Restated 2023 Credit Facility that, among other things, extended the deadline for our delivery of unaudited quarterly financial statements for the fiscal quarter ended September 30, 2024. On March 27, 2025, and May 29, 2025, we entered into further amendments to the Amended and Restated 2023 Credit Facility that, among other things, extended the deadline for delivery of audited annual financial statements for the fiscal year ended December 31, 2024. The May 29, 2025 amendment also supplemented the Amended and Restated Credit Agreement's financial covenants requiring us to maintain unrestricted cash and certain permitted investments of at least \$100 million until we deliver audited financial statements for the fiscal year ended December 31, 2024 (the "Liquidity Requirement").

On July 24, 2025 and August 13, 2025 we entered into two separate forbearance agreements with the Truist Bank, as administrative agent (the "Administrative Agent") and the lenders, pursuant to which the lenders agreed to temporarily forbear from exercising remedies under the Amended and Restated 2023 Credit Facility with respect to certain technical events of default, including without limitation matters relating to inaccuracies in certain representations and warranties made, which inaccuracies also triggered an event of default under the Third Consolidated Master Lease, dated June 30, 2023 (as amended, restated, amended and restated, supplemented or otherwise modified from time to time, the "Omega Master Lease"), which in turn triggered an additional event of default under the Amended and Restated 2023 Credit Facility. In addition, a separate representation and warranty event of default occurred under the Omega Master Lease, which triggered an event of default under the Amended and Restated Credit Agreement (all such technical events of default under the Amended and Restated 2023 Credit Facility, the "Initial Technical Events of Default"). The August 13, 2025 Forbearance Agreement and Fifth Amendment to the Credit Agreement required that the Liquidity Requirement remain in place for the entirety of the forbearance period and further extended the delivery period with respect to the fiscal year 2024 financial statements. The forbearance period was scheduled to run until October 31, 2025, subject to extension by the Administrative Agent through November 30, 2025, or by the Required Lenders thereafter, or earlier termination upon the occurrence of certain specified events of default.

On October 21, 2025, we entered into a third forbearance agreement (the "October Forbearance Agreement"). Under the October Forbearance Agreement, the lenders again agreed to temporarily forbear from exercising rights and remedies under the Amended and Restated Credit Agreement with respect to the Initial Technical Events of Default, as well as certain additional technical events of default including without limitation matters relating to the designation of certain immaterial conflicted subsidiaries; failure to join certain subsidiaries to the loan documents; noncompliance with cash management requirements; and inaccuracies in certain representations and warranties made as a result of the foregoing (collectively, with the Initial Technical Events of Default, the "Technical Events of Default"). The Technical Events of Default also triggered an event of default under the Omega Master Lease, which in turn triggered an additional event of default under the Amended and Restated Credit Agreement.

The October Forbearance Agreement provides for the same forbearance period as the prior forbearance agreements. Following the October Forbearance Agreement, the Administrative Agent agreed to extend the forbearance period thereunder through November 30, 2025. During the forbearance period, we are required to comply with certain additional specified conditions, including the continued maintenance of minimum liquidity of \$100 million, limitations on certain investments and acquisitions, and a prohibition on the borrowing of new loans under the Amended and Restated 2023 Credit Facility. The October Forbearance Agreement is intended to provide us with temporary relief while addressing the Technical Events of Default and does not constitute a waiver of the Technical Events of Default or amendment to the Amended and Restated Credit Agreement beyond the amended terms specified therein.

We are in active discussions with the Required Lenders regarding the terms of an amendment and waiver to our Amended and Restated 2023 Credit Facility and expect to reach an agreement following the end of the forbearance period.

Inflation

We have historically derived a substantial portion of our revenue from the Medicare program. We also derive revenue from state Medicaid and similar reimbursement programs. Payments under these programs generally provide for reimbursement levels that are adjusted for inflation annually based upon the state's fiscal year for the Medicaid programs and in each October for the Medicare program. These adjustments may not continue in the future, and even if received, such adjustments may not reflect the actual increase in our costs for providing healthcare services.

Labor, supply expenses and capital expenditures make up a substantial portion of our cost of services. Those expenses can be subject to increase in periods of rising inflation and when labor shortages occur in the marketplace. To date, we have generally been able to implement cost control measures or obtain increases in reimbursement sufficient to offset increases in these expenses. There can be no assurance that we will be able to anticipate fully or otherwise respond to any future inflationary pressures.

Off-Balance Sheet Arrangements

We may enter into off-balance sheet arrangements and transactions that can give rise to material off-balance sheet obligations. As of September 30, 2024, we had \$13.3 million of borrowing capacity under the Amended and Restated 2023 Credit Facility pledged as collateral to secure outstanding letters of credit. We may enter into further contractual arrangements in the future in order to support our business plans. There are no other transactions, arrangements or other relationships with unconsolidated entities or other persons that are reasonably likely to materially affect our liquidity or availability of our capital resources.

Critical Accounting Estimates

Our condensed combined/consolidated financial statements and accompanying notes included in this report have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The preparation of these condensed combined/consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, cash flows, revenues and expenses, and related disclosure of contingent assets and liabilities.

See the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our final prospectus dated April 12, 2024, including the fiscal year ended December 31, 2023, for further discussion of critical accounting estimates. There were no material changes to our critical accounting policies with which the estimates are developed since December 31, 2023, other than as set forth in Note 3, "Summary of Significant Accounting Policies" with respect to Commitments and Contingencies.

Recent Accounting Pronouncements

For a description of recently adopted and issued accounting pronouncements, see Note 3, "Summary of Significant Accounting Policies", to our condensed combined/consolidated financial statements, included in this report in Part I, Item I, "Financial Statements."

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to risks associated with market changes in interest rates through our borrowing arrangements. As of September 30, 2024, we had \$0 of variable rate debt, therefore none of which was subject to an interest rate hedge. In particular, our credit facility exposes us to variability in interest payments due to changes in SOFR interest rates. We manage our exposure to this market risk by monitoring available financing alternatives. Our mortgages and promissory notes require principal and interest payments through maturity pursuant to amortization schedules.

Our mortgages generally contain provisions that allow us to make repayments earlier than the stated maturity date. In some cases, we are not allowed to make early repayment prior to a cutoff date. Where prepayment is permitted, we are generally allowed to make prepayments only at a premium which is often designed to preserve a stated yield to the note holder. These prepayment rights may afford us opportunities to mitigate the risk of refinancing our debts at maturity at higher rates by refinancing prior to maturity.

Our cash and cash equivalents as of September 30, 2024 consisted of cash and short-term investments with original maturities of three months or less at the time of purchase. Risks due to changing interest rates impact the return we realize related to our cash and short-term investment balances.

As of September 30, 2024, we had outstanding indebtedness under mortgage loans insured with HUD and two promissory notes to third parties of \$241.4 million, all of which are at fixed interest rates.

The above only incorporates those exposures that exist as of September 30, 2024 and does not consider those exposures or positions which could arise after that date. For additional consideration over inflation, see Part I, Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations" above.

Item 4. Controls and Procedures

Inherent Limitations on Effectiveness of Controls

In designing and evaluating our disclosure controls and procedures, management recognizes that there are inherent limitations in the effectiveness of any control system, including the potential for human error and the possible circumvention or overriding of controls and procedures. No matter how well designed and operated, an effective control system can provide only reasonable, not absolute, assurance that the control objectives of the system are adequately met. Accordingly, the management of the Company, including its Chief Executive Officer and Interim Chief Financial Officer, does not expect that the control system can prevent or detect all error or fraud. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints, and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Interim Chief Financial Officer, have evaluated the effectiveness of our disclosure controls and procedures, as such term is defined under Rules 13a-15(e) and 15(d)-15(e) under the Exchange Act, as of September 30, 2024. Based on that evaluation, our Chief Executive Officer and Interim Chief Financial Officer concluded that our disclosure controls and procedures were not effective at the reasonable assurance level as of September 30, 2024, due to the material weaknesses described below.

Considering the material weaknesses described below, management performed additional analysis and other procedures to ensure that our condensed combined/consolidated financial statements were prepared in accordance with U.S. GAAP. Accordingly, management believes that the condensed combined/consolidated financial statements included in this Quarterly Report fairly present, in all material respects, our financial position, results of operations, and cash flows as of and for the periods presented, in accordance with U.S. GAAP.

Material Weakness

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. In connection with the preparation of our combined/consolidated financial statements for the quarterly period ended September 30, 2024, together with facts learned during the course of the Audit Committee's independent investigation, our management identified control deficiencies that, individually or in the aggregate, constitute a material weakness in our internal control over financial reporting. The material weaknesses identified by management were:

- We did not design and maintain an effective control environment commensurate with the financial reporting requirements of a public company. Specifically, we did not design and maintain sufficient processes to identify, assess, and communicate relevant risks to appropriate levels of the organization, including potential compliance issues received through the hotline process.
- In addition, we did not design and maintain adequate controls within the revenue process to appropriately recognize revenue for new services in accordance with ASC 606.

These material weaknesses led to errors in our previously issued interim condensed combined/consolidated financial statements for the three months ended March 31, 2024 and the three and six months ended June 30, 2024 (the "Prior

Financial Statements”), which will be included in Part II, Item 8, of our Annual Report on Form 10-K, at Note 22 to our combined/consolidated financial statements for the year ended December 31, 2024.

Remediation Plan

Our management is committed to maintaining a strong internal control environment. In response to the identified material weaknesses above, management with the oversight of the Audit Committee, is taking comprehensive actions to remediate the above material weaknesses. Specifically, we have made, and are continuing to advance, the following enhancements to our internal control over financial reporting:

- We have retained an Interim Chief Compliance Officer (“CCO”) who has extensive healthcare regulatory experience and experience advising public companies, and who reports directly to our CEO accompanied by regular reporting and access to the Audit Committee. We are in the process of hiring an experienced candidate, with both public company and post-acute healthcare experience, to serve as the permanent CCO.
- We also are in the process of recruiting additional compliance, legal and internal audit personnel to enhance our risk assessment capabilities.
- We have formed a Compliance Committee of senior management, chaired by the Interim CCO, with a detailed charter and oversight from the Audit Committee and Board of Directors.
- We have developed and launched an enhanced compliance training program throughout the organization, and have upgraded our compliance hotline and process for investigating complaints, including elevating matters that may have a financial impact to the Chief Financial Officer, Chief Accounting Officer, and Board of Directors.
- We are in the process of enhancing the controls related to revenue recognition, in which the Company’s compliance team will oversee a thorough review and approval process for new billing codes prior to billing. Once approved for use by the compliance team, these services will be reviewed in accordance with ASC 606, by the accounting function, prior to revenue recognition.
- We enhanced our Disclosure Committee process by adding sub-certifications and key personnel to specifically address the evaluation and communication of compliance and other business activities as they inform financial reporting. In addition, we are including a broader group of internal stakeholders to certain other meetings to ensure timely information is being shared which impacts financial reporting.

The material weaknesses will not be remediated until the necessary internal controls have been designed, implemented, tested and determined to be operating effectively. In addition, we may need to take additional measures to address the material weaknesses or modify the planned remediation steps, and we cannot be certain that the measures we have taken, and expect to take, to improve our internal controls will be sufficient to address the issues identified, to ensure that our internal controls are effective or to ensure that the identified material weaknesses will not result in a material misstatement of our combined/consolidated financial statements. Moreover, we cannot provide assurance that we will not identify additional material weaknesses in our internal control over financial reporting in the future. Until we remediate the material weaknesses, our ability to record, process and report financial information accurately, could be adversely affected.

Changes in Internal Control Over Financial Reporting

Other than the ongoing remediation efforts described above, there have been no changes in our internal control over financial reporting during the period ended September 30, 2024 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II—Other Information

Item 1. Legal Proceedings

We are subject to various legal proceedings, claims, and governmental inspections, audits, and investigations that arise in the ordinary course of our business.

Regulatory Investigations

On April 8, 2024, Providence Administrative Consulting Services (“Providence”) and Paradise Valley Healthcare Center (“Paradise Valley”) received a Civil Investigative Demand (“CID”) from the U.S. Department of Justice (“DOJ”) requesting information and documents relating to an investigation of Paradise Valley and Providence to determine whether Paradise Valley and Providence violated the False Claims Act by submitting false claims to Medicare. The investigation relates to whether Providence and Paradise Valley improperly induced patient referrals through remuneration in violation of the Anti-Kickback Statute. The CID includes requests for information relating to referral source relationships, including relationships with medical directors and other individuals. We are cooperating with the investigation, which is ongoing.

On September 11, 2024, we received a CID from the DOJ requesting information and documents relating to an investigation of our California-based skilled nursing facilities to determine whether PACS violated the False Claims Act by submitting false claims to Medicare for reimbursement under the patient-driven payment model for skilled nursing and rehabilitation services. The CID includes requests for information relating to PACS’ practices and incentives pertaining to the completion and submission of Minimum Data Set Assessments and the resulting PDPM rates. We are cooperating with the investigation, which is ongoing.

On September 30, 2024, Providence Group, Inc. (“Providence Group”) received a CID from the DOJ requesting information and documents relating to an investigation of its skilled nursing facilities, specifically including Bishop Care Center (“Bishop”) to determine whether Providence Group violated the False Claims Act by submitting false claims to Medicare for reimbursement under the COVID-19 related Hospital Stay Waiver (otherwise known as the 1135 waiver). The CID includes requests for information relating to 1135 COVID Waiver practices at Bishop. We are cooperating with the investigation, which is ongoing.

On February 26, 2025, we received a subpoena from the DOJ per the HIPAA relating to an investigation into possible violations of various sections of 18 U.S.C. that prohibit the making of fraudulent or false statements to any branch of the government of the United States. The subpoena includes requests for information relating to PACS’ 1135 COVID Waiver practices, billing of Medicare Part B for respiratory and sensory integration therapy services, change of insurance enrollment, cost waivers for co-pays, deductibles, and co-insurance, and claim reimbursement from Medicare for bad debt. We are cooperating with the investigation, which is ongoing.

SEC Investigation

The SEC’s Division of Enforcement is conducting an investigation into matters that relate to our accounting and financial reporting and disclosure, and our internal controls over financial reporting and disclosure controls.

We are cooperating with each of the regulatory investigations identified above and the SEC investigation to produce the requested information and documentation. At this time, we cannot predict the outcome of any of these investigations and there can be no assurance that one or more of these investigations will not result in suits or actions alleging, or findings of, violations of federal or state laws that could lead to the imposition of damages, fines, penalties, restitution, other monetary liabilities, sanctions, settlements or changes to our business practices or operations that could have a material adverse effect on our business, financial condition or results of operations. The legal costs associated with responding to the regulatory investigations and SEC investigations can be substantial, regardless of the outcome.

We are unable at this time to estimate a loss or range of loss that may arise in the event that a claim is asserted against us in connection with any of these investigations for reasons including that these matters are in early stages, no factual issues have been resolved in these matters, and there is uncertainty as to the outcome of these matters, which can result in large settlement amounts or damage awards.

Litigation

The skilled nursing business involves a significant risk of liability given the age and health of the patients and residents served by our independent operating subsidiaries. We, and others in the industry are subject to an increasing number of claims and lawsuits, including professional liability claims, alleging that services provided have resulted in personal injury, elder abuse, wrongful death or other related claims. In addition, we, our independent operating subsidiaries, and others in the industry are subject to claims and lawsuits in connection with COVID-19 and a facility's preparation for and/or response to COVID-19.

Healthcare litigation (including class action litigation) is common and is filed based upon a wide variety of claims and theories. We and other companies in its industry are routinely subjected to varying types of claims and suits, including class-actions. Class-action suits have the potential to result in large jury verdicts and settlements, and may result in significant legal costs. We expect the plaintiffs' bar to continue to be aggressive in their pursuit of claims.

We have been, and continue to be, subject to other claims and legal actions that arise in the normal course of business, including potential claims filed by patients or others on their behalf related to patient care and treatment (professional negligence claims), as well as employment related claims filed by current or former employees. While there can be no assurance, based on our evaluation of information currently available, we do not believe the results of such litigation would have a material adverse effect on our results of operations, financial position or cash flows, taken as a whole. However, our assessment may evolve based upon further developments in the proceedings at issue. The results of legal proceedings are inherently uncertain, and material adverse outcomes are possible.

For example, we have been subjected to, and are currently involved in, litigation alleging violations of state and federal wage and hour laws resulting from the alleged failure to pay wages, to timely provide and authorize meal and rest breaks, and related causes of action.

In addition to the litigation described above, we are also subject to the following litigation:

Litigation -- Shareholder Derivative Actions

On November 13, 2024, a putative securities class action captioned *Manchin v. PACS Group, Inc., et al*, Case No. 1:24-cv-08636-LJL (S.D.N.Y.) ("*Manchin* Action") was filed against us, individual defendants Jason Murray, Derick Apt, Mark Hancock, Jacqueline Millard, and Taylor Leavitt; and underwriter defendants Citigroup Global Markets Inc., J.P. Morgan Securities LLC, Truist Securities, Inc., RBC Capital Markets, LLC, Goldman Sachs & Co. LLC, Stephens Inc., KeyBanc Capital Markets Inc., Oppenheimer & Co. Inc., and Regions Securities LLC. The complaint brings claims under Sections 11 and 15 of the Securities Act, and Section 10(b), and 20(a) of the Exchange Act, and alleges we and our leadership engaged in a multi-year scheme to inflate revenue and profitability by (i) exploiting a COVID-era Medicare waiver to "flip" long-term Medicaid patients to higher-paying Medicare coverage, (ii) billing unnecessary Medicare Part B respiratory and sensory integration therapies, and (iii) falsifying licensure and staffing documentation. On January 7, 2025, the court consolidated the *Manchin* action with a similar action brought by plaintiff New Orleans Employees' Retirement System, and on February 11, 2025 the court appointed 1199SEIU Health Care Employees Pension Fund as lead plaintiff, and its counsel, Labaton Keller Sucharow LLP, as lead counsel. Pursuant to the parties' stipulation and as ordered by the court on May 29, 2025, the Lead Plaintiff's consolidated complaint is not due until 14 days after we file our Quarterly Report on Form 10-Q for the period ended September 30, 2024 and our Annual Report on Form 10-K for the year ended December 31, 2024. Defendants' motion to dismiss the consolidated complaint is due 60 days after the complaint is filed, Plaintiffs' opposition is due 60 days after the filing of the motion to dismiss, and Defendants' reply is due 45 days after the filing of the opposition.

On February 14, 2025, a derivative action originally filed by plaintiff Theresa Howard-Hines ("*Howard-Hines* Action") captioned *IN RE PACS GROUP, INC. DERIVATIVE LITIGATION* Lead Case No. 1:25-cv-01343-LJL (S.D.N.Y.) was filed against defendants Jason Murray, Derick Apt, Mark Hancock, Michelle Lewis, Jacqueline Millard, Taylor Leavitt, and Evelyn Dilsaver, with the Company named as nominal defendant. The complaint brings claims of breach of fiduciary duties, unjust enrichment, waste of corporate assets, and contribution, based on substantially similar allegations as in the *Manchin* Action. On April 8, 2025, the court consolidated the *Howard-Hines* action with a similar derivative action filed by plaintiff Adam Beckman, under the name *In re PACS Group, Inc. Derivative Litigation*. On June 9, 2025, the parties filed a joint stipulation staying the action until the earlier of the dismissal of the *Manchin* Action, the denial of any motion to dismiss in the *Manchin* Action, or the termination of the stay.

On August 19, 2025, a derivative action captioned *Boers v. Murray, et. al.*, Case No. 1:25-cv-00119-DAK-DBP (D. Utah) was filed against the same defendants and alleging substantially the same claims and theories as *IN RE PACS GROUP, INC. DERIVATIVE LITIGATION*. The defendants have not yet been served in this action. The parties have tentatively agreed to stay the Utah Derivative Action pending resolution of the anticipated motion to dismiss the securities class action. No dispositive rulings have issued, discovery is not proceeding, and there are no settlement ranges or agreements in principle. Future developments may include motions to dismiss and other dispositive motions, and potential coordination with the securities class action if the stays are lifted.

Legal proceedings can be complex and take many months, or even years, to reach resolution, with the final outcome depending on a number of variables, some of which are not within our control. Therefore, although we will vigorously defend ourselves in each of the actions described above and any other legal proceedings, their ultimate resolution and potential financial and other impacts on us are uncertain but could be material. Regardless of final outcomes, however, any such proceedings, claims, and investigations may nonetheless impose a significant burden on management and employees and be costly to defend, with unfavorable preliminary, interim or final rulings.

Item 1A. Risk Factors

Our business involves a high degree of risk. You should carefully consider each of the following risk factors and all other information set forth in this report and our other filings with the SEC. Based on the information currently known to us, we believe that the following information identifies the most significant risk factors affecting our company. In addition, past financial performance may not be a reliable indicator of future performance and historical trends should not be used to anticipate results or trends in future periods.

If any of the following risks and uncertainties develops into actual events or circumstances, they could have a material adverse effect on our business, financial condition and results of operations. You should carefully read the following risk factors, together with our condensed combined/consolidated financial statements and the related notes and all other information included in this report and our other filings with the SEC. This report contains forward-looking statements that contain risks and uncertainties.

Risks Related to Our Business and Industry

We depend upon reimbursement from third-party payors, and our revenue, financial condition and results of operations could be negatively impacted by any changes in the acuity mix of patients in our facilities as well as changes in payor mix and payment methodologies and new cost containment initiatives by third-party payors.

Our revenue is affected by the percentage of the patients of our operating subsidiaries who require a high level of skilled nursing and rehabilitative care, whom we refer to as high acuity patients or skilled patients, and by our mix of payment sources. Changes in the acuity level of patients we attract, as well as our payor mix among Medicaid, Medicare, private payors and managed care companies, significantly affect our revenue. Changes to federal law affecting Medicaid funding and availability, including the enactment of the OBBBA, may materially affect our business and the operations of our independent subsidiaries. Because high acuity patients require more skilled nursing services and a higher level of care, we generally receive higher reimbursement rates for providing care to them. Lower acuity patients, who are typically Medicaid beneficiaries, typically require fewer skilled nursing services and thus we are typically paid lower rates by Medicaid for caring for them, sometimes at rates that do not cover our costs of providing care to the patient. Reimbursement rates provided for caring for skilled patients are more likely to meet or exceed the costs of providing care to those patients, thus enabling the facility to be fiscally sustainable. Given the generally predetermined nature of the reimbursement rates that we are paid for caring for patients, depending on their acuity level, if our labor or other operating costs increase disproportionately compared to the reimbursement rates we are paid for providing services, particularly with Medicaid patients, we will generally be unable to recover the increased costs from payors unless and until reimbursement rates are adjusted, and even then they may not be adjusted in full, in a timely manner, and are typically only adjusted on a prospective basis. Accordingly, if we fail to maintain our proportion of high acuity patients or if there is any significant increase in the percentage of the patients of our operating subsidiaries for whom we receive Medicaid reimbursement, it could have a material adverse effect on our business, financial condition, and results of operations.

Initiatives undertaken by major insurers and managed care companies, including companies who run plans commonly referred to as Managed-Medicare and Managed-Medicaid, to reduce their costs and the amounts they pay providers may adversely affect our business. These tactics include contracting with healthcare providers to obtain services on a discounted basis. We believe that this trend will continue and may limit reimbursements for healthcare services. If insurers or managed

care companies from whom we receive substantial payments were to reduce the amounts they pay for services and we did not wish to accept such reductions, we may lose patients if we choose not to renew our contracts with these insurers at their lower offered rates. Additionally, some payors have used the federal “No Surprises Act” or similar state legislation as a means to initiate re-negotiation of reimbursement rates for providers and facilities, leading to litigation between these providers and/or facilities against payors and it may adversely affect us as well. In addition, sustained unfavorable economic conditions may affect the number of patients enrolled in managed care programs and the profitability of managed care companies, which could result in reduced payment rates.

We may not be fully reimbursed for all services for which each facility bills through consolidated billing or bundled payments, which could have an adverse effect on our revenue, financial condition and results of operations.

In connection with the per diem prospective payments paid to SNFs, SNFs are required to perform consolidated billing for certain items and services furnished to patients and residents. Consolidated billing generally requires the SNF to bill a single daily amount for the entire package of care that its patients receive during a SNF stay covered by Medicare Part A or Medicare Advantage plans. Given the generally predetermined nature of the reimbursement rates that SNFs are paid for caring for patients, if our operating costs increase disproportionately compared to the reimbursement rates we are paid for providing services under consolidated billing, there could be a material adverse effect on our business, financial condition, and results of operations.

In addition, CMS has implemented certain payment initiatives that bundle acute care and post-acute care reimbursement. Post-hospitalization skilled nursing services must be “bundled” into the hospital’s diagnostic related group payment in certain limited circumstances, in which case the hospital and SNF must effectively divide the payment that otherwise would have been made to the hospital and no additional funds are paid by Medicare for the skilled nursing care of the patient. Although this practice applies to only a limited number of DRGs and is uncommon at our SNFs currently, it could adversely affect SNF utilization and payments, whether due to the practical difficulty of this apportionment or hospitals being reluctant to lose revenue by discharging patients to a SNF. If more payments are required to be bundled in the future, or if there is any significant increase in patients for whom we receive bundled payments, our SNFs may not receive full reimbursement for all the services they provide, which could have a further adverse effect on SNF utilization and our revenue, financial condition and results of operations.

Increased competition for, or a shortage of, nurses, nurse assistants and other skilled personnel could increase our staffing and labor costs and subject us to monetary fines.

Our success depends upon our ability to retain and attract nurses and other skilled personnel, such as registered nurses, licensed vocational nurses, licensed practical nurses, certified nurse assistants, social workers and speech, physical and occupational therapists, as well as skilled management personnel responsible for day-to-day facility operation. Each facility has a facility administrator who is ultimately responsible for the overall day-to-day operations of the facility, including quality of care, social services and financial performance. Each facility administrator leads a team of facility staff who are directly responsible for day-to-day care of the facility residents, as well as other operational functions of the facility including marketing and community outreach programs. Other key positions supporting each facility may include individuals responsible for physical, occupational and speech therapy, food service and maintenance. We compete with various healthcare service providers, including other skilled nursing providers, in retaining and attracting qualified and skilled personnel. We also compete with businesses outside of healthcare in our efforts to attract and retain talented employees.

Our subsidiaries operate SNFs in Alaska, Arizona, California, Colorado, Idaho, Kansas, Kentucky, Missouri, Montana, Nevada, Ohio, Oregon, Pennsylvania, South Carolina, Tennessee, Texas, and Washington as of December 31, 2024. Some states have established minimum staffing requirements for facilities operating in that state, and other states may do the same in the future, or existing requirements may become more stringent. The federal government recently adopted minimum staffing requirements as well. For further discussion of federal minimum staffing requirements, see the section titled “CMS Minimum Staffing Standards Final Rule.” Failure to comply with minimum staffing requirements due to competition for, a shortage of or an inability to hire required personnel can, among other things, jeopardize a facility’s compliance with the conditions of participation under relevant state and federal healthcare programs. If a facility is determined to be out of compliance with these requirements, it may be subject to a notice of deficiency, a citation, or a significant fine or litigation risk, with penalties including the suspension of patient admissions and the termination of Medicaid participation, or the suspension, revocation or non-renewal of the SNF’s license, and may also disqualify the facility from participation in state programs that reward facilities for meeting applicable quality criteria.

If federal or state governments were to materially change the way compliance with applicable staffing standards is calculated or enforced, our labor or other operating costs could increase and the current shortage of healthcare workers could impact us more significantly. The local labor markets where we compete are sometimes in a state of disequilibrium where the needs of businesses such as ours outstrip the supply of available and willing workers, which can make it challenging to hire sufficient quantities of staff locally and may require us to use third-party staffing companies to provide healthcare workers at an even higher cost. There is additional upward pressure on wages in many of our markets from different industries and more generally due to the current rate of inflation. Some of these industries compete with us for labor, which makes it difficult to make significant hourly wage and salary increases due to the fixed nature of our reimbursement under insurance contracts as well as Medicare and Medicaid, in addition to our increasing fixed and variable costs. Due to the generally limited supply of qualified applicants who seek or are willing to accept employment in certain of our markets, these broader trends may increase our labor costs or lead to potential staffing shortages, reduced operations to comply with applicable laws and regulations, or difficulty complying with those laws and regulations at current operational levels, or limit our ability to admit all residents who would like to receive care at our facilities.

Existing or future federal, state or local laws and regulations may increase our costs of maintaining qualified nursing and skilled personnel, or make it more difficult for us to attract or retain qualified nurses and skilled staff members. Although implementation of the Staffing Rule has been delayed under the OBBBA, future Presidential Administrations and HHS and CMS, under new leadership, could impose more stringent requirements for staffing. Due to labor shortages and other opportunities available to qualified workers, there can also be no assurance that sufficient numbers of applicants will be available to fulfill any staffing requirements that may be imposed, whether at pay rates that companies can afford or otherwise. Furthermore, CMS and some states have published guidance to surveyors addressing topics that specifically include nurse staffing and collection of payroll data to evaluate staffing levels, which may lead to future regulation that increase our staffing requirements and labor costs or lower revenues.

Increased competition for, or a shortage of, nurses or other qualified personnel, or general ongoing inflationary pressures may require that we enhance our pay and benefits packages, potentially beyond what we can afford in light of applicable reimbursement rates and other cost pressures, to compete effectively for such personnel. Turnover rates and the magnitude of the shortage of nurses or other trained personnel vary substantially from market to market and facility to facility, and may adversely affect the applicable facilities' quality and other ratings based on data reported to CMS. In addition, if we fail to attract and retain qualified and skilled personnel, our ability to conduct our business operations could be harmed.

State efforts to regulate or deregulate the healthcare services industry or the construction, expansion, or acquisition of healthcare facilities could impair our ability to expand our operations, or could result in increased competition.

Some states require healthcare providers, including SNFs, to obtain prior approval, commonly known as a certificate of need, for: (1) the purchase, construction or expansion of healthcare facilities; (2) capital expenditures exceeding a prescribed amount; or (3) changes in services or bed capacity.

Some other states that do not require certificates of need have effectively limited the expansion of existing facilities and the establishment of new ones by placing partial or complete moratoria on the number of new Medicaid beds those states will certify in certain areas or throughout the entire state. Still other states have established such stringent development standards and approval procedures for constructing new healthcare facilities that the construction of new facilities, or the expansion or renovation of existing facilities, may become cost-prohibitive, excessively time-consuming or otherwise unfeasible. In addition, some states require the approval of the state Attorney General for acquisition of a facility being operated by a non-profit organization.

Our ability to acquire or construct new facilities or expand or provide new services at existing facilities would be adversely affected if we are unable to obtain the necessary approvals, if there are changes in the standards applicable to those approvals, or if we experience delays and increased expenses associated with obtaining those approvals. We may not be able to obtain licensure, certificate of need approval, Medicaid certification, state Attorney General approval or other necessary approvals for future expansion projects or acquisitions. Conversely, the elimination or reduction of state regulations that limit the construction, expansion or renovation of new or existing facilities could result in increased competition to us or result in overbuilding of facilities in some of our markets. If overbuilding in the skilled nursing industry in the markets in which we operate were to occur, it could reduce the occupancy rates of existing facilities and, in some cases, might reduce the private rates that we charge for our services.

If we fail to attract patients and residents and to compete effectively with other healthcare providers, our revenue and profitability may decline and we may incur losses.

We rely significantly on appropriate referrals from physicians, hospitals and other healthcare providers in the communities in which we deliver our services to attract appropriate residents and patients to our facilities. Our referral sources are not obligated to refer business to us and may refer business to other healthcare providers. We believe many of our referral sources refer business to us as a result of the quality of our patient care and our efforts to establish and build a relationship with our referral sources. If we lose, or fail to maintain, existing relationships with our referral resources, fail to develop new relationships, or if we are perceived by our referral sources as not providing high quality patient care, our occupancy rate and the quality of our patient mix could suffer. The establishment of joint ventures or networks between referral sources, such as acute-care hospitals, and other post-acute providers may hinder patient referrals to us. The growing emphasis on integrated care delivery across the healthcare continuum increases that risk. In addition, if any of our referral sources have a reduction in patients whom they can refer due to a decrease in their business, our occupancy rate and the quality of our patient mix could suffer.

The healthcare services industry is highly competitive. Our skilled nursing facilities compete primarily on a local and regional basis with other skilled nursing facilities and with assisted/senior living facilities, from national and regional chains to smaller providers owning as few as a single facility. Competitors include other for-profit providers as well as non-profits, religiously-affiliated facilities, and government-owned facilities. We also compete under certain circumstances with inpatient rehabilitation facilities and long-term acute care hospitals. Our ability to compete successfully varies from location to location and depends on a number of factors, including the number of competing facilities in the local market and the types of services available at those facilities, our local reputation for quality care of patients, the commitment and expertise of our caregivers, our local service offerings and treatment programs, the cost of care in each locality, and the physical appearance, location, age and condition of our facilities. If we are unable to attract patients to our facilities and agencies, particularly high-acuity patients, then our revenue and profitability will be adversely affected. Some of our competitors may have greater recognition and be more established in their respective communities than we are, and may have greater financial and other resources than we have. Competing long-term care companies may also offer newer facilities or different programs or services than we do, which, combined with the foregoing factors, may result in our competitors being more attractive to our current patients, to potential patients and to referral sources. Furthermore, while we budget for routine capital expenditures at our facilities to keep them competitive in their respective markets, to the extent that competitive forces cause those expenditures to increase in the future, our financial condition may be negatively affected.

We believe we utilize a conservative approach in complying with laws prohibiting kickbacks and referral payments to referral sources. If our competitors use more aggressive methods than we do with respect to obtaining patient referrals, our competitors may from time to time obtain patient referrals that are not otherwise available to us.

The primary competitive factors for our assisted and senior living services are similar to those for our skilled nursing businesses and include reputation, the cost of services, the quality of services, responsiveness to patient/resident needs and the ability to provide support in other areas such as third-party reimbursement, information management and patient recordkeeping. Furthermore, given the relatively low barriers to entry and continuing healthcare cost containment pressures, we expect that the markets we service will become increasingly competitive in the future. Increased competition in the future could limit our ability to attract and retain patients and residents, maintain or increase our fees, or expand our business.

We review and audit the care delivery, recordkeeping and billing processes of our operating subsidiaries. These reviews from time to time detect instances of noncompliance that we attempt to correct, which in some instances requires reduced or repayment of billed amounts or other costs.

Under our decentralized model, each of operating subsidiaries is responsible for ensuring its compliance with the broad range of applicable federal and private healthcare regulatory requirements. PACS Services offers internal compliance professionals and invest in other resources to help us and our operating subsidiaries comply with these requirements. To further assist, we adopted a company-wide compliance program that includes, among other things, (1) policies and procedures that take into account applicable laws, regulations, sub-regulatory guidance and industry practices and customs that govern the clinical, reimbursement and operational aspects of our operating subsidiaries; (2) training about our compliance process for employees throughout our organization, our directors and officers, and training about Medicare and Medicaid laws, fraud and abuse prevention, clinical standards and practices, and claim submission and reimbursement policies and procedures for appropriate employees; (3) internal controls that monitor, among other things, the accuracy of

claims, reimbursement submissions, cost reports and source documents, provision of patient care, services, and supplies as required by applicable standards and laws, accuracy of clinical assessment and treatment documentation, and implementation of judicial and regulatory requirements (i.e., background checks, licensing and training) and (4) a compliance hotline that permits the anonymous reporting of potential compliance matters. Recently, with the assistance of outside counsel, we engaged in a detailed review of our compliance program and its implementation at our operating subsidiaries. As a result of that review we have or are implementing various changes to further assist us and our operating subsidiaries in evaluating and maintaining compliance with the various federal and state regulations that impact our business and that of our operating subsidiaries. Some of these changes include: retained a new Chief Compliance Officer with extensive experience in designing, implementing and monitoring a robust compliance program; regularly updating our policies and procedures library; updating our compliance hotline to facilitate the reporting and tracking of potential compliance issues; expanding our education and training programs; and increasing our monitoring for compliance and corrective actions.

Given our operations are subject to highly complex compliance requirements, our systems and internal controls regularly highlight potential compliance issues, which we investigate as they arise. We similarly investigate concerns that are reported to us by employees or other persons. In some cases, these potential compliance issues overlap with allegations in the ongoing government investigations identified in Part II, Item 1 “Legal Proceedings”. When errors or compliance failures are identified, we seek to rectify them as appropriate. Depending on the circumstances, in order to rectify a failure, we may be required to take certain actions, including but not limited to self-reporting them to applicable federal and state regulators, government agencies or other third parties, disgorging or paying money to the government or other third parties, and implementing changes to systems, personnel or other resources in order to mitigate the risk of recurrence, all of which could result in significant costs. Such issues, and any failure to properly remediate such issues or to timely identify and refund overpayments, for instance, could result in potential federal False Claims Act (FCA) liability and could have a material adverse effect on our business, financial condition and results of operations. Other significant compliance failures could have similar negative impacts.

We are subject to various governmental inspections, audits, and investigations, including civil investigative demands (CIDs) and criminal subpoenas such as the ones discussed in more detail in Part II, Item 1 “Legal Proceedings” relating to alleged violations of the Federal False Claims Act and the making of false or fraudulent statements under HIPAA. We cannot predict the outcome of these ongoing investigations, or any government inspection, audit or investigation. We could be forced to expend considerable resources responding to these investigations and to any other investigations, audits and other enforcement actions that we may receive, which could divert material time, resources and attention away from our management team and our staff. Additionally, an adverse finding in any such matters could lead to the imposition of damages, fines, penalties, restitution, other monetary liabilities, sanctions, settlements or changes to our business practices or operations that could have a material adverse effect on our business, financial condition or results of operations.

We are subject to litigation, which is commonplace in our industry, which could result in significant legal costs and large settlement amounts or damage awards, and our self-insurance programs may expose us to significant and unexpected costs and losses.

The skilled nursing business involves a significant risk of liability given the age and health of the patients and residents of our operating subsidiaries and the services we provide, and malpractice and other lawsuits against providers in our industry are endemic. The industry has experienced an increased trend in the number and severity of litigation claims, particularly patient-related litigation, due in part to the number of large verdicts, including large punitive damage awards. These claims are filed based upon a wide variety of claims and theories that they allege led to patient harm, including for state healthcare survey deficiencies received, allegations of insufficient staffing, allegations of insufficient training, allegations that companies put financial considerations over patient needs, and other claims. Plaintiffs’ attorneys have become increasingly more aggressive in their pursuit of claims against healthcare providers, including skilled nursing providers, employing a wide variety of advertising and solicitation activities to generate more claims. Increased caps on damages that may be awarded in such actions has and may continue to lead to a larger frequency and severity of these lawsuits against our independent operating subsidiaries, particularly those who operate in California and other states that adopt similar legislation. We, and others in the industry, have been, and continue to be, subject to an increasing number of claims and lawsuits, including professional liability claims, alleging that services provided have resulted in personal injury, patient abuse or neglect, elder abuse, wrongful death or other related claims. For instance, in early 2023, we were subject to approximately \$36.0 million in damages and fees awarded in a California jury verdict in a patient-care case that we inherited as part of an acquisition in 2021. While we attempt to manage our patient care risks to the extent reasonably possible, there can be no assurance that we will not be subject to similar or larger verdicts in the future, particularly in light of the fact that large tort verdicts have become somewhat common throughout the United States, particularly in

comparatively litigious states such as California and Kentucky. We may in the future do business in similarly or more litigious states as well. The defense of lawsuits has in the past, and may in the future, result in significant legal costs, regardless of the outcome, particularly as we and other providers have had to take on higher insurance deductibles and premiums. Additionally, increases to the frequency and/or severity of losses from such claims and suits may result in increased liability insurance premiums, increases in deductibles, a decline in available insurance coverage levels, or other negative impacts on the availability and cost of insurance, which could materially and adversely affect our business, financial condition and results of operations. In addition to carrying third-party liability insurance, starting in January 2022, we formed a wholly-owned captive insurance subsidiary, Welsch Insurance Ltd. (Welsch), that provides professional liability and general liability insurance to various consolidated operating subsidiaries. See the risk factor titled “Our self-insurance programs may expose us to significant and unexpected costs and losses.”

Furthermore, class action claims related to patient care, employment practices or other matters could be brought alleging legal violations that may materially affect our business, financial condition and results of operations. These types of claims have been filed against us and other companies in our industry in the past, and are likely to continue. For example, in recent years there has been a general increase in the number of suits filed against us and other companies in California, across industries, that purport to be wage and hour class action claims. They are typically based on alleged failures to permit or properly compensate for meal and rest periods, failure to pay for all time worked, and other alleged failures of California’s extensive wage and hour laws and regulations. While we have not had a similar experience in other states, circumstances could change in those states, or we could in the future operate in other states with litigation risks similar to California. If there were a significant increase in the number of these claims against us or an increase in amounts owing should plaintiffs be successful in their claims, this could have a material adverse effect to our business, financial condition, results of operations and cash flows.

In addition, we contract with a variety of landlords, lenders, vendors, suppliers, consultants and other individuals and businesses. These contracts typically contain covenants and default provisions. If the other party to one or more of our contracts were to allege that we have violated the contract terms, we could be subject to civil liabilities which could have a material adverse effect on our financial condition and results of operations.

If litigation is instituted against one or more of our subsidiaries, a successful plaintiff might attempt to hold us or one or more of our other subsidiaries liable for the alleged wrongdoing of the subsidiary principally targeted by the litigation. If a court in such litigation decided to disregard the corporate form and find that we or other entities are vicariously liable, the resulting judgment could increase our liability and adversely affect our financial condition and results of operations.

Our independently operating subsidiaries offer arbitration agreements to residents on admission, and require employees to enter into arbitration agreements as a condition of employment. While arbitration agreements have generally been favored by the courts, have been validated by the United States Supreme Court, and are believed to streamline the dispute resolution process and reduce the parties’ exposure to excessive legal fees and jury awards, courts in some states, as well as regulators in some states and on the federal level, have showed increasing opposition to the use and enforcement of arbitration agreements, particularly in consumer and employment contexts. Current CMS regulations prohibit nursing facility providers from requiring patients to enter into arbitration agreements as a condition of admission, and there have been prior legislative efforts on both state and federal levels to codify similar prohibitions. Furthermore, prior CMS proposals sought to prohibit any use of arbitration agreements between nursing homes and their patients. In light of its continuing negative view on arbitration, CMS has identified arbitration agreements as an area of focus and has issued guidance to state surveyors regarding federal requirements for the use of arbitration agreements in nursing home care, with non-compliance potentially resulting in fines and other sanctions. If we are not able to secure voluntary pre-admission arbitration agreements from our patients, our litigation exposure and costs of defense in patient liability actions could increase, our liability insurance premiums could increase, and our business may be adversely affected. We would be subject to similar risks if we are at some point prohibited from requiring employees to enter into arbitration agreements.

If we are unable to provide consistently high quality of care, or if our employees or staff members engage in conduct (or fail to take action) that impacts our patients’ health, safety, welfare or clinical treatment, our business will be adversely impacted and we may be subject to civil or criminal penalties, fines or other actions.

Providing quality patient care is fundamental to our business. Many of our patients have complex medical conditions or special needs, are vulnerable, and often require a substantial level of care and supervision. Our patients have in the past and could in the future be harmed by one or more of our employees or staff members, either intentionally, by accident, or through negligence, neglect, error, poor performance, mistreatment, assault, abuse, failure to provide proper care, failure to properly document or monitor or report information, failure to address risks to patients’ health or safety, failure to maintain

appropriate staffing, failure to implement appropriate interventions or other actions or inaction. Employees and staff members have engaged in conduct (including failing to take action) that has impacted, and may in the future engage in conduct that impacts, our patients or their health, safety, welfare, or clinical treatment.

If one or more of our facilities experiences an adverse patient incident or is found to have failed to provide appropriate patient care (including as a result of a staffing shortages or the actions or inactions of our employees or staff members), governmental or regulatory authorities may take action against us or our employees or staff members, including an admissions ban, admissions hold, reduction in census, loss of accreditation, license revocation, administrative or other order, other adverse regulatory action, a settlement or other agreement requiring corrective actions or requiring us or a specific facility to demonstrate substantial compliance with licensure or other requirements, and the imposition of certain requirements. If such an action or a closure of a facility were to occur and result in the improper termination of patient care, we or our employees or staff members may be exposed to governmental or regulatory inquiries, investigations, liability, and litigation, including claims of patient abandonment. Certain of our independently operating subsidiaries have been, and may continue to be, subject to findings of quality of care deficiencies or practices, incidents of patient abuse or neglect, and claims regarding services rendered that do not meet the standard of care, which have resulted, and in the future may result, in civil or criminal penalties, fines and other actions.

Any such patient incident, adverse regulatory action, self-disclosure, self-report, claim or other event, action or inaction has in the past, and could in the future, result in governmental investigations, judgments, or fines and have a material adverse effect on our business, financial condition, and results of operations. While such enforcement actions are typically taken against individuals, we cannot predict how law enforcement or governmental or regulatory authorities will enforce the laws or whether governmental or regulatory authorities will assert that we or any of our employees or staff members are responsible for such actions, or should have known about such actions. In addition, we have been and could become the subject of negative publicity or unfavorable media attention or governmental or regulatory scrutiny, regardless of whether the allegations are substantiated, that could have a significant, adverse effect on the trading price of our common stock or adversely impact our reputation, our relationships with referral sources and payors, whether patients and their family members choose us, and whether our referral sources choose other providers.

We rely significantly on information technology, and any failure, inadequacy or interruption of that technology could harm our ability to effectively operate our business.

Our business relies on information technology. Our ability to effectively manage our business depends significantly information systems, including those operated by certain of our third-party partners. We also heavily rely on information systems to process financial and accounting information for financial reporting purposes. Any of these information systems could fail or experience a service interruption for a number of reasons, including computer viruses, programming errors, hacking or other unlawful activities, disasters or our failure to properly maintain system redundancy or protect, repair, maintain or upgrade our systems. The failure of our third-party partners' information systems to operate effectively or to integrate with other systems, or a breach in security of these systems, could negatively impact our financial results. If we experience any significant disruption to our financial information systems that we are unable to mitigate, our ability to timely report our financial results could be impacted, which could negatively impact our stock price. We also communicate electronically throughout the United States with our employees and with third parties, such as patients. A service interruption or shutdown could have a materially adverse impact on our operating activities and could result in reputational, competitive, and business harm. Furthermore, remediation and repair of any failure, problem or breach of our key information systems could require significant capital investments.

We calculate certain operational metrics using internal systems and tools and do not independently verify such metrics. Certain metrics are subject to inherent challenges in measurement, and real or perceived inaccuracies in such metrics may harm our reputation and negatively affect our business.

We refer to a number of operational metrics, including, but not limited to, skilled mix, average daily rates, occupancy percentage, and other metrics. We use these metrics to monitor and evaluate our business as well as the various facilities that we own and operate, and these metrics have an influence on our strategy, operational decision-making, budgeting, and planning. We calculate these metrics using internal systems and tools that are not independently verified by any third-party. These metrics may differ from estimates or similar metrics published by third parties or other companies due to differences in sources, methodologies or the assumptions on which we rely. Our internal systems and tools have a number of limitations, and our methodologies for tracking these metrics may change over time, which could result in unexpected changes to our metrics, including the metrics we publicly disclose on an ongoing basis. If the internal systems and tools we use to track these metrics under count or over count performance or contain algorithmic or other technical errors, the data

we present may not be accurate. While these numbers are based on what we believe to be reasonable estimates of our metrics for the applicable period of measurement, there are inherent challenges in measuring savings, the use of our solutions, services and offerings and other metrics. In addition, limitations or errors with respect to how we measure data or with respect to the data that we measure may affect our understanding of certain details of our business, which would affect our long-term strategies. If our operating metrics or our estimates are not accurate representations of our business, or if investors do not perceive our operating metrics to be accurate, or if we discover material inaccuracies with respect to these figures, our reputation may be significantly harmed, and our operating and financial results could be adversely affected.

We may be unable to complete future facility or business acquisitions at attractive prices or at all, which may adversely affect our revenue; we may also elect to dispose of underperforming or non-strategic operating subsidiaries, which would decrease our revenue.

To date, our revenue growth has been significantly impacted by our acquisition of new facilities and properties. Subject to general market conditions and the availability of essential resources and leadership within our company, we continue to seek both single-and multi-facility acquisition and property acquisition opportunities that are consistent with our strategic objectives.

We face competition for the acquisition of facilities and properties and expect this competition to continue and potentially increase. Based upon factors such as our ability to identify suitable acquisition candidates, future regulations affecting our ability to acquire new facility operations and related real estate, the purchase or lease price of the facilities, increasing interest rates for debt-financed purchases, prevailing market conditions, the availability of leadership to manage new facilities and our own willingness to take on new operations, the rate at which we have historically acquired facilities has fluctuated significantly. In the future, we anticipate the rate at which we may acquire facilities will continue to fluctuate, which may affect our revenue and profitability.

We have also previously acquired facilities, which over time became non-strategic or less desirable, and have divested them. In the future we may consider divesting similar facilities that we determine at that time to be non-strategic or less desirable. Divesting facilities will typically negatively impact our revenue, may divert management and other resources from acquisitions or other efforts, and may have other adverse effects on our business, financial condition and results of operation.

We may not be able to successfully integrate acquired facilities and properties into our operations, and we may not achieve the benefits we expect from any of our facility acquisitions.

We may not be able to successfully or efficiently integrate new acquisitions with our existing operating subsidiaries, culture and systems. The process of integrating acquisitions into our existing operations may result in unforeseen operating difficulties, divert management's attention from existing operations, or require an unexpected commitment of staff and financial resources, and may ultimately be unsuccessful. Integrating larger portfolios of acquired facilities concurrently may present similar but more acute challenges than integrating fewer facilities. Existing operations available for acquisition frequently serve or target different markets than those that we currently serve. We also may determine that renovations of acquired facilities and changes in staff and operating management personnel are necessary to successfully integrate those acquisitions into our existing operations. We may not be able to recover the costs incurred to reposition or renovate newly operating subsidiaries. The financial benefits we expect to realize from many of our acquisitions are largely dependent upon our ability to improve clinical performance, overcome regulatory deficiencies, rehabilitate or improve the reputation of the operations in the community, increase and maintain occupancy, control costs, and in some cases change the patient acuity mix. If we are unable to accomplish any of these objectives at the operating subsidiaries we acquire, we will not realize the anticipated benefits and we may experience lower than anticipated profits, or even losses.

During the years ended December 31, 2024, 2023, and 2022, we added 106, 58, and nine stand-alone skilled nursing, assisted living, and subacute facilities, respectively. This growth, as well as growth in the current year and future years, has placed and will continue to place significant demands on our current management resources. Our ability to manage our growth effectively and to successfully integrate new acquisitions into our existing business will require us to continue to expand our operational, financial and management information systems and to continue to retain, attract, train, motivate and manage key employees, including facility-level leaders and our local directors of nursing. We may not be successful in attracting qualified individuals necessary for future acquisitions to be successful, and our management team may expend significant time and energy working to attract qualified personnel to manage facilities we may acquire in the future. Also, the newly acquired facilities may require us to spend significant time improving services at the facilities, and if we are unable to improve them quickly enough, we may be subject to litigation and/or loss of licensure or certification. If we are

not able to successfully overcome these and other integration challenges, we may not achieve the benefits we expect from any of our acquisitions, which could have an adverse effect on our business, financial condition and results of operation.

In undertaking acquisitions, we may be adversely impacted by costs, liabilities and regulatory issues that may adversely affect our operations, and we may not be able to successfully integrate acquired facilities and properties into our operations, or achieve the benefits we expect from any of our facility acquisitions.

In undertaking acquisitions, we also may be adversely impacted by unforeseen liabilities attributable to the prior providers who operated those facilities, against whom we may have little or no recourse. Many facilities we have historically acquired were underperforming financially and had issues, including but not limited to, clinical, regulatory and litigation, prior to and at the time of acquisition. Even where we have improved patient care and operations at facilities that we have acquired, we still may face post-acquisition regulatory issues related to pre-acquisition events. These may include, without limitation, payment recoupment related to our predecessors' prior noncompliance, the imposition of fines, penalties, operational restrictions or special regulatory status. Further, we may incur post-acquisition compliance risk due to the difficulty or impossibility of immediately or quickly bringing non-compliant facilities into substantial compliance with applicable healthcare regulations. Diligence materials pertaining to acquisition targets, especially the underperforming facilities that often represent the greatest opportunity for operational and financial improvement, are often inadequate, inaccurate or impossible to obtain, sometimes requiring us to make acquisition decisions with incomplete information. Despite our due diligence procedures, facilities that we have acquired or may acquire in the future may generate unexpectedly low returns, may cause us to incur substantial losses, may require unexpected expenditures or other resources, or may otherwise not meet a risk profile that our investors find acceptable.

In addition, we might encounter unanticipated difficulties and expenditures relating to any of the acquired facilities, including contingent liabilities. For example, when we acquire a facility, we generally assume the facility's existing Medicare provider number for purposes of billing Medicare for services. If CMS later determines that the prior owner of the facility had received overpayments from Medicare for the period of time during which it operated the facility, or had incurred fines in connection with the operation of the facility, CMS could hold us liable for repayment of the overpayments or fines.

We also incur regulatory risk in acquiring certain facilities due to the licensing, certification and other regulatory requirements affecting our right to operate the acquired facilities. For example, in order to acquire facilities on a predictable schedule, or to acquire declining operations quickly to prevent further pre-acquisition declines, we frequently acquire such facilities prior to receiving license approval or provider certification. We operate such facilities as the interim manager for the outgoing licensee, assuming financial responsibility and other obligations for the facility. To the extent that we may be unable or delayed in obtaining a license, we may need to operate the facility under a management agreement from the prior operator. If we were subsequently denied licensure or certification for any reason, we might not realize the expected benefits of the acquisition and would likely incur unanticipated costs and other challenges which could cause our business to suffer.

We may have difficulty completing partnerships that increase our capacity consistent with our growth strategy.

We may selectively pursue strategic acquisitions of, and we frequently pursue partnerships with, other healthcare providers. We may face limitations on our ability to identify sufficient partner, acquisition or other development targets and to complete those transactions to meet goals. These partnerships may not be profitable or may not achieve the profitability that justifies the investments made. Furthermore, the nature of a partnership requires us to consult with and share certain decision-making powers with unaffiliated third parties, some of which may be not-for-profit health systems. We do not manage any of the partnerships in which we invest, and operational and strategic decision making power is held by entities that we do not control. If our partners do not fulfill their obligations, the affected partnership may not be able to operate according to its business or strategic plans, which could have a material adverse effect on our results of operations, or require us to increase our level of financial commitment to the partnership. Moreover, differences in economic or business interests or goals among partnership participants could result in delayed decisions, failures to agree on major issues and even litigation. If these differences cause the partnerships to deviate from their business or strategic plans, or if our partners take actions contrary to our policies, objectives or the best interests of the partnership, it could have a material adverse effect on our business, financial condition and results of operations.

If we do not achieve or maintain competitive quality of care ratings from CMS or private organizations engaged in similar rating activities, our business may be negatively affected.

CMS provides comparative public data, rating every SNF operating in each state based upon quality-of-care indicators. Certain private organizations engage in similar monitoring and ranking activities. CMS's system is commonly known as the Five-Star Quality Rating System. It gives each nursing home a rating of between one and five stars in various categories, with five-star ratings becoming harder to obtain over time. The ratings are available on a publicly available website maintained by CMS currently called Care Compare. In cases of acquisitions, the previous operator's clinical ratings are included in our overall Five-Star Quality Rating and the rating may not reflect the improvements we were able to make until it is recalculated. Some of the ratings include a multi-year lookback period, which causes the prior operator's data to be factored into our ratings for some period of time. Based on CMS's guidance and regulations, we expect more data to be collected by CMS and reported on their website in the future.

CMS continues to increase quality measure thresholds, making it more difficult to achieve upward and five-star ratings. For instance, CMS increased its quality measure thresholds in October of 2022, making it more difficult for facilities to obtain or maintain four- and five-star ratings, allowing only 10% of nursing facilities within a state to receive a five-star rating. CMS discloses the increasing standards for four- and five-star ratings in its star rating cut point table, which discloses the points needed for each star rating within every state. CMS has indicated that it will increase these quality measure thresholds every six months. Some facilities may see a decline in their overall five-star rating absent any new inspection information, and as a result the five-star ratings of affected facilities may decline even as their quality measures remain unchanged or improve. Additionally, CMS displays on the Care Compare website a consumer alert icon for nursing homes that have been cited on inspection reports for incidents of abuse, neglect, or exploitation. If our facilities fail to have attractive or otherwise acceptable ratings on the Care Compare website it could negatively impact their operations, including their ability to attract or retain patients and an increase in expenses to improve such ratings.

Providing quality patient care is the cornerstone of our business. We believe that patients and their families choose our facilities, and hospitals, physicians and other referral sources refer patients to us, in large part because of our facilities' reputation for delivering quality care. If our facilities fail to achieve their rating goals or otherwise maintain positive reputations in their local communities, due to nursing and administrative staffing and turnover or otherwise, or if they receive a consumer alert icon for incidents of abuse, neglect, or exploitation or other negative ratings on Care Compare, it may affect our ability to attract patients, which could have a material adverse effect upon our business and consolidated financial condition, results of operations and cash flows.

If we are unable to obtain insurance, or if insurance becomes more costly for us to obtain, our business may be adversely affected.

It may become more difficult and costly for us to obtain coverage for resident care liabilities and other risks, including property, automobile and casualty insurance. For example, the following circumstances may adversely affect our ability to obtain insurance at favorable rates:

- we experience higher-than-expected professional liability, property and casualty, or other types of claims or losses;
- we receive survey deficiencies or citations of higher-than-normal scope or severity or experience higher-than-expected number of deficiencies or citations;
- we acquire especially troubled operations or facilities that present unattractive risks to current or prospective insurers;
- insurers tighten underwriting standards applicable to us or our industry; or
- insurers or reinsurers are unable or unwilling to insure us or the industry at historical premiums and coverage levels.

If any of these potential circumstances were to occur, our insurance carriers may require us to significantly increase our self-insured retention or deductible levels or pay substantially higher premiums for the same or reduced coverage for insurance, including workers compensation, property and casualty, automobile, employment practices liability, directors and officers liability, employee healthcare and general and professional liability coverages.

In some states, the law prohibits or limits insurance coverage for the risk of punitive damages arising from professional liability and general liability claims or litigation. Coverage for punitive damages is also excluded under some insurance policies. As a result, we may be liable for punitive damage awards in these states that either are not covered or are in excess of our insurance policy limits. Claims against us, regardless of their merit or eventual outcome, could also inhibit our ability to attract patients or expand our business and could require our management to devote time to matters unrelated to the day-to-day operation of our business.

With few exceptions, workers compensation and employee health insurance costs have also increased markedly in recent years. Due to the nature of our business and the residents we serve, including the risk of claims from residents as well as potential governmental action, it may be difficult to complete the underwriting process and obtain insurance at commercially reasonable rates. If we are unable to obtain insurance, or if insurance becomes more costly for us to obtain, or if the coverage levels we can economically obtain decline, our business may be adversely affected.

We do not carry insurance for all categories of risk that our business may encounter. Some of the policies we currently maintain include property, general liability, employment benefits liability, business automobile, workers' compensation, and directors' and officers', employment practices and fiduciary liability insurance. We do not know, however, if we will be able to maintain insurance with adequate levels of coverage. Any significant uninsured liability may require us to pay substantial amounts, which would have an adverse effect on our financial condition and results of operations.

Our self-insurance programs may expose us to significant and unexpected costs and losses.

We are self-insured up to certain limits for workers compensation, property and casualty, automobile, employment practices liability, directors and officers liability, employee healthcare and general and professional liability coverages. The types and amounts of self-insurance may vary from time to time based on our decisions with respect to risk retention and regulatory requirements. We establish the insurance loss reserves based on an estimation process that uses information obtained from both company-specific and industry data. Estimated costs are subject to a variety of assumptions and other factors including the severity, duration and frequency of claims, legal costs associated with claims, healthcare trends and projected inflation of related factors. Material increases in the number of insurance claims, changes to healthcare costs, accident frequency and severity, legal expenses and other factors could result in unfavorable difference between actual self-insurance costs and our reserve estimates. As a result, our self-insurance costs could increase which may have a material adverse effect upon our business and consolidated financial condition, results of operations and cash flows.

The geographic concentration of our facilities could leave us vulnerable to an economic downturn, regulatory changes or acts of nature in those areas.

Our facilities located in California account for a majority of our total revenue. As a result of this concentration, the conditions of local economies, changes in governmental rules, regulations and reimbursement rates or criteria, changes in demographics, state funding, acts of nature and other factors that may result in a decrease in demand and/or reimbursement for skilled nursing services in these states could have a disproportionately adverse effect on our revenue, costs and results of operations. Moreover, since approximately 49% of our skilled nursing beds are located in California as of December 31, 2024, we are particularly susceptible to revenue loss, cost increase or damage caused by natural disasters such as electrical power shortages, fires, earthquakes or mudslides, or increased liabilities that may arise from regulations.

In addition, our facilities in certain states, such as Kansas, Kentucky, South Carolina, Missouri, Ohio and Texas are more susceptible to revenue loss, cost increases or damage caused by natural disasters including hurricanes, tornadoes and flooding. These acts of nature may cause disruption to us, the employees of our operating subsidiaries and our facilities, which could have an adverse impact on the patients of our operating subsidiaries and our business. In order to provide care for the patients of our operating subsidiaries, we are dependent on consistent and reliable delivery of food, pharmaceuticals, utilities and other goods to our facilities, and the availability of qualified employees to provide services at our facilities. If the delivery of goods or the ability of employees to reach our facilities were interrupted in any material respect due to a natural disaster or other reasons, it would have a significant impact on our facilities and our business. Furthermore, the impact, or impending threat, of a natural disaster may require that we evacuate one or more facilities, which would be costly and would involve risks, including potentially fatal risks, for the patients. The impact of disasters and similar events is inherently uncertain. Furthermore, due to the concentration of our operations in these states, our business may be adversely affected by economic conditions, contagious disease outbreaks, including COVID-19, political unrest, and other conditions over which we have no control that disproportionately affect these states as compared to other states. Such events could harm the patients and employees of our operating subsidiaries, severely damage or destroy one or more of our

facilities, adversely affect our business, reputation and financial condition, or otherwise cause our business to suffer in ways that we currently cannot predict.

The actions of national labor unions may adversely affect our revenue and our profitability.

Some of our facilities are parties to collective bargaining agreements with labor unions, and we anticipate that additional facilities will enter into collective bargaining agreements in the future. Although the Biden-Harris Administration requested that HHS and CMS study and issue proposed rules regarding care-based careers that may increase the likelihood of employee unionization due to increased emphasis on care-based careers in SNF facilities, the current administration may not prioritize these initiatives. If employees decide to unionize, our cost of doing business could increase, and we could experience contract delays, difficulty in adapting to a changing regulatory and economic environment, cultural conflicts between unionized and non-unionized employees, strikes and work stoppages, and we may conclude that affected facilities or operations would be uneconomical to continue operating.

Because we lease the majority of our facilities, we are subject to risks associated with leased real property, including risks relating to lease termination, lease extensions and special charges, any of which could have an adverse effect on our business, financial condition and results of operations.

As of December 31, 2024, we leased 270 or 86% of our facilities (including 49 leased facilities partially owned through our joint ventures managed by third parties). Most of our leases are triple-net leases, which means that, in addition to rent, we are required to pay for the costs related to the property (including property taxes, insurance, and maintenance and repair costs). Some of our leases cover more than one facility, including some leases that cover 25 or more facilities on a single master lease. We are responsible for paying these costs notwithstanding the fact that some of the benefits associated with paying these costs accrue to the landlords as owners of the associated facilities.

Each lease provides that the landlord may terminate the lease for a variety of reasons, including the default in any payment of rent, taxes or other payment obligations or the breach of any other covenant or agreement in the lease. For leases of certain facilities, our landlord could require us to purchase the associated real estate. Termination of a lease could result in a default under our debt agreements and could have an adverse effect on our business, financial condition and results of operations. There can be no assurance that we will be able to comply with all of our obligations under the leases in the future. Furthermore, there may be disputes with landlords regarding the obligations under such lease, or the ability of the landlord to terminate the lease, which could disrupt our business operations and increase expenses.

Failure to generate sufficient cash flow to cover required payments or meet operating covenants under our long-term debt, mortgages and long-term leases could result in defaults under those agreements and cross-defaults under other debt, mortgage or lease arrangements, which could harm our operating subsidiaries and cause us to lose facilities or experience foreclosures.

We may not generate sufficient cash flow from operations to cover interest, principal and lease payments. Additionally, under the terms of our amended and restated credit agreement with Truist Bank and a syndicate of lenders (Amended and Restated 2023 Credit Facility), we are subject to certain affirmative and negative covenants customary for credit facilities of this type as well as two financial covenants, a total leverage financial covenant and a fixed charge coverage ratio financial covenant. These restrictions may limit our ability to obtain additional advances under our Amended and Restated 2023 Credit Facility or to obtain new financing or to engage in other business activities, which may inhibit our ability to grow our business and increase revenue. We are currently in a state of forbearance with the lenders associated with the Amended and Restated 2023 Credit Facility and, as a result, we are currently unable to borrow additional amounts. See the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity & Capital Resources—Credit Facilities.”

From time to time, the financial performance of one or more of our mortgaged facilities may not comply with the required operating covenants under the terms of the mortgage. Any non-payment, noncompliance or other default under our financing arrangements could, subject to cure provisions, cause the lender to foreclose upon the facility or facilities securing such indebtedness or, in the case of a lease, cause the lessor to terminate the lease, each with a consequent loss of revenue and asset value to us or a loss of property. Furthermore, in many cases, indebtedness is secured by both a mortgage on one or more facilities, and a guaranty by us. In the event of a default under one of these scenarios, the lender could avoid judicial procedures required to foreclose on real property by declaring all amounts outstanding under the guaranty immediately due and payable, and requiring us to fulfill our obligations to make such payments. If any of these scenarios were to occur, our financial condition would be adversely affected. For tax purposes, a foreclosure on any of our properties

would be treated as a sale of the property for a price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on foreclosure, but would not receive any cash proceeds, which would negatively impact our earnings and cash position. Further, because our mortgages and leases generally contain cross-default and cross-collateralization provisions, a default by us related to one facility could affect a significant number of other facilities and their corresponding financing arrangements and leases.

Because our Amended and Restated 2023 Credit Facility, mortgages and lease obligations are fixed expenses and secured by specific assets, and because our revolving loan obligations are secured by virtually all of our assets, if reimbursement rates, patient acuity mix or occupancy levels decline, or if for any reason we are unable to meet our loan or lease obligations, we may not be able to cover our costs and some or all of our assets may become at risk. Our ability to make payments of principal and interest on our indebtedness and to make lease payments on our leases depends upon our future performance, which will be subject to general economic conditions, industry cycles and financial, business and other factors affecting our operating subsidiaries, many of which are beyond our control. If we are unable to generate sufficient cash flow from operations in the future to service our debt or to make lease payments on our leases, we may be required, among other things, to seek additional financing in the debt or equity markets, refinance or restructure all or a portion of our indebtedness, sell selected assets, reduce or delay planned capital expenditures or delay or abandon desirable acquisitions. Such measures might not be sufficient to enable us to service our debt or to make lease payments on our leases. The failure to make required payments on our debt or leases or the delay or abandonment of our planned growth strategy could result in an adverse effect on our future ability to generate revenue and sustain profitability. In addition, any such financing, refinancing or sale of assets might not be available on terms that are economically favorable to us, or at all.

Our founders have personal guarantees under certain of our leases, which subjects them to increased risk of default.

Our founders have provided personal guarantees under certain of our leases using their personal property. Under the personal guarantees provided by our founders, our founders have agreed to satisfy our obligations under the leases in the event that we are unable to perform our obligations thereunder. In the event that the guarantee is enforced against either or both of our founders, they could be obliged to use their personal property to fulfill their obligations under the leases. If our founders are subject to personal bankruptcy or refute the guarantees, we may be subject to an increased risk of default under our leases. Our founders owe a fiduciary duty of loyalty to us. However, there is potential for conflicts of interest between each of their personal interests and ours whether their respective guaranty is called upon or not. No assurance can be given that material conflicts will not arise that could be detrimental to our operations and financial prospects.

We may need additional capital to fund our operating subsidiaries and finance our growth, and we may not be able to obtain it on terms acceptable to us, or at all, which may limit our ability to grow.

Our ability to maintain and enhance our operating subsidiaries and facilities in a suitable condition to meet regulatory standards, operate efficiently and remain competitive in our markets requires us to commit substantial resources to continued investment in our facilities and equipment. We are sometimes more aggressive than our competitors in capital spending to address issues that arise in connection with aging and obsolete facilities and equipment, and to otherwise make our facilities more attractive in their local markets. In addition, continued expansion of our business through the acquisition of existing facilities, expansion of our existing facilities and construction of new facilities may require additional capital, particularly if we were to accelerate our acquisition and expansion plans. Financing may not be available to us or may be available to us only on terms that are not favorable, including being subject to interest rates that are higher than those incurred in the past. In addition, some of our outstanding indebtedness and long-term leases restrict, among other things, our ability to incur additional debt. If we are unable to raise additional funds or obtain additional funds on terms acceptable to us, we may have to delay or abandon some or all of our growth strategies. Further, if additional funds are raised through the issuance of additional equity securities, the percentage ownership of our stockholders would be diluted. Any newly issued equity securities may have rights, preferences or privileges senior to those of our common stock.

Delays in reimbursement may cause liquidity problems.

If we experience problems with our billing information systems or if issues arise with Medicare, Medicaid or other payors, we may encounter delays in our payment cycle. The changes enacted in the OBBA may impose further strain and limitation of funds available through the Medicaid programs in the states where our independent subsidiaries operate. In addition, third-party payors may not make timely payment to us. From time to time, we have experienced such delays as a result of government payors instituting planned reimbursement delays for budget balancing purposes or as a result of

prepayment reviews. Delays also happen from time to time with managed care organizations and other insurance companies who are payors for our patients.

Some states in which we operate are operating with budget deficits or could have budget deficit in the future, which may delay reimbursement in a manner that would adversely affect our liquidity. In addition, from time to time, procedural issues require us to resubmit or appeal claims before payment is remitted, which contributes to our aged receivables. Unanticipated delays in receiving reimbursement from state programs or commercial payors due to changes in their policies or billing or audit procedures may adversely impact our liquidity and working capital.

The continued use and growth of managed care organizations (MCOs) may contribute to delays or reductions in our reimbursement, including Managed Medicaid.

In many states, including some of the largest where we operate, including California, state Medicaid benefits are administered through MCOs. Typically, these MCOs manage commercial health and federal Medicare Advantage benefits under a managed care contract.

MCOs and other third-party payors have continued to consolidate in order to enhance their ability to influence the delivery and cost structure of healthcare services. Consequently, the healthcare needs of a large percentage of the U.S. population are increasingly served by a smaller number of managed care organizations. These organizations generally enter into service agreements with a limited number of providers for needed services. In addition, third-party payors, including managed care payors, increasingly are demanding discounted fee structures.

Nationally, MCOs cover increasingly large numbers of Medicaid and Medicare Advantage beneficiaries. MCOs may be more aggressive than state Medicaid and federal Medicare agencies in denying claims or seeking recoupment of payments so that their services under these managed contracts are profitable. Additionally, restrictions on the availability and utilization of Medicaid funds under the OBBA may result in MCOs becoming more aggressive in the denial of claims to preserve limited Medicaid funds. The additional steps created by the use of MCOs in disbursement of funds creates more risk of delayed, reduced, or recouped payments for our independent operating subsidiaries, and additional avenues for risks that include fines and other sanctions, including suspension or exclusion from participation in various governmental programs. To the extent that these organizations terminate us as a preferred provider, engage our competitors as a preferred or exclusive provider, demand discounted fee structures, limit the patients eligible for our services, or seek our assumption of all or a portion of the financial risk through a prepaid capitation arrangement, it could have a material adverse effect on our business, financial condition, results of operations and liquidity.

Compliance with the regulations of the Department of Housing and Urban Development (HUD) may require us to make unanticipated expenditures which could increase our costs.

Certain of our facilities are currently subject to regulatory agreements with HUD that give the Commissioner of HUD broad authority to require us to be replaced as the operator of those facilities in the event that the Commissioner determines there are operational deficiencies at such facilities under HUD regulations. Compliance with HUD's requirements can often be difficult because these requirements are not always consistent with the requirements of other federal and state agencies. Appealing a failed inspection can be costly and time-consuming and, if we do not successfully remediate the failed inspection, we could be precluded from obtaining HUD financing in the future or we may encounter limitations or prohibitions on our operation of HUD-insured facilities.

If we fail to safeguard the monies held in our patient trust funds, we will be required to reimburse those monies, and we may be subject to citations, fines and penalties.

Each of our facilities is required by federal law to maintain a patient trust fund to safeguard certain assets of their residents and patients. If any money held in a patient trust fund is misappropriated, we are required to reimburse the patient trust fund for the misappropriated money. If any monies held in our patient trust funds are misappropriated in the future and are unrecoverable, we will be required to reimburse those monies, and we may also be subject to citations, fines and penalties pursuant to federal and state laws.

Security breaches, cybersecurity incidents, or our inability to effectively integrate, manage and keep our information systems secure and operational could violate security laws, disrupt our operations, and subject us to significant liability.

Healthcare businesses are increasingly the target of cyberattacks whereby hackers disrupt business operations or obtain protected health information, often demanding large ransoms. Our business is dependent on the proper functioning and availability of our computer systems and networks. While we have taken steps to protect the safety and security of our information systems and the patient health information and other data maintained within those systems, we cannot assure you that our safety and security measures and disaster recovery plan will prevent damage, interruption or breach of our information systems and operations. Additionally, we cannot control the safety and security of our information held by third-party vendors with whom we contract. The techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and may be difficult to detect, and as such we (or third-party vendors) may be unable to anticipate these techniques or implement adequate preventive measures. In addition, hardware, software or applications we (or third-party vendors) develop or procure from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise the security of information systems. Unauthorized parties may attempt to gain access to our systems or facilities, or those of third parties with whom we do business, through fraud or other forms of deception.

On occasion, we have acquired additional information systems through our business acquisitions, and these acquired systems may expose us to risk. We also license certain third-party software to support our operations and information systems. Our inability, or the inability of third-party vendors, to continue to maintain and upgrade information systems and software could disrupt or reduce the efficiency of our operations. In addition, costs and potential problems and interruptions associated with the implementation of new or upgraded systems and technology or with maintenance or adequate support of existing systems also could disrupt or reduce the efficiency of our operations.

A cyberattack or other incident that bypasses the security measures of our information systems could cause a security breach, which may lead to a material disruption to our information systems infrastructure or business, significant costs to remediate (e.g., data recovery) and may involve a significant loss of business or patient health information. If a cyberattack or other unauthorized attempt to access our systems or facilities were successful, it could also result in the theft, destruction, loss, misappropriation or release of confidential information or intellectual property, could cause operational or business delays that may materially impact our ability to provide various healthcare services and otherwise conduct our business operations, and could require us to expend significant costs to remediate the breach and retrieve our data or access to our systems. Any successful cyberattack or other unauthorized attempt to access our systems or facilities also could result in negative publicity which could damage our reputation or brand with our patients, referral sources, payors or other third parties and could subject us to a number of adverse consequences, the vast majority of which are not insurable, including but not limited to, disruptions in our operations, regulatory and other civil and criminal penalties, fines, investigations and enforcement actions (including, but not limited to, those arising from the SEC, Federal Trade Commission, Office of Civil Rights, the Office of the Inspector General (OIG) or state attorneys general), fines, private litigation with those affected by the data breach (including class action litigation), loss of customers, disputes with payors and increased operating expense, which either individually or in the aggregate could have a material adverse effect on our business, financial condition, results of operations and liquidity.

If we are unable to obtain, maintain and enforce intellectual property protection for our technology or if the scope of our intellectual property protection is not sufficiently broad, our ability to successfully compete and utilize our technology may be adversely affected.

Our business depends, in part, on internally developed technology and content, including software and know-how, the protection of which is important to the success of our business and strategy. We rely on a combination of trademark, trade-secret, and copyright laws and confidentiality procedures and contractual provisions to protect our intellectual property rights. We may, over time, increase our investment in protecting our intellectual property through additional trademark, patent and other intellectual property filings. These measures, however, may not be sufficient to offer us meaningful protection. If we are unable to establish or protect our intellectual property and other rights, our competitive position and our business could be harmed, as third parties may be able to develop technologies that are substantially the same as ours or challenge our ability to use our existing technologies.

Also, some of our services rely on technologies and software developed by or licensed from third parties, and we may not be able to maintain our relationships with such third parties or enter into similar relationships in the future on reasonable terms or at all. Our failure to obtain, maintain and enforce our intellectual property rights could have a material adverse effect on our business, financial condition and results of operations.

We are a holding company with no operations and rely upon our multiple independent operating subsidiaries to provide us with the funds necessary to meet our financial obligations. Liabilities of any one or more of our subsidiaries could be imposed upon us or our other subsidiaries.

We are a holding company with no direct operating assets, employees or revenue. Each of our facilities is operated through a separate, wholly owned, independent subsidiary, which has its own local management, employees and assets. Our principal assets are the equity interests we directly or indirectly hold in our multiple operating and real estate holding subsidiaries. As a result, we are dependent upon distributions from our subsidiaries to generate the funds necessary to meet our financial obligations and pay dividends. Our subsidiaries are legally distinct from us and have no obligation to make funds available to us. The ability of our subsidiaries to make distributions to us will depend substantially on their respective operating results and will be subject to restrictions under, among other things, the laws of their jurisdiction of organization, which may limit the amount of funds available for distribution to investors or stockholders, agreements of those subsidiaries, the terms of our financing arrangements and the terms of any future financing arrangements of our subsidiaries. If the cash distributions we receive from our subsidiaries are insufficient for us to fund our financial obligations, we may be required to raise cash through the incurrence of debt, the issuance of equity or the sale of assets to fund. However, there is no assurance that we would be able to raise cash by these means. If the ability of any of our subsidiaries to pay dividends or make distributions or payments to us is materially restricted by regulatory or legal requirements, bankruptcy or insolvency, or our need to maintain our financial strength ratings, or is limited due to operating results or other factors, it could adversely affect our ability to meet our financial obligations and to pay dividends or make distributions to our stockholders.

Our future success depends on the continuing efforts of our management and key employees, and on our ability to attract and retain highly skilled personnel and senior management.

We depend on the talents and continued efforts of our senior management and key employees. The loss of members of our management or key employees may disrupt our business and harm our results of operations. Furthermore, our ability to manage further expansion will require us to continue to attract, motivate, and retain additional qualified personnel. Competition for this type of personnel is intense, and we may not be successful in attracting, integrating, and retaining the personnel required to grow and operate our business effectively. There can be no assurance that our current management team or any new members of our management team will be able to successfully execute our business and operating strategies.

Risks Related to Government Regulation

We rely on payments from third-party payors, including Medicare, Medicaid and other governmental healthcare programs and private insurance organizations. If coverage or reimbursement for services are changed, reduced or eliminated, including through cost-containment efforts, spending requirements are changed, data reporting, measurement and evaluation standards are enhanced and changed, our operations, revenue and profitability could be materially and adversely affected.

We derive substantial revenue from government healthcare programs, primarily Medicare and state Medicaid programs. Medicare and Medicaid are our largest sources of total revenue. Medicare accounted for 33.8%, 38.6%, and 47.6% of total revenue for the years ended December 31, 2024, 2023, and 2022, respectively. Medicaid accounted for 40.4%, 37.6%, and 30.2% of our total revenue for the years ended December 31, 2024, 2023, and 2022, respectively. Many other payors may use published Medicare rates as a basis for reimbursements. Accordingly, if Medicare reimbursement rates are reduced or fail to increase as quickly as our costs, if there are changes in the rules governing the Medicare program that are disadvantageous to our business or industry, or if there are delays in Medicare, Medicaid and other third-party payors payments, it could have a material adverse effect on our business, financial condition and results of operations.

Congress and the CMS often change the rules governing the Medicare program, including those governing reimbursement. Payments received from state Medicaid programs vary from state to state. These payments and programs are subject to statutory and regulatory changes, administrative rulings, interpretations, budgetary and funding constraints, and changes to the methods of calculating payments and reimbursements and requirements to participate in the programs. When these changes are implemented, we must also modify our operations and internal billing processes and procedures accordingly, which can require significant time and expense. As federal healthcare expenditures continue to increase and state governments may face budgetary shortfalls, federal and state governments have made, and may continue to make, significant changes to the Medicare and Medicaid programs and reimbursement received for services rendered to

beneficiaries of such programs. The U.S. federal budget is subject to change, including reductions in federal spending, and the Medicare program is frequently mentioned as a target for spending cuts. The full impact on our business of any changes is uncertain. Changes to the Medicare program, state Medicaid programs and other third-party payor program that could adversely affect our business include:

- statutory and regulatory changes and executive actions, including policy interpretations and changes that impact state reimbursement programs, particularly Medicaid reimbursement and managed care payments;
- administrative or legislative changes to base rates or the bases for payment;
- the reduction or elimination of annual rate increases, or the end of the reduced payments deferment;
- limits on the services or types of providers for which Medicare will provide reimbursement;
- changes in methodology for patient assessment and/or determination of payment levels;
- payment or other delays by fiscal intermediaries, carriers or payors;
- redefining enrollment standards and participation in government healthcare programs;
- changes in staff requirements as a condition of payment or eligibility for Medicare reimbursement;
- reduced reimbursement rates and changes in coverage under commercial and managed care contracts;
- changes in reimbursement rates, methods, or timing under governmental reimbursement programs, including reductions in annual reimbursement updates due to budgetary or other pressures;
- interruption or delays in payments due to any ongoing governmental investigations and audits or due to a partial or total federal or state government shutdown for a prolonged period of time;
- an increase in co-payments or deductibles payable by beneficiaries;
- recoupment efforts and recovery of overpayments;
- federal, state, and local litigation, administrative proceedings, and enforcement actions, including those relating to false claims, COVID-19 or future pandemics and the failure to satisfy the terms and conditions of financial relief; and
- reputational harm of publicly disclosed enforcement actions, audits, or investigations related to quality of care, patient harm and abuse, billing and reimbursement.

The healthcare industry broadly, including government and commercial payors, is initiating cost containment efforts. The Medicare program and its reimbursement rates and rules are subject to frequent change, including statutory and regulatory changes, rate adjustments (including retroactive adjustments), annual caps that limit the amount that can be paid (including deductible and coinsurance amounts), administrative or executive orders and government funding restrictions, all of which may materially adversely affect the rates at which Medicare reimburses us for our services. Additionally, payments can be delayed or declined due to determinations that certain costs are not reimbursable or reasonable because either adequate or additional documentation was not provided or because certain services were not covered or considered medically necessary. Revenue from these payors can be retroactively adjusted after a new examination during the claims settlement process or as a result of post-payment audits. Additionally, both government and private payors are increasingly looking to value-based purchasing to contain costs. Value-based purchasing focuses on quality of outcomes and efficiency of care, rather than quantity of care. Reductions in reimbursement rates or the scope of services being reimbursed could have a material, adverse effect on our business, financial condition and results of operations or even result in reimbursement rates that are insufficient to cover our operating costs.

For the fiscal year 2025, SNF prospective payment system (PPS) rule issued on July 31, 2024, Medicare Part A reimbursement for SNFs increased by 4.2%. CMS also added new quality measures to take effect in fiscal years 2026 through 2028 that assess staff turnover, discharge success, re-hospitalization, and resident falls with injuries, which may

adversely affect revenues obtained through the Medicare program. CMS's changes to the SNF Value-Based Purchasing (VBP) program and the addition of new measures, may reduce the compensation our independent operating subsidiaries may receive under the SNF VBP program.

CMS implemented a final rule in October 2019 implementing a new case-mix classification system, PDPM (patient-driven payment model), that focuses on the clinical condition of the patient. CMS may make future adjustments to reimbursement levels and underlying reimbursement formulae as it continues to monitor the impact of PDPM on patient outcomes and budget neutrality.

Loss of Medicare reimbursement, or a delay or default by the government in making Medicare payments, would also have a material adverse effect on our revenue. Non-compliance with Medicare regulations exist, and any penalty, suspension, termination, or other sanction under any state's Medicaid program could lead to reciprocal and commensurate penalties being imposed under the Medicare program, up to termination or rescission of our Medicare participation and payor agreements as noted above.

A significant portion of reimbursement for skilled nursing services comes from Medicaid. Medicaid is a state-administered program financed by both state funds and matching federal funds. Medicaid spending has increased rapidly in recent years, becoming a significant component of state budgets, which has led both the federal government and many states to institute measures aimed at controlling the growth of Medicaid spending, and in some instances reducing aggregate Medicaid spending. Since a significant majority of our total revenue is generated from our skilled nursing operating subsidiaries in California, any budget reductions or delays in California could adversely affect our net patient service revenue and profitability. Despite present state budget surpluses in many of the states in which we operate, we can expect continuing cost containment pressures on Medicaid outlays for SNFs, and any such decline could have an adverse effect on our business financial condition and results of operations.

The Medicaid program and its reimbursement rates and rules are subject to frequent change at both the federal and state level, including through changes in laws, regulations, rate adjustments (including retroactive adjustments), administrative or executive orders and government funding restrictions, all of which may materially adversely affect the rates at which our services are reimbursed by state Medicaid plans or the amount of expense we incur. Moreover, the OBBA imposes significant reductions in the funding of the Medicaid program, such reductions are expected to decrease the number of persons enrolled in Medicaid and reduce the services covered by Medicaid.

To generate funds to pay for the increasing costs of the Medicaid program, many states utilize financial arrangements commonly referred to as provider taxes. The OBBA's passage prohibits the imposition of new provider taxes or increase of existing provider taxes, except for intermediate care facilities and nursing homes. Under provider tax arrangements, states collect taxes from healthcare providers and then use the revenue to pay the providers as a Medicaid expenditure, which allows the states to then claim additional federal matching funds on the additional reimbursements. Current federal law provides for a cap on the maximum allowable provider tax as a percentage of the providers' net patient revenue. There can be no assurance that federal law will continue to provide matching federal funds on state Medicaid expenditures funded through provider taxes, or that the current caps on provider taxes will not be reduced. The changes to the Medicaid program enacted in the OBBA limits avenues for states to generate Medicaid funding, and may limit who may qualify for Medicaid long-term care benefits. Additionally, states must conduct Medicaid eligibility redeterminations every six months, rather than annually, for individuals enrolled under Medicaid. Any discontinuance or reduction in federal matching of provider tax-related Medicaid expenditures could have a significant and adverse effect on states' Medicaid expenditures or delays in eligibility or coverage, and as a result could have a material adverse effect on our business, financial condition or results of operations.

The CAA 2023 provided for the wind-down and termination of increased Federal Medicaid Assistance Percentage (FMAP) payments under the Families First Coronavirus Relief Act (FFCRA), and also provided for the disenrollment of Medicaid beneficiaries who have participated in the program since early in the COVID-19 pandemic. CMS's increased FMAP payments declined from 5% in the second quarter of 2023 to 2.5% in the third quarter, and to 1.5% in the fourth quarter. The increased FMAP payments will be discontinued in 2024. The CAA 2023 granted CMS the authority to impose fines, penalties, and other sanctions upon states that did not comply with this law's requirements for the unwinding of increased FMAP payments. As a result, these reductions may impose further burdens on the Medicaid programs in states where we operate in the form of fines and penalties, which may result in reduced payments.

Beginning on April 1, 2023, states were allowed to begin disenrolling Medicaid beneficiaries. CMS is monitoring the disenrollment process in an effort to protect eligible beneficiaries from inappropriate coverage losses during the return to

Medicaid's historical renewal, enrollment and eligibility determination practices, and has required certain states to pause disenrollments unless they could ensure all eligible people are not improperly disenrolled. Although CMS announced in 2024 that all unwinding-related renewals for beneficiaries enrolled in Medicaid must be completed no later than December 31, 2025, our understanding is that the majority of states have now substantially completed their unwinding processes. Data from CMS on Medicaid redeterminations showed substantial increases in ACA plan enrollments among consumers in 2023 and 2024 who lost Medicaid or CHIP coverage, as well as decreases in Medicaid enrollment from 2023 to 2024. As a result of decreases in enrollment, there may be fewer current or potential patients able to pay for our operating subsidiaries' services, and increased competition for Medicaid beneficiaries able to provide reimbursement for those services. In addition, states risk losing federal Medicaid matching funds for non-compliance with CMS's instructions, which could result in reduced Medicaid funds available for timely reimbursement of our operating subsidiaries for their operations.

Medicare and Medicaid nursing facilities are required to disclose data about the facility's ownership, management and the owners of real property lessors upon initial enrollment and revalidation. In addition, the nursing facilities are required to timely report any changes, including in connection with any change of ownership. CMS defines the disclosable parties to include members of the facility's governing body, persons or entities who are an officer, director, member, partner, trustee or managing employee of the facility, persons or entities that exercise operational, financial or managerial control, lease or sublease real property to the facility, own a direct or indirect interest of five percent or greater of the real property or provide management or administrative services to the facility. Additionally, for any disclosable party that is a corporation, the disclosure must include the stockholders who have a five percent or greater direct or indirect ownership interest. Additionally, facilities will be required to disclose whether any entity on the form is a private equity company or real estate investment trust (REIT). CMS makes the information that is provided publicly available. This new disclosure requirement involves reporting extensive information and may complicate our efforts to comply with Medicare and Medicaid requirements. Failure to comply with the new disclosure requirements could affect our participation in Medicare and state Medicaid programs and adversely impact our business and financial condition.

Medicaid is an important source of funding for our independent operating subsidiaries. We may be adversely affected by the disenrollment of Medicaid beneficiaries, which may lead to a reduction in reimbursement that may adversely impact our revenue and profit. Although CMS announced in 2024 that all unwinding-related renewals for beneficiaries enrolled in Medicaid must be completed no later than December 31, 2025, the majority of states have now substantially completed their unwinding processes. The ultimate impact of Medicaid disenrollment on our finances and operations will depend on individual states' specific circumstances and actions.

Reforms to the U.S. healthcare system, including regulations under the Affordable Care Act (ACA), continue to impose new requirements upon us that could materially impact our business.

The ACA has resulted in significant changes to our operations and reimbursement models for services we provide. CMS continues to issue rules to implement the ACA, including most recently, new rules regarding the implementation of the anti-discrimination provisions and new rules requiring the disclosure of SNF ownership, organization, management and the identity of the real property owners from which the SNF leases or subleases its operating space. With the passage of the Inflation Reduction Act of 2022 (IRA) in August of 2022, Congress continues to expand and supplement the ACA, including through the continuation of federally funded insurance premium subsidies. This modification of the ACA by the IRA indicates that Congress may continue to change and expand the ACA in the future.

The efficacy of the ACA is the subject of much debate among members of Congress and the public and it has been the subject of extensive litigation before numerous courts, including the United States Supreme Court, with varying outcomes - some expanding and others limiting the ACA. In the event that the ACA is repealed or any elements of the ACA that are beneficial to our business are materially amended or changed, such as provisions regarding the health insurance industry, reimbursement and insurance coverage by payers, our business, operating results and financial condition could be harmed. Thus, the future impact of the ACA on our business is difficult to predict and its continued uncertain future may negatively impact our business. However, any material changes to the ACA or its implementing regulations may negatively impact our operations.

Most recently, the OBBBA was enacted in July 2025, which imposes significant reductions in the funding of the Medicaid program. The law requires states to establish work requirements and more frequent redeterminations, among other modifications, and these changes are expected to reduce enrollment in state Medicaid programs. The timing and magnitude of the reductions may vary by state depending on how quickly states implement the changes. The law also reduces limits on payments to Medicaid providers to 100 percent of the mandated Medicare rate for expansion states and

110 percent of the Medicare rate for non-expansion states. Their impact is uncertain at this time and will depend on how states may adapt their future tax and Medicaid funding policies in response.

While it is not possible to predict whether and when any such healthcare reform initiatives or changes to the ACA will occur, specific proposals, including a repeal or material amendment of the ACA, could harm our business, operating results and financial condition. In addition, even if the ACA is not amended or repealed, the President and the executive branch of the federal government, as well as CMS and HHS have a significant impact on the implementation of the provisions of the ACA, and a new administration could make changes impacting the implementation and enforcement of the ACA, which could harm our business, operating results and financial condition. We have already seen this with regulatory activity promulgating rules regarding anti-discrimination under Section 1557 of the ACA and the disclosure of SNF ownership and service providers under Section 6101 of the ACA. If we are slow or unable to adapt to any such changes, our business, operating results and financial condition could be adversely affected.

Since the ACA, there have been healthcare reform proposals and we expect that other healthcare reform legislative and regulatory changes will be proposed and enacted, including reductions in payments to SNFs and impose the staffing and reporting requirements. We cannot predict what effect future reforms to the U.S. healthcare system will have on our business, including the demand for our services, the cost of our operations, or the amount of reimbursement available for those services. However, it is possible these new laws may lower reimbursement or increase the cost of doing business and adversely affect our business.

We are subject to various government and third-party payor reviews, audits and investigations that could adversely affect our business, including an obligation to refund amounts previously paid to us, potential criminal charges, the imposition of fines, and/or the loss of our right to participate in Medicare and Medicaid programs or other third-party payor programs.

Regulators and third-party payors are increasing scrutiny of claims, which may require additional resources to response to audits and may cause additional delays or denials in receiving payment. As a result of our participation in the Medicaid and Medicare programs, we and other program participants are subject to various governmental reviews, audits and investigations to verify compliance with the rules associated with these programs and related applicable laws and regulations, including claims for payments submitted to those programs, which are subject to reviews by Recovery Audit Contractors, Zone Program Integrity Contractors, Program Safeguard Contractors, Unified Program Integrity Contractors, Supplemental Medical Review Contractors and Medicaid Integrity Contractors programs (collectively referred to as Reviews). In these Reviews, third-party firms engaged by CMS conduct extensive analysis of claims data and medical and other records to identify potential improper payments under the Federal and State programs. Although we have always been subject to post-payment audits and Reviews, more intensive “probe reviews” performed by Medicare administrative contractors in recent years appear to be a regular procedure with our fiscal intermediaries. Managed care and other third-party payors also often reserve the right to conduct audits and do on a regular basis.

We believe that billing and reimbursement errors and disagreements are common in our industry, and thus we are regularly engaged in reviews, audits and appeals of our claims for reimbursement due to the subjectivities inherent in the process related to patient diagnosis and care, record keeping, claims processing and other aspects of the patient service and reimbursement processes, and the errors and disagreements those subjectivities can produce. An adverse review, audit or investigation could result in:

- an obligation to refund amounts previously paid to us pursuant to the Medicare or Medicaid programs or from private payors, in amounts that could be material to our business;
- state or federal agencies imposing fines, penalties or other sanctions on us;
- temporary or permanent loss of our right to participate in the Medicare or Medicaid programs or one or more private payor networks or admission bans or moratoriums;
- protracted regulatory oversight, including education and sampling of claims, extended pre-payment review, referral of the operating business to recovery audit or integrity contractors, or extrapolation of an error rate to other reimbursement made outside of specifically reviewed claims;
- an increase in private litigation against us; and

- damage to our reputation in the geographies served by our independent operating subsidiaries.

Both federal and state government continue to pursue intensive enforcement policies resulting in a significant number of investigations, audits, citations or regulatory deficiencies and other regulatory actions. Federal and state agencies have heightened and coordinated civil and criminal enforcement efforts as part of numerous ongoing audits, inquiries and investigations of healthcare companies and, in particular, SNFs. The focus of these investigations includes, among other things, billing and cost reporting practices; quality of care provided; and the medical necessity of rendered services. In 2023, CMS announced a nationwide audit, the “SNF 5-Claim Probe & Educate Review,” in which the Medicare Administrative Contractors review five claims from each of the facilities to check for compliance with PDPM billings, which could result in individual claim payment denials if errors are identified. All facilities that are not undergoing Targeted Probe and Educate (TPE) reviews, or have not recently passed a TPE review, will be subject to the nationwide audit.

If we fail to comply with these extensive laws, regulations and prohibitions to our business, we and certain officers could become subject to demands for refund of alleged overpayments, civil and criminal penalties, termination, exclusion or payment suspensions from the Medicare and Medicaid program, loss of Medicare or Medicaid certification, bans on Medicare and Medicaid payments for new admissions, admission moratoriums. We may also become subject to corporate integrity agreements or extensive monitoring by regulatory agencies. For example, we are subject to various legal proceedings, claims, and governmental inspections, audits, and investigations, including civil investigative demands (CIDs) and criminal subpoenas such as the ones discussed in more detail in Part II. Item 1 “Legal Proceedings” relating to alleged violations of the Federal False Claims Act and the making of false or fraudulent statements under HIPAA. We cannot predict their outcome of these investigations. We could be forced to expend considerable resources responding to these investigations and to any other investigations, audits and other enforcement actions that we may receive, which could divert material time, resources and attention away from our management team and our staff. Additionally, an adverse finding in any such matters could lead to the imposition of damages, fines, penalties, restitution, other monetary liabilities, sanctions, settlements or changes to our business practices or operations that could have a material adverse effect on our business, financial condition or results of operations.

We are subject to extensive and complex laws and government regulations. If we are not operating in compliance with these laws and regulations or if these laws and regulations change, we could be required to make significant expenditures or change our operations in order to bring our facilities and operations into compliance.

The laws and regulations governing our operations, along with the terms of participation in various government programs, regulate how we conduct our business, the services we offer, the manner in which we provide and bill for services and collect reimbursement from governmental programs and private payors, and our interactions with patients, healthcare providers and referral sources, our marketing activities, and other aspects of our operations. These laws and regulations are subject to frequent change. We, along with other companies in the healthcare industry, are required to comply with extensive and complex laws and regulations at the federal, state and local government levels. Restrictions under applicable federal and state laws and regulations that may affect our ability to operate include the following:

- the federal Anti-Kickback Statute (AKS) that prohibits the knowing and willful offer, payment, solicitation or receipt of any bribe, kickback, rebate or other remuneration for referring an individual, in return for ordering, leasing, purchasing or recommending or arranging for or to induce the referral of an individual or the ordering, purchasing or leasing of items or services covered, in whole or in part, by any federal healthcare program, such as Medicare and Medicaid. “Remuneration” includes the transfer of anything of value, in cash or in kind and directly or indirectly. A person or entity does not need to have actual knowledge of the statute or specific intent to violate it to have committed a violation;
- the federal physician self-referral law (Stark Law), that, subject to limited exceptions, prohibits physicians, which includes a doctor of medicine, from referring Medicare or Medicaid patients to an entity for the provision of certain designated health services if the physician or a member of such physician’s immediate family has a direct or indirect financial relationship (including an ownership interest or a compensation arrangement) with the entity, and prohibit the entity from billing Medicare or Medicaid for such designated health services. Unlike the AKS, the Stark Law is violated if the financial arrangement does not meet an applicable exception, regardless of any intent by the parties to induce or reward referrals or the reasons for the financial relationship and the referral;
- the federal False Claims Act (FCA), that imposes civil and criminal liability on individuals or entities that knowingly submit false or fraudulent claims for payment to the government or knowingly making, or causing to

be made, a false statement in order to have a false claim paid. There are many potential bases for liability under the FCA. The government has used the FCA to prosecute Medicare and other government healthcare program fraud such as coding errors, billing for services not provided, and providing care that is not medically necessary or that is substandard in quality. In addition, the government may assert that a claim including items or services resulting from a violation of the federal AKS or Stark Law constitutes a false or fraudulent claim for purposes of the FCA. Actions under the FCA may be brought by the Attorney General, the U.S. Department of Justice (DOJ), the United States Attorney Offices, or as a qui tam action by a private individual in the name of the government. These private parties, often referred to as relators or whistleblowers, are entitled to share in any amounts recovered by the government through trial or settlement, and these qui tam cases are sealed by the court at the time of filing;

- the criminal healthcare fraud provisions of HIPAA and related rules that prohibit knowingly and willfully executing a scheme or artifice to defraud any healthcare benefit program or falsifying, concealing or covering up a material fact or making any materially false, fictitious or fraudulent statement in connection with the delivery of or payment for healthcare benefits, items or services. Similar to the AKS, a person or entity does not need to have actual knowledge of the statute or specific intent to violate it to have committed a violation;
- similar state law provisions pertaining to anti-kickback, self-referral and false claims issues, some of which may apply to items or services reimbursed by any payor, including patients and commercial insurers;
- state corporate practice and fee-splitting laws that prohibit general business corporations such as us, from practicing medicine or other healthcare professionals, controlling licensed healthcare professionals' medical decisions or engaging in some practices, such as spitting fees with licensed healthcare professionals;
- laws that regulate debt collection practices;
- federal and state antitrust laws that prohibit or limit exclusive contracting relationships with healthcare providers, prohibit or limit the sharing of cost and pricing data, prohibit competitors from taking collective action to set commercial payer reimbursement rates, and determine when a joint venture or healthcare network is sufficiently integrated, by either sharing substantial financial risk or substantial clinical integration, to jointly contract with commercial payers;
- laws that impose criminal penalties on healthcare providers who fail to disclose or refund known overpayments;
- laws that require maintenance of licensure, certification and accreditation;
- laws relating to adequacy and quality of healthcare services, quality and maintenance of medical equipment and facilities;
- laws that impose reporting, transparency and disclosure requirements of the ownership, management, managing employees and the owners of real property lessors or sublessors, including any private equity companies or REITs;
- laws relating to staffing levels and qualifications and vaccination (including boosting) of healthcare and support personnel;
- confidentiality, maintenance and security issues associated with medical records and claims processing; and
- constraints on protective contractual provisions with patients and third-party payors.

These laws and regulations are complex, and we do not always have the benefit of significant regulatory or judicial interpretation of these laws and regulations. We are unable to predict the future course of federal, state and local regulation or legislation, including as it pertains to Medicare, Medicaid, or fraud and abuse laws, and how they are enforced. Additionally, in the future, different interpretations or enforcement of these laws and regulations could subject our current or past practices to allegations of impropriety or illegality or could require us to make changes in our facilities, equipment, personnel, services, operations, capital expenditure programs and operating expenses. Our efforts to comply with these laws and regulations could be costly and result in diversion of management time and effort and may still not guarantee compliance. Regulators continue to increase their scrutiny of compliance with these obligations, which may require us to

further revise or expand our compliance program. While we diligently strive to maintain compliance with these laws, we cannot assure you that governmental officials charged with the responsibility for enforcing these prohibitions will not assert that we are violating the provisions of such laws and regulations. For example, we are subject to various governmental inspections, audits, and investigations, including civil investigative demands (CIDs) and criminal subpoenas such as the ones discussed in more detail in Part II. Item 1 “Legal Proceedings” relating to alleged violations of the Federal False Claims Act and the making of false or fraudulent statements under HIPAA. We cannot predict the outcome of these ongoing investigations and any future legal proceeding, government inspection, audit or investigation. We could be forced to expend considerable resources responding to these investigations and to any other investigations, audits and other enforcement actions that we may receive, which could divert material time, resources and attention away from our management team and our staff.

Any adverse finding in these ongoing matters, or in any similar matter that may arise in the future, could subject us to civil or criminal penalties, sanctions, remedial measures and other detrimental consequences, including denial of reimbursement, imposition of fines, temporary suspension of admission of new patients, suspension or decertification from the Medicaid and Medicare programs, restrictions on our ability to acquire new facilities or expand or operate existing facilities, the loss of our licenses to operate and the loss of our ability to participate in federal and state reimbursement programs. In addition, if we fail to comply, even inadvertently, with any of these requirements, we could be required to alter our operations and enter into a corporate integrity agreement, deferred prosecution or similar agreements with state or federal government agencies. Furthermore, should we lose licenses or certifications for a number of our facilities or other businesses as a result of regulatory action or legal proceedings, we could be deemed to be in default under some of our agreements, including agreements governing outstanding indebtedness.

We face and are currently subject to surveys, investigations, and other proceedings relating to our licenses and certification and potential sanctions and remedies based upon alleged regulatory deficiencies could negatively affect our financial condition and results of operations. Public and government calls for increased survey and enforcement efforts toward SNFs, and potential rulemaking that may result in enhanced enforcement and penalties, could result in increased scrutiny by state and federal survey agencies.

Our facilities must comply with required conditions of participation in the Medicare program and state Medicaid programs and state licensure requirements. We are subject to surveys and investigations from federal and state agencies as well as accreditation organizations. We receive deficiency reports from state and federal regulatory bodies resulting from such inspections or surveys. If we fail to meet the conditions of participation or licensure standards, we may receive a notice of deficiency from the applicable surveyor. Although most inspection deficiencies are resolved through an agreed-upon plan of corrective action, the reviewing agency typically has the authority to take further action against a licensed or certified facility.

We have received notices of potential sanctions and remedies based upon alleged regulatory deficiencies from time to time, and such sanctions have been imposed on some of our facilities. No material remedial actions have been taken against us to date, however, we have had facilities placed on special focus facility (SFF) status in the past, continue to have some facilities on this status currently and other operating subsidiaries may be identified for such status in the future. In particular, as our strategy includes the targeted acquisition of underperforming SNFs, we from time to time acquire facilities with special focus facility status. As of December 31, 2024, we had four facilities with special focus facility status. Three such facilities were acquired with this status and one was placed on such status following our acquisition of the facility. These facilities received such status as a result of accumulating an above average number survey deficiency points over the course of multiple surveys, some of which occurred prior to their acquisition. Survey deficiency points are issued by the government survey agency when inspecting a nursing facility to reflect the deficiencies that the facility is cited for in the survey, which include, but are not limited to, quality of life and care, freedom from abuse, neglect and exploitation deficiencies.

If a facility then fails to institute an acceptable plan of correction to remediate the deficiency within the correction period provided by the state surveyor, that facility could be subject to remedial action. These actions include the imposition of fines, imposition of a license to a conditional or provisional status, admission holds, suspension or revocation of a license, payment suspension, loss of certification as a provider under state or federal healthcare programs, or imposition of other sanctions, including civil monetary penalties and criminal penalties. Termination of one or more of our facilities from the Medicare or state Medicaid programs for failure to satisfy conditions of participation, or the imposition of alternative sanctions, could disrupt operations, require significant attention by management or have a material adverse effect on our business and reputation and consolidated financial condition, results of operations and cash flows.

From time to time, we have opted to voluntarily stop accepting new patients pending completion of a new state survey, in order to avoid possible denial of payment for new admissions during the deficiency cure period, or simply to avoid straining staff and other resources while retraining staff, upgrading operating systems or making other operational improvements. If we elect to voluntarily close any operations in the future or to opt to stop accepting new patients pending completion of a state or federal survey, it could negatively impact our financial condition and results of operation.

Furthermore, in some states, citation of one affiliated facility could negatively impact other facilities in the same state. Revocation of a license at a given facility could therefore impair our ability to obtain new licenses or to renew, or maintain, existing licenses at other facilities, which may also trigger defaults or cross-defaults under our leases and our credit arrangements, or adversely affect our ability to operate or obtain financing in the future. CMS's rules requiring disclosure of ownership, management and the owners of real property lessors or sublessors, heighten this risk. Our failure to comply with applicable legal and regulatory requirements in any single facility could negatively impact our financial condition and results of operations.

As CMS turns its attention to enhancing enforcement activities towards SNFs, state survey agencies will have more accountability for their survey and enforcement efforts. Effective October 1, 2024, CMS finalized expanded authority to impose multiple per day and per instance CMPs on facilities for non-compliance identified in surveys, with a look back period of three standard surveys. Although we are not able to predict whether the new administration will continue to prioritize regulation applicable to LTCs, the measures implemented under the Biden administration may result more frequent surveys of our facilities, with more substantial penalties, fines and consequences if they do not perform well. For low-performing facilities in the SFF program, the standards for successfully emerging from that program and not being subject to ongoing and enhanced government oversight will be higher and measured over a longer period of time, prolonging the risks of monetary penalties, fines and potential suspension or exclusion from the Medicare and Medicaid programs. Additionally, CMS recently updated the survey resources that CMS and state surveyors use in evaluating our SNFs' compliance with federal Requirements for Participation. The application of CMS's new guidance could result in more aggressive and stringent surveys, and potential fines, penalties, sanctions, or administrative actions taken against our independent operating subsidiaries.

We may be subject to increased investigation and enforcement activities related to the Health Insurance Portability and Accountability Act of 1996 (HIPAA) violations.

HIPAA, as amended by the Health Information Technology for Economic and Clinical Health (HITECH) Act, requires us to adopt and maintain business procedures and systems designed to protect the privacy, security and integrity of patients' individual health information, in addition to state laws governing the privacy of patient information. We must comply with these state privacy laws to the extent that they are more protective of healthcare information or provide additional protections not afforded by HIPAA. HIPAA and other comparable state and federal laws and regulations change periodically. If we fail to comply with these state and federal laws and regulations, we could be subject to criminal penalties, civil sanctions, litigation, and be forced to modify our policies and procedures, in addition to undertaking costly breach notification and remediation efforts, as well as sustaining reputational harm. As described in more detail in Part II. Item 1 "Legal Proceedings", we are currently subject to a criminal investigation relating to the alleged making of false or fraudulent statements under HIPAA. We cannot predict the outcome of this investigation.

In addition to breaches of protected patient information, under HIPAA and other federal and state laws and regulations, healthcare entities are also required to afford patients with certain rights of access to their health information and to promote sharing of patient data between and among healthcare providers involved in the same patient's course of care. Recently, the Office for Civil Rights, the agency responsible for HIPAA enforcement, has targeted investigative and enforcement efforts on violations of patients' rights of access, imposing significant fines for violations largely initiated from patient complaints. If we fail to comply with our obligations under HIPAA or other comparable federal or state laws and regulations, we could face significant fines and penalties.

Annual caps and other cost-reductions for outpatient therapy services may reduce our future revenue and profitability or cause us to incur losses.

Several government actions have been taken in recent years to try and contain the costs of rehabilitation therapy services provided under Medicare Part B, including the Multiple Procedure Payment Reduction (MPPR), institution of annual caps, mandatory medical reviews for annual claims beyond a certain monetary threshold, and a reduction in reimbursement rates for therapy assistant claim modifiers. Of specific concern has been CMS's recent efforts to lower Medicare Part B reimbursement rates for outpatient therapy services. Such cost-containment measures and ongoing

payment changes could have an adverse effect on our revenue. The Office of the Inspector General (OIG) or other regulatory authorities may choose to more closely scrutinize billing practices in areas where we operate or propose to expand, which could result in an increase in regulatory monitoring and oversight, decreased reimbursement rates, or otherwise adversely affect our business, financial condition and results of operations.

The OIG regularly conducts investigations regarding certain payment or compliance issues within the healthcare industry. The OIG identified SNF compliance as an issue of concern in recent semi-annual reports to Congress, and its January 2023 study regarding SNF emergency preparedness identified the need for further oversight and addition of SNF emergency readiness to the OIG's 2023 work plan. Nursing homes were also a topic of discussion in the OIG's 2023 semi-annual report to Congress, which emphasized the continued protection and oversight of care that nursing facilities provide to residents. Among other things, the OIG recommended a reduction in the use of psychotropic drugs in nursing homes and urged CMS to evaluate the appropriateness of psychotropic drug use among residents, including the use of data to identify nursing homes with higher rates of use for potential further scrutiny and action. Based on this information, SNFs in particular are potential targets for more robust scrutiny and examination by regulators, although it is unknown whether the current presidential administration will seek further or escalating scrutiny of SNFs.

Our business model, like those of some other for-profit operators, is based in part on attracting higher-acuity patients whom we believe provide us more opportunity to be profitable due to the higher level of services they need and accordingly higher reimbursement rates, and over time our overall patient mix has consistently shifted to higher-acuity and higher-resource utilization patients in most facilities we operate. These efforts may place us under greater scrutiny with the OIG, CMS, our fiscal intermediaries, recovery audit contractors and others.

Newly enacted and proposed legislation in the states where our independently operating entities are located may affect our operations in terms of individual litigation and the broader regulatory environment.

A bill in the State of California, where a significant majority of our facilities are located, was recently signed into law which increases the cap of non-economic damages awarded to plaintiffs who are successful in medical malpractice litigation. The cap increased from \$250,000 to \$350,000 beginning on January 1, 2023, then increases over the following 10 years until the cap reaches a maximum of \$750,000, with further adjustments for inflation. In wrongful death cases, the cap increased from \$250,000 to \$500,000 on January 1, 2023, with incremental increases over the following 10 years until the cap reaches a maximum of \$1,000,000, with adjustments for inflation. Due to California's influence on other states, other jurisdictions where we operate may enact similar laws. Similar to the potential incentive of increased damages caps, the Supreme Court's recent decision in *Health and Hospital Corporation of Marion City v. Talevskim* may increase public interest in potential claims against SNFs, particularly pertaining to specific civil rights claims against governmental actors rather than general liability claims against privately owned SNFs such as those operated by our independent operating subsidiaries.

As another example, California's adoption of the Skilled Nursing Facility Ownership and Management Reform Act of 2022 imposes new requirements for obtaining licenses to operate SNFs. These new requirements may delay or limit the ability to obtain new SNF licenses within that state, whether through acquisition of existing facilities or opening a new facility. This law's obligations may increase the costs of obtaining licensure, make applications more time-consuming and complex, and may result in civil penalties and other sanctions against our facilities in the event they are not compliant with these new licensure application requirements. As a result, this law may delay or impede growth within California. As with the law that increases the cap of non-economic damages for medical malpractice litigation, California's influence on other states may result in this legislation becoming a model for other states and having similar, potentially adverse effects within those jurisdictions as well.

More recently, California's legislature has proposed, among other things, bills related to increasing the minimum wage for workers, spending requirements and increased disclosure. These and other bills would create new and costly obligations on our independent operating subsidiaries if they became law and if enacted, would adversely affect our business, operations, and profitability. In October 2023, California adopted legislation that requires, if and when a minimum spending bill is later enacted with respect to skilled nursing facilities, workers at skilled nursing facilities, as well as most other healthcare facilities throughout the state, be paid a minimum wage that begins at \$21 per hour beginning June 1, 2024, increasing to \$23 per hour beginning June 1, 2026, and then increasing to \$25 per hour beginning June 1, 2028. While California's state Medicaid reimbursement program will, barring intervening changes to the program, reimburse providers for some of the increased operating costs, there can be no assurance that they will be reimbursed for the full increase, or that they will be reimbursed in a timely manner.

On April 24, 2024, the California Department of Health Care Access and Information (HCAI) announced that the Office of Health Care Affordability's Board approved a statewide healthcare spending target of 3%, which represents a long-term reduction of current levels of statewide healthcare spending. The spending target will be phased in over time, initially starting at 3.5% for 2025 and 2026, the target will be lowered to 3.2% for 2027 and 2028 before ultimately reaching 3% for 2029 and beyond.

As another example, Texas passed a bill which partially restored Medicaid state relief funding for SNFs through August 31, 2023. Texas also enacted regulations effective September 1, 2023 that provide rate increases for direct care staff, which may provide financial relief to our independent operating subsidiaries in Texas. Other states may continue to propose bills impacting skilled nursing facilities, which may adversely affect our business, operations, and profitability.

Changes to federal and state employment-related laws and regulations could increase our cost of doing business.

Our operating subsidiaries are subject to a variety of federal and state employment-related laws and regulations, including, but not limited to, the U.S. Fair Labor Standards Act that governs such matters as minimum wages, overtime and other working conditions, the Americans with Disabilities Act (ADA) and similar state laws that provide civil rights protections to individuals with disabilities in the context of employment, public accommodations and other areas, the National Labor Relations Act, regulations of the U.S. Equal Employment Opportunity Commission (EEOC), regulations of the Office of Civil Rights, regulations of state attorney generals, family leave mandates and a variety of similar laws enacted by the federal and state governments that govern these and other employment law matters.

On June 5, 2023, CMS published the Omnibus Final Rule, withdrawing the COVID-19 vaccination IFR 60 days after the rule's publication. At present, there is no nationally significant litigation concerning such mandates. The effects of the COVID-19 vaccination IFR's withdrawal on our operations and the labor pool for nursing and administrative staff is unknown, but may have an impact on our business, operations, and profitability.

Furthermore, the Biden Administration requested HHS and CMS study and issue proposed rules regarding care-based careers, including improving access to training, increasing the attractiveness of compensation in care-based positions, and improving the retention and career progression of care workers. The new administration may discontinue these studies, discontinue ongoing rulemaking activity, and may pursue significantly different policy-setting and rulemaking priorities that do not include any of the Biden-Harris Administration's priorities. Simultaneously, certain actions taken under the Biden-Harris Administration, such as increased enforcement authority by HHS and CMS, may be retained and utilized by the new Administration and its new leaders of HHS and CMS.

The compliance costs associated with these laws and evolving regulations could be substantial. By way of example, all of our facilities are required to comply with the ADA, which has separate compliance requirements for "public accommodations" and "commercial properties," but generally requires that buildings be made accessible to people with disabilities. Compliance with ADA requirements could require removal of access barriers and non-compliance could result in imposition of government fines or an award of damages to private litigants. Further legislation may impose additional burdens or restrictions with respect to access by disabled persons. In addition, federal proposals to introduce a system of mandated health insurance and flexible work time and other similar initiatives could, if implemented, adversely affect our operations. We also may be subject to employee-related claims such as wrongful discharge, discrimination or violation of equal employment law. While we are insured for these types of claims, we could be subject to damages that are not covered by our insurance policies or that exceed our insurance limits, and we may be required to pay such damages directly, which would negatively impact our cash flow from operations.

In addition, there currently is pending legislation in California to raise the minimum wage to \$25 per hour for all healthcare workers and require SNFs to maintain a minimum spend of 85% of revenue on direct care costs. As of December 31, 2024, approximately 49% of our skilled nursing beds are located in California. Although there currently is no similar proposed legislation in the other states in which we operate, if we expand to other states, we may be subject to similar legislation.

Required regulatory approvals could delay or prohibit transfers of our healthcare operations, which could result in periods in which we are unable to receive reimbursement for such properties.

The operations of our operating subsidiaries must be licensed under applicable state law and, depending upon the type of operation, certified or approved as providers under the Medicare and/or Medicaid programs. In the process of acquiring or transferring operating assets, our operations must receive change of ownership approvals from state certificate of need

boards, licensing agencies, Medicare and Medicaid as well as third-party payors. Rules regarding the disclosure of SNF facility ownership may increase the scrutiny placed on companies that operate, directly or indirectly, multiple SNFs, and may subject our licensing and approval process to additional scrutiny or delays.

In recent years, states have become increasingly interested in the review of healthcare transactions for impacts on costs, access to care and quality, and certain states are particularly focused on transactions involving private equity investments. Transactions involving single multi-state organizations with hundreds of healthcare providers and facilities across the country are and may be in the future subject to state reviews because one or more providers or facilities derive revenue from patients within the state. Certain state review processes can involve lengthy review and approval periods, require enhanced disclosure obligations and impact analysis, public notices and hearings, and approval conditions and post-closing oversight, including ongoing reporting obligations. Overall, these state laws regulating costs, access to care and quality, in effect and those that may go into effect in the future, may delay or burden our transactions, including future add-on acquisitions, increase costs associated with expansion, require intrusive disclosures, and impose onerous, ongoing reporting obligations.

If there are any delays in receiving regulatory approvals from the applicable federal, state or local government agencies, or the inability to receive such approvals, such delays or denials could result in delayed or lost reimbursement related to periods of service prior to the receipt of such approvals, which could negatively impact our cash position.

Compliance with federal and state fair housing, fire, safety and other regulations may require us to make unanticipated expenditures, which could be costly to us.

We must comply with the federal Fair Housing Act and similar state laws, which prohibit us from discriminating against individuals if it would cause such individuals to face barriers in gaining residency in any of our facilities. Additionally, the Fair Housing Act and other similar state laws require that we advertise our services in such a way that we promote diversity and not limit it. We may be required, among other things, to change our marketing techniques to comply with these requirements.

In addition, we are required to operate our facilities in compliance with applicable fire and safety regulations, building codes and other land use regulations and food licensing or certification requirements as they may be adopted by governmental agencies and bodies from time to time. Like other healthcare facilities, our affiliated SNFs are subject to periodic surveys or inspections by governmental authorities to assess and assure compliance with regulatory requirements. Surveys occur on a regular (often annual or biannual) schedule, and special surveys may result from a specific complaint filed by a patient, a family member or one of our competitors. We may be required to make substantial capital expenditures to comply with these requirements.

Our operations are subject to environmental and occupational health and safety regulations, which could subject us to fines, penalties and increased operational costs.

We are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations. Regulatory requirements faced by healthcare providers such as us include those relating to air emissions, wastewater discharges, air and water quality control, occupational health and safety (such as standards regarding blood-borne pathogens and ergonomics), management and disposal of low-level radioactive medical waste, biohazards and other wastes, management of explosive or combustible gases, such as oxygen, specific regulatory requirements applicable to asbestos, lead-based paints, polychlorinated biphenyls and mold, other occupational hazards associated with our workplaces, and providing notice to employees and members of the public about our use and storage of regulated or hazardous materials and wastes. Failure to comply with these requirements could subject us to fines, penalties and increased operational costs. Moreover, changes in existing requirements or more stringent enforcement of them, as well as discovery of currently unknown conditions at our owned or leased facilities, could result in additional cost and potential liabilities, including liability for conducting cleanup, and there can be no guarantee that such increased expenditures would not be significant.

Risks Related to Ownership of Our Common Stock

The market price of our common stock may be volatile or may decline steeply or suddenly regardless of our operating performance, which could result in substantial losses for owners of our common stock, and we may not be able to meet investor or analyst expectations.

The market price of our common stock may be highly volatile and fluctuate or decline significantly in response to numerous factors, many of which are beyond our control, including:

- variations between our actual operating results, or those of companies that are perceived to be similar to us, and the expectations of securities analysts, investors and the financial community;
- any forward-looking financial or operating information we may provide to the public or securities analysts, any changes in this information or our failure to meet expectations based on this information;
- actions of securities analysts who initiate or maintain coverage of us, changes in financial estimates by any securities analysts who follow our Company or our failure to meet these estimates or the expectations of investors;
- additional shares of our common stock being sold into the market by us or our existing stockholders;
- hedging activities by market participants;
- announcements by us or our competitors of significant features, technical innovations in facilities, acquisitions, strategic partnerships, joint ventures or capital commitments;
- changes in operating performance and stock market valuations of companies in our industry, including our competitors;
- changes in third-party payor reimbursement policies;
- an inability to obtain additional funding;
- general economic, political, industry and market conditions, including rising inflation, high interest rates, capital market disruptions, and price and volume fluctuations in the overall stock market;
- lawsuits threatened or filed against us;
- developments in new legislation and pending lawsuits or regulatory actions, including interim or final rulings by judicial or regulatory bodies; and
- other events or factors, including those resulting from political conditions, election cycles, pandemics, war or incidents of terrorism, or responses to these events, many of which are outside of our control.

Furthermore, short sellers may engage in activity intended to drive down the market price of our common stock, which could also result in related regulatory and governmental scrutiny, among other effects. Short selling is the practice of selling securities that the seller does not own but rather has borrowed or intends to borrow from a third party with the intention of later buying lower priced identical securities to return to the lender. Accordingly, it is in the interest of a short seller of our common stock for the price to decline. At any time, short sellers may also publish, or arrange for the publication of, opinions or characterizations that are intended to create negative market momentum in our common stock. Short selling reports can cause downward pressure and increased volatility in an issuer's stock price. For example, on November 4, 2024, a short-seller report was published about us, which contained certain allegations related to components of our operating results and other strategic matters. As a result, our Audit Committee commenced an independent investigation to review the matters referenced in the report. As discussed in more detail in the Explanatory Note to this Quarterly Report, our Audit Committee has completed its independent investigation; however, the publication of the short-seller report has created significant downward pressure and volatility on the market price of our common stock.

In addition, extreme price and volume fluctuations in the stock markets have affected and continue to affect many healthcare companies' stock prices. Stock prices often fluctuate in ways unrelated or disproportionate to the companies' operating performance. Following the publication of the short-seller report about us in November 2024 and following the significant decline in the market price of our common stock, we and certain of our executive officers were named as defendants in a securities class action discussed in more detail in Part II, Item 1. "Legal Proceedings". Securities litigation could subject us to substantial costs, divert resources and the attention of management from our business and seriously harm our business.

Moreover, because of these fluctuations, comparing our operating results on a period-to-period basis may not be meaningful. You should not rely on our past results as an indication of our future performance. This variability and unpredictability could also result in our failure to meet the expectations of industry or financial analysts or investors for any period. If our revenues or operating results fall below the expectations of analysts or investors or below any forecasts we may provide to the market, or if the forecasts we provide to the market are below the expectations of analysts or investors, the price of our common stock could decline substantially. Such a stock price decline could occur even when we have met any previously publicly stated revenue or earnings forecasts that we may provide.

We are subject to a securities class action litigation and derivative lawsuit.

Securities class action litigation is often brought against companies following a decline in the market price of their securities, and is often followed by derivative litigation. Following the publication of the short-seller report about us in November 2024, the market price of our common stock declined significantly and we and certain of our executive officers have been named as defendants in a securities class action and derivative lawsuits discussed in more detail in Part II, Item 1. “Legal Proceedings”. These lawsuits and any future lawsuits to which we may become a party are subject to inherent uncertainties and will likely be expensive and time-consuming to investigate, defend and resolve, and will divert our management's attention and financial and other resources. The outcome of litigation is necessarily uncertain, and we could be forced to expend significant resources in the defense of these and other suits, and we may not prevail. Any litigation to which we are a party may result in an onerous or unfavorable judgment that may not be reversed upon appeal or in payments of substantial monetary damages or fines, or we may decide to settle this or other lawsuits on similarly unfavorable terms, which could adversely affect our business, financial condition, results of operations or stock price.

There can be no assurance that we will be able to comply with the continued listing standards of the New York Stock Exchange.

We did not timely file our Quarterly Report on Form 10-Q for the quarter ended September 30, 2024, Annual Report on Form 10-K for the year ended December 31, 2024, Quarterly Report on Form 10-Q for the quarter ended March 31, 2025, and Quarterly Report on Form 10-Q for the quarter ended June 30, 2025, due to an independent investigation by the Company's independent Audit Committee and the process of restating of our consolidated financial statements for the periods ended March 31 and June 30, 2024. As a result of these delinquent filings, we were out of compliance with NYSE Listing Rule 802.01E. The delisting of our common stock from NYSE would likely have a negative effect on the price of our common stock, impair our stockholders' ability to sell or purchase our common stock, lead to a limited amount of analyst coverage and may make it more difficult for us to raise capital on favorable terms in the future. In addition, delisting could subject us to additional litigation or regulatory investigation or enforcement. There can be no assurance that we will not receive future notifications regarding noncompliance with any of the requirements for continued listing on NYSE.

An active trading market for our common stock may not be sustainable, and you may not be able to resell your shares at or above the price you pay.

Although our common stock is listed on the New York Stock Exchange under the symbol “PACS,” an active trading market for our common stock may not be sustained. In the absence of an active trading market for our common stock, you may not be able to sell your shares of our common stock when desired or at or above the price you paid. An inactive market may also impair our ability to raise capital by selling shares and may impair our ability to acquire other businesses or properties using our shares as consideration, which, in turn, could materially and adversely affect our business.

Our founders, Jason Murray and Mark Hancock, have substantial control over us and hold a substantial portion of our outstanding common stock, and their interests may conflict, or appear to conflict, with our interests and the interests of other stockholders.

Our founders, Jason Murray and Mark Hancock, collectively beneficially own approximately 70.4% of the voting power of our common stock. In addition, pursuant to the terms of our Amended and Restated Charter, our founders are able to control corporate matters for the foreseeable future. For example, each founder has the right to designate (i) up to two individuals for inclusion in our slate of director nominees if such founder beneficially owns at least 20% of the aggregate number of shares of common stock outstanding immediately following the completion of our initial public offering (IPO) or (ii) one individual for inclusion in our slate of director nominees if such founder beneficially owns less than 20% but at least 10% of the aggregate number of shares of common stock outstanding immediately following the completion of our

IPO. Accordingly, each founder currently has the right to designate two directors and collectively have the right to designate four directors, which represents four out of our five-member board of directors.

In addition, pursuant to the terms of our Amended and Restated Charter, for so long as Messrs. Murray and Hancock beneficially own, in the aggregate, the majority of the voting power of our outstanding shares of voting stock, they are able to remove any of our directors at any time with or without cause and may take action by written consent without a meeting of stockholders. As a result, Messrs. Murray and Hancock are able to determine or significantly influence our management, business plans, policies, and governance for the foreseeable future. This concentrated control of the composition of the board of directors and voting power of our common stock will preclude your ability to influence corporate matters for the foreseeable future, including with respect to the composition of our board of directors, the election and removal of directors, the authorization and issuance of additional shares of our common stock that would be dilutive to you, the issuance of shares of preferred stock that could be dilutive to you and could have disparate voting rights, amendments to our organizational documents, and any merger, consolidation, sale of all or substantially all of our assets, or other major corporate transaction requiring stockholder approval. In addition, this may prevent or discourage unsolicited acquisition proposals or offers for our capital stock that you may feel are in your best interests as one of our stockholders and may deprive us of what we perceive as an attractive business combination opportunity. These limitations could deprive you of an opportunity to receive a premium for your shares of common stock as part of a sale of our company and ultimately might affect the market price of our common stock.

Even when the parties to our Stockholders Agreement cease to own shares of our stock representing a majority of the total voting power, for so long as such parties continue to own a significant percentage of our stock, they will still be able to significantly influence or effectively control the composition of our board of directors and the approval of actions requiring stockholder approval through their voting power. Accordingly, for such period of time, the parties to our Stockholders Agreement will have significant influence with respect to our management, business plans, policies, and governance.

Future sales, or the perception of future sales, of shares of common stock by existing stockholders could cause the market price of our common stock to decline.

If our existing stockholders sell, or indicate an intention to sell, substantial amounts of our common stock in the public market after the lock-up and legal restrictions on resale lapse, the trading price of our common stock could decline.

As of November 17, 2025, we had a total of 156,615,144 shares of our common stock outstanding. Of these shares, 45,925,732 shares of common stock are freely tradable, without restriction, in the public market unless purchased by our affiliates. The remaining shares are held by our directors, executive officers and other affiliates and may be sold in the public markets subject to volume limitations under Rule 144 of the Securities Act (Rule 144), and various vesting agreements. Sales of a substantial number of such shares or the perception that such sales may occur, could cause our market price to fall or make it more difficult for you to sell your common stock at a time and price that you deem appropriate. Messrs. Murray and Hancock are additionally entitled to rights with respect to the registration of all of their shares and they may be able to sell their shares outside of the volume limitations imposed by Rule 144.

Additionally, the shares of our common stock registered on our registration statement on Form S-8 under the Securities Act and issuable or reserved for issuance under our 2024 Incentive Award Plan (2024 Plan) and our 2024 Employee Stock Purchase Plan (2024 ESPP) are eligible for sale in the public market, subject to Rule 144 limitations applicable to affiliates. If these additional shares are sold, or if it is perceived that they will be sold in the public market, the trading price of our common stock could decline.

If our estimates or judgments relating to our critical accounting policies are based on assumptions that change or prove to be incorrect, our operating results could fall below our publicly announced guidance or the expectations of securities analysts and investors, resulting in a decline in the market price of our common stock.

The preparation of combined/consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in our combined/consolidated financial statements and the accompanying notes thereto. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets, liabilities, equity, revenue and expenses that are not readily apparent from other sources. It is possible that interpretation, industry practice and guidance involving estimates and assumptions may evolve or change over time. If our assumptions change or if actual circumstances differ from our assumptions, our operating results may be

adversely affected and could fall below our publicly announced guidance or the expectations of securities analysts and investors, resulting in a decline in the market price of our common stock.

We are a “controlled company” within the meaning of the corporate governance standards of the New York Stock Exchange. As a result, we may elect to rely on exemptions from certain corporate governance standards and you may not have the same protections afforded to stockholders of companies that are subject to such requirements.

Jason Murray and Mark Hancock collectively control a majority of the voting power of shares eligible to vote in the election of our directors. Because more than 50% of the voting power in the election of our directors is held by an individual, group, or another company, we are a “controlled company” within the meaning of the corporate governance standards of the New York Stock Exchange. As a controlled company, we may elect not to comply with certain corporate governance requirements, including the requirements that, within one year of the date of the listing of our common stock:

- a majority of our board of directors consists of “independent directors,” as defined under the rules of the New York Stock Exchange;
- our board of directors has a compensation committee that is composed entirely of independent directors with a written charter addressing the committee’s purpose and responsibilities;
- our board of directors has a nominating and corporate governance committee that is composed entirely of independent directors with a written charter addressing the committee’s purpose and responsibilities; and
- there will be an annual performance evaluation of the nominating and corporate governance and compensation committees.

For so long as we remain a “controlled company,” we may elect to rely on these exemptions. Accordingly, you may not have the same protections afforded to stockholders of companies that are subject to all of the corporate governance requirements of the New York Stock Exchange rules.

Our principal stockholders and management own a significant percentage of our stock and will be able to exercise significant influence over matters subject to stockholder approval.

As of December 31, 2024, our executive officers, directors and 5% or greater stockholders beneficially owned 71.2% of our outstanding shares of common stock. Therefore, these stockholders (in particular, Messrs. Murray and Hancock) have the ability to influence us through this ownership position. The interests of these stockholders may not be the same as or may even conflict, or appear to conflict, with your interests. For example, these stockholders could attempt to delay or prevent a change in control of us, even if such change in control would benefit our other stockholders, which could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of us or our assets, and might affect the prevailing market price of our common stock due to investors’ perceptions that conflicts of interest may exist or arise. In addition, these stockholders, acting together, will be able to significantly influence all matters requiring stockholder approval, including the election and removal of directors and any merger or other significant corporate transactions. As a result, this concentration of ownership may not be in the best interests of our other stockholders.

Delaware law and provisions in our Amended and Restated Charter and Amended and Restated Bylaws could make a merger, tender offer or proxy contest difficult, thereby depressing the trading price of our common stock.

Our Amended and Restated Charter and Amended and Restated Bylaws contain provisions that could depress the trading price of our common stock by acting to discourage, delay or prevent a change of control of our company or changes in our management that the stockholders of our company may deem advantageous. These provisions include the following:

- establishing a classified board of directors so that not all members of our board of directors are elected at one time;
- permitting our board of directors to establish the number of directors and fill any vacancies and newly-created directorships, subject to rights granted to Messrs. Murray and Hancock pursuant to our Amended and Restated Charter and the Stockholders Agreement;

- providing that directors may be removed at any time with or without cause by the affirmative vote of the holders of a majority of the voting power of the then outstanding shares of our voting stock; provided, however, that at any time when Messrs. Murray and Hancock beneficially own, in the aggregate, less than the majority of the voting power of our outstanding shares of voting stock, directors may only be removed for cause and only by the affirmative vote of the holders of at least two-thirds of the voting power of all then outstanding shares of our voting stock;
- requiring the approval of holders of two-thirds of the total voting power of all then outstanding shares of our capital stock to amend certain provisions in our Amended and Restated Charter and our Amended and Restated Bylaws;
- authorizing the issuance of “blank check” preferred stock that our board of directors could use to implement a stockholder rights plan;
- prohibiting stockholders from calling special meetings of stockholders;
- providing that, at any time when Messrs. Murray and Hancock beneficially own, in the aggregate, at least a majority of the voting power of our outstanding shares of voting stock, our stockholders may take action by written consent without a meeting, and at any time when Messrs. Murray and Hancock beneficially own, in the aggregate, less than a majority of the voting power of our outstanding shares of voting stock, our stockholders may not take action by written consent, which has the effect of requiring all stockholder actions to be taken at a meeting of our stockholders;
- providing that the board of directors is expressly authorized to make, alter or repeal our Amended and Restated Bylaws;
- restricting the forum for certain litigation involving us to Delaware or federal courts, as applicable; and
- establishing advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted upon by stockholders at annual stockholder meetings.

Any provision of our Amended and Restated Charter or Amended and Restated Bylaws or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock and could also affect the price that some investors are willing to pay for our common stock.

The provisions of our Amended and Restated Charter requiring exclusive forum in the Court of Chancery of the State of Delaware and the federal district courts of the United States for certain types of lawsuits may have the effect of discouraging lawsuits against our directors and officers.

Our Amended and Restated Charter provides that, unless we otherwise consent in writing, (A) (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed by any current or former director, officer, other employee or stockholder of us to the us or the our stockholders, (iii) any action asserting a claim arising pursuant to any provision of the Delaware General Corporation Law, our Amended and Restated Charter or our Amended and Restated Bylaws (as either may be amended or restated) or as to which the Delaware General Corporation Law confers exclusive jurisdiction on the Court of Chancery of the State of Delaware or (iv) any action asserting a claim governed by the internal affairs doctrine of the law of the State of Delaware shall, to the fullest extent permitted by law, be exclusively brought in the Court of Chancery of the State of Delaware or, if such court does not have subject matter jurisdiction thereof, the federal district court of the State of Delaware; and (B) the federal district courts of the United States shall be the exclusive forum for the resolution of any complaint asserting a cause of action arising under the Securities Act; however, there is uncertainty as to whether a court would enforce such provision, and investors cannot waive compliance with federal securities laws and the rules and regulations thereunder. Notwithstanding the foregoing, the exclusive forum provision shall not apply to claims seeking to enforce any liability or duty created by the Exchange Act or any other claim for which the federal courts of the United States have exclusive jurisdiction. The choice of forum provision may limit a stockholder’s ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees and may also result in increased costs for stockholders to bring any such claim, which may discourage such lawsuits against us and our directors, officers, and other employees, although our stockholders will not be deemed to have waived our compliance with federal securities laws and the rules and regulations thereunder.

Alternatively, if a court were to find the choice of forum provision contained in our Amended and Restated Charter to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could have an adverse effect on our business, financial condition and results of operations. Any person or entity purchasing or otherwise acquiring or holding any interest in shares of our capital stock shall be deemed to have notice of and consented to the forum provisions in our Amended and Restated Charter (as may be amended or restated).

Non-U.S. Holders who own more than 5% of our common stock may be subject to U.S. federal income tax on gain realized on the sale or other taxable disposition of such common stock.

Because the determination of whether we are a “U.S. real property holding corporation” (USRPHC) for U.S. federal income tax purposes depends on the fair market value of our “U.S. real property interests” (USRPIs) relative to the fair market value of our non-U.S. real property interests and our other business assets, and because we have significant interests in real property located in the U.S., we may currently be, or may become in the future, a USRPHC. There can be no assurance that we do not currently constitute, or will not become, a USRPHC. As a result, a “Non-U.S. Holder” may be subject to U.S. federal income tax on gain realized on a sale or other taxable disposition of our common stock if such Non-U.S. Holder has owned, actually or constructively, more than 5% of our common stock at any time during the shorter of the five-year period ending on the date of the sale or other taxable disposition or the Non-U.S. Holder’s holding period in such stock.

Risks Related to Being a Public Company

We continue to incur increased costs as a result of operating as a public company, and our management is required to devote substantial time to new compliance initiatives and corporate governance practices. Additionally, if we fail to maintain proper and effective internal controls, our ability to produce accurate financial statements on a timely basis could be impaired.

As a public company, we continue to incur significant legal, accounting, and other expenses that we did not incur as a private company. We are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Protection Act, as well as rules adopted, and to be adopted, by the Securities and Exchange Commission (SEC), and the New York Stock Exchange. Our management and other personnel devote a substantial amount of time to these compliance initiatives. Moreover, these rules and regulations to substantially increase our legal and financial compliance costs and to make some activities more time-consuming and costly, which increases our operating expenses. For example, these rules and regulations make it more difficult and more expensive for us to obtain director and officer liability insurance and are required to incur substantial costs to maintain sufficient coverage. We cannot accurately predict or estimate the amount or timing of additional costs we may incur to respond to these requirements. The impact of these requirements could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees, or as executive officers.

In addition, as a public company we are required to incur additional costs and obligations in order to comply with SEC rules that implement Section 404 of the Sarbanes-Oxley Act. Under these rules, beginning with our second Annual Report on Form 10-K, we will be required to make a formal assessment of the effectiveness of our internal control over financial reporting, and we will be required to include an attestation report on internal control over financial reporting issued by our independent registered public accounting firm. To achieve compliance with Section 404 within the prescribed period, we will be engaging in a process to document and evaluate our internal control over financial reporting, which is both costly and challenging. In this regard, we will need to continue to dedicate internal resources, potentially engage outside consultants and adopt a detailed work plan to assess and document the adequacy of our internal control over financial reporting, continue steps to improve control processes as appropriate, validate through testing that controls are designed and operating effectively, and implement a continuous reporting and improvement process for internal control over financial reporting.

The rules governing the standards that must be met for management to assess our internal control over financial reporting are complex and require significant documentation, testing, and possible remediation to meet the detailed standards under the rules. During the course of its testing, our management may identify material weaknesses, in addition to the one described below, which may not be remedied in time to meet the deadline imposed by the Sarbanes-Oxley Act. Our internal control over financial reporting will not prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute

assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud will be detected.

We have identified material weaknesses in our internal control over financial reporting. If our remediation of such material weaknesses is not effective, or if we experience additional material weaknesses or otherwise fail to design and maintain effective internal control over financial reporting, our ability to accurately report our financial condition and results of operations in a timely manner or comply with applicable laws and regulations could be impaired, which may adversely affect investor confidence in us, subject us to litigation or significant financial or other penalties, and, as a result, affect the value of our common stock and our financial condition.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or combined/consolidated financial statements will not be prevented or detected on a timely basis. In connection with the preparation of our combined/consolidated financial statements for the year ended December 31, 2024 and facts learned during the Audit Committee's independent investigation described more fully in the Explanatory Note in this Quarterly Report, we identified material weaknesses in our internal control over financial reporting. Specifically, we did not design and maintain a sufficiently robust compliance program with necessary levels of personnel and expertise, to perform an ongoing risk assessment process at the reasonable assurance level related to identifying, reviewing, communicating, and incorporating the associated operational risks into our accounting judgments related to revenue recognition. We did not maintain controls at the reasonable assurance level for (i) the control environment, (ii) risk assessment, (iii) control activities, (iv) information and communication and (v) monitoring activities.

As described in Part I, Item 4 "Controls and Procedures", these material weaknesses resulted in a restatement of our previously issued interim condensed combined/consolidated financial statements as of and for the interim periods ended March 31, 2024 and June 30, 2024. Management is taking steps to remediate the material weaknesses in our internal controls, but we cannot assure you that the measures we have taken to date, and that we are continuing to implement, will be sufficient to remediate the material weaknesses we have identified or to avoid the identification of additional material weaknesses in the future. If the steps we take do not remediate the material weaknesses in a timely manner, or we identify new material weaknesses in the future, there could continue to be a reasonable possibility that these material weaknesses or others could result in a material misstatement of our annual or interim financial statements that would not be prevented or detected on a timely basis, any of which could diminish investor confidence in us and cause a decline in the price of our common stock. Furthermore, the steps to remediate any such material weaknesses, including the ones described in Part I, Item 4 "Controls and Procedures", could require additional remedial measures, including hiring additional personnel, which could be costly and time-consuming.

If, when required in the future, we are unable to assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an unqualified opinion as to the effectiveness of our internal control over financial reporting, we may be unable to maintain compliance with securities law requirements regarding timely filing of periodic reports in addition to applicable stock exchange listing requirements, investors may lose confidence in the accuracy and completeness of our financial reports, the market price of our common stock could be adversely affected, and we could become subject to additional litigation or investigations by the stock exchange on which our securities are listed, the SEC, or other regulatory authorities, which could require additional financial and management resources. In any of these cases, there could be an adverse affect on our business, financial condition and results of operations.

The restatement of our condensed combined/consolidated financial statements has subjected us to a number of additional risks and uncertainties, including regulatory, stockholder or other actions, loss of investor confidence and negative impacts on the trading of our common stock.

We restated our condensed combined/consolidated financial statements as of March 31, 2024, and for the three months then ended, included in the Company's Quarterly Report on Form 10-Q filed with the SEC on May 13, 2024 (as amended on May 21, 2024) and our condensed combined/consolidated financial statements as of June 30, 2024, and for the three and six months then ended, included in the Company's Quarterly Report on Form 10-Q filed with the SEC on August 12, 2024. The preparation of our restated financial statements has caused us to incur substantial expenses for legal, accounting, tax and other professional services and has diverted our management's attention from our business and could continue to do so. In addition, as a result of the restatement, we failed to timely file multiple periodic reports and faced delisting from NYSE. The restatement may cause investors to lose confidence in our operating results, the price of our common stock could decline and we could be subject to future, stockholder or other litigation or regulatory enforcement actions.

Our management team has limited experience managing a public company.

Most members of our management team have limited experience managing a publicly traded company, interacting with public company investors and complying with the increasingly complex laws pertaining to public companies. Our management team may not successfully or efficiently manage us as a public company that is subject to significant regulatory oversight and reporting obligations under the federal securities laws and the continuous scrutiny of securities analysts and investors. These new obligations and constituents require significant attention from our senior management and could divert their attention away from the day-to-day management of our business, which could have an adverse effect on our business, financial condition and results of operations.

Our disclosure controls and procedures may not prevent or detect all errors or acts of fraud.

As a public company, we are subject to the periodic reporting requirements of the Exchange Act. We must design our disclosure controls and procedures to reasonably assure that information we must disclose in reports we file or submit under the Exchange Act is accumulated and communicated to management, and recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC. Any disclosure controls and procedures or internal controls and procedures, no matter how well-conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. For example, our directors or executive officers could inadvertently fail to disclose a new relationship or arrangement causing us to fail to make a required related party transaction disclosure. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by an unauthorized override of the controls. Accordingly, because of the inherent limitations in our control system, misstatements due to error or fraud may occur and not be detected.

If securities or industry analysts either do not publish research about us or publish inaccurate or unfavorable research about us, our business or our market, or if they change their recommendations regarding our common stock adversely, the trading price or trading volume of our common stock could decline.

The trading market for our common stock is influenced in part by the research and reports that securities or industry analysts may publish about us, our business, our market or our competitors. If one or more analysts initiate research with an unfavorable rating or downgrade our common stock, provide a more favorable recommendation about our competitors or publish inaccurate or unfavorable research about our business, our common stock price would likely decline. For example, in November 2024 a short-seller published a report containing numerous allegations of wrongdoing within our business. As a result, the trading price of our common stock experienced a significant and immediate decline, from which it has yet to fully recover. If any analyst who may cover us were to cease coverage of us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause the trading price or trading volume of our common stock to decline.

Regardless of accuracy, unfavorable interpretations of our financial information and other public disclosures could have a negative impact on our stock price. If our financial performance fails to meet analyst estimates, for any of the reasons discussed above or otherwise, or one or more of the analysts who cover us downgrade our common stock or change their opinion of our common stock, our stock price would likely decline.

Even if our common stock is actively covered by analysts, we do not have any control over the analysts or the measures that analysts or investors may rely upon to forecast our future results. Overreliance by analysts or investors on any particular metric to forecast our future results may lead to forecasts that differ significantly from our own.

General Risks

Global economic and financial market conditions, including severe market disruptions and the potential for a significant and prolonged global economic downturn, could impact our business operations in a number of ways, including, but not limited to, reduced demand in key customer end-markets.

The global economy can be negatively impacted by a variety of factors such as the spread or fear of spread of contagious diseases, man-made or natural disasters, actual or threatened war, terrorist activity, political unrest, civil strife and other geopolitical uncertainty. If we or any of the third parties with whom we engage were to experience prolonged business shutdowns or other disruptions as result of any of the foregoing events, our ability to conduct our business in the manner and on the timelines presently planned could be materially and negatively affected, which could have a material

adverse impact on our business, financial condition and results of operations. Furthermore, such adverse and uncertain economic conditions may impact the post-acute services industry and consumer demand for our services. Decreases in demand for our services without a corresponding decrease in our costs would put downward pressure on margins and would negatively impact our financial results. Prolonged unfavorable economic conditions or uncertainty may have an adverse effect on our sales and profitability.

Changes in the U.S. and global social, political, regulatory and economic conditions or in laws and policies governing foreign trade, manufacturing, development and investment could also adversely affect our business. If global economic conditions remain volatile for a prolonged period or experience further disruptions, it could have a material adverse effect on our business, financial condition and results of operations.

We may acquire or invest in companies, which may divert our management's attention and result in additional dilution to our stockholders. We may be unable to integrate acquired businesses and technologies successfully or achieve the expected benefits of such acquisitions.

We may evaluate and consider potential strategic transactions, including acquisitions of, or investments in, businesses, technologies, services, products, and other assets in the future. An acquisition, investment or business relationship may result in unforeseen operating difficulties and expenditures. In particular, we may encounter difficulties assimilating or integrating the businesses, technologies, products, personnel, or operations of the acquired companies. Key personnel of the acquired companies may choose not to work for us, their software may not be easily adapted to work with ours, or we may have difficulty retaining the customers of any acquired business due to changes in ownership, management, or otherwise. We may also experience difficulties integrating personnel of the acquired company into our business and culture. Acquisitions may also disrupt our business, divert our resources and require significant management attention that would otherwise be available for development of our existing business. The anticipated benefits of any acquisition, investment, or business relationship may not be realized or we may be exposed to unknown risks or liabilities.

Negotiating these transactions can be time-consuming, difficult, and expensive, and our ability to close these transactions may often be subject to approvals that are beyond our control. Consequently, these transactions, even if undertaken and announced, may not close. For one or more of those transactions, we may:

- issue additional equity securities that would dilute our stockholders;
- use cash that we may need in the future to operate our business;
- incur debt on terms unfavorable to us or that we are unable to repay;
- incur large charges or substantial liabilities;
- encounter difficulties retaining key employees of the acquired company or integrating diverse software codes or business cultures; and
- become subject to adverse tax consequences, substantial depreciation, or deferred compensation charges.

We may not be able to pay or maintain dividends and the failure to do so would adversely affect our stock price.

For the years ended December 31, 2024, 2023 and 2022, we paid \$33.7 million, \$80.4 million, and \$60.3 million, respectively, in cash dividends to holders of our common stock. We currently anticipate that we will retain future earnings for the development, operation and expansion of our business and do not anticipate declaring or paying any cash dividends for the foreseeable future. Any return to stockholders will therefore be limited to any appreciation in the value of their stock. Our ability to pay and maintain cash dividends is based on many factors, including our ability to make and finance acquisitions, our ability to negotiate favorable lease and other contractual terms, anticipated operating cost levels, the level of demand for occupancy at our facilities, the rates we charge and actual results that may vary substantially from estimates. Some of the factors are beyond our control and a change in any such factor could affect our ability to pay or maintain dividends. The Amended and Restated 2023 Credit Facility restricts our ability to pay dividends to stockholders if we are in default under the agreement. The failure to pay or maintain dividends could adversely affect the market price of our common stock.

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

Recent Sales of Unregistered Securities

None.

Use of Proceeds

None.

Purchases of Equity Securities by the Issuer or Affiliated Purchasers

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

During the three months ended September 30, 2024, no director or officer of the Company adopted or terminated a “Rule 10b5-1 trading arrangement” or “non-Rule 10b5-1 trading arrangement,” as each term is defined in Item 408(a) of Regulation S-K.

Item 6. Exhibits
EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference				
		Form	File No.	Exhibit	Filing Date	Filed/ Furnished Herewith
3.1	Amended and Restated Certificate of Incorporation of PACS Group, Inc.	8-K	001-42011	3.1	4/15/2024	
3.2	Amended and Restated Bylaws of PACS Group, Inc.	8-K	001-42011	3.2	4/15/2024	
31.1	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer					*
31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer					*
32.1	Section 1350 Certification of Principal Executive Officer					**
32.2	Section 1350 Certification of Principal Financial Officer					**
101.INS	Inline XBRL Instance Document					*
101.SCH	Inline XBRL Taxonomy Extension Schema Document					*
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					*
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					*
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					*
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					*
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)					*

* Filed herewith.

** The certifications attached as Exhibit 32.1 and 32.2 that accompany this Quarterly Report on Form 10-Q are deemed furnished and not filed with the U.S. Securities and Exchange Commission and are not to be incorporated by reference into any filing of PACS Group, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

SIGNATURES

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

PACS GROUP, INC.

Date: November 19, 2025

By: /s/ Jason Murray
Jason Murray
Director, Chairman and Chief Executive Officer
(Principal Executive Officer)

Date: November 19, 2025

By: /s/ Mark Hancock
Mark Hancock
Director, Executive Vice Chairman, and Interim Chief Financial Officer
(Principal Financial Officer)

CERTIFICATION

I, Jason Murray, certify that:

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

Date: November 19, 2025

By: /s/ Jason Murray

Jason Murray
Director, Chairman and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

I, Mark Hancock, certify that:

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

Date: November 19, 2025

By: /s/ Mark Hancock

Mark Hancock
Director, Executive Vice Chairman, Interim Chief Financial Officer
(Principal Financial Officer)

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

In connection with the Quarterly Report on Form 10-Q of PACS Group, Inc. (the “Company”) for the period ended September 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: November 19, 2025

By: /s/ Jason Murray

Jason Murray

Director, Chairman and Chief Executive Officer

(Principal Executive Officer)

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

In connection with the Quarterly Report on Form 10-Q of PACS Group, Inc. (the “Company”) for the period ended September 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: November 19, 2025

By: /s/ Mark Hancock

Mark Hancock

Director, Executive Vice Chairman, Interim Chief Financial Officer

(Principal Financial Officer)