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, 2023

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 001-34221

ModivCare Inc.
(Exact name of registrant as specified in its charter)

Delaware	**86-0845127**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

6900 E Layton Avenue , 12th Floor , Denver , Colorado **80237**
(Address of principal executive offices) (Zip Code)

(303) 728-7012
(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:

Title of each class	Trading Symbol(s)	Name of exchange on which registered
Common Stock, $0.001 par value per share	MODV	The NASDAQ Global Select Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§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 7(a)(2)(B) of the Securities Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No

As of October 27, 2023, there were 14,186,655 shares outstanding (excluding treasury shares of 5,428,370) of the registrant’s Common Stock, $0.001 par value per share.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

ModivCare Inc.
Unaudited Condensed Consolidated Balance Sheets
(in thousands, except share and per share data)

	September 30, 2023	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 8,070	$ 14,451
Accounts receivable, net of allowance of $ 1,396 and $ 2,078 , respectively	202,701	223,210
Contract receivables	129,275	71,131
Other receivables	8,782	2,506
Prepaid expenses and other current assets	38,569	34,332
Restricted cash	544	524
Total current assets	387,941	346,154
Property and equipment, net	81,419	69,138
Goodwill	785,554	968,654
Payor network, net	346,109	391,980
Other intangible assets, net	34,482	47,429
Equity investment	45,207	41,303
Operating lease right-of-use assets	39,744	39,405
Other assets	42,630	40,209
Total assets	$ 1,763,086	$ 1,944,272
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 41,834	$ 54,959
Accrued contract payables	133,576	194,287
Accrued transportation costs	102,974	96,851
Accrued expenses and other current liabilities	146,564	135,860
Current portion of operating lease liabilities	8,902	9,640
Short-term borrowings	83,000	—
Total current liabilities	516,850	491,597
Long-term debt, net of deferred financing costs of $ 17,370 and $ 20,639 , respectively	982,630	979,361
Deferred tax liabilities	42,001	57,236
Operating lease liabilities, less current portion	33,397	32,088
Other long-term liabilities	29,347	29,434
Total liabilities	1,604,225	1,589,716
Commitments and contingencies (Note 13)		
Stockholders' equity		
Common stock: Authorized 40,000,000 shares; $ 0.001 par value; 19,771,636 and 19,729,923 , respectively, issued and outstanding (including treasury shares)	20	20
Additional paid-in capital	448,443	444,255
Retained earnings (accumulated deficit)	(19,185)	180,023
Treasury shares, at cost, 5,575,275 and 5,573,529 shares, respectively	(270,417)	(269,742)
Total stockholders' equity	158,861	354,556
Total liabilities and stockholders' equity	$ 1,763,086	$ 1,944,272

See accompanying notes to the unaudited condensed consolidated financial statements.

ModivCare Inc.
Unaudited Condensed Consolidated Statements of Operations
(in thousands, except share and per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Service revenue, net	$ 686,925	$ 647,782	$ 2,048,338	$ 1,850,472
Grant income (Note 2)	551	789	4,649	4,587
Operating expenses:				
Service expense	579,214	534,563	1,718,735	1,498,108
General and administrative expense	70,142	75,889	229,095	232,108
Depreciation and amortization	26,077	25,672	77,679	74,376
Impairment of goodwill	—	—	183,100	—
Total operating expenses	675,433	636,124	2,208,609	1,804,592
Operating income (loss)	12,043	12,447	(155,622)	50,467
Interest expense, net	17,844	15,557	50,769	46,429
Income (loss) before income taxes and equity method investment	(5,801)	(3,110)	(206,391)	4,038
Income tax (provision) benefit	1,659	1,053	4,362	(877)
Equity in net income (loss) of investee, net of tax	(160)	(26,448)	2,821	(28,020)
Net loss	$ (4,302)	$ (28,505)	$ (199,208)	$ (24,859)
Loss per common share:				
Basic	$ (0.30)	$ (2.03)	$ (14.06)	$ (1.77)
Diluted	$ (0.30)	$ (2.03)	$ (14.06)	$ (1.77)
Weighted-average number of common shares outstanding:				
Basic	14,182,839	14,051,794	14,169,537	14,041,224
Diluted	14,182,839	14,051,794	14,169,537	14,041,224

See accompanying notes to the unaudited condensed consolidated financial statements.

ModivCare Inc.
Unaudited Condensed Consolidated Statements of Cash Flows
(in thousands)

	Nine months ended September 30,	
	2023	2022
Operating activities		
Net loss	$ (199,208)	$ (24,859)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	18,212	14,398
Amortization	59,467	59,978
Stock-based compensation	4,029	5,152
Deferred income taxes	(15,235)	(31,232)
Impairment of goodwill	183,100	—
Amortization of deferred financing costs and debt discount	3,907	3,878
Other assets	(2,421)	(8,448)
Equity in net (income) loss of investee	(3,915)	38,883
Reduction of right-of-use assets	9,875	8,680
Changes in operating assets and liabilities:		
Accounts receivable and other receivables	14,242	4,403
Contract receivables	(58,143)	(35,580)
Prepaid expenses and other current assets	(4,499)	4,254
Accrued contract payables	(60,710)	(37,786)
Accounts payable and accrued expenses	(2,422)	55,887
Accrued transportation costs	6,123	(13,180)
Other long-term liabilities	(9,729)	1,098
Net cash provided by (used in) operating activities	(57,327)	45,526
Investing activities		
Purchase of property and equipment	(31,143)	(25,518)
Acquisitions, net of cash acquired	—	(78,872)
Net cash used in investing activities	(31,143)	(104,390)
Financing activities		
Net proceeds from short-term borrowings	83,000	—
Payment of debt issuance costs	(376)	(2,415)
Proceeds from common stock issued pursuant to stock option exercise	31	1,237
Restricted stock surrendered for employee tax payment	(861)	(649)
Other financing activities	315	—
Net cash provided by (used in) financing activities	82,109	(1,827)
Net change in cash, cash equivalents and restricted cash	(6,361)	(60,691)
Cash, cash equivalents and restricted cash at beginning of period	14,975	133,422
Cash, cash equivalents and restricted cash at end of period	$ 8,614	$ 72,731

See accompanying notes to the unaudited condensed consolidated financial statements.

ModivCare Inc.
Unaudited Supplemental Cash Flow Information
(in thousands)

	Nine months ended September 30,	
Supplemental cash flow information	**2023**	**2022**
Cash paid for interest	$ 32,816	$ 31,460
Cash paid for income taxes	$ 8,348	$ 4,159
Assets acquired under operating leases	$ 10,214	$ 3,298
Acquisitions:		
Purchase price	$ —	$ 79,199
Less:		
Cash acquired	—	327
Acquisitions, net of cash acquired	$ —	$ 78,872

See accompanying notes to the unaudited condensed consolidated financial statements.

ModivCare Inc.

Unaudited Condensed Consolidated Statements of Stockholders' Equity

(in thousands, except share and per share data)

	Nine months ended September 30, 2023							
	Common Stock		Additional	Retained Earnings (Accumulated	Treasury Stock		
	Shares	Amount	Paid-In Capital	Deficit)	Shares	Amount	Total
Balance at December 31, 2022	19,729,923	$ 20	$ 444,255	$ 180,023	5,573,529	$ (269,742)	$ 354,556
Net loss	—	—	—	(3,962)	—	—	(3,962)
Stock-based compensation	—	—	1,039	—	—	—	1,039
Restricted stock issued	24,903	—	—	—	—	—	—
Restricted stock surrendered for employee tax payment	—	—	—	—	6,000	(620)	(620)
Shares issued for bonus settlement and director stipends	1,006	—	85	—	—	—	85
Balance at March 31, 2023	19,755,832	$ 20	$ 445,379	$ 176,061	5,579,529	$ (270,362)	$ 351,098
Net loss	—	—	—	(190,944)	—	—	(190,944)
Stock-based compensation	—	—	1,021	—	—	—	1,021
Exercise of employee stock options	549	—	31	—	—	—	31
Restricted stock issued	9,116	—	—	—	—	—	—
Restricted stock surrendered for employee tax payment	—	—	—	—	3,138	(221)	(221)
Shares issued for bonus settlement and director stipends	1,871	—	85	—	—	—	85
Shares issued for ESPP	—	—	178	—	(7,874)	193	371
Balance at June 30, 2023	19,767,368	$ 20	$ 446,694	$ (14,883)	5,574,793	$ (270,390)	$ 161,441
Net loss	—	—	—	(4,302)	—	—	(4,302)
Stock-based compensation	—	—	1,664	—	—	—	1,664
Restricted stock issued	1,583	—	—	—	—	—	—
Restricted stock surrendered for employee tax payment	—	—	—	—	482	(27)	(27)
Shares issued for bonus settlement and director stipends	2,685	—	85	—	—	—	85
Balance at September 30, 2023	19,771,636	$ 20	$ 448,443	$ (19,185)	5,575,275	$ (270,417)	$ 158,861

	Nine months ended September 30, 2022						
	Common Stock		Additional	Retained	Treasury Stock		
	Shares	Amount	Paid-In Capital	Earnings	Shares	Amount	Total
Balance at December 31, 2021	19,589,422	$ 20	$ 430,449	$ 211,829	5,568,983	$ (269,031)	$ 373,267
Net income	—	—	—	318	—	—	318
Stock-based compensation	—	—	1,963	—	—	—	1,963
Exercise of employee stock options	20,683	—	1,138	—	—	—	1,138
Restricted stock issued	16,306	—	—	—	—	—	—
Restricted stock surrendered for employee tax payment	—	—	—	—	5,179	(572)	(572)
Shares issued for bonus settlement and director stipends	732	—	86	—	—	—	86
Balance at March 31, 2022	19,627,143	$ 20	$ 433,636	$ 212,147	5,574,162	$ (269,603)	$ 376,200
Net income	—	—	—	3,328	—	—	3,328
Stock-based compensation	—	—	2,363	—	—	—	2,363
Exercise of employee stock options	16	—	—	—	—	—	—
Restricted stock forfeited	(551)	—	—	—	—	—	—
Restricted stock surrendered for employee tax payment	—	—	—	—	322	(36)	(36)
Shares issued for bonus settlement and director stipends	1,000	—	85	—	—	—	85
Balance at June 30, 2022	19,627,608	$ 20	$ 436,084	$ 215,475	5,574,484	$ (269,639)	$ 381,940
Net loss	—	—	—	(28,505)	—	—	(28,505)
Stock-based compensation	—	—	570	—	—	—	570
Exercise of employee stock options	3,381	—	100	—	—	—	100
Restricted stock issued	914	—	—	—	—	—	—
Restricted stock surrendered for employee tax payment	—	—	—	—	421	(42)	(42)
Shares issued for bonus settlement and director stipends	846	—	85	—	—	—	85
Balance at September 30, 2022	19,632,749	$ 20	$ 436,839	$ 186,970	5,574,905	$ (269,681)	$ 354,148

See accompanying notes to the unaudited condensed consolidated financial statements.

ModivCare Inc.
Notes to the Unaudited Condensed Consolidated Financial Statements
September 30, 2023

1. Organization and Basis of Presentation

Description of Business

ModivCare Inc. ("ModivCare" or the "Company") is a technology-enabled healthcare services company that provides a suite of integrated supportive care solutions for public and private payors and their members. Its value-based solutions address the social determinants of health ("SDoH") by connecting members to essential care services. By doing so, ModivCare helps health plans manage risks, reduce costs, and improve overall health outcomes. ModivCare is a provider of non-emergency medical transportation ("NEMT"), personal care services ("PCS"), and remote patient monitoring ("RPM") solutions, which serve similar, highly vulnerable patient populations. The technology-enabled operating model in its NEMT segment includes the coordination of non-emergency medical transportation services supported by an infrastructure of core competencies in risk underwriting, contact center management, network credentialing and claims management. Additionally, its personal care services include placements of non-medical personal care assistants, home health aides and nurses primarily to Medicaid patient populations in need of care monitoring and assistance performing daily living activities in the home setting. ModivCare's remote patient monitoring services include personal emergency response systems, vitals monitoring, medication management and data-driven patient engagement solutions.

ModivCare also holds a 43.6 % minority interest in CCHN Group Holdings, Inc. and its subsidiaries, which operates under the Matrix Medical Network brand (“Matrix”). Matrix, which is included in our Corporate and Other segment, maintains a national network of community-based clinicians who deliver in-home and on-site services.

Basis of Presentation

The Company follows accounting standards established by the Financial Accounting Standards Board (“FASB”). The FASB establishes accounting principles generally accepted in the United States (“GAAP”). Rules and interpretive releases of the Securities and Exchange Commission (“SEC”) under the authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. References to GAAP issued by FASB in these notes are to the FASB *Accounting Standards Codification* (“ASC”), which serves as the single source of authoritative accounting and applicable reporting standards to be applied for non-governmental entities. All amounts are presented in U.S. dollars unless otherwise noted.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with GAAP for interim financial information, and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and disclosures required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for the fair presentation of the results of the interim periods have been included.

The Company has made estimates relating to the reporting of assets and liabilities, revenues and expenses, and certain disclosures in the preparation of these unaudited condensed consolidated financial statements in conformity with GAAP. Actual results could differ from those estimates. Operating results for the three and nine months ended September 30, 2023 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2023. Management has evaluated events and transactions that occurred after the balance sheet date and through the date these unaudited condensed consolidated financial statements were filed with the SEC and considered the effect of such events in the preparation of these unaudited condensed consolidated financial statements.

The unaudited condensed consolidated balance sheet at December 31, 2022 included in this Form 10-Q has been derived from audited financial statements at that date, but does not include all the information and footnotes required by GAAP for complete financial statements. The unaudited condensed consolidated financial statements contained herein should be read in conjunction with the audited financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022.

Reclassifications: Certain prior year amounts have been reclassified to conform to current year presentation.

Impact of the COVID-19 Pandemic

On May 11, 2023, the Department of Health and Human Services ("HHS") declared the end of the public health emergency ("PHE") for the COVID-19 pandemic. While the Company has continued to experience increased trip volume, service hours, and patient visits each year following the pandemic, structural changes in the industry as a result of the pandemic, as well as ongoing constraints on the labor market, specifically related to the strain on healthcare professionals, could continue to have an adverse impact on the Company's financial statements. The Company continues to actively monitor the structural changes to the industry and the impact these have on our business and results of operations with emphasis on protecting the health and safety of its employees, maximizing the availability of its services and products to support SDoH, and supporting the operational and financial stability of its business.

Federal, state, and local authorities have taken several actions designed to assist healthcare providers in providing care to COVID-19 and other patients and to mitigate the adverse economic impact of the COVID-19 pandemic. Legislative actions taken by the federal government include the CARES Act and the American Rescue Plan Act of 2021 ("ARPA"). Through the CARES Act, the federal government has authorized payments to be distributed to healthcare providers through the Public Health and Social Services Emergency Fund ("Provider Relief Fund" or "PRF"). Through ARPA the Coronavirus State and Local Fiscal Recovery Fund ("SLFRF") was established to send relief payments to state and local governments impacted by the pandemic to assist with responding to the PHE including the economic hardships that continue to impact communities and to respond to workers performing essential work during the COVID-19 PHE, including providers. These funds are not subject to repayment, provided we are able to attest to and comply with any terms and conditions of such funding, as applicable. See discussion of grant income at Note 2, *Significant Accounting Policies and Recent Accounting Pronouncements* .

2. Significant Accounting Policies and Recent Accounting Pronouncements

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, including disclosure of contingencies, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value Measurements

The Company follows FASB ASC Topic 820, *Fair Value Measurement* (“ASC 820”) which establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy categorizes assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. The three levels based on the observability of inputs are defined as follows:

– Level 1: Quoted Prices in Active Markets for Identical Assets – inputs to the valuation methodology are quoted prices in active markets as of the measurement date for identical assets or liabilities.

– Level 2: Significant Other Observable Inputs – inputs to the valuation methodology are based upon quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, and inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

– Level 3: Significant Unobservable Inputs – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument’s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Company’s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. As of September 30, 2023 and December 31, 2022, the carrying amount for cash and cash equivalents, accounts receivable (net of allowance for credit losses), current assets, and current liabilities was equal to or approximated fair value due to their short-term nature or proximity to current market rates. Fair values for our publicly traded debt securities are based on quoted market prices, when available. See Note 9, *Debt*, for the fair value of our long-term debt.

Goodwill and Intangible Assets

In accordance with ASC 350, *Intangibles-Goodwill and Other*, the Company reviews goodwill for impairment annually, and more frequently if events and circumstances indicate that an asset may be impaired. Such circumstances could include, but are not limited to: (1) the loss or modification of significant contracts, (2) a significant adverse change in legal factors or in business climate, (3) unanticipated competition, (4) an adverse action or assessment by a regulator, or (5) a significant decline in the Company’s stock price.

When evaluating goodwill for impairment, the Company first performs qualitative assessments for each reporting unit to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If the qualitative assessment suggests that it is more likely than not that the fair value of a reporting unit is less than its carrying value, then the Company performs a quantitative assessment and compares the fair value of the reporting unit to its carrying value and to the extent the carrying value is greater than the fair value, the difference is recorded as an impairment in the consolidated statements of operations.

As a result of the Company's annual goodwill assessment during the second quarter of 2023, the Company recorded a $ 183.1 million impairment of goodwill within its Personal Care and Remote Patient Monitoring reporting units. The Company determined that based on its qualitative assessment for each reporting unit, factors existed which required the Company to test its goodwill and indefinite-lived intangible assets for impairment. These factors included a decline in the market price of the Company's common stock, industry specific regulatory pressures such as Medicaid redetermination and the Centers for Medicare and Medicaid Services ("CMS") proposed ruling on *Ensuring Access to Medicaid Services*, and general economic and market volatility. As a result, the Company performed a quantitative assessment and determined that the goodwill at its PCS and RPM reporting units was impaired. See Note 7, *Goodwill and Intangible Assets*, for additional details.

Internal-use Software and Cloud Computing Arrangements

The Company develops and implements software for internal use to enhance the performance and capabilities of the technology infrastructure. The costs incurred for the development of the internal-use software are capitalized when they meet the internal-use software capitalization criteria outlined in ASC 350-40. The capitalized costs are amortized using the straight-line method over the estimated useful lives of the software, ranging from 3 to 10 years.

In addition to acquired software, the Company capitalizes costs associated with cloud computing arrangements (“CCA”) that are service contracts. The CCA includes services which are used to support certain internal corporate functions as well as technology associated with revenue-generating activities. The capitalized costs are amortized using the straight-line method over the term of the related CCA. As of September 30, 2023 and December 31, 2022, capitalized costs associated with CCA, net of accumulated amortization were $ 14.6 million and $ 11.9 million, respectively. The value of accumulated amortization as of September 30, 2023 and December 31, 2022 was $ 4.1 million and $ 2.2 million, respectively. Amortization expense during the three months ended September 30, 2023 and 2022, totaled $ 0.6 million and $ 0.5 million, respectively, and during the nine months ended September 30, 2023 and 2022, totaled $ 1.8 million and $ 0.9 million, respectively.

Revenue Recognition

Under ASC 606, the Company recognizes revenue as it transfers promised services directly to its customers at the amount that reflects the consideration to which the Company expects to be entitled in exchange for providing these services. The Company's performance obligations are driven by its different segments of business and primarily consist of integrated service offerings to provide non-emergency medical transportation, personal care services, or remote monitoring services directly to its customers. The Company receives payment for providing these services from third-party payors that include federal, state, and local governmental agencies, managed care organizations, and private consumers. In the NEMT segment, the Company's performance obligation is to stand ready to perform transportation-related activities, including the management, fulfillment, and recordkeeping activities associated with such services. In the PCS segment, the Company's performance obligation is to deliver patient care services in accordance with the nature and frequency of services outlined in each contract. In the RPM segment, the Company's performance obligation is to stand ready to perform monitoring services in the form of personal emergency response system monitoring, vitals monitoring, and other monitoring services, as contractually agreed upon. The Company satisfies substantially all of its performance obligations over time and recognizes revenue over time instead of at points in time which aligns the pattern of transfer of promised services with the value received by the customer for the performance completed to date.

The Company holds different contract types under its different segments of business. In the NEMT segment, there are both capitated contracts, under which payors pay a fixed amount monthly per eligible member and revenue is recognized over each distinct service period, and fee-for-service ("FFS") contracts, under which the Company bills and collects a specified amount for each service that is provided and revenue is recognized using the right to invoice practical expedient. In the PCS segment, contracts are also FFS, and service revenue is reported at the estimated net realizable amount from patients and third-party payors for services rendered and revenue is recognized using the right to invoice practical expedient. Under RPM contracts, payors pay per-enrolled-member-per-month, based on enrolled membership, and revenue is recognized ratably over the contract term. For each contract type, the Company determines the transaction price based on the gross charges for services provided, reduced by estimates for contractual adjustments due to settlements of audits and payment reviews from third-party payors. The Company determines the estimated revenue adjustments at each segment based on our historical experience with various third-party payors and previous results from the claims and adjudication process. The PCS segment uses the portfolio approach to determine the estimated revenue adjustments. See further information in Note 4, *Revenue Recognition*.

Government Grants

The Company has received government grants primarily under the CARES Act PRF and the ARPA SLFRF to provide economic relief and stimulus to combat health and economic impacts of the COVID-19 pandemic. During the third quarter of 2023, the Company also filed amended payroll tax returns for 2020 and 2021 to claim refunds for Employee Retention Credits ("ERC"). ERC is a U.S. federal tax credit introduced to support businesses and organizations during the COVID-19 pandemic that was initially established under the CARES Act in 2020 and was later expanded and extended by subsequent legislation, including the Consolidated Appropriations Act of 2021 and the American Rescue Plan Act of 2021. The Company received distributions from these government grants of approximately $ 6.5 million and $ 1.4 million during the three months ended September 30, 2023 and 2022, respectively, of which $ 0.6 million and $ 0.8 million were recognized as grant income during the three months ended September 30, 2023 and 2022, respectively, with the remaining balance recorded in accrued expenses and other current liabilities. During the nine months ended September 30, 2023 and 2022, the Company received distributions of approximately $ 21.0 million and $ 10.4 million, respectively, of which $ 4.6 million was recognized as grant income during each of the the nine months ended September 30, 2023 and 2022, respectively, with the remaining balance recorded in accrued expenses and other current liabilities. Distributions received under these acts are targeted to assist with incremental health care related expenses or lost revenue attributable to the COVID-19 pandemic as well as provide stimulus to support long-term growth and recovery.

The payments from these acts are subject to certain restrictions and possible recoupment if not used for designated purposes. As a condition to receiving PRF distributions, providers must agree to certain terms and conditions, including, among other things, that the funds are being used for healthcare related expenses and lost revenues attributable to COVID-19, as defined by HHS. All recipients of PRF payments are required to comply with the reporting requirements described in the terms and conditions and as determined by HHS. The Company has submitted the required documents to meet reporting requirements for the applicable reporting periods. The Company received an audit inquiry letter from HHS related to one of the business units that received PRF payments, to which the Company has responded and submitted all requested information and believes that the payments received are substantiated and within the terms and conditions defined by HHS and continues to include these amounts as grant income. At this time, the Company is unaware of any other pending or upcoming audits or inquiries related to amounts received under PRF.

As a condition to receiving SLFRF distributions, providers must agree to use the funds to respond to the PHE or its negative economic impacts, to respond to workers performing essential work by providing premium pay to eligible workers and to offset reduction in revenue due to the COVID-19 PHE as stipulated by the states in which the funds were received. All recipients of SLFRF payments are required to comply with the reporting requirements that the state in which the funds originated has requested in order for the states to meet the requirements as described in the terms and conditions as determined by the Department of the Treasury. The Company has complied with all known reporting requirements to date.

The Company recognizes distributions from government grants as grant income or accrued expenses and other current liabilities in line with the loss of revenues or expenses for which the grants are intended to compensate when there is reasonable assurance that it has complied with the conditions associated with the grant.

Recent Accounting Pronouncements

The company did not adopt any material new accounting standards during the nine months ended September 30, 2023.

3. Segments

The Company's reportable segments are identified based on a number of factors related to how its chief operating decision maker ("CODM") determines the allocation of resources and assesses the performance of the Company's operations. The CODM uses service revenue, net and operating income as the measures of profit or loss to assess segment performance and allocate resources, and uses total assets as the measure of assets attributable to each segment. The Company's operating income for the reportable segments includes an allocated portion of corporate expenses to the respective segments and includes revenues and all other costs directly attributable to the specific segment. The Company's reportable segments are strategic units that offer different services under different financial and operating models to the Company's customers. The Company's CODM manages the Company under four reportable segments.

- **NEMT** - The Company's NEMT segment is the largest manager of non-emergency medical transportation programs for state governments and managed care organizations, or MCOs, in the U.S. This segment also holds the results of the Company's captive insurance program;

- **PCS** - The Company's PCS segment provides in home personal care services to State and Managed Medicaid, Medicare, and Private Pay patient populations in need of care monitoring and assistance performing activities of daily living;

- **RPM** - The Company's RPM segment is a provider of remote patient monitoring solutions, including personal emergency response systems, vitals monitoring and data-driven patient engagement solutions;

- **Corporate and Other** - The Company's Corporate and Other segment includes the costs associated with the Company's corporate operations as well as the results of an investment in innovation related to our data analytics capabilities that the Company made at the end of the first quarter of 2023, which contributes to service revenue and service expense. The operating results of the Corporate and Other segment include activities related to executive, accounting, finance, internal audit, tax, legal and certain strategic and corporate development functions for each segment, the results of this investment in innovation, as well as the results of the Company's Matrix investment.

The following table sets forth certain financial information from operations attributable to the Company's business segments for the three and nine months ended September 30, 2023 and 2022 (in thousands):

	Three months ended September 30, 2023				
	NEMT	**PCS**	**RPM**	**Corporate and Other**	**Total**
Service revenue, net	$ 485,951	$ 179,979	$ 19,779	$ 1,216	$ 686,925
Grant income[(1)]	—	551	—	—	551
Service expense	428,021	143,078	6,934	1,181	579,214
General and administrative expense	25,433	20,252	5,685	18,772	70,142
Depreciation and amortization	6,814	12,850	6,174	239	26,077
Operating income (loss)	$ 25,683	$ 4,350	$ 986	$ (18,976)	$ 12,043
Equity in net income (loss) of investee, net of tax	$ 142	$ —	$ —	$ (302)	$ (160)
Equity investment	$ 1,552	$ —	$ —	$ 43,655	$ 45,207
Goodwill	$ 135,186	$ 415,444	$ 234,894	$ 30	$ 785,554
Total assets	$ 512,032	$ 774,731	$ 346,257	$ 130,066	$ 1,763,086

	Nine months ended September 30, 2023				
	NEMT	**PCS**	**RPM**	**Corporate and Other**	**Total**
Service revenue, net	$ 1,452,389	$ 534,435	$ 57,702	$ 3,812	$ 2,048,338
Grant income[(1)]	—	4,649	—	—	4,649
Service expense	1,277,604	417,636	20,129	3,366	1,718,735
General and administrative expense	87,645	63,480	16,781	61,189	229,095
Depreciation and amortization	20,319	38,590	18,087	683	77,679
Impairment of goodwill	—	137,331	45,769	—	183,100
Operating income (loss)	$ 66,821	$ (117,953)	$ (43,064)	$ (61,426)	$ (155,622)
Equity in net income of investee, net of tax	$ 984	$ —	$ —	$ 1,837	$ 2,821
Equity investment	$ 1,552	$ —	$ —	$ 43,655	$ 45,207
Goodwill	$ 135,186	$ 415,444	$ 234,894	$ 30	$ 785,554
Total assets	$ 512,032	$ 774,731	$ 346,257	$ 130,066	$ 1,763,086

	Three months ended September 30, 2022				
	NEMT	**PCS**	**RPM**	**Corporate and Other**	**Total**
Service revenue, net	$ 459,796	$ 169,226	$ 18,760	$ —	$ 647,782
Grant income[1]	—	789	—	—	789
Service expense	394,981	132,746	6,836	—	534,563
General and administrative expense	31,815	22,057	5,816	16,201	75,889
Depreciation and amortization	7,079	12,919	5,467	207	25,672
Operating income (loss)	$ 25,921	$ 2,293	$ 641	$ (16,408)	$ 12,447
Equity in net income (loss) of investee, net of tax	$ 208	$ —	$ —	$ (26,656)	$ (26,448)
Equity investment	$ 208	$ —	$ —	$ 43,269	$ 43,477
Goodwill	$ 135,186	$ 552,775	$ 280,429	$ 30	$ 968,420
Total assets	$ 517,930	$ 962,425	$ 402,929	$ 106,561	$ 1,989,845

	Nine months ended September 30, 2022				
	NEMT	**PCS**	**RPM**	**Corporate and Other**	**Total**
Service revenue, net	$ 1,309,449	$ 491,661	$ 49,362	$ —	$ 1,850,472
Grant income[1]	—	4,587	—	—	4,587
Service expense	1,100,801	379,423	17,884	—	1,498,108
General and administrative expense	102,736	68,536	17,520	43,316	232,108
Depreciation and amortization	21,576	37,976	14,201	623	74,376
Operating income (loss)	$ 84,336	$ 10,313	$ (243)	$ (43,939)	$ 50,467
Equity in net income (loss) of investee, net of tax	$ 143	$ —	$ —	$ (28,163)	$ (28,020)
Equity investment	$ 208	$ —	$ —	$ 43,269	$ 43,477
Goodwill	$ 135,186	$ 552,775	$ 280,429	$ 30	$ 968,420
Total assets	$ 517,930	$ 962,425	$ 402,929	$ 106,561	$ 1,989,845

(1) Grant income for the PCS segment includes funding received on a periodic basis from the PRF in relation to relief under the CARES Act and funding received from the SLFRF under ARPA in relation to economic recovery to combat health and economic impacts of the COVID-19 pandemic. See Note 2, *Significant Accounting Policies and Recent Accounting Pronouncements.*

4. Revenue Recognition

Under ASC 606, the Company recognizes revenue as it transfers promised services to its customers and generates all of its revenue from contracts with customers. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled in exchange for these services. The Company satisfies substantially all of its performance obligations over time and recognizes revenue over time instead of at points in time.

Revenue Contract Structure

NEMT Capitated Contracts (per-member-per-month)

Under capitated contracts, payors pay a fixed amount per eligible member per month. Capitation rates are generally based on expected costs and volume of services. We assume the responsibility of meeting the covered healthcare related transportation requirements based on per-member, per-month fees for the number of eligible members in the payor's program. Revenue is recognized based on the population served during the period. Certain capitated contracts have provisions for reconciliations, risk corridors or profit rebates. For contracts with reconciliation provisions, capitation payment is received as a prepayment during the month service is provided. These prepayments are reconciled based on actual cost and/or trip volume and may result in refunds to the payor, or additional payments due from the payor. Contracts with risk corridor or profit rebate provisions allow for profit within a certain corridor and once we reach profit level maximums, we discontinue recognizing revenue and instead record a liability within the accrued contract payable account. This liability may be reduced through future increases in trip volume or periodic settlements with the payor. While a profit rebate provision could only result in a liability from this profit threshold, a risk corridor provision could potentially result in receivables if the Company does not reach certain profit minimums, which would be recorded in the reconciliation contract receivables account.

NEMT Fee-for-service Contracts

Fee-for-service ("FFS") revenue represents revenue earned under non-capitated contracts in which we bill and collect a specified amount for each service that we provide. FFS revenue is recognized in the period in which the services are rendered and is reduced by the estimated impact of contractual allowances.

PCS Fee-for-service Contracts

PCS FFS revenue is reported at the estimated net realizable amount from clients, patients and third-party payors for services rendered based on actual personal care hours provided. Payment for services received from third-party payors includes, but is not limited to, insurance companies, hospitals, governmental agencies and other home health care providers who subcontract work to the Company. Certain contracts are subject to retroactive review and possible adjustment by those payors based on the nature of the contract or costs incurred. The Company makes estimates of retroactive adjustments and considers these in the recognition of revenue in the period in which the related services are rendered. The difference between estimated settlement and actual settlement is reported in net service revenues as adjustments become known or as years are no longer subject to such audits, reviews, or investigations.

RPM per-member-per-month Contracts

RPM per-member-per-month ("PMPM") revenue consists of revenue from monitoring services provided to the customer. Under RPM contracts, payors pay per-enrolled-member-per-month based on enrolled membership. Consideration is generally fixed for each type of monitoring service and revenue is recognized ratably over the contract term based on the monthly fee paid by customers.

Disaggregation of Revenue by Contract Type

The following table summarizes disaggregated revenue from contracts with customers by contract type for the three and nine months ended September 30, 2023 and September 30, 2022 (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2023	**2022**	**2023**	**2022**
NEMT capitated contracts	$ 412,762	$ 399,859	$ 1,239,957	$ 1,145,694
NEMT FFS contracts	73,189	59,937	212,432	163,755
Total NEMT service revenue, net	485,951	459,796	1,452,389	1,309,449
PCS FFS contracts	179,979	169,226	534,435	491,661
RPM PMPM contracts	19,779	18,760	57,702	49,362
Other service revenue	1,216	—	3,812	—
Total service revenue, net	$ 686,925	$ 647,782	$ 2,048,338	$ 1,850,472

Payor Information

Service revenue, net, is derived from state and managed Medicaid contracts, managed Medicare contracts, as well as a small amount from private pay and other contracts. Of the NEMT segment's revenue, 11.4 % and 10.4 % were derived from one payor for the three months ended September 30, 2023 and 2022, respectively, and 11.2 % and 11.0 % were derived from one payor for the nine months ended September 30, 2023 and 2022, respectively. Of the PCS segment's revenue, 11.4 % and 12.1 % were derived from one payor for the three months ended September 30, 2023 and 2022, respectively, and 11.3 % and 12.0 %

were derived from one payor for the nine months ended September 30, 2023 and 2022, respectively. Of the RPM segment's revenue, 19.3 % and 18.4 % were derived from one payor for the three months ended September 30, 2023 and 2022, respectively, and 17.4 % and 20.4 % were derived from one payor for the nine months ended September 30, 2023 and 2022, respectively.

Revenue Adjustments

During the three months ended September 30, 2023 and 2022, the Company recognized a reduction of $ 0.8 million and an increase of $ 1.7 million in service revenue, respectively, from contractual adjustments relating to performance obligations satisfied in previous periods to which the payor agreed. During the nine months ended September 30, 2023 and 2022, the Company recognized a reduction of $ 3.9 million and an increase of $ 6.5 million in service revenue, respectively, from contractual adjustments relating to performance obligations satisfied in previous periods to which the payor agreed.

Related Balance Sheet Accounts

The following table provides information about accounts receivable, net (in thousands):

	September 30, 2023	December 31, 2022
Accounts receivable	$ 204,097	$ 225,288
Allowance for doubtful accounts	(1,396)	(2,078)
Accounts receivable, net	$ 202,701	$ 223,210

The following table provides information about other revenue related accounts included on the accompanying unaudited condensed consolidated balance sheets (in thousands):

	September 30, 2023	December 31, 2022
Accrued contract payables[(1)]	$ 133,576	$ 194,287
Contract receivables[(2)]	$ 129,275	$ 71,131
Long-term contract receivables[(3)]	$ —	$ 427
Deferred revenue, current	$ 2,008	$ 2,202

(1) Accrued contract payables primarily represent overpayments and liability reserves on certain risk corridor, profit rebate and reconciliation contracts. See the contract payables and receivables activity below.

(2) Contract receivables primarily represent underpayments and receivables on certain risk corridor, profit rebate, and reconciliation contracts. See the contract payables and receivables activity below.

(3) Long-term contract receivables primarily represent future receivable balances on certain risk corridor, profit rebate and reconciliation contracts that may be received in greater than 12 months.

The following table provides the summary activity of total contract payables and receivables as reported within the unaudited condensed consolidated balance sheets (in thousands):

	December 31, 2022	Additional Amounts Recorded	Amounts Paid or Settled	March 31, 2023
Reconciliation contract payables	$ 25,853	$ 1,811	$ (18,110)	$ 9,554
Profit rebate/corridor contract payables	155,161	22,316	(10,873)	166,604
Overpayments and other cash items	13,273	799	(2,610)	11,462
Total contract payables	$ 194,287	$ 24,926	$ (31,593)	$ 187,620
Reconciliation contract receivables	$ 48,153	$ 22,204	$ (5,922)	$ 64,435
Corridor contract receivables	23,405	14,508	—	37,913
Total contract receivables	$ 71,558	$ 36,712	$ (5,922)	$ 102,348

	March 31, 2023	Additional Amounts Recorded	Amounts Paid or Settled	June 30, 2023
Reconciliation contract payables	$ 9,554	$ 6,687	$ (2,749)	$ 13,492
Profit rebate/corridor contract payables	166,604	17,447	(98,683)	85,368
Overpayments and other cash items	11,462	2,707	(3,935)	10,234
Total contract payables	$ 187,620	$ 26,841	$ (105,367)	$ 109,094
Reconciliation contract receivables	$ 64,435	$ 16,686	$ (15,105)	$ 66,016
Corridor contract receivables	37,913	16,290	(456)	53,747
Total contract receivables	$ 102,348	$ 32,976	$ (15,561)	$ 119,763

	June 30, 2023	Additional Amounts Recorded	Amounts Paid or Settled	September 30, 2023
Reconciliation contract payables	$ 13,492	$ 4,763	$ (3,034)	$ 15,221
Profit rebate/corridor contract payables	85,368	10,614	(1,840)	94,142
Overpayments and other cash items	10,234	16,313	(2,334)	24,213
Total contract payables	$ 109,094	$ 31,690	$ (7,208)	$ 133,576
Reconciliation contract receivables	$ 66,016	$ 14,180	$ (19,460)	$ 60,736
Corridor contract receivables	53,747	14,792	—	68,539
Total contract receivables	$ 119,763	$ 28,972	$ (19,460)	$ 129,275

5. Equity Investment

As of September 30, 2023 and December 31, 2022, the Company owned a 43.6 % non-controlling interest in Matrix. Pursuant to a Shareholder's Agreement, affiliates of Frazier Healthcare Partners hold rights necessary to control the fundamental operations of Matrix. The Company accounts for its investment in Matrix under the equity method of accounting and the Company's share of Matrix's income or losses are recorded as "Equity in net income (loss) of investee, net of tax" in the accompanying unaudited condensed consolidated statements of operations. During the year ended December 31, 2022, Matrix recorded asset impairment charges of $ 82.2 million, of which the entire asset impairment charge was recorded during the three and nine months ended September 30, 2022. No asset impairment charges were recorded for the three or nine months ended September 30, 2023.

The Company's gross share of its Matrix's operations for the three months ended September 30, 2023 and September 30, 2022 was a loss of $ 0.4 million and a loss of $ 36.1 million, respectively, which is presented net of tax on the unaudited condensed consolidated statements of operations for a loss of $ 0.3 million and a loss of $ 26.7 million, respectively. The Company's gross share of its Matrix's operations for the nine months ended September 30, 2023 and September 30, 2022 was income of $ 2.5 million and a loss of $ 39.0 million, respectively, which is presented net of tax on the unaudited condensed consolidated statements of operations for income of $ 1.8 million and a loss of $ 28.2 million, respectively.

The carrying amount of the assets included in the Company's unaudited condensed consolidated balance sheets and the maximum loss exposure related to the Company's interest in Matrix as of September 30, 2023 and December 31, 2022 totaled $ 45.2 million and $ 41.3 million, respectively.

Summary financial information for Matrix on a standalone basis is as follows (in thousands):

	September 30, 2023	December 31, 2022
Current assets	$ 112,994	$ 97,750
Long-term assets	$ 355,143	$ 373,297
Current liabilities	$ 34,955	$ 36,913
Long-term liabilities	$ 317,806	$ 325,613

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Revenue	$ 84,395	$ 76,461	$ 252,973	$ 235,582
Operating income (loss)	$ 7,593	$ (79,992)	$ 32,196	$ (81,604)
Net income (loss)	$ (239)	$ (85,081)	$ 6,976	$ (93,211)

6. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets were comprised of the following (in thousands):

	September 30, 2023	December 31, 2022
Prepaid insurance	$ 8,251	$ 6,334
Deferred ERP implementation costs	5,070	5,817
Prepaid income taxes	4,075	7,186
Deferred financing costs on credit facility	2,864	3,061
Inventory	2,261	2,041
Prepaid rent	1,152	278
Other prepaid expenses	14,896	9,615
Total prepaid expenses and other current assets	$ 38,569	$ 34,332

7. Goodwill and Intangible Assets

The Company tests goodwill for impairment for its reporting units annually as of July 1 or more frequently when events or changes in circumstances indicate that impairment may have occurred. The Company reviews its intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset group may not be recoverable.

Goodwill

During the second quarter of 2023, the Company recorded a $ 183.1 million impairment of goodwill within its Personal Care and Remote Patient Monitoring reporting units. This impairment was driven primarily by macroeconomic factors, including a decline in the market value of the Company's common stock. After recording these impairments, the associated reporting units have $ 650.3 million of goodwill remaining. If, among other factors, (i) the Company's equity values were to decline significantly, (ii) the Company experienced additional adverse impacts associated with macroeconomic factors, including increases in our estimated weighted average cost of capital, or (iii) the adverse impacts stemming from competition, economic, regulatory or other factors were to cause the Company's results of operations or cash flows to be worse than currently anticipated, the Company could conclude in future periods that additional impairment charges of certain reporting units are required in order to reduce the carrying values of goodwill. Any such impairment charges could be significant.

The Company performed a quantitative test comparing the carrying value of the Company's reporting units with their respective fair value. The fair value of the Company's reporting units was estimated using both the income approach and the market valuation approach. The income approach produces an estimated fair value of a reporting unit based on the present value of the cash flows the Company expects the reporting unit to generate in the future. Estimates included in the discounted cash flow model are primarily Level 3 inputs and include the discount rate, which the Company determines based on adjusting an industry-wide weighted-average cost of capital for size, geography, and company specific risk factors, long-term rates of growth and profitability of the Company’s business, working capital effects and planned capital expenditures. The market approach produces an estimated fair value of a reporting unit based on a comparison of the reporting unit to comparable publicly traded entities in similar lines of business. The Company’s significant estimates in the market approach include the selected similar companies with comparable business factors such as size, growth, profitability, risk and return on investment and the multiples the Company applies to earnings before interest, taxes, depreciation and amortization (“EBITDA”) to estimate the fair value of the reporting unit.

Changes in key assumptions from the prior year annual goodwill assessment and the resulting reduction in projected future cash flows included in the current year goodwill test resulted in a decrease in the fair values of the Company's PCS and RPM reporting units such that the fair value of each respective reporting unit was less than its respective carrying value. As a result, during the second quarter of 2023, the Company recorded a non-cash goodwill impairment charge of $ 137.3 million in the PCS reporting unit and $ 45.8 million in the RPM reporting unit, which is recorded in "Impairment of goodwill" on the Company's unaudited condensed consolidated statement of operations. No further impairment was taken during the three months ended September 30, 2023. There was no such goodwill impairment charge in the three and nine months ended September 30, 2022.

Changes in the carrying value of goodwill by reportable segment are presented in the following table (in thousands):

	NEMT	PCS	RPM	Corporate and Other	Total
Balance at December 31, 2022	$ 135,186	$ 552,775	$ 280,663	$ 30	$ 968,654
Impairment of goodwill	—	(137,331)	(45,769)	—	(183,100)
Balance at September 30, 2023	$ 135,186	$ 415,444	$ 234,894	$ 30	$ 785,554

The accumulated impairment losses on goodwill totaled $ 279.1 million as of September 30, 2023 and $ 96.0 million as of December 31, 2022.

Intangible Assets

Intangible assets are comprised of acquired payor networks, trademarks and trade names, developed technology, non-compete agreements, licenses, and an assembled workforce. Finite-lived intangible assets are amortized using the straight-line method over the estimated economic lives of the assets. These finite-lived intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Indefinite-lived intangible assets are not amortized, but are tested for impairment annually and more frequently if events occur or circumstances change that indicate an asset may be impaired. Based on the continued value of the definite-lived and indefinite-lived intangible assets acquired, the Company did not identify any circumstances during the three and nine months ended September 30, 2023 that would require an impairment test for our intangible assets.

8. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities were comprised of the following (in thousands):

	September 30, 2023	December 31, 2022
Accrued compensation and related liabilities	$ 47,183	$ 47,947
Accrued interest	24,855	10,643
Insurance reserves	19,439	17,836
Accrued operating expenses	13,788	18,432
Accrued legal fees	12,002	15,574
Accrued government grants (1)	10,970	7,367
Union pension obligation	2,970	3,665
Deferred revenue	2,008	2,202
Other	13,349	12,194
Total accrued expenses and other current liabilities	$ 146,564	$ 135,860

(1) Accrued government grants include payments received from government entities, primarily in relation to the PRF and SLFRF, to offset lost revenue or increased expenditures for which the related expenditure has not yet been incurred and thus the related payments are deferred as of September 30, 2023 and December 31, 2022.

9. Debt

Senior Unsecured Notes

Senior unsecured notes as of September 30, 2023 and December 31, 2022 consisted of the following (in thousands):

Senior Unsecured Note	Date of Issuance	September 30, 2023	December 31, 2022
$ 500.0 million 5.875 % due November 15, 2025 (effective interest rate 6.467 %)	11/4/2020	$ 493,265	$ 491,098
$ 500.0 million 5.000 % due October 1, 2029 (effective interest rate 5.392 %)	8/24/2021	489,365	488,263
Total		$ 982,630	$ 979,361

The Company pays interest on the Senior Unsecured Notes semi-annually in arrears. Principal payments are not required until the maturity date. Debt issuance costs of $ 14.5 million in relation to the issuance of the Senior Notes due 2025 were incurred and these costs were deferred and are amortized to interest cost over the term of the Notes. Debt issuance costs of $ 13.5 million were incurred in relation to the issuance of the Senior Notes due 2029 and these costs were deferred and are amortized to interest cost over the term of the Notes. As of September 30, 2023, $ 17.4 million of unamortized deferred issuance costs was netted against the long-term debt balance on the unaudited condensed consolidated balance sheets. The fair value of the Notes as of September 30, 2023 and December 31, 2022 was $ 836.3 million and $ 896.6 million, respectively, which was determined based on quoted prices in active markets, and therefore designated as Level 1 within the fair value hierarchy. The Company was in compliance with all covenants as of September 30, 2023.

Credit Facility

The Company is a party to the amended and restated credit agreement, dated as of February 3, 2022, (as amended, the “Credit Agreement”) with JPMorgan Chase Bank, N.A., as administrative agent, swing line lender and an issuing bank, Wells Fargo Bank, National Association, as an issuing bank, Truist Bank and Wells Fargo Bank, National Association, as co-syndication agents, Deutsche Bank AG New York Branch, Bank of America, N.A., Regions Bank, Bank of Montreal and Capital One, National Association, as co-documentation agents, and JPMorgan Chase Bank, N.A., Truist Securities, Inc. and Wells Fargo Securities, LLC, as joint bookrunners and joint lead arrangers, and the other lenders party thereto. The Credit Agreement provides the Company with a senior secured revolving credit facility (the “Credit Facility”) in an aggregate principal amount of $ 325.0 million and sublimits for swingline loans, letters of credit and alternative currency loans in amounts of up to $ 25.0 million, $ 60.0 million and $ 75.0 million, respectively. The Credit Facility matures on February 3, 2027 and the proceeds may be used (i) to finance working capital needs of the Company and its subsidiaries and (ii) for general corporate purposes of the Company and its subsidiaries (including to finance capital expenditures, permitted acquisitions and investments).

On June 26, 2023, the Company entered into an Amendment No. 1 (the "First Amendment") to the Credit Agreement which amended and restated the maximum permitted Total Net Leverage Ratio under the Credit Agreement as follows: for the fiscal quarters ending June 30, 2023 through September 30, 2023, 5.25 :1.00; for the fiscal quarters ending December 31, 2023 through March 31, 2024, 5.00 :1.00; for the fiscal quarter ending June 30, 2024, 4.75 :1.00; and for the fiscal quarters ending September 30, 2024 and for the fiscal quarters ending thereafter, 4.50 :1.00.

As of September 30, 2023, the Company had $ 83.0 million of short-term borrowings outstanding on the Credit Facility and had $ 39.1 million of outstanding letters of credit under the Credit Facility. The interest rate for borrowings outstanding as of September 30, 2023 was 9.8 % per annum. As of December 31, 2022, the Company did not have any borrowings outstanding on the Credit Facility and had $ 38.1 million of outstanding letters of credit under the Credit Facility.

Under the Credit Facility, the Company has an option to request an increase in the amount of the Credit Facility or obtain incremental term loans from time to time (on substantially the same terms as apply to the existing facilities) by an aggregate amount of up to $ 175.0 million, so long as, after giving effect to the relevant incremental facility, the pro forma secured net leverage ratio does not exceed 3.50 :1.00, provided that the lenders agree to increase their existing commitments or to participate in such incremental term loans. The Company may prepay the Credit Facility in whole or in part, at any time without premium or penalty, subject to reimbursement of the lenders’ breakage and redeployment costs in connection with prepayments of Term Benchmark loans or RFR loans, each as defined in the Credit Agreement. The unutilized portion of the commitments under the Credit Facility may be irrevocably reduced or terminated by the Company at any time without penalty.

Interest on the outstanding principal amount of the loans accrues at a per annum rate equal to the Alternate Base Rate, the Adjusted Term SOFR Rate, the Adjusted Daily Simple SOFR Rate, the Adjusted EURIBOR Rate or the Adjusted Daily

Simple SONIA Rate, as applicable and each as defined in the Credit Agreement, in each case, plus an applicable margin. The applicable margin ranges from 1.75 % to 3.50 % in the case of Term Benchmark loans or RFR loans, each as defined in the Credit Agreement, and 0.75 % to 2.50 % in the case of the Alternate Base Rate loans, as defined in the Credit Agreement, in each case, based on the Company's total net leverage ratio as defined in the Credit Agreement. Interest on the loans is payable quarterly in arrears in the case of Alternate Base Rate loans, on the last day of the relevant interest period in the case of Term Benchmark loans, and monthly in arrears in the case of RFR loans. In addition, the Company is obligated to pay a quarterly commitment fee based on a percentage of the unused portion of the revolving credit facility and quarterly letter of credit fees based on a percentage of the maximum amount available to be drawn under each outstanding letter of credit. The commitment fee and letter of credit fee range from 0.30 % to 0.50 % and 1.75 % to 3.50 %, respectively, in each case, based on the Company's total net leverage ratio.

The Credit Agreement contains customary representations and warranties, affirmative and negative covenants and events of default. The negative covenants include restrictions on the Company's ability to, among other things, incur additional indebtedness, create liens, make investments, give guarantees, pay dividends, sell assets and merge and consolidate. The Company's borrowing capacity under the Credit Facility is currently limited by, among other covenants, compliance with the total net leverage ratio covenant for each fiscal period as amended in the First Amendment to the Credit Agreement.

The Company's obligations under the Credit Facility are guaranteed by all of the Company's present and future material domestic subsidiaries, excluding certain material domestic subsidiaries that are excluded from being guarantors pursuant to the terms of the Credit Agreement. The Company's obligations under, and each guarantor's obligations under its guaranty of, the Credit Facility are secured by a first priority lien on substantially all of the Company's or such guarantor's respective assets. If an event of default occurs, the required lenders may cause the administrative agent to declare all unpaid principal and any accrued and unpaid interest and all fees and expenses under the Credit Facility to be immediately due and payable. All amounts outstanding under the Credit Facility will automatically become due and payable upon the commencement of any bankruptcy, insolvency or similar proceedings. The Credit Agreement also contains a cross default to any of the Company's indebtedness having a principal amount in excess of $ 40.0 million. The Company was in compliance with all covenants under the Credit Agreement as of September 30, 2023.

10. Stock-Based Compensation and Similar Arrangements

The Company provides stock-based compensation to employees, non-employee directors, consultants and advisors under the Company's 2006 Long-Term Incentive Plan ("2006 Plan"). The 2006 Plan allows the flexibility to grant or award stock options, stock appreciation rights, restricted stock, unrestricted stock, stock units including restricted stock units and performance awards to eligible persons.

Stock options. The Company recognized stock-based compensation expense for non-qualified stock options ("NQs") of $ 0.2 million for the three months ended September 30, 2023, and recognized a reversal of previously recognized stock-based compensation expense for NQs of $ 0.3 million during the three months ended September 30, 2022 due to forfeitures that occurred during the period. For the nine months ended September 30, 2023 and 2022, the Company recognized stock-based compensation expense for NQs of $ 0.6 million and $ 1.0 million, respectively, in general and administrative expense. At September 30, 2023, the Company had 87,388 stock options outstanding with a weighted-average exercise price of $ 106.51 .

Restricted stock awards and restricted stock units. The Company recognized stock-based compensation expense for restricted stock awards ("RSAs") and restricted stock units ("RSUs") of $ 1.1 million and $ 0.7 million for the three months ended September 30, 2023 and 2022, respectively, and $ 2.9 million and $ 3.5 million for the nine months ended September 30, 2023 and 2022, respectively, in general and administrative expense. The Company had 16,074 unvested RSAs and 285,472 unvested RSUs outstanding at September 30, 2023 with a weighted-average grant date fair value of $ 80.47 and $ 43.86 , respectively.

Performance-based share awards. The Company grants performance-based restricted stock units ("PRSUs") to align management's compensation with the Company's financial performance and other operational objectives and to retain key employees. Awards granted under this category are based on the achievement of various targeted metrics as approved by the Compensation Committee and defined in the related PRSU Agreement. Stock-based compensation expense for PRSUs is recognized over the 3-year vesting period under the straight-line attribution method. The Company recorded stock-based compensation expense of $ 0.4 million for the three months ended September 30, 2023 and recorded a reversal of $ 0.2 million for the three months ended September 30, 2022 due to forfeitures that occurred during the period. For the nine months ended September 30, 2023 and 2022, the Company recognized stock-based compensation expense for PRSUs of $ 0.5 million and $ 0.6 million, respectively, in general and administrative expense. The remaining expense is expected to be recognized over the remainder of the 3-year requisite service period. The Company had 213,428 unvested PRSUs outstanding at September 30, 2023 with a weighted-average grant date fair value of $ 43.74

Employee Stock Purchase Plan

During the fourth quarter of 2022, the Company began offering an Employee Stock Purchase Plan ("ESPP") with 1,000,000 shares of Common Stock reserved for purchase pursuant to the Plan for eligible employees. The shares of Common Stock may be newly issued shares, treasury shares or shares acquired on the open market. Under the terms of the ESPP, eligible employees may designate a dollar value or percentage of their compensation to be withheld through payroll deductions, up to a maximum of $ 25,000 in each plan year, for the purchase of common stock at a discounted rate of 85 % of the lower of the market price on the first or last trading day of the offering period. For the three and nine months ended September 30, 2023, Company recorded an immaterial amount of stock-based compensation expense. As of September 30, 2023, 989,186 shares remain available for future issuance under the ESPP.

11. Loss Per Share

The following table details the computation of basic and diluted loss per share (in thousands, except share and per share data):

	Three months ended September 30,		Nine months ended September 30,	
	2023	**2022**	**2023**	**2022**
Numerator:				
Net loss	$ (4,302)	$ (28,505)	$ (199,208)	$ (24,859)
Denominator:				
Denominator for basic earnings per share -- weighted-average shares	14,182,839	14,051,794	14,169,537	14,041,224
Effect of dilutive securities:				
Common stock options	—	—	—	—
Restricted stock	—	—	—	—
Denominator for diluted earnings per share -- adjusted weighted-average shares assumed conversion	14,182,839	14,051,794	14,169,537	14,041,224
Loss per share:				
Basic loss per share	$ (0.30)	$ (2.03)	$ (14.06)	$ (1.77)
Diluted loss per share	$ (0.30)	$ (2.03)	$ (14.06)	$ (1.77)

The following weighted-average shares were not included in the computation of diluted earnings per share as the effect of their inclusion would have been anti-dilutive:

	Three months ended September 30,		Nine months ended September 30,	
	2023	**2022**	**2023**	**2022**
Stock options to purchase common stock	90,579	115,686	96,725	123,534
Restricted stock awards and restricted stock units	141,712	80,332	97,719	82,944

12. Income Taxes

The Company’s effective tax rate for the three months ended September 30, 2023 and 2022 was a tax benefit of 28.6 % and 33.9 %, respectively, and for the nine months ended September 30, 2023 and 2022 was a tax benefit of 2.1 % and a tax provision of 21.7 %, respectively.

For the three months ended September 30, 2023 and 2022, the effective tax rates for the benefits were significantly higher than the U.S. federal statutory rate of 21.0% primarily due to state income taxes and nondeductible expenses. For the nine months ended September 30, 2023, the effective tax rate for the benefit was significantly lower than the U.S. federal statutory rate of 21.0% primarily due to the nondeductible goodwill impairment. For the nine months ended September 30, 2022, the effective tax rate for the provision was higher than the U.S. federal statutory rate of 21.0% primarily due to state income taxes and nondeductible expenses.

13. Commitments and Contingencies

Surveys, audits and governmental investigations

In the ordinary course of business, the Company may from time to time be or become subject to surveys, audits and governmental investigations under or with respect to various governmental programs and state and federal laws. Agencies associated with the programs and other third-party commercial payors periodically conduct extensive pre-payment or post-payment medical reviews or other audits of claims data to identify possible payments made or authorized other than in compliance with the requirements of Medicare or Medicaid. In order to conduct these reviews, documentation is requested from us and then that documentation is reviewed to determine compliance with applicable rules and regulations, including the eligibility of clients to receive benefits, the appropriateness of the care provided to those clients, and the documentation of that care. Similarly, other state and federal governmental agencies conduct reviews and investigations to confirm our compliance with applicable laws where we operate, including regarding employment and wage related regulations and matters. We cannot predict the ultimate outcome of any regulatory reviews or other governmental surveys, audits or investigations, but management does not expect any ongoing surveys, audits or investigations involving the Company to have a material adverse effect on the business, liquidity, financial condition, or results of operations of the Company. Regardless of our expectations, however, surveys, audits or investigations are subject to inherent uncertainties and can have a material adverse impact on our Company due to, among other reasons, potential regulatory orders that inhibit our ability to operate our business, amounts paid as reimbursement or in settlement of any such matter, diversion of management resources and investigative costs.

Legal proceedings

In the ordinary course of business, the Company may from time to time be or become involved in various lawsuits, some of which may seek monetary damages, including claims for punitive damages. Management does not expect any ongoing lawsuits involving the Company to have a material impact on the business, liquidity, financial condition, or results of operations of the Company. Legal proceedings are subject to inherent uncertainties, however, and unfavorable rulings or other events could occur. Unfavorable resolutions could involve substantial monetary damages. In addition, in matters for which conduct remedies are sought, unfavorable resolutions could include an injunction or other order precluding particular business practices or requiring other remedies. An unfavorable outcome might result in a material adverse impact on our business, liquidity, financial position, or results of operations.

The Company records accruals for loss contingencies related to legal matters when it is probable that a liability will be incurred and the amount of the loss can be reasonably estimated. If the Company determines that a range of reasonably possible losses can be estimated, the Company records an accrual for the most probable amount in the range. Due to the inherent difficulty in predicting the outcome of any legal proceeding, it may not be reasonably possible to estimate a range of potential liability until the matter is close to resolution. Legal fees related to all legal matters are expensed as incurred.

On September 27, 2022, Daniel Greenleaf, the Company's former Chief Executive Officer, asserted claims in an arbitration against the Company. His claims allege that the Company breached Mr. Greenleaf's employment agreement and included a tort claim against the Company. Mr. Greenleaf's arbitration complaint sought contractual, extra-contractual, and statutory damages. In May 2023, Mr. Greenleaf and the Company executed a settlement agreement related to both sides' claims in arbitration and a general release of all claims and the Company agreed to pay Mr. Greenleaf $ 9.6 million. The Company paid the settlement amount in full in May of 2023.

On August 6, 2020, the Company's subsidiary, ModivCare Solutions, LLC ("ModivCare Solutions"), was served with a putative class action lawsuit filed against it by Mohamed Farah, the owner of transportation provider Dalmar Transportation, in the Western District of Missouri, seeking to represent all non-employee transportation providers contracted with ModivCare Solutions. The lawsuit alleges claims under the Fair Labor Standards Act of 1938, as amended (the "FLSA"), and the Missouri Minimum Wage Act, and asserts that all transportation providers to ModivCare Solutions in the putative class should be considered ModivCare Solutions' employees rather than independent contractors. On June 6, 2021, the Court conditionally certified as the putative class all current and former In Network Transportation Providers who, individually or through their companies, were issued 1099 payments from ModivCare Solutions for providing non-emergency medical transportation services for ModivCare Solutions for the previous three years. Notice of the proposed collective class was issued on October 5, 2021, and potential members of the class had until January 3, 2022 to opt-in. Plaintiff moved for class certification on August 15, 2022, and ModivCare Solutions filed an opposition to class certification on September 6, 2022. On January 13, 2023, the matter was transferred with the consent of the parties and the court to binding arbitration. As of September 30, 2023, the parties have agreed on a settlement and are awaiting the arbitrator's approval. ModivCare Solutions believes that it is and has been in compliance in all material respects with the laws and regulations regarding the characterization of the transportation providers as independent contractors, and does not believe that the settlement arrangement, if approved by the arbitrator, or the ultimate outcome of this arbitration, if the settlement is not approved (which is not expected), will have a material adverse effect on the Company's business, liquidity, financial condition or results of operations.

In 2017, one of our PCS segment subsidiaries, All Metro Home Care Services of New York, Inc. d/b/a All Metro Health Care ("All Metro"), received a class action lawsuit in state court claiming that, among other things, it failed to properly pay live-in caregivers who stay in patients' homes for 24 hours per day ("live-ins"). The Company currently pays live-ins for 13 hours per day as supported through a written opinion letter from the New York State Department of Labor ("NYSDOL"). A similar case involving this issue has been heard by the New York Court of Appeals (New York's highest court), which on March 26, 2019, issued a ruling reversing earlier lower courts' decisions that an employer must pay live-ins for 24 hours. The Court of Appeals agreed with the NYSDOL's interpretation to pay live-ins 13 hours instead of 24 hours if certain conditions were being met. If the class action lawsuit on this matter is allowed to proceed, and is successful, All Metro may be liable for back wages and liquidated damages going back to November 2011. All Metro filed its motion to oppose class certification of this matter and the matter was heard on June 23, 2022. The state court issued an order certifying the class on December 12, 2022. The parties attempted to mediate their dispute in June 2023, but were unable to reach agreement on a settlement. All Metro intends to defend itself vigorously with respect to this matter, believes that it is and has been in compliance in all material respects with the laws and regulations covering pay for live-in caregivers, and does not believe in any event that the ultimate outcome of this matter will have a material adverse effect on the Company's business, liquidity, financial condition or results of operations.

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

The following discussion should be read in conjunction with our unaudited condensed consolidated financial statements and accompanying notes for the three and nine months ended September 30, 2023 and 2022 included herein, as well as our audited consolidated financial statements and accompanying notes and management's discussion and analysis of financial condition and results of operations included in our Form 10-K for the year ended December 31, 2022. For purposes of "Management's Discussion and Analysis of Financial Condition and Results of Operations," references to "Q3 2023" and "Q3 2022" mean the three months ended September 30, 2023 and the three months ended September 30, 2022, respectively.

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Rule 175 promulgated thereunder, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Rule 3b-6 promulgated thereunder, including statements related to the Company's strategies or expectations about revenues, liabilities, results of operations, cash flows, ability to fund operations, profitability, ability to meet financial covenants, contracts or market opportunities. These statements are predictive in nature and are frequently identified by the use of terms such as "may," "will," "should," "expect," "believe," "estimate," "intend," and similar words indicating possible future expectations, events or actions. In addition, statements that are not historical statements of fact should also be considered forward-looking statements. Such forward-looking statements are based on current expectations, assumptions, estimates and projections about our business and our industry, and are not guarantees of our future performance. These statements are subject to a number of known and unknown risks, uncertainties and other factors, many of which are beyond our ability to control or predict, that may cause actual events to be materially different from those expressed or implied herein. Among such risks, uncertainties and other factors are those summarized under the caption "Summary Risk Factors" in Part I, and described in further detail under the caption " Risk Factors" in Part I, Item 1A, of our Annual Report on Form 10-K filed with the Securities and Exchange Commission, or SEC, for the fiscal year ended December 31, 2022. Hyperlinks to such sections of our Annual Report are contained in the text included within the quotation marks.

You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statement was made and are expressly qualified in their entirety by the cautionary statements set forth herein and in our other filings with the SEC, which you should read in their entirety before making an investment decision with respect to our securities. We undertake no obligation to update or revise any forward-looking statements contained in this release, whether as a result of new information, future events or otherwise, except as required by applicable law.

Overview of Our Business

ModivCare Inc. ("ModivCare" or the "Company") is a technology-enabled healthcare services company that provides a suite of integrated supportive care solutions for public and private payors and their members. Its value-based solutions address the social determinants of health ("SDoH") by connecting members to essential care services. By doing so, ModivCare helps health plans manage risks, reduce costs, and improve overall health outcomes. ModivCare is a provider of non-emergency medical transportation ("NEMT"), personal care services ("PCS"), and remote patient monitoring ("RPM") solutions, which serve similar, highly vulnerable patient populations. The technology-enabled operating model in its NEMT segment includes the coordination of non-emergency medical transportation services supported by an infrastructure of core competencies in risk underwriting, contact center management, network credentialing and claims management. Additionally, its personal care services include placements of non-medical personal care assistants, home health aides and nurses primarily to Medicaid patient populations in need of care monitoring and assistance performing daily living activities in the home setting. ModivCare's remote patient monitoring services include personal emergency response systems, vitals monitoring and data-driven patient engagement solutions.

ModivCare also holds a 43.6% minority interest in CCHN Group Holdings, Inc. and its subsidiaries, which operates under the Matrix Medical Network brand ("Matrix"). Matrix, which is included in our Corporate and Other segment, maintains a national network of community-based clinicians who deliver in-home and on-site services.

Business Outlook and Trends

Our performance is affected by a number of trends that drive the demand for our services. In particular, the markets in which we operate are exposed to various trends, such as healthcare industry and demographic dynamics. Over the long term, we believe there are numerous factors that could affect growth within the industries in which we operate, including:

- an aging population, which is expected to increase demand for healthcare services including required transportation to such healthcare services and in-home personal care and remote patient monitoring services;
- increasing prevalence of chronic illnesses that require active and ongoing monitoring of health data which can be accomplished at a lower cost and result in better health outcomes through remote patient monitoring services;
- a movement towards value-based care versus fee-for-service and cost plus care and budget pressure on governments, both of which may increase the use of private corporations to provide necessary and innovative services;
- increasing demand for in-home care provision, driven by cost pressures on traditional reimbursement models and technological advances enabling remote engagement, including remote monitoring and similar internet-based health related services;
- a shift in membership dynamics as a result of Medicaid redetermination efforts, which may decrease membership levels at our NEMT segment;
- advancement of regulatory priorities, which include the Centers for Medicare and Medicaid Services ("CMS") proposed rule, *Ensuring Access to Medicaid Services*, which may lower profit margins at our PCS segment;
- technological advancements, which may be utilized by us to improve services and lower costs, but may also be utilized by others, which may increase industry competitiveness;
- MCO, Medicaid and Medicare plans increasing coverage of non-emergency medical transportation services for a variety of reasons, including increased access to care, improved patient compliance with treatment plans, social trends, and to promote SDoH, and this trend may be accelerated or reinforced by The Consolidated Appropriations Act of 2021 ("H.R.133"), a component of which mandates that state Medicaid programs ensure that Medicaid beneficiaries have necessary transportation to and from health care providers; and
- uncertain macroeconomic conditions, including rising interest rates, could have an effect on our debt and short-term borrowings, which may have a negative impact on our results.

On May 11, 2023, the Department of Health and Human Services ("HHS") declared the end of the public health emergency ("PHE") for the COVID-19 pandemic. While the Company has continued to experience increased trip volume, service hours, and patient visits each year following the pandemic, structural changes in the industry as a result of the pandemic, as well as ongoing constraints on the labor market, specifically related to the strain on healthcare professionals, could continue to have an adverse impact on the Company's financial statements. For the NEMT segment, trip volume may have a negative impact on our transportation providers and may result in higher transportation costs as the Company adapts to this increase in demand for transportation services and to the availability of transportation providers, should any capacity constraints within our network of transportation providers arise. For the PCS segment, the shortage of caregivers will continue to impact the volume of service hours that can be provided while also driving increased wage rates, which limits the Company's ability to be profitable in contracts with set rates for various care services. Additionally, changes in membership dynamics at the NEMT segment as a result of Medicaid redetermination and reduction in payor reimbursement rates at the PCS segment in an attempt to contain costs could limit the ability for the Company to generate revenue despite the Company's shift toward emphasizing the importance of value-based care. Any of these circumstances and factors could have a material adverse effect on our reputation and business and any long-term macroeconomic impacts that have arisen as a result of the pandemic could continue to change trends in the market.

Our business environment is competitive, the structural changes in our industry related to the COVID-19 pandemic have been lasting, the labor market for healthcare professionals remains constrained, and the market price for our common stock on the Nasdaq Stock Market continues to be volatile; the continuing effect of all or any of the foregoing could result in, in future periods, an impairment to the estimated fair value of the goodwill that has been established for our reporting units. As discussed elsewhere herein and under the caption “Risk Factors” in the Company’s annual report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2022, impairment tests may be required in addition to the annual impairment testing as of July 1, 2023, if circumstances change that would, more likely than not, reduce the fair value of goodwill of a reporting unit below such reporting unit’s carrying value. The Company monitors the performance of the business and the value of its stock price and estimated fair values of its reporting units, among other relevant considerations, to determine if any impairments to goodwill could exist at any particular time. During our July 1, 2023 annual assessment of goodwill, we determined that based on our qualitative assessment for each reporting unit, factors existed which required us to test our goodwill for impairment. As a result of our quantitative assessment, we determined that the goodwill at our PCS and RPM reporting units was impaired. See Note 7, *Goodwill and Intangible Assets*, for additional details.

Critical Accounting Estimates and Policies

Other than our change in accounting policy related to the change in the date of our annual goodwill test from October 1 to July 1, included in Note 2, *Significant Accounting Policies and Recent Accounting Pronouncements* in our Form 10-Q for the quarter ended June 30, 2023, there have been no significant changes to our critical accounting policies in our unaudited condensed consolidated financial statements from our Form 10-K for the year ended December 31, 2022. For further discussion of our critical accounting policies, see management's discussion and analysis of financial condition and results of operations contained in our Form 10-K for the year ended December 31, 2022.

Components of Results of Operations

Revenues

Service revenue, net. Service revenue for our NEMT segment includes the revenue generated by providing non-emergency transportation services directly to our customers. These services are provided on either a capitated basis, which means we are paid on a per-member, per-month ("PMPM") basis for each eligible member, or on a fee-for-service ("FFS") basis, which means we are paid based on the volume of trips or services performed. We receive payments for our services from third-party payors, predominately made up of state Medicaid agencies and MCOs.

Our capitated contracts operate under either a Full-Risk or a Shared-Risk structure. Under Full-Risk contracts, which represent approximately 20% of our NEMT revenue, payors pay a fixed amount per eligible member per month and we assume the responsibility of meeting the covered healthcare related transportation requirements for the number of eligible members in the payor's program. Revenue is recognized based on the number of members served during the period. Under Shared-Risk contracts, which represent approximately 65% of our NEMT revenue, we have provisions for reconciliations, risk corridors, and/or profit rebates. These contracts allow for periodic reconciliations based on actual cost and or/trip volume and may result in refunds to the payor, or additional payments due from the payor. These shared-risk contracts also allow for margin stabilization, as generally the amount received per member per month is adjusted for the costs to provide the transportation.

Under fee-for-service ("FFS") contracts, which represent approximately 15% of our NEMT revenue, payors pay a specified amount for each service that we provide based on costs incurred plus an agreed-upon margin. FFS revenue is recognized in the period in which the services are rendered and is reduced by the estimated impact of contractual allowances.

Service revenue for our PCS segment includes the revenue generated based on the hours incurred by our in-home caregivers to provide services to our customers, primarily on a FFS basis in which we earn a specified amount for each service that we provide. Payment for our PCS services is billed to third-party payors which include, but are not limited to, MCOs, hospitals, Medicaid agencies and programs and other home health care providers who subcontract the services to our caregivers, and individuals.

Service revenue for our RPM segment includes the sale of monitoring equipment to our third-party distributors as well as revenue generated from the hours incurred by our Clinical Team for providing monitoring services to our customers, primarily on a PMPM basis for each eligible member. Payment for our monitoring services is billed to third-party payors which include, but are not limited to, national and regional health plans, government-funded benefit programs, healthcare provider organizations, and individuals.

Grant Income

Grant income. The Company has received distributions under the CARES Act Provider Relief Fund ("PRF") and the ARPA Coronavirus State and Local Fiscal Relief Fund ("SLFRF") targeted to providing economic relief and stimulus to combat health and economic impacts of the COVID-19 pandemic.

Operating Expenses

Service expense. Service expense for our NEMT segment includes purchased transportation, operational payroll and other operational related costs. Purchased transportation includes the amounts we pay to third-party service providers and is typically dependent upon service volume. Operational payroll predominately includes our contact center operations, customer advocacy and transportation network team. Other operating expenses primarily include operational overhead costs, and operating facilities and related charges. Service expense for our PCS segment includes payroll and other operational related costs for our caregivers to provide in-home care. Service expense for our RPM segment primarily consists of salaries of employees in our contact centers, connectivity costs and occupancy costs.

General and administrative expense. General and administrative expense for all segments consists principally of salaries for administrative employees that support the operations, occupancy costs, marketing expenditures, insurance, and professional fees.

Impairment of goodwill. We determined that based on our qualitative assessment for each reporting unit, qualitative factors existed which required us to test our goodwill for impairment. As a result of the impairment evaluation, we determined that the goodwill within our PCS and RPM reporting units was impaired during the second quarter of 2023.

Depreciation and amortization expense. Depreciation within this caption includes infrastructure items such as computer hardware and software, office equipment, monitoring and vitals equipment, buildings, and leasehold improvements. Amortization expense is generated primarily from amortization of our intangible assets, including payor networks, trade names and developed technology.

Other Expenses (Income)

Interest expense, net. Interest expense consists principally of interest accrued during the period ended September 30, 2023 on the Company's borrowings outstanding under the Credit Facility and Senior Unsecured Notes, and amortization of deferred financing fees. Refer to the "Liquidity and Capital Resources" section below for further discussion of these borrowings.

Equity in net income (loss) of investee, net of tax. Equity in earnings of equity method investee consists of our proportionate share of equity earnings or losses from our Matrix equity investment held at our Corporate and Other segment, presented net of related taxes, as well as the earnings of our insurance captive held at the NEMT segment.

Income tax (provision) benefit. The Company is subject to federal taxation in the United States and state taxation in the various jurisdictions in which we operate.

Segment Reporting

Our segments reflect the manner in which our operations are organized and reviewed by management. Segment results are based on how our CODM manages our business, makes operating decisions and evaluates operating performance.

We operate four reportable business segments: NEMT, PCS, RPM, and Corporate and Other. The NEMT segment provides non-emergency medical transportation services throughout the country. The PCS segment provides non-medical personal care and home health services. The RPM segment provides remote patient monitoring solutions. The operating results of the Corporate and Other segment include activities related to executive, accounting, finance, internal audit, tax, legal and certain strategic and corporate development functions for each segment, as well as the results of the Matrix investment. The operating results of the NEMT, PCS and RPM segments include revenue and expenses generated and incurred by the segment, and the Corporate and Other segment includes expenses incurred in relation to the Corporate operations of the Company

See Note 3, *Segments*, in our accompanying unaudited condensed consolidated financial statements for further information on our segments.

Results of Operations

Q3 2023 compared to Q3 2022

Consolidated results. The following table sets forth results of operations and the percentage of consolidated total Service revenue, net represented by items in our unaudited condensed consolidated statements of operations for Q3 2023 and Q3 2022 (in thousands):

	Three months ended September 30,			
	2023		2022	
	Amount	% of Service Revenue	Amount	% of Service Revenue
Service revenue, net	$ 686,925	100.0 %	$ 647,782	100.0 %
Grant income	551	0.1 %	789	0.1 %
Operating expenses:				
Service expense	579,214	84.3 %	534,563	82.5 %
General and administrative expense	70,142	10.2 %	75,889	11.7 %
Depreciation and amortization	26,077	3.8 %	25,672	4.0 %
Total operating expenses	675,433	98.3 %	636,124	98.2 %
Operating income	12,043	1.8 %	12,447	1.9 %
Interest expense, net	17,844	2.6 %	15,557	2.4 %
Loss before income taxes and equity method investment	(5,801)	(0.8) %	(3,110)	(0.5) %
Income tax benefit	1,659	0.2 %	1,053	0.2 %
Equity in net loss of investee, net of tax	(160)	— %	(26,448)	(4.1) %
Net loss	$ (4,302)	(0.6) %	$ (28,505)	(4.4) %

*Service revenue, ne*t. Consolidated service revenue, net, for Q3 2023 increased $39.1 million, or 6.0%, compared to Q3 2022. This change is driven primarily by an increase in revenue of $26.2 million at our NEMT segment, with the remainder of the increase at our PCS and RPM segments. See our *Results of Operations - Segments*, for further discussion.

Grant income. The Company recognized income of approximately $0.6 million during Q3 2023 and $0.8 million during Q3 2022 related to government grant distributions received, primarily under the CARES Act PRF and the ARPA SLFRF. These government grants are targeted to provide economic relief and stimulus to combat health and economic impacts of the COVID-19 pandemic. These funds were received by our PCS segment and are available to eligible providers who have healthcare-related expenses and lost revenues attributable to COVID-19.

Service expense. Service expense components are shown below (in thousands):

	Three months ended September 30,			
	2023		2022	
	Amount	% of Service Revenue	Amount	% of Service Revenue
Purchased services	$ 363,594	52.9 %	$ 340,138	52.5 %
Payroll and related costs	197,009	28.7 %	181,965	28.1 %
Other service expenses	18,611	2.7 %	12,460	1.9 %
Total service expense	$ 579,214	84.3 %	$ 534,563	82.5 %

Service expense for Q3 2023 increased $44.7 million, or 8.4%, compared to Q3 2022. This change is primarily due to higher purchased services costs for our NEMT segment of $23.5 million which is caused by an increased number of trips serviced when compared to Q3 2022, partially offset by lower cost per trip due to certain volume service commitments with some of our larger transportation providers and cost savings due to our multi-modal strategy. Payroll and related costs increased by $15.0 million, primarily related to increased labor costs at our PCS segment, driven by an increase in hours worked and higher wage rates paid to our caregivers, further contributed to by higher wage rates paid to our call center employees at our NEMT segment. See our *Results of Operations - Segments*, for further discussion.

General and administrative expense. General and administrative expense for Q3 2023 decreased $5.7 million, or 7.6%, compared to Q3 2022. General and administrative expense, expressed as a percentage of service revenue, net decreased to 10.2% for Q3 2023 compared to 11.7% for Q3 2022. See our *Results of Operations - Segments*, for further discussion.

Depreciation and amortization. Depreciation and amortization remained consistent from Q3 2022 to Q3 2023 with an increase of $0.4 million, or 1.6%.

Interest expense, net. Interest expense, net, for Q3 2023 and Q3 2022 was $17.8 million and $15.6 million, respectively. During Q3 2023, we incurred $8.1 million and $6.6 million of interest expense related to the Senior Notes due 2025 and 2029, respectively. The remainder of the interest expense in Q3 2023 is related to interest and fees on the credit facility, which increased during Q3 2023 due to increased borrowing on the credit facility as compared to Q3 2022. Interest expense is recorded at our Corporate and Other segment.

Equity in net income (loss) of investee, net of tax. Our equity in net loss of investee, net of tax, for Q3 2023 of $0.2 million and our equity in net loss of investee, net of tax, of $26.4 million for Q3 2022 was a result of our proportional share of the net income or loss of Matrix and our investment in a captive insurance program. The loss in Q3 2022 was the result of an asset impairment that occurred at Matrix during Q3 2022 compared to no asset impairment during Q3 2023.

Income tax (provision) benefit. Our effective tax rates from operations for Q3 2023 and Q3 2022 were a tax benefit of 28.6% and 33.9%, respectively. For both periods, the effective tax rates for the benefits were significantly higher than the U.S. federal statutory rate of 21.0% primarily due to state income taxes and nondeductible expenses.

Nine months ended September 30, 2023 compared to nine months ended September 30, 2022

Consolidated results. The following table sets forth results of operations and the percentage of consolidated total Service revenue, net represented by items in our unaudited condensed consolidated statements of operations for the nine months ended September 30, 2023, which we refer to as "YTD 2023", and for the nine months ended September 30, 2022, which we refer to as "YTD 2022" (in thousands):

	Nine months ended September 30,			
	2023		2022	
	Amount	% of Service Revenue	Amount	% of Service Revenue
Service revenue, net	$ 2,048,338	100.0 %	$ 1,850,472	100.0 %
Grant income	4,649	0.2 %	4,587	0.2 %
Operating expenses:				
Service expense	1,718,735	83.9 %	1,498,108	81.0 %
General and administrative expense	229,095	11.2 %	232,108	12.5 %
Depreciation and amortization	77,679	3.8 %	74,376	4.0 %
Impairment of goodwill	183,100	8.9 %	—	— %
Total operating expenses	2,208,609	107.8 %	1,804,592	97.5 %
Operating income (loss)	(155,622)	(7.6) %	50,467	2.7 %
Interest expense, net	50,769	2.5 %	46,429	2.5 %
Income (loss) before income taxes and equity method investment	(206,391)	(10.1) %	4,038	0.2 %
Income tax (provision) benefit	4,362	0.2 %	(877)	— %
Equity in net income (loss) of investee, net of tax	2,821	0.1 %	(28,020)	(1.5) %
Net loss	$ (199,208)	(9.7) %	$ (24,859)	(1.3) %

Service revenue, net. Consolidated service revenue, net, for YTD 2023 increased $197.9 million, or 10.7%, compared to YTD 2022. This change is driven primarily by an increase in revenue of $142.9 million at our NEMT segment, with the remainder of the increase at our PCS and RPM segments. See our R*esults of Operations - Segments*, for further discussion.

Grant income. The Company recognized income of approximately $4.6 million during both YTD 2023 and YTD 2022 related to government grant distributions received, primarily under the CARES Act PRF and the ARPA SLFRF. These government grants are targeted to provide economic relief and stimulus to combat health and economic impacts of the COVID-19 pandemic. These funds were received by our PCS segment and are available to eligible providers who have healthcare-related expenses and lost revenues attributable to COVID-19.

Service expense. Service expense components are shown below (in thousands):

	Nine months ended September 30,			
	2023		2022	
	Amount	% of Revenue	Amount	% of Revenue
Purchased services	$ 1,085,206	53.0 %	$ 935,298	50.5 %
Payroll and related costs	579,571	28.3 %	520,556	28.1 %
Other service expenses	53,958	2.6 %	42,254	2.3 %
Total service expense	$ 1,718,735	83.9 %	$ 1,498,108	81.0 %

Service expense for YTD 2023 increased $220.6 million, or 14.7%, compared to YTD 2022 primarily due to higher purchased services for our NEMT segment of $149.9 million related to an increase in transportation costs. Payroll and related costs across all segments increased by $59.0 million, primarily related to increased labor costs paid to our caregivers and call center employees.

General and administrative expense. General and administrative expense for YTD 2023 remained relatively consistent at a decrease of $3.0 million, or 1.3%, compared to YTD 2022. General and administrative expense, expressed as a percentage of service revenue, net decreased slightly to 11.2% for YTD 2023 compared to 12.5% for YTD 2022. See our *Results of Operations - Segments*, for further discussion.

Depreciation and amortization. Depreciation and amortization remained consistent from YTD 2022 to YTD 2023 with an increase of $3.3 million, or 4.4%.

Impairment of goodwill. Impairment of goodwill for YTD 2023 was $183.1 million and was driven by goodwill impairments that were recorded at our PCS and RPM reporting units during the second quarter of 2023. See Note 7, *Goodwill and Intangible Assets*.

Interest expense, net. Interest expense, net for YTD 2023 was $50.8 million and for YTD 2022 was $46.4 million. During YTD 2023, we incurred $24.2 million and $19.9 million of interest expense related to the Senior Notes due 2025 and 2029, respectively. The remainder of the interest expense during YTD 2023 is related to interest and fees on the credit facility, which increased during YTD 2023 due to increased borrowing on the credit facility as compared to YTD 2022. Interest expense is recorded at our Corporate and Other segment.

Equity in net income (loss) of investee, net of tax. Our equity in net income of investee, net of tax for YTD 2023 of $2.8 million and our equity in net loss of investee, net of tax for YTD 2022 of $28.0 million was a result of our proportional share of the net income or loss of Matrix and our investment in a captive insurance program. The loss in YTD 2022 was the result of an asset impairment that occurred at Matrix during Q3 2022 compared to no asset impairment during YTD 2023.

Income tax (provision) benefit. Our effective tax rates from operations for YTD 2023 and YTD 2022 were a tax benefit of 2.1% and a tax provision of 21.7%, respectively. The YTD 2023 effective tax rate for the benefit was significantly lower than the U.S. federal statutory rate of 21.0% primarily due to the nondeductible goodwill impairment. The YTD 2022 effective tax rate for the provision was higher than the U.S. federal statutory rate of 21.0% primarily due to state income taxes and nondeductible expenses.

Results of Operations - Segments

The following tables set forth certain financial information attributable to the Company's business segments for the three and nine months ended September 30, 2023 and 2022:

NEMT Segment

(in thousands, except for revenue per member per month, revenue per trip, and service expense per trip)

	Three months ended September 30,				Nine months ended September 30,			
	2023		2022		2023		2022	
	Amount	% of Segment Revenue	Amount	% of Segment Revenue	Amount	% of Segment Revenue	Amount	% of Segment Revenue
Operating Results								
Service revenue, net	$ 485,951	100.0%	$ 459,796	100.0%	$ 1,452,389	100.0%	$ 1,309,449	100.0%
Service expense	428,021	88.1%	394,981	85.9%	1,277,604	88.0%	1,100,801	84.1%
General and administrative expense	25,433	5.2%	31,815	6.9%	87,645	6.0%	102,736	7.8%
Depreciation and amortization	6,814	1.4%	7,079	1.5%	20,319	1.4%	21,576	1.6%
Operating income	$ 25,683	5.3%	$ 25,921	5.6%	$ 66,821	4.6%	$ 84,336	6.4%
Business Metrics[(1)]								
Total paid trips	8,824		8,045		25,761		22,987	
Average monthly members	33,660		36,026		33,892		33,998	
Revenue per member per month	$ 4.81		$ 4.25		$ 4.76		$ 4.28	
Revenue per trip	$ 55.07		$ 57.15		$ 56.38		$ 56.96	
Service expense per trip	$ 48.51		$ 49.10		$ 49.59		$ 47.89	
Monthly utilization	8.7 %		7.4 %		8.4 %		7.5 %	

(1) These metrics are key performance indicators that management uses to evaluate our performance. Trends established in these metrics can be used to evaluate current operating results, identify trends affecting our business, determine the allocation of resources and understand the underlying drivers of costs and revenue for our business. We believe these metrics are useful to investors in evaluating and understanding our business but should not be used solely in assessing the Company's performance. These key performance indicators should not be considered superior to, as a substitute for or as an alternative to, and should be considered in conjunction with, the GAAP financial measures presented herein to fully evaluate and understand the business as a whole.

Our NEMT segment is the largest manager of non-emergency medical transportation programs for state governments and MCOs in the U.S.

Service revenue, net. Service revenue, net, increased by $26.2 million, or 5.7%, during Q3 2023 as compared to Q3 2022. This increase is primarily attributable to a 13.2% increase in revenue per member per month, which was driven by a 9.7% increase in trip volume. These two factors are correlated due to contract repricing and the partial pass-through of costs associated with our shared risk contracts. This increase to revenue was partially offset by a 6.6% decrease in average monthly members primarily due to Medicaid redetermination. Service revenue, net, increased by $142.9 million, or 10.9%, during YTD 2023 as compared to YTD 2022, primarily attributable to a 11.2% increase in revenue per member per month driven by a 12.1% increase in trip volume, partially offset by a 0.3% decrease in average monthly membership.

The change in revenue is impacted by both the change in average monthly members, as well we the rate received per member. The change in average monthly members is correlated to the change in revenue because a majority of our contracts are capitated, and we receive monthly payments on a per member per month basis in return for full or shared risk of transportation volumes. Declines in membership over the periods presented were anticipated and primarily related to Medicaid redetermination efforts, along with certain contract losses. While membership decreased, revenue increased due to increases in the average rate received per member, which increases in line with increases in utilization or trip volume in our shared risk contracts. As most of our capitated contracts have been restructured to a shared risk format, revenue increased despite the decline in membership. Trip volume increases also positively affected revenue for fee-for-service contracts due to a larger number of services performed.

Service expense. Service expense components for the NEMT segment are shown below (in thousands):

	Three months ended September 30,				Nine months ended September 30,			
	2023		2022		2023		2022	
	Amount	% of Segment Revenue	Amount	% of Segment Revenue	Amount	% of Segment Revenue	Amount	% of Segment Revenue
Purchased services	$ 363,594	74.8 %	$ 340,138	74.0 %	$ 1,085,206	74.7 %	$ 935,298	71.4 %
Payroll and related costs	51,655	10.6 %	46,160	10.0 %	155,388	10.7 %	136,916	10.5 %
Other service expenses	12,772	2.6 %	8,683	1.9 %	37,010	2.5 %	28,587	2.2 %
Total service expense	$ 428,021	88.1 %	$ 394,981	85.9 %	$ 1,277,604	88.0 %	$ 1,100,801	84.1 %

Service expense for our NEMT segment primarily consists of transportation costs paid to third party service providers, salaries of employees within our contact centers and operations centers, and occupancy costs. Service expense increased by $33.0 million, or 8.4%, for Q3 2023, as compared to Q3 2022, primarily related to higher purchased services of $23.5 million or 6.8%. Service expense increased by $176.8 million and 16.1% for YTD 2023, as compared to YTD 2022, primarily due to an increase in purchased services of $149.9 million or 16.0%. The increase in purchased services for both Q3 2023 and YTD 2023 is related to an increase in transportation costs driven by higher trip volume. Trip volume for QTD 2023 and YTD 2023 increased by 9.7% and 12.1%, respectively, when compared to the same periods in the prior year. For YTD 2023, cost per trip increased by 3.5% due to increased wages for our transportation providers as compared to YTD 2022, however for QTD 2023, cost per trip decreased by 1.2% primarily due to cost savings from our multi-modal strategy, as compared to QTD 2022.

General and administrative expense. General and administrative expense primarily consists of salaries for administrative employees that support the operations of the NEMT segment, occupancy costs, marketing expenditures, insurance, and professional fees. General and administrative expense decreased by $6.4 million, or 20.1%, for Q3 2023, as compared to Q3 2022, and by $15.1 million, or 14.7%, for YTD 2023, as compared to YTD 2022, primarily as a result of various cost savings initiatives which resulted in lower personnel and lower professional services costs, as well as lower legal costs related to a case that was settled in 2022.

Depreciation and amortization expense. Depreciation and amortization expense decreased by $0.3 million, or 3.7%, for Q3 2023, as compared to Q3 2022, and decreased by $1.3 million, or 5.8%, for YTD 2023, as compared to YTD 2022, primarily as a result of certain intangible assets being fully amortized during the period.

PCS Segment

(in thousands, except Service revenue per hour and Service expense per hour)

	Three months ended September 30,				Nine months ended September 30,			
	2023		2022		2023		2022	
	Amount	% of Segment Revenue	Amount	% of Segment Revenue	Amount	% of Segment Revenue	Amount	% of Segment Revenue
Operating Results								
Service revenue, net	$ 179,979	100.0%	$ 169,226	100.0%	$ 534,435	100.0%	$ 491,661	100.0%
Grant income	551	0.3%	789	0.5%	4,649	0.9%	4,587	0.9%
Service expense	143,078	79.5%	132,746	78.4%	417,636	78.1%	379,423	77.2%
General and administrative expense	20,252	11.3%	22,057	13.0%	63,480	11.9%	68,536	13.9%
Depreciation and amortization	12,850	7.1%	12,919	7.6%	38,590	7.2%	37,976	7.7%
Impairment of goodwill	—	—%	—	—%	137,331	25.7%	—	—%
Operating income (loss)	$ 4,350	2.4%	$ 2,293	1.4%	$ (117,953)	(22.1)%	$ 10,313	2.1%
Business Metrics(1)								
Total hours	6,995		6,836		20,752		20,076	
Service revenue per hour	$ 25.73		$ 24.76		$ 25.75		$ 24.49	
Service expense per hour	$ 20.45		$ 19.42		$ 20.13		$ 18.90	

(1) These metrics are key performance indicators that management uses to evaluate our performance. Trends established in these metrics can be used to evaluate current operating results, identify trends affecting our business, determine the allocation of resources and understand the underlying drivers of costs and revenue for our business. We believe these metrics are useful to investors in evaluating and understanding our business but should not be used solely in assessing the Company's performance. These key performance indicators should not be considered superior to, as a substitute for or as an alternative to, and should be considered in conjunction with, the GAAP financial measures presented herein to fully evaluate and understand the business as a whole.

Our PCS segment's services include placements of non-medical personal care assistants and home health aides and nurses primarily to Medicaid patient populations in need of care monitoring and assistance performing daily living activities in the home setting, including senior citizens and disabled adults.

Service revenue, net. PCS contracts are generally structured as fee-for-service contracts, with revenue driven by hours worked by our personal care providers. Service revenue, net, increased by $10.8 million, or 6.4%, for Q3 2023, as compared to Q3 2022, primarily due to 2.3% higher hours worked by personal care providers in Q3 2023 as compared to Q3 2022, as well as 3.9% higher rates per member. Service revenue, net increased by $42.8 million, or 8.7%, for YTD 2023 as compared to YTD 2022, primarily due to 3.4% higher hours worked by personal care providers during YTD 2023 as compared to YTD 2022, as well as 5.1% higher rates per member.

Grant income. During Q3 2023 and Q3 2022, the Company recognized income for government grant distributions received of $0.6 million and $0.8 million, respectively, primarily from the CARES Act PRF and the ARPA SLFRF. These government grants are targeted to provide economic relief and stimulus to combat health and economic impacts of the COVID-19 pandemic. These funds were received by our PCS segment and are available to eligible providers who have healthcare-related expenses and lost revenues attributable to COVID-19. During both YTD 2023 and YTD 2022, the Company recognized income for government grant distributions received of $4.6 million, respectively.

Service expense. Service expense components for the PCS segment are shown below (in thousands):

	Three months ended September 30,				Nine months ended September 30,			
	2023		2022		2023		2022	
	Amount	% of Segment Revenue	Amount	% of Segment Revenue	Amount	% of Segment Revenue	Amount	% of Segment Revenue
Payroll and related costs	$ 141,921	78.9 %	$ 132,482	78.3 %	$ 413,995	77.5 %	$ 374,994	76.3 %
Other service expenses	1,157	0.6 %	264	0.1 %	3,641	0.7 %	4,429	0.9 %
Total service expense	$ 143,078	79.5 %	$ 132,746	78.4 %	$ 417,636	78.1 %	$ 379,423	77.2 %

Service expense for our PCS segment primarily consists of salaries for our employees who provide personal care services and it typically trends with the number of hours worked and cost per hour of service. Service expense for Q3 2023 increased by $10.3 million, or 7.8%, as compared to Q3 2022, primarily as a result of a 5.3% increase in service expense per hour, driven primarily by increased wage rates for our caregivers, predominately from wage pressures in New York, as well as a 2.3% increase in hours of service during Q3 2023. Service expense for YTD 2023 increased by $38.2 million or 10.1%, as compared to YTD 2022, primarily as a result of a 6.5% increase in service expense per hour and a 3.4% increase in hours of service during YTD 2023.

General and administrative expense. General and administrative expense primarily consists of salaries for administrative employees that support the operations of the PCS segment, occupancy costs, marketing expenditures, insurance, and professional fees. General and administrative expense decreased by $1.8 million, or 8.2%, for Q3 2023 as compared to Q3 2022 and decreased by $5.1 million or 7.4%, for YTD 2023 as compared to YTD 2022. The decrease is primarily related to lower insurance-related expense and lower legal fees during YTD 2023 along with lower integration related expenses during YTD 2023.

Depreciation and amortization expense. Depreciation and amortization expense remained consistent for both Q3 2022 to Q3 2023 and YTD 2022 to YTD 2023 with a decrease of $0.1 million, or 0.5%, for Q3 2023 as compared to Q3 2022 and an increase of $0.6 million, or 1.6%, for YTD 2023 as compared to YTD 2022.

Impairment of goodwill. As a result of our annual goodwill assessment, we determined that the goodwill within our PCS reporting unit was impaired which resulted in an impairment of goodwill charge of $137.3 million during the second quarter of 2023.

RPM Segment

(in thousands, except Revenue per member per month and Service expense per member per month)

	Three months ended September 30,				Nine months ended September 30,			
	2023		2022		2023		2022	
	Amount	% of Segment Revenue	Amount	% of Segment Revenue	Amount	% of Segment Revenue	Amount	% of Segment Revenue
Operating Results								
Service revenue, net	$ 19,779	100.0 %	$ 18,760	100.0 %	$ 57,702	100.0 %	$ 49,362	100.0 %
Service expense	6,934	35.1 %	6,836	36.4 %	20,129	34.9 %	17,884	36.2 %
General and administrative expense	5,685	28.7 %	5,816	31.0 %	16,781	29.1 %	17,520	35.5 %
Depreciation and amortization	6,174	31.2 %	5,467	29.1 %	18,087	31.3 %	14,201	28.8 %
Impairment of goodwill	—	— %	—	— %	45,769	79.3 %	—	— %
Operating income (loss)	$ 986	5.0 %	$ 641	3.4 %	$ (43,064)	(74.6) %	$ (243)	(0.5) %
Business Metrics[(1)]								
Average monthly members	247		230		241		201	
Revenue per member per month	$ 26.69		$ 27.19		$ 26.60		$ 27.29	
Service expense per member per month	$ 9.36		$ 9.91		$ 9.28		$ 9.89	

(1) These metrics are key performance indicators that management uses to evaluate our performance. Trends established in these metrics can be used to evaluate current operating results, identify trends affecting our business, determine the allocation of resources and understand the underlying drivers of costs and revenue for our business. We believe these metrics are useful to investors in evaluating and understanding our business but should not be used solely in assessing the Company's performance. These key performance indicators should not be considered superior to, as a substitute for or as an alternative to, and should be considered in conjunction with, the GAAP financial measures presented herein to fully evaluate and understand the business as a whole.

Our RPM segment is a provider of remote patient monitoring solutions and manages a comprehensive suite of services, including personal emergency response systems, vitals monitoring and data-driven patient engagement solutions.

Service revenue, net. RPM contracts are generally structured as a fixed fee per enrolled member per month, and therefore revenue is generally driven by the number of enrolled members. Service revenue, net, increased by $1.0 million, or 5.4%, for Q3 2023 as compared to Q3 2022, primarily related to a 7.4% increase in average monthly members from Q3 2022 to Q3 2023. Service revenue, net, increased by $8.3 million, or 16.9%, for YTD 2023 as compared to YTD 2022, primarily related to incremental revenue of $7.2 million from an acquisition that occurred in May 2022.

Service expense. Service expense components for the RPM segment are shown below (in thousands):

	Three months ended September 30,				Nine months ended September 30,			
	2023		2022		2023		2022	
	Amount	% of Segment Revenue	Amount	% of Segment Revenue	Amount	% of Segment Revenue	Amount	% of Segment Revenue
Payroll and related costs	$ 3,414	17.3 %	$ 3,323	17.7 %	$ 9,941	17.2 %	$ 8,646	17.5 %
Other service expenses	3,520	17.8 %	3,513	18.7 %	10,188	17.7 %	9,238	18.7 %
Total service expense	$ 6,934	35.1 %	$ 6,836	36.4 %	$ 20,129	34.9 %	$ 17,884	36.2 %

Service expense for our RPM segment primarily consists of salaries for the employees providing the remote monitoring services and it typically trends with the number of hours worked. Service expense for Q3 2023, remained consistent for Q3 2023 as compared to Q3 2022 with an increase of $0.1 million, or 1.4%, as compared to Q3 2022. Service expense for

YTD 2023 increased $2.2 million, or 12.6%, as compared to YTD 2022, primarily as a result of an increase in direct wages driven by the additional hours worked to service the 19.9% increase in average monthly members as well as an increase in device connectivity costs related to the additional devices deployed to service the increase in average monthly members.

General and administrative expense. General and administrative expense primarily consists of salaries for administrative employees that indirectly support the operations, occupancy costs, marketing expenditures, insurance, and professional fees. General and administrative expense remained consistent in Q3 2023 as compared to Q3 2022 with a decrease of $0.1 million, or 2.3%, for Q3 2023 as compared to Q3 2022. General and administrative expense decreased by $0.7 million, or 4.2%, for YTD 2023 as compared to YTD 2022, primarily related to a decrease in legal costs associated with an acquisition that occurred in May 2022.

Depreciation and amortization expense. Depreciation and amortization expense increased by $0.7 million, or 12.9%, for Q3 2023 as compared to Q3 2022, primarily related to additional depreciation expense related to the additional devices in service related to a 7.4% increase in average monthly members from Q3 2022. Depreciation and amortization expense increased by $3.9 million, or 27.4%, for YTD 2023 as compared to YTD 2022, primarily related to additional depreciation and amortization expense of $2.1 million related to the assets acquired from an acquisition that occurred in May 2022 as well as additional depreciation expense related to the additional devices in service related to a 19.9% increase in average monthly members from YTD 2022.

Impairment of goodwill. As a result of our annual goodwill assessment, we determined that the goodwill within our RPM reporting unit was impaired which resulted in an impairment of goodwill charge of $45.8 million during the second quarter of 2023.

Corporate and Other Segment

(in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
	Amount	Amount	Amount	Amount
Service revenue, net	$ 1,216	$ —	$ 3,812	$ —
Service expense	1,181	—	3,366	—
General and administrative expense	18,772	16,201	61,189	43,316
Depreciation and amortization	239	207	683	623
Operating income (loss)	$ (18,976)	$ (16,408)	$ (61,426)	$ (43,939)

Our Corporate and Other segment includes the Company's executive, accounting, finance, internal audit, tax, legal, public reporting, and corporate development functions. This segment also includes the results of our equity investment in Matrix and the operating results of investments in innovation related to data analytics products and solutions, which contributes to our strategic investment in growth.

Service revenue, net and Service expense: At the end of the first quarter of 2023, we made an investment in innovation related to our data analytics capabilities within our Corporate and Other segment, which contributes to service revenue and service expense.

General and administrative expense and Depreciation and amortization: Our Corporate and Other segment includes costs incurred related to strategy and stewardship of the other operating segments. These expenses are primarily general and administrative expenses, with a minimal amount related to depreciation. The general and administrative expense increased by $2.6 million and $17.9 million for Q3 2023 as compared to Q3 2022. This increase is primarily related to software implementation costs for ongoing system integration projects, including the PCS and RPM general ledger and personnel management system integrations. This balance has also increased due to consulting costs and litigation costs related to executive turnover.

Seasonality

Our NEMT segment's operating income and cash flows normally fluctuate as a result of seasonal variations in our business, principally due to lower transportation demand during the winter season and higher demand during the summer season.

Our PCS segment's operating income and cash flows also normally fluctuate as a result of seasonal variations in the business, principally due to somewhat lower demand for in-home services from caregivers during the summer and periods with major holidays, as patients may spend more time with family and less time alone needing outside care during those periods.

Our RPM segment's operating income and cash flows do not normally fluctuate as a result of seasonal variations in the business.

Liquidity and capital resources

Short-term capital requirements consist primarily of recurring operating expenses, contract start-up costs on new revenue contracts and costs associated with our strategic initiatives. We expect to meet our cash requirements through available cash on hand, cash generated from operations, net of capital expenditures, and occasional borrowings under our Credit Facility. For information regarding our long-term capital requirements, see below under the caption "Liquidity".

Cash used in operating activities during the nine months ended September 30, 2023 was $57.3 million. Our balance of cash and cash equivalents, including restricted cash, was $8.6 million and $15.0 million at September 30, 2023 and December 31, 2022, respectively. We had restricted cash of $0.5 million and $0.5 million at September 30, 2023 and December 31, 2022, respectively. Restricted cash amounts are not included in our balance of cash and cash equivalents in the unaudited condensed consolidated balance sheets, although they are included in the cash, cash equivalents and restricted cash balance on the accompanying unaudited condensed consolidated statements of cash flows.

We may, from time to time, access capital markets to raise equity or debt financing for various business reasons, including acquisitions, repurchases of common stock, investments in our business and possible refinancing activity. The timing, term, size, and pricing of any such financing will depend on investor interest and market conditions, and there can be no assurance that we will be able to obtain any such financing on terms acceptable to us at the time or at all.

YTD 2023 cash flows compared to YTD 2022

Operating activities. Cash used in operating activities was $57.3 million for YTD 2023 compared to cash provided by operating activities of $45.5 million for YTD 2022. The decrease of $102.9 million was primarily a result of a decrease in cash provided by changes in working capital of $94.2 million. The working capital changes were related to an increase in cash paid for contract payables of $22.9 million primarily related to repayments on previously accrued contract payable amounts combined with lower liability reserves on certain risk corridor, profit rebate and reconciliation contracts due to higher trip volumes during YTD 2023. Also contributing to the decrease in working capital is a decrease in the cash received from contract receivables of $22.6 million primarily related to a build of receivables related to certain risk corridor, profit rebate, and reconciliation contracts, as well as an increase in the cash paid for accounts payable and accrued expenses of $58.3 million, primarily related to timing of vendor payments. These working capital changes are partially offset by an increase in cash related to an increase in accrued transportation costs of $19.3 million, primarily related to timing of payments to our transportation providers, as compared to YTD 2022.

Investing activities. Net cash used in investing activities was $31.1 million in YTD 2023, which decreased by $73.2 million as compared to YTD 2022, primarily as a result of acquisition activity during YTD 2022 related to an acquisition made under our RPM segment.

Financing activities. Net cash provided by financing activities was $82.1 million for YTD 2023, compared to cash used in financing activities of $1.8 million for YTD 2022. The change of $83.9 million was primarily a result of proceeds from our short-term borrowing on our Credit Facility of $83.0 million during YTD 2023, compared to no proceeds from debt or other short-term borrowings during YTD 2022.

Obligations and commitments

Senior Unsecured Notes. On November 4, 2020, the Company issued $500.0 million in aggregate principal amount of 5.875% senior unsecured notes due on November 15, 2025 (the “Senior Notes due 2025”). Subsequently, on August 24, 2021, the Company issued an additional $500.0 million in aggregate principal amount of 5.000% senior unsecured notes due on October 1, 2029 (the “Senior Notes due 2029” and, together with the Senior Notes due 2025, the “Notes”). For information related to the Company's Senior Unsecured Notes, refer to Note 9 of the Notes to the unaudited condensed consolidated financial statements included in Part I, Item 1, “Financial Statements”.

Credit Facility. The Company is a party to the amended and restated credit agreement, dated as of February 3, 2022, (as amended, the “Credit Agreement”) with JPMorgan Chase Bank, N.A., as administrative agent, swing line lender and an issuing bank, Wells Fargo Bank, National Association, as an issuing bank, Truist Bank and Wells Fargo Bank, National Association, as co-syndication agents, Deutsche Bank AG New York Branch, Bank of America, N.A., Regions Bank, Bank of Montreal and Capital One, National Association, as co-documentation agents, and JPMorgan Chase Bank, N.A., Truist Securities, Inc. and Wells Fargo Securities, LLC, as joint bookrunners and joint lead arrangers, and the other lenders party thereto. The Credit Agreement provides the Company with a senior secured revolving credit facility (the “Credit Facility”) in an aggregate principal amount of $325.0 million. The Credit Facility includes sublimits for swingline loans, letters of credit and alternative currency loans in amounts of up to $25.0 million, $60.0 million and $75.0 million, respectively. On June 26, 2023, the Company entered into an Amendment No. 1 (the "First Amendment") to the Credit Agreement which amended and restated the maximum permitted Total Net Leverage Ratio under the Credit Agreement. For information related to the Company's Credit Facility, refer to Note 9 of the Notes to the unaudited condensed consolidated financial statements included in Part I, Item 1, “Financial Statements”.

Liquidity

Liquidity measures our ability to meet current and future cash flow needs on a timely basis and at a reasonable cost. We manage our liquidity position to meet our daily cash flow needs, while maintaining an appropriate balance between assets and liabilities to meet the return on investment objectives of our shareholders. Our liquidity position is supported by management of liquid assets and liabilities and access to alternative sources of funds. Liquid assets include cash of $8.1 million and accounts receivable, contract receivables, and other receivables of $340.8 million. Liquid liabilities which totaled $691.7 million at period end as detailed in the table below, included $68.5 million in guarantees and letters of credit that are not expected to be paid in cash in the next 12 months. Other sources of liquidity include amounts currently available under our Credit Facility of up to approximately $164.0 million as of September 30, 2023 based on our total net debt leverage ratio covenant of 5.25:1.00, and expected future cash generated from operations.

In the ordinary course of business we have entered into contractual obligations and have made other commitments to make future payments. Our short-term and long-term liquidity requirements are primarily to fund on-going operations. These liquidity requirements are met primarily through cash flow from operations, debt financing, and our Credit Facility. For additional information regarding our operating, investing and financing cash flows, see "Condensed Consolidated Financial Statements— Condensed Consolidated Statements of Cash Flows," included in Part I, Item I of this report.

The Company has cash requirements of $691.7 million due in one year or less in addition to $1,245.2 million due in more than one year as of September 30, 2023. The following is a summary of our future cash requirements for the next twelve months and the period extending beyond twelve months as of September 30, 2023 (in thousands):

	At September 30, 2023		
	Total	Less than 1 Year	Greater than 1 Year
Senior Unsecured Notes [1]	$ 1,000,000	$ —	$ 1,000,000
Interest[1]	213,996	56,847	157,149
Contracts payable[2]	133,576	133,576	—
Transportation costs[3]	102,974	102,974	—
Deferred tax liabilities[4]	42,001	—	42,001
Operating leases[5]	42,299	8,902	33,397
Guarantees[6]	29,666	29,391	275
Letters of credit [6]	39,074	39,074	—
Purchased service commitment[7]	61,875	49,500	12,375
Short-term borrowings[8]	83,000	83,000	—
Other current cash obligations[9]	188,398	188,398	—
Total	$ 1,936,859	$ 691,662	$ 1,245,197

(1) See Note 9 of the Notes to the unaudited condensed consolidated financial statements included in Part I, Item 1, "Financial Statements" for further detail of our Senior Unsecured Notes and the timing of expected future payments. Interest payments on our Senior Unsecured Notes are typically paid semi-annually in arrears and have been calculated at the rates fixed as of September 30, 2023. Interest payments on our short-term borrowings have been calculated by taking the expected borrowing on the Credit Facility for the next year at the interest rate of 9.8%.

(2) See Note 4 of the Notes to the unaudited condensed consolidated financial statements included in Part I, Item 1, "Financial Statements" for further detail of our contracts payable.

(3) See Note 1 of the Notes to the consolidated financial statements included in Part II, Item 8, "Financial Statements and Supplementary Data" of our Form 10-K for the year ended December 31, 2022 filed on March 7, 2023 for further detail of our accrued transportation cost.

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

(5) The operating leases are for office space. Certain leases contain periodic rent escalation adjustments and renewal options. See Note 17 of the Notes to the consolidated financial statements included in Part II, Item 8, "Financial Statements and Supplementary Data" of our Form 10-K for the year ended December 31, 2022 filed on March 7, 2023 for further detail of our operating leases.

(6) Letters of credit ("LOCs") are guarantees of potential payments to third parties under certain conditions. Guarantees include surety bonds we provide to certain customers to protect against potential non-delivery of our non-emergency transportation services. Our LOCs shown in the table were provided by our Credit Facility and reduced our availability under the related Credit Agreement. The surety bonds and LOC amounts in the above table represent the amount of commitment expiration per period.

(7) The purchased service commitment includes the maximum penalty we would incur if we do not meet our minimum volume commitment over the remaining term of the agreement under certain contracts. See Note 19 of the Notes to the consolidated financial statements included in Part II, Item 8, "Financial Statements and Supplementary Data" of our Form 10-K for the year ended December 31, 2022 filed on March 7, 2023 for further detail of our purchased service commitment.

(8) Short-term borrowings shown in the table were provided by our Credit Facility and reduced our availability under the related Credit Agreement. See Note 9 of the Notes to the unaudited condensed consolidated financial statements included in Part I, Item 1, "Financial Statements" for further detail of our Credit Facility.

(9) These include other current liabilities reflected in our unaudited condensed consolidated balance sheets as of September 30, 2023, including accounts payable and accrued expenses as detailed at Note 8 to the unaudited condensed consolidated financial statements included in Part I, Item 1, "Financial Statements".

Our primary sources of funding include operating cash flows and access to capital markets. There are statutory, regulatory, and debt covenant limitations that affect our ability to access the capital market for funds. Management believes that such limitations will not impact our ability to meet our ongoing short-term cash obligations. Management continuously monitors our liquidity position and adjustments are made to the balance between sources and uses of funds as deemed appropriate. Our management is not aware of any events that are reasonably likely to have a material adverse effect on our liquidity, capital resources, or operations. In addition, our management is not aware of any regulatory recommendations regarding liquidity, which if implemented, would have a material adverse effect on us.

Off-Balance Sheet Arrangements

There have been no material changes to the Off-Balance Sheet Arrangements discussion previously disclosed in our audited consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2022.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We have exposure to interest rate risk mainly related to our Credit Facility, which has variable interest rates that may increase. We had $83.0 million of short-term borrowings outstanding on the Credit Facility and $39.1 million of outstanding letters of credit under the Credit Facility at September 30, 2023. Interest rates on the outstanding principal amount of the Credit Facility vary and accrue at a per annum rate equal to the Alternate Base Rate, the Adjusted Term SOFR Rate, the Adjusted Daily Simple SOFR Rate, the Adjusted EURIBOR Rate or the Adjusted Daily Simple SONIA Rate, as applicable and each as defined in the Credit Agreement, in each case, plus an applicable margin. We completed an interest rate risk sensitivity analysis with the assumption that the short-term borrowing amount that was outstanding as of September 30, 2023 was outstanding for the fiscal year with an assumed one-percentage point increase in interest rates. Based on this analysis, the one-percentage point increase would have an approximate $0.8 million negative impact on our pre-tax earnings.

Item 4. Controls and Procedures.

(a) Evaluation of disclosure controls and procedures

The Company's management, under the supervision and with the participation of its principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in Rule 13a-15(e) of the Exchange Act as of September 30, 2023. Based upon this evaluation, the Company's principal executive officer and principal financial officer concluded that, to the extent of the material weaknesses identified in internal control over financial reporting as described in the Company's Annual Report on Form 10-K for the year ended December 31, 2022, such disclosure controls and procedures were not effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and accumulated and communicated to the Company's management, including its principal executive and financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

In light of the material weaknesses described in the Company's Annual Report on Form 10-K for the year ended December 31, 2022, management performed additional analysis and other procedures to ensure that our unaudited condensed consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles (GAAP). Accordingly, management believes that the unaudited condensed 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.

(b) Changes in internal control over financial reporting

We, with the oversight of the Audit Committee of the Board of Directors, are in the process of ongoing remediation efforts related to the material weaknesses previously reported in our Annual Report on Form 10-K for the year ended December 31, 2022.

During the nine months ended September 30, 2023, our management continued updating certain internal controls and supporting processes to address the material weaknesses in our internal control over financial reporting described in our Annual Report on Form 10-K for the year ended December 31, 2022. The remediation plan put into place by management includes working with our third-party specialist to lead the remediation efforts as well as the addition of resources within the organization to improve structure and help mitigate risks previously identified. Key focus areas have been identified as general information technology control (GITC) deficiencies, payroll controls, revenue process controls and risk assessment related to changes and business acquisitions.

To that effect, the Company has:

- Designed and implemented a new suite of internal controls with appropriate authorities around the payroll process at the NEMT and Corporate and Other segments.
- Continued to execute our enhanced risk assessment process to identify and assess changes in our internal control environment, specifically related to new information technology ("IT") systems and newly acquired companies.
- Continued to design, enhance and implement GITCs, including change management and logical access controls, to support process-level automated controls intended to ensure that information needed for the operation of manual process-level controls and financial reporting is accurate and complete.

The Company is focused on projects that address processes and technologies to integrate each of the business segments into One ModivCare and standardize our control environment. Given the nature and complexity of the integration, management expects that the test of operating effectiveness of remediation will extend into 2024 for the PCS segment. The material weakness will not be considered remediated until the remediation plan has been implemented and there has been appropriate time for us to conclude through testing that the controls are designed and operating effectively. Management will continue to monitor the progress of these efforts to ensure remediation.

(c) Limitations on the effectiveness of controls

Because of its inherent limitations, internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation and presentation. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. The Company conducts periodic evaluations of its internal controls to enhance, where necessary, its procedures and controls.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

From time-to-time, we may become involved in legal proceedings arising in the ordinary course of our business. We record accruals for outstanding legal matters when it is believed to be probable that a loss will be incurred and the amount can be reasonably estimated. Management, following consultation with legal counsel, does not expect the ultimate disposition of any or a combination of any such ongoing or anticipated matters to have a material adverse effect on our business, financial condition or operating results. We cannot predict with certainty, however, the potential for or outcome of any litigation. Regardless of the outcome of any particular litigation and the merits of any particular claim, litigation can have a material adverse impact on us due to, among other reasons, any injunctive relief granted which could inhibit our ability to operate our business, amounts paid as damages or in settlement of any such matter, diversion of management resources and defense costs. Interested parties should refer to Note 13, *Commitments and Contingencies*, in this report for information concerning other potential contingent liabilities matters that do not rise to the level of materiality for purposes of disclosure hereunder.

Item 1A. Risk Factors.

The risks described under the caption "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2022 (the "Annual Report") could materially and adversely affect our business, financial condition, and results of operations, and could cause the trading price of our common stock to decline. The discussion of the risks included under that caption in our Annual Report remains current in all material respects, and there have been no material changes from the risk factors disclosed in the Annual Report. The risk factors that we have discussed do not identify all risks that we face; our operations could also be affected by factors that are not presently known to us or that we currently consider to be immaterial to our operations. Due to risks and uncertainties, known and unknown, our past financial results may not be a reliable indicator of future performance and historical trends should not be used to anticipate results or trends in future periods.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

During the three months ended September 30, 2023, none of our officers or directors adopted or terminated any contract, instruction or written plan for the purchase or sale of our securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) or any "non-Rule 10b5-1 trading arrangement ."

Item 6. Exhibits.

EXHIBIT INDEX

Exhibit Number	Description
3.1	Second Amended and Restated Certificate of Incorporation of the registrant, as filed with the Secretary of State of Delaware on December 9, 2011 (Incorporated by reference to Exhibit 3.1 to the registrant's annual report on Form 10-K filed with the SEC on March 1, 2021).
3.2	Certificate of Amendment to the Second Amended and Restated Certificate of Incorporation of the registrant, dated as of May 6, 2015 (Incorporated by reference to Exhibit 3.1 to the registrant's current report on Form 8-K filed with the SEC on May 7, 2015).
3.3	Second Amendment to the Second Amended and Restated Certificate of Incorporation of the registrant, effective January 6, 2021 (Incorporated by reference to Exhibit 3.1 to the registrant's current report on Form 8-K filed with the SEC on January 6, 2021).
3.4	Third Amendment to the Second Amended and Restated Certificate of Incorporation of the registrant, effective June 13, 2023 (Incorporated by reference to Exhibit 3.1 to the registrant's current report on Form 8-K filed with the SEC on June 15, 2023).
3.5	Amended and Restated Bylaws of the registrant, effective January 6, 2021 (Incorporated by reference to Exhibit 3.2 to the registrant's current report on Form 8-K filed with the SEC on January 6, 2021).
3.6	Amendment to the Amended and Restated Bylaws of the registrant, effective June 13, 2023 (Incorporated by reference to Exhibit 3.2 to the registrant's current report on Form 8-K filed with the SEC on June 15, 2023).
4.1	Indenture for 5.875% Senior Notes Due 2025 dated as of November 4, 2020, between the registrant and The Bank of New York Mellon Trust Company, N.A., as trustee (Incorporated by reference to Exhibit 4.1 to the registrant's current report on Form 8-K filed with the SEC on November 12, 2020).
4.2	Indenture for 5.000% Senior Notes Due 2029 dated as of August 24, 2021, between ModivCare Escrow Issuer, Inc. and The Bank of New York Mellon Trust Company, N.A., as trustee (Incorporated by reference to Exhibit 4.1 to the registrant's current report on Form 8-K filed with the SEC on August 24, 2021).
10.1*	Offer Letter, dated July 31, 2023, by and between the registrant and Barbara Gutierrez.
31.1*	Certification pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 of the Chief Executive Officer.
31.2*	Certification pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 of the Chief Financial Officer.
32.1**	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer.
32.2**	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer.
101.INS*	Inline XBR Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH*	Inline XBRL Schema Document
101.CAL*	Inline XBRL Calculation Linkbase Document
101.LAB*	Inline XBRL Label Linkbase Document
101.PRE*	Inline XBRL Presentation Linkbase Document
101.DEF*	Inline XBRL Definition Linkbase Document
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith.

** Furnished herewith.

SIGNATURES

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

ModivCare Inc.

Date: November 2, 2023	By:	/s/ L. Heath Sampson
		L. Heath Sampson
		Chief Executive Officer
		(Principal Executive Officer)
Date: November 2, 2023	By:	/s/ Barbara Gutierrez
		Barbara Gutierrez
		Chief Financial Officer
		(Principal Financial Officer)

July 31, 2023

Barbara K. Gutierrez
Littleton, CO

Dear Barbara,

It gives me great pleasure to offer you the Chief Financial Officer position with Modivcare. In addition to confirming our offer, this letter will detail the terms and conditions of your employment and outline the current major features of Modivcare's compensation and benefit plans and practices. All offers of employment are contingent upon the completion of any required pre-employment screening and your ability to establish your identity and authorization to work in the United States. Please be sure to bring work authorization documentation with you on your first day of employment.

Assumption of Duties: Your tentative start date will be on September 5, 2023, or such earlier date as may be mutually agreed. In your role you will report to Heath Sampson and will have responsibilities commensurate with your position/title. You will be based in Denver, CO with the requirement to travel nationwide as requested per business need.

Base Salary: Your initial base salary will be $500,000.00 payable in bi-weekly installments, less applicable taxes, deductions, and withholding.

Short-Term Incentive Plan (STIP): You are eligible to participate in our Short-Term Incentive Plan (STIP) with a target of 100% of your base pay, calculated on your eligible earnings for the calendar year as defined in the STIP document. The Compensation Committee of the Board of Directors holds the ultimate discretion to make determinations with respect to the STIP, including funding of the STIP for any given year as well as the satisfaction by executives of their individual performance targets.

Long-Term Incentive Program (LTIP): Subject to approval by the Compensation Committee of the Board of Directors, you will be eligible to receive an equity award with a target value equal to 150% of your base salary. Additional details will be provided in one or more separate agreements, the execution of which will be a condition of the award. The terms of the Long-Term Incentive Program (LTIP) and the grant agreement will supersede any terms set forth in this offer letter. Any future allocations of LTIP awards are subject to the approval of the Compensation Committee.

Executive Non-qualified Deferred Compensation Plan: You are also eligible to participate in the Executive Non-qualified Deferred Compensation plan. Your participation in the plan will be subject to the provisions set forth in the official plan documents for the plan, and the terms of the plan will supersede any terms set forth in this letter.

Total Rewards Benefits Programs: You will receive such benefits as are generally accorded to employees at Modivcare, subject to company policy and any applicable terms and conditions as they may be amended from time to time. Modivcare's current benefit program covers medical, dental, life, short-term and long-term disability insurance, flexible spending accounts, voluntary vision, voluntary life insurance, 401K, and paid time off.

As part of our current benefit package, employees can elect medical and/or dental insurance. Please refer to the attached benefit summary for cost details. Also, currently included is a 100% company-paid short and long-term disability policy and a 100% company paid life insurance equaling one times annual salary up to $100,000.00. We also offer the opportunity to participate in voluntary vision, voluntary life insurance and both medical care and dependent care flexible spending accounts. You can enroll online in your benefit coverages after your hire date and during your first 30 days of employment. Your elected coverages will take effect the first of the month following your date of hire. If you miss your initial enrollment window, please note that you will need to wait until the next annual enrollment period.

401k Retirement Plan: Modivcare offers employees the opportunity to participate in a Traditional 401k (pre-tax) and/or Roth 401k (post-tax) retirement savings plan with an employer match contribution of 100% up to 6%, vested immediately. You are eligible to join the 401(k) Plan on the first day of the month following 30 days of employment. You must be 18 years of age or older. New hires that have met the eligibility requirements can make elections by accessing the 401k plan website at www.mkplan.com or contact ADP Retirement Services at 888-822-9238.

You will be eligible for paid time off in accordance with company polices. Additionally, all employees receive company holidays throughout the calendar year.

"At will" Employment and Termination of Employment: Your employment with Modivcare will be an employment "at will". This means that employees have the right to terminate their employment at any time and for any reason. Likewise, Modivcare reserves the right to discontinue your employment with or without cause at any time and for any reason.

In the event that your employment with Modivcare is terminated (i) by Modivcare for any reason other than Cause (as defined below) and not due to your death or Disability (as defined below) or (ii) by you for Good Reason (as defined below), then Modivcare will pay to you your Accrued Compensation (as defined below), payable within 30 days after your termination (with the payment date during such 30 day period to be determined by Modivcare in its sole discretion).

In the event that your employment is terminated by Modivcare for Cause, by you without Good Reason or as a result of your death or Disability, you will not be entitled to the severance compensation described below, but instead will only be entitled to payment of the Accrued Compensation through the date your employment terminates, payable within 30 days after your termination (with the payment date during such 30-day period to be determined by Modivcare in its sole discretion).

In addition to the payment of the Accrued Compensation through the date of termination of your employment, should your employment be terminated by Modivcare without Cause or by you for Good Reason, you shall also be entitled to severance payments for a twelve-month period as detailed in the

Company's severance policy for executive leaders adopted by our Board of Directors, after delivering to Modivcare a unilateral general release of claims in a form acceptable to Modivcare, and such release becomes fully effective and irrevocable under applicable law and provided you are, and continue to be, in compliance with the terms of Modivcare's Non-Solicitation and Confidentiality Agreement.

For purposes of this letter: "Accrued Compensation" means, as of any date, the amount of any unpaid base salary earned by you through the date of the termination of your employment, and, other than in the case of a termination for Cause or resignation without Good Reason, any short-term cash incentive bonus earned by you, but not yet paid, for the most recently completed fiscal year prior to the termination of your employment.

"Cause" shall mean (a) an intentional act of fraud, embezzlement, theft or any other material violation of law by you in the course of your employment; (b) the willful and continued failure to substantially perform your duties for the company (other than as a result of incapacity due to physical or mental illness); (c) conviction of a crime involving moral turpitude; or (d) any material violation of Modivcare's material written policies.

"Disability" shall mean you are unable, by reason of mental or physical disability, incapacity or illness, to perform substantially all of your duties and obligations hereunder, which condition lasts for a continuous period in excess of three (3) months, or an aggregate period in excess of four (4) months in any one (1) calendar year.

"Good Reason" shall mean (a) a material reduction in your job duties, responsibilities, and requirements inconsistent with your position with Modivcare and your prior duties, responsibilities and requirements; (b) a material reduction in your base compensation; or (c) relocation of your principal business location to another Modivcare facility or location more than 50 miles from your home address.

Non-Solicitation and Confidentiality Agreement: Modivcare intends to honor your ongoing confidentiality obligations and you agree to abide by Modivcare's strict company policy that prohibits any new employee from using or bringing with them from any prior employer any proprietary information, trade secrets, proprietary materials or processes of such former employers. You further represent and warrant that you have not and will not breach or violate any contract or legal obligation owed to any third party such as a prior employer. Upon starting employment with Modivcare you will be required to sign Modivcare's Non-Solicitation and Confidentiality Agreement. At the termination of your employment, you will be reminded of your continuing duties under both agreements. Please read the agreements carefully.

Severability: In the event that any provision or portion of this letter shall be determined to be invalid or unenforceable for any reason, in whole or in part, the remaining provisions of this letter shall be unaffected thereby and shall remain in full force and effect to the fullest extent not prohibited by law. You and the firm hereby agree that the court or arbitrator making any such determination shall modify and reform any parts of this letter determined to be invalid or unenforceable, to the extent necessary (and not further than necessary), so as to render them valid and enforceable, or if the court or arbitrator cannot so reform such provision, then such part shall be deemed to have been stricken from this letter with the same force and effect as if such part or parts had never been included.

Section 409A Compliance: This letter and all payments and benefits hereunder are intended to be exempt from or otherwise comply with Section 409A so that none of the payments and benefits to be provided hereunder will be subject to the additional tax imposed under Section 409A, and any ambiguities or ambiguous terms herein will be interpreted in that manner.

Entire Agreement: This offer letter and the Non-Solicitation and Confidentiality Agreement constitutes the entire agreement between you and Modivcare pertaining to the subject matter hereof and supersedes all prior and contemporaneous agreements, understandings, negotiations and discussions, whether oral or written, of the parties with respect to such subject matter.

Upon your acceptance of this offer of employment, please acknowledge your agreement with the terms set forth in this letter by signing in the designated space below. A copy of this letter agreement is enclosed for your records.

We are excited about the opportunity to work with you and look forward to hearing your positive response to this letter by Wednesday, August 2, 2023. If you agree with the terms of this offer of employment, please electronically sign this letter using the link in the email that sent this letter.

Sincerely,

Heath Sampson
Chief Executive Officer
Modivcare

Enclosures:

Benefits Booklet & Vacation Policy

Cc: File

ACCEPTED AND AGREED:

Daken K. Gatesy

Exhibit 31.1

CERTIFICATIONS

I, L. Heath Sampson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of ModivCare Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter 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 2, 2023

/s/ L. Heath Sampson

L. Heath Sampson
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATIONS

I, Barbara Gutierrez, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of ModivCare Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter 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 2, 2023

/s/ Barbara Gutierrez

Barbara Gutierrez
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

MODIVCARE INC.

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

Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of ModivCare Inc. ("ModivCare" or the "Company") does hereby certify with respect to the Quarterly Report of the Company on Form 10-Q for the quarter ended September 30, 2023 (the “Report”) that, to the best of such officer’s knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 2, 2023

/s/ L. Heath Sampson
L. Heath Sampson
Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

MODIVCARE INC.

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

Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of ModivCare Inc. ("ModivCare" or the "Company") does hereby certify with respect to the Quarterly Report of the Company on Form 10-Q for the quarter ended September 30, 2023 (the “Report”) that, to the best of such officer’s knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 2, 2023

/s/ Barbara Gutierrez
Barbara Gutierrez
Chief Financial Officer
(Principal Financial Officer)