

REFINITIV

DELTA REPORT

10-Q

PNTG - PENNANT GROUP, INC.
10-Q - JUNE 30, 2024 COMPARED TO 10-Q - MARCH 31, 2024

The following comparison report has been automatically generated

TOTAL DELTAS	647
CHANGES	223
DELETIONS	154
ADDITIONS	270

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

FORM 10-Q

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

For the quarterly period ended **March 31, 2024** **June 30, 2024**.

☐ 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: 001-38900

THE PENNANT GROUP, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware 83-3349931
(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)

1675 East Riverside Drive, Suite 150, Eagle, ID 83616
(Address of Principal Executive Offices and Zip Code)
(208) 506-6100
(Registrant's Telephone Number, Including Area Code)
None
(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 each exchange on which registered
Common Stock, par value \$0.001 per share	PNTG	Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

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

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (\$232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☒ Yes ☐ No

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

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

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

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

As of **May 3, 2024** **August 5, 2024**, **30,045,760** **30,206,741** shares of the registrant's common stock were outstanding.

THE PENNANT GROUP, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE THREE AND SIX MONTHS ENDED MARCH 31, JUNE 30, 2024

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PART I. FINANCIAL INFORMATION

Item I. Financial Statements

THE PENNANT GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited, in thousands, except par value)

	March 31, 2024	December 31, 2023
	June 30, 2024	December 31, 2023
Assets		
Current assets:		
Current assets:		
Current assets:		
Cash		
Cash		
Cash		
Accounts receivable—less allowance for doubtful accounts of \$197 and \$259, respectively		
Accounts receivable—less allowance for doubtful accounts of \$253 and \$259, respectively		
Prepaid expenses and other current assets		
Total current assets		
Property and equipment, net		
Right-of-use assets		

Restricted and other assets		
Restricted and other assets		
Deferred tax assets, net		
Restricted and other assets		
Goodwill		
Other indefinite-lived intangibles		
Total assets		
Liabilities and equity		
Current liabilities:		
Current liabilities:		
Current liabilities:		
Accounts payable		
Accounts payable		
Accounts payable		
Accrued wages and related liabilities		
Operating lease liabilities—current		
Other accrued liabilities		
Total current liabilities		
Long-term operating lease liabilities—less current portion		
Deferred tax liabilities, net		
Other long-term liabilities		
Long-term debt, net		
Total liabilities		
Commitments and contingencies	Commitments and contingencies	Commitments and contingencies
Equity:		
Common stock, \$0.001 par value; 100,000 shares authorized; 30,371 and 30,036 shares issued and outstanding, respectively, at March 31, 2024; and 30,297 and 29,948 shares issued and outstanding, respectively, at December 31, 2023		
Common stock, \$0.001 par value; 100,000 shares authorized; 30,371 and 30,036 shares issued and outstanding, respectively, at March 31, 2024; and 30,297 and 29,948 shares issued and outstanding, respectively, at December 31, 2023		
Common stock, \$0.001 par value; 100,000 shares authorized; 30,371 and 30,036 shares issued and outstanding, respectively, at March 31, 2024; and 30,297 and 29,948 shares issued and outstanding, respectively, at December 31, 2023		
Common stock, \$0.001 par value; 100,000 shares authorized; 30,493 and 30,150 shares issued and outstanding, respectively, at June 30, 2024; and 30,297 and 29,948 shares issued and outstanding, respectively, at December 31, 2023		
Common stock, \$0.001 par value; 100,000 shares authorized; 30,493 and 30,150 shares issued and outstanding, respectively, at June 30, 2024; and 30,297 and 29,948 shares issued and outstanding, respectively, at December 31, 2023		
Common stock, \$0.001 par value; 100,000 shares authorized; 30,493 and 30,150 shares issued and outstanding, respectively, at June 30, 2024; and 30,297 and 29,948 shares issued and outstanding, respectively, at December 31, 2023		
Additional paid-in capital		
Retained earnings		
Treasury stock, at cost, 3 shares at March 31, 2024 and December 31, 2023		
Treasury stock, at cost, 3 shares at June 30, 2024 and December 31, 2023		
Total The Pennant Group, Inc. stockholders' equity		
Noncontrolling interest		
Total equity		
Total liabilities and equity		

See accompanying notes to condensed consolidated financial statements.

THE PENNANT GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited, in thousands, except for per-share amounts)

Three Months Ended March 31,

	Three Months Ended March 31,				
	Three Months Ended March 31,				
	2024				
	2024				
	Three Months Ended June 30,		Six Months Ended June 30,		
	2024	2024	2023	2024	2023
Revenue					
Revenue					
Revenue					
Expense					
Expense					
Expense					
Cost of services					
Cost of services					
Cost of services					
Rent—cost of services					
Rent—cost of services					
Rent—cost of services					
General and administrative expense					
General and administrative expense					
General and administrative expense					
Depreciation and amortization					
Depreciation and amortization					
Depreciation and amortization					
Gain on disposition of property and equipment, net					
Gain on disposition of property and equipment, net					
Gain on disposition of property and equipment, net					
Total expenses					
Total expenses					
Loss (gain) on disposition of property and equipment, net					
Total expenses					
Income from operations					
Income from operations					
Income from operations					
Other income (expense), net:					
Other income (expense), net:					
Other income (expense), net:					
Other income					
Other income					
Other income					
Interest expense, net					
Interest expense, net					
Other (expense) income, net:					
Other (expense) income					
Other (expense) income					
Other (expense) income					
Interest expense, net					
Other expense, net					
Other expense, net					
Other expense, net					
Income before provision for income taxes					
Income before provision for income taxes					



Income before provision for income taxes
Provision for income taxes
Provision for income taxes
Provision for income taxes
Net income
Net income
Net income
Less: Net income attributable to noncontrolling interest
Less: Net income attributable to noncontrolling interest
Less: Net income attributable to noncontrolling interest
Net income attributable to The Pennant Group, Inc.
Net income attributable to The Pennant Group, Inc.
Net income attributable to The Pennant Group, Inc.
Earnings per share:
Earnings per share:
Earnings per share:
Basic
Basic
Basic
Diluted
Diluted
Diluted
Weighted average common shares outstanding:
Weighted average common shares outstanding:
Weighted average common shares outstanding:
Basic
Basic
Basic
Diluted
Diluted
Diluted

See accompanying notes to condensed consolidated financial statements.

THE PENNANT GROUP, INC.									
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY									
(unaudited, in thousands)									
Common Stock									
Shares									
Shares									
Shares	Amount	Shares	Amount	Total	Amount	Shares	Amount	Total	
Balance at December 31, 2023									
Balance at December 31, 2023									
Balance at December 31, 2023									
Net income attributable to The Pennant Group, Inc.									
Noncontrolling interests assumed related to acquisitions									
Net income attributable to noncontrolling interests									
Share-based compensation									
Issuance of common stock from the exercise of stock options									

Net issuance of restricted stock
Balance at March 31, 2024
Net income attributable to The Pennant Group, Inc.
Net income attributable to noncontrolling interests
Stock-based compensation
Issuance of common stock from the exercise of stock options
Net issuance of restricted stock
Balance at June 30, 2024

Common Stock									
Shares									
Shares									
Shares	Amount	Shares	Amount	Total	Amount	Shares	Amount	Total	
Balance at December 31, 2022									
Balance at December 31, 2022									
Balance at December 31, 2022									
Net income attributable to The Pennant Group, Inc.									
Net income attributable to noncontrolling interests									
Share-based compensation									
Issuance of common stock from the exercise of stock options									
Net issuance of restricted stock									
Balance at March 31, 2023									
Net loss attributable to The Pennant Group, Inc.									
Net income attributable to noncontrolling interests									
Share-based compensation									
Issuance of common stock from the exercise of stock options									
Net issuance of restricted stock									
Balance at June 30, 2023									

See accompanying notes to condensed consolidated financial statements.

THE PENNANT GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, in thousands)

	Three Months Ended March 31,			Six Months Ended June 30,	
	2024	2024	2023	2024	2023
Cash flows from operating activities:					
Net income					
Net income					
Net income					
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization					
Depreciation and amortization					
Depreciation and amortization					
Amortization of deferred financing fees					
Gain on disposition of property and equipment, net					
(Gain) loss on disposition of property and equipment, net					
Provision for doubtful accounts					
Share-based compensation					
Deferred income taxes					

Change in operating assets and liabilities, net of acquisitions:
Change in operating assets and liabilities, net of acquisitions:
Change in operating assets and liabilities, net of acquisitions:

Accounts receivable
Accounts receivable
Accounts receivable
Prepaid expenses and other assets
Operating lease obligations
Accounts payable
Accrued wages and related liabilities
Other accrued liabilities
Income taxes payable
Income taxes payable
Income taxes payable
Other long-term liabilities
Net cash provided by operating activities
Cash flows from investing activities:
Purchase of property and equipment
Purchase of property and equipment
Purchase of property and equipment
Cash payments for business acquisitions
Cash payments for asset acquisitions
Escrow deposits
Escrow deposits
Escrow deposits
Other
Net cash used in investing activities
Cash flows from financing activities:
Proceeds from Revolving Credit Facility
Proceeds from Revolving Credit Facility
Proceeds from Revolving Credit Facility
Payments on Revolving Credit Facility
Finance lease obligations
Issuance of common stock upon the exercise of options
Issuance of common stock upon the exercise of options
Issuance of common stock upon the exercise of options
Net cash provided by (used in) financing activities
Net (decrease) increase in cash
Cash beginning of period
Cash end of period

See accompanying notes to condensed consolidated financial statements.

THE PENNANT GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - (Continued)
(unaudited, in thousands)

	Three Months Ended March 31,		Six Months Ended June 30,	
	2024	2024	2023	2023
Supplemental disclosures of cash flow information:				
Cash paid during the period for:				

Cash paid during the period for:

Cash paid during the period for:

Interest
Interest
Interest
Income taxes
Lease liabilities
Right-of-use assets obtained in exchange for new operating lease obligations
Non-cash investing activity:
Non-cash investing activity:
Non-cash investing activity:
Capital expenditures in accounts payable
Capital expenditures in accounts payable
Capital expenditures in accounts payable

See accompanying notes to condensed consolidated financial statements.

THE PENNANT GROUP INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share data and operational senior living units)

1. DESCRIPTION OF BUSINESS

The Pennant Group, Inc. (herein referred to as “Pennant,” the “Company,” “it,” or “its”), is a holding company with no direct operating assets, employees or revenue. The Company, through its independent operating subsidiaries, provides healthcare services across the post-acute care continuum. As of **March 31, 2024** **June 30, 2024**, the Company's subsidiaries operated **112** **117** home health, hospice and home care agencies and **53** **54** senior living communities located in Arizona, California, Colorado, Idaho, Montana, Nevada, Oklahoma, Oregon, Texas, Utah, Washington, Wisconsin and Wyoming.

Certain of the Company's subsidiaries, collectively referred to as the Service Center, provide accounting, payroll, human resources, information technology, legal, risk management, and other services to the operations through contractual relationships. **The Service Center also provides certain of these services to unaffiliated third parties under management agreements.**

Each of the Company's affiliated operations are operated by separate, independent subsidiaries that have their own management, employees and assets. References herein to the consolidated “Company” and “its” assets and activities are not meant to imply, nor should they be construed as meaning, that Pennant has direct operating assets, employees or revenue, or that any of the subsidiaries are operated by Pennant.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying unaudited condensed consolidated financial statements of the Company (the “Interim Financial Statements”) reflect the Company's financial position, results of operations, and cash flows of the business. The Interim Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) and pursuant to the regulations of the Securities and Exchange Commission (“SEC”). Management believes that the Interim Financial Statements reflect, in all material respects, all adjustments which are of a normal and recurring nature necessary to present fairly the Company's financial position, results of operations, and cash flows for the periods presented in conformity with GAAP. The results reported in these Interim Financial Statements are not necessarily indicative of results that may be expected for the entire year.

The Condensed Consolidated Balance Sheet as of December 31, 2023 is derived from the Company's annual audited Consolidated Financial Statements for the fiscal year ended December 31, 2023, which should be read in conjunction with these Interim Financial Statements. Certain information in the accompanying footnote disclosures normally included in annual financial statements was condensed or omitted for the interim periods presented in accordance with GAAP.

All significant intercompany transactions and balances between the various legal entities comprising the Company have been eliminated in consolidation. The Company presents noncontrolling interests within the equity section of its Condensed Consolidated Balance Sheets and the amount of consolidated net income that is attributable to the Company and the noncontrolling interest in its Condensed Consolidated Statements of Income.

The Company consists of various limited liability companies and corporations established to operate home health, hospice, home care, and senior living operations. The Interim Financial Statements include the accounts of all entities controlled by the Company through its ownership of a majority voting interest.

Estimates and Assumptions - The preparation of the **Interim** Financial Statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the **Interim** Financial Statements and the reported amounts of revenue and expenses during the reporting periods. The most significant estimates in the **Interim** Financial Statements relate to self-insurance reserves, revenue recognition, and intangible assets and goodwill. Actual results could differ from those estimates.

State relief funding. The Company receives state relief funding through programs from various states, including healthcare relief funding under the American Rescue Plan Act (ARPA), and other state specific relief programs. The funding generally incorporates specific use requirements primarily for direct patient care including labor related expenses that are attributable to the COVID-19 pandemic or are associated with providing patient care.

These funds are recognized as a reduction of cost of services expenses when related expenses are incurred. As of **March 31, 2024** **June 30, 2024** and December 31, 2023, the Company had **\$383 \$1,162** and \$780 in unapplied state relief funds, respectively. The unapplied state relief funds received are recorded in other accrued liabilities. The Company recognized state relief funding

THE PENNANT GROUP, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

totaling **\$453 \$1,124** and **\$1,577** for the three and six months ended **March 31, 2024** **June 30, 2024**, and **\$685 \$1,397** and **\$2,082** for the three and six months ended **March 31, 2023** **June 30, 2023**, respectively, which the Company recognized as a reduction of cost of services expense.

Recent Accounting Pronouncements

Except for rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws and a limited number of grandfathered standards, the **FASB Financial Accounting Standards Board ("FASB")** ASC is the sole source of authoritative GAAP literature recognized by the FASB and applicable to the Company. For any new pronouncements announced, the Company considers whether the new pronouncements could alter previous generally accepted accounting principles and determines whether any new or modified principles will have a material impact on the Company's reported financial position or operations in the near term. The applicability of any standard is subject to the formal review of the Company's financial management and certain standards are under consideration.

In November 2023, the FASB issued ASU 2023-07, "*Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*," which requires the Company to expand the breadth and frequency of segment disclosures to include additional information about significant segment expenses, the chief operating decision maker and other items, and also **require requires** the annual disclosures on an interim basis. This guidance is effective for annual periods beginning after December 15, 2023, which will be the Company's fiscal year 2024, with early adoption permitted. The Company is currently evaluating the impact of the ASU on its **Quarterly quarterly** and **Annual Reports. annual reports.**

In December 2023, the FASB issued ASU 2023-09, "*Income Taxes (Topic 740): Improvements to Income Tax Disclosures*," which requires the Company to disclose disaggregated jurisdictional and categorical information for the tax rate reconciliation, income taxes paid and other income tax related amounts. This guidance is effective for annual periods beginning after December 15, 2024, which will be the Company's fiscal year 2025, with early adoption permitted. The Company doesn't expect it to have any material impacts.

3. TRANSACTIONS WITH ENSIGN

On October 1, 2019, Pennant completed its separation from The Ensign Group, Inc. ("Ensign") **completed the separation in 2019**. Certain directors who serve on our Board of Pennant (the "Spin-Off"). Directors also serve as directors of Ensign and own shares of Ensign common stock. Pennant and Ensign continue to partner in the provision of services along the healthcare continuum.

The Company incurred costs of **\$280 \$302** and **\$582** for the three and six months ended **March 31, 2024** **June 30, 2024**, and **\$273 \$192** and **\$465** for the three and six months ended **March 31, 2023** **June 30, 2023**, respectively, that related primarily to shared services at proximate operations.

Expenses related to room and board charges at Ensign skilled nursing facilities for hospice patients were **\$1,500 \$1,570** and **\$3,070** for the three and six months ended **March 31, 2024** **June 30, 2024**, and **\$940 \$1,014** and **\$1,954** for the three and six months ended **March 31, 2023** **June 30, 2023**, respectively, and are included in cost of services.

The Company's independent operating subsidiaries leased 29 communities from subsidiaries of Ensign under a master lease arrangement as of both **March 31, 2024** **June 30, 2024** and **March 31, 2023** **June 30, 2023**. See further discussion below at Note 13, Leases.

4. NET INCOME PER COMMON SHARE

Basic net income per share is computed by dividing net income attributable to stockholders of the Company by the weighted average number of outstanding common shares for the period. The computation of diluted net income per share is similar to the computation of basic net income per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued.

THE PENNANT GROUP, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The following table sets forth the computation of basic and diluted net income per share for the periods presented:

	Three Months Ended March 31,
	Three Months Ended March 31,
	Three Months Ended March 31,

		Six Months Ended June	
		Three Months Ended June 30,	30,
		2024	2023
2024		2023	2023
Numerator:			
Numerator:			
Numerator:			
Net income attributable to The Pennant Group, Inc.			
Net income attributable to The Pennant Group, Inc.			
Net income attributable to The Pennant Group, Inc.			
Denominator:			
Denominator:			
Denominator:			
Weighted average shares outstanding for basic net income per share			
Weighted average shares outstanding for basic net income per share			
Weighted average shares outstanding for basic net income per share			
Plus: assumed incremental shares from exercise of options and assumed conversion or vesting of restricted stock ^(a)			
Plus: assumed incremental shares from exercise of options and assumed conversion or vesting of restricted stock ^(a)			
Plus: assumed incremental shares from exercise of options and assumed conversion or vesting of restricted stock ^(a)			
Adjusted weighted average common shares outstanding for diluted income per share			
Adjusted weighted average common shares outstanding for diluted income per share			
Adjusted weighted average common shares outstanding for diluted income per share			
Earnings Per Share:			
Earnings Per Share:			
Earnings Per Share:			
Basic net income per common share			
Basic net income per common share			
Basic net income per common share			
Diluted net income per common share			
Diluted net income per common share			
Diluted net income per common share			

(a) The diluted per share amounts do not reflect common share equivalents outstanding of 2,043 1,375 and 1,788 for the three and six months ended March 31, 2024 June 30, 2024, and 2,002 2,312 and 2,158 for the three and six months ended March 31, 2023 June 30, 2023, respectively, because of their anti-dilutive effect.

5. REVENUE AND ACCOUNTS RECEIVABLE

Revenue is recognized when services are provided to the patients at the amount that reflects the consideration to which the Company expects to be entitled from patients and third-party payors, including Medicare, Medicaid, and managed care programs (Commercial, Medicare Advantage and Managed Medicaid plans). The healthcare services in home health and hospice patient contracts include routine services in exchange for a contractual agreed-upon amount or rate. Routine services are treated as a single performance obligation satisfied over time as services are rendered. As such, patient care services represent a bundle of services that are not capable of being distinct within the context of the contract. Additionally, there may be ancillary services which are not included in the rates for routine services, but instead are treated as separate performance obligations satisfied at a point in time, if and when those services are rendered.

Revenue recognized from healthcare services is adjusted for estimates of variable consideration to arrive at the transaction price. The Company determines the transaction price based on contractually agreed-upon amounts or rates, adjusted for estimates of variable consideration. The Company uses the expected value method in determining the variable component that should be used to arrive at the transaction price, using contractual agreements and historical reimbursement experience within each payor type. The amount of variable consideration which is included in the transaction price may be constrained, and is included in the net revenue only to the extent that it is probable that a significant reversal in the amount of the cumulative revenue recognized will not occur in a future period. If actual amounts of consideration ultimately received differ from the Company's estimates, the Company adjusts these estimates, which would affect net service revenue in the period such variances become known.

The Company records revenue from these governmental and managed care programs as services are performed at their expected net realizable amounts under these programs. The Company's revenue from governmental and managed care programs is subject to audit and retroactive adjustment by governmental and third-party agencies. Consistent with healthcare industry accounting practices, any changes to these governmental revenue estimates are recorded in the period the change or adjustment becomes known based on final settlement.

Disaggregation of Revenue

The Company disaggregates revenue from contracts with its patients by reportable operating segments and payors. The Company has determined that disaggregating revenue into these categories achieves the disclosure objectives to depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

THE PENNANT GROUP, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The Company's service specific revenue recognition policies are as follows:

Home Health Revenue

Medicare Revenue

Net service revenue is recognized in accordance with the Patient Driven Groupings Model ("PDGM"). Under PDGM, Medicare provides agencies with payments for each 30-day payment period provided to beneficiaries. If a beneficiary is still eligible for care after the end of the first 30-day payment period, a second 30-day payment period can begin. There are no limits to the number of periods of care a beneficiary who remains eligible for the home health benefit can receive. While payment for each 30-day payment period is adjusted to reflect the beneficiary's health condition and needs, a special outlier provision exists to ensure appropriate payment for those beneficiaries that have the most expensive care needs. The payment under the Medicare program is also adjusted for certain variables including, but not limited to: (a) a low utilization payment adjustment if the number of visits is below an established threshold that varies based on the diagnosis of a beneficiary; (b) a partial payment if the patient transferred to another provider or the Company received a patient from another provider before completing the period of care; (c) adjustment to the admission source of claim if it is determined that the patient had a qualifying stay in a post-acute care setting within 14 days prior to the start of a 30-day payment period; (d) the timing of the 30-day payment period provided to a patient in relation to the admission date, regardless of whether the same home health provider provided care for the entire series of episodes; (e) changes to the acuity of the patient during the previous 30-day payment period; (f) changes in the base payments established by the Medicare program; (g) adjustments to the base payments for case mix and geographic wages; and (h) recoveries of overpayments.

The Company adjusts Medicare revenue on completed episodes to reflect differences between estimated and actual payment amounts, an inability to obtain appropriate billing documentation and other reasons unrelated to credit risk. Therefore, the Company believes that its reported net service revenue and patient accounts receivable will be the net amounts to be realized from Medicare for services rendered.

In addition to revenue recognized on completed episodes and periods, the Company also recognizes a portion of revenue associated with episodes and periods in progress. Episodes in progress are 30-day payment periods that begin during the reporting period but were not completed as of the end of the period. As such, the Company estimates revenue and recognizes it on a daily basis. The primary factors underlying this estimate are the number of episodes in progress at the end of the reporting period, expected Medicare revenue per period of care or episode of care and the Company's estimate of the average percentage complete based on the scheduled end of period and end of episode dates.

Non-Medicare Revenue

Episodic Based Revenue - The Company recognizes revenue in a similar manner as it recognizes Medicare revenue for episodic-based rates that are paid by other insurance carriers, including carriers administering Medicare Advantage programs. These rates can vary based upon the negotiated terms.

Non-episodic Based Revenue - Revenue is recognized on an accrual basis based upon the date of service at amounts equal to its established or estimated per visit rates, as applicable.

Hospice Revenue

Revenue is recognized on an accrual basis based upon the date of service at amounts equal to the estimated payment rates. The estimated payment rates are calculated as daily rates for each of the levels of care the Company delivers. Revenue is adjusted for an inability to obtain appropriate billing documentation or authorizations acceptable to the payor and other reasons unrelated to credit risk. Additionally, as Medicare hospice revenue is subject to an inpatient cap and an overall payment cap, the Company monitors its provider numbers and estimates amounts due back to Medicare if a cap has been exceeded. The Company regularly evaluates and records these adjustments as a reduction to revenue and an increase to other accrued liabilities.

Senior Living Revenue

The Company has elected the lessor practical expedient within ASC Topic 842, *Leases* and therefore recognizes, measures, presents, and discloses the revenue for services rendered under the Company's senior living residency agreements

THE PENNANT GROUP, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

based upon the predominant component, either the lease or non-lease component, of the contracts. The Company has determined that the services included under the Company's senior living residency agreements each have the same timing and pattern of transfer. The Company recognizes revenue under ASC Topic 606, *Revenue from Contracts with*

Customers for its senior residency agreements, for which it has determined that the non-lease components of such residency agreements are the predominant component of each such contract.

The Company's senior living revenue consists of fees for basic housing and assisted living care. Accordingly, the Company records revenue when services are rendered on the date services are provided at amounts billable to individual residents. Residency agreements are generally for a term of 30 days, with resident fees billed monthly in advance. For residents under reimbursement arrangements with Medicaid, revenue is recorded based on contractually agreed-upon amounts or rates on a per resident, daily basis or as services are rendered.

Revenue By Payor

Revenue by payor for the three months ended **March 31, 2024** **June 30, 2024** and 2023, is summarized in the following tables:

Three Months Ended March 31, 2024											Three Months Ended Ju			
	Home Health and Hospice Services													
	Home Health Services		Hospice Services		Senior Living Services		Total Revenue		Revenue %		Hospice Services		Senior Living Services	
Medicare	Medicare	\$29,842	\$	\$47,139	\$	\$ —	\$	\$ 76,981	49.1	49.1 %	Medicare	\$30,389	\$	\$51,4
Medicaid														
Subtotal														
Managed care														
Private and other(a)														
Total revenue	Total revenue	\$61,883	\$	\$54,607	\$	\$40,425	\$	\$156,915	100.0	100.0 %	Total revenue	\$65,954	\$	\$59,3

(a) Private and other payors in the Company's home health and hospice services segment includes revenue from all payors generated in the Company's home care operations, operations and management services agreement.

Three Months Ended March 31, 2023											Three Months Ended Ju			
	Home Health and Hospice Services													
	Home Health Services		Hospice Services		Senior Living Services		Total Revenue		Revenue %		Hospice Services		Senior Living Services	
Medicare	Medicare	\$23,376	\$	\$37,380	\$	\$ —	\$	\$ 60,756	48.0	48.0 %	Medicare	\$23,920	\$	\$40,2
Medicaid														
Subtotal														
Managed care														
Private and other(a)														

Total revenue	Total revenue	\$47,790	\$	\$43,289	\$	\$35,385	\$	\$126,464	100.0	100.0 %	Total revenue	\$48,458	\$	\$46,511
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(a) Private and other payors in the Company's home health and hospice services segment includes revenue from all payors generated in the Company's home care operations.

THE PENNANT GROUP, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Revenue by payor for the six months ended June 30, 2024 and 2023, is summarized in the following tables:

Six Months Ended June 30, 2024						
	Home Health and Hospice Services		Senior Living Services	Total Revenue	Revenue %	
	Home Health Services	Hospice Services				
Medicare	\$ 60,231	\$ 98,630	\$ —	\$ 158,861	48.8 %	
Medicaid	13,945	12,622	24,961	51,528	15.8	
Subtotal	74,176	111,252	24,961	210,389	64.6	
Managed care	39,421	2,050	—	41,471	12.7	
Private and other ^(a)	14,240	652	58,908	73,800	22.7	
Total revenue	\$ 127,837	\$ 113,954	\$ 83,869	\$ 325,660	100.0 %	

(a) Private and other payors in the Company's home health services includes revenue from all payors generated in the Company's home care operations and management services agreement.

Six Months Ended June 30, 2023						
	Home Health and Hospice Services		Senior Living Services	Total Revenue	Revenue %	
	Home Health Services	Hospice Services				
Medicare	\$ 47,296	\$ 77,674	\$ —	\$ 124,970	48.3 %	
Medicaid	4,657	9,280	22,625	36,562	14.1	
Subtotal	51,953	86,954	22,625	161,532	62.4	
Managed care	31,769	2,611	—	34,380	13.3	
Private and other ^(a)	12,526	286	50,021	62,833	24.3	
Total revenue	\$ 96,248	\$ 89,851	\$ 72,646	\$ 258,745	100.0 %	

(a) Private and other payors in the Company's home health services includes revenue from all payors generated in the Company's home care operations.

Balance Sheet Impact

Included in the Company's Condensed Consolidated Balance Sheets are contract assets, comprised of billed accounts receivable and unbilled receivables, which are the result of the timing of revenue recognition, billings and cash collections, as well as, contract liabilities, which primarily represent payments the Company receives in advance of services provided.

THE PENNANT GROUP, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Accounts receivable, net as of March 31, 2024 June 30, 2024 and December 31, 2023 is summarized in the following table:

	March 31, 2024	December 31, 2023
	June 30, 2024	December 31, 2023
Medicare		
Medicaid		
Managed care		
Private and other		
Accounts receivable, gross		
Less: allowance for doubtful accounts		

Concentrations - Credit Risk

The Company has significant accounts receivable balances, the collectability of which is dependent on the availability of funds from certain governmental programs, primarily Medicare and Medicaid. These receivables represent the only significant concentration of credit risk for the Company. The Company does not believe there are significant credit risks

THE PENNANT GROUP, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

associated with these governmental programs. The Company believes that an appropriate allowance has been recorded for the possibility of these receivables proving uncollectible, and continually monitors and adjusts these allowances as necessary. The Company's gross receivables from the Medicare and Medicaid programs accounted for approximately 74.7% 76.2% and 77.0% of its total gross accounts receivable as of March 31, 2024 June 30, 2024 and December 31, 2023, respectively. Combined revenue from reimbursement under the Medicare and Medicaid programs accounted for 65.1% for the three months ended March 31, 2024, 64.2% and 62.0% 64.6% of the Company's revenue for the three and six months ended March 31, 2023. June 30, 2024, and 62.8% and 62.4% of the Company's revenue for the three and six months ended June 30, 2023 respectively.

Practical Expedients and Exemptions

As the Company's contracts have an original duration of one year or less, the Company uses the practical expedient applicable to its contracts and does not consider the time value of money. Further, because of the short duration of these contracts, the Company has not disclosed the transaction price for the remaining performance obligations as of the end of each reporting period or when the Company expects to recognize this revenue. In addition, the Company has applied the practical expedient provided by ASC 340, Other Assets and Deferred Costs, and all incremental customer contract acquisition costs are expensed as they are incurred because the amortization period would have been one year or less.

6. BUSINESS SEGMENTS

The Company classifies its operations into the following reportable operating segments: (1) home health and hospice services, which includes the Company's home health, hospice and home care businesses; and (2) senior living services, which includes the operation of assisted living, independent living and memory care communities. The reporting segments are business units that offer different services and are managed separately to provide greater visibility into those operations. The Company's Chief Executive Officer, who is the Company's Chief Operating Decision Maker ("CODM"), reviews financial information at the operating segment level. The Company also reports an "all other" category that includes general and administrative expense from the Company's Service Center.

As of March 31, 2024 June 30, 2024, the Company provided services through 112 117 affiliated home health, hospice and home care agencies, and 53 54 affiliated senior living operations. The Company evaluates performance and allocates capital resources to each segment based on an operating model that is designed to maximize the quality of care provided and profitability. The Company's Service Center provides various services to all lines of business. The Company does not review assets by segment and therefore assets by segment are not disclosed below.

The CODM uses Segment Adjusted EBITDAR from Operations as the primary measure of profit and loss for the Company's reportable segments and to compare the performance of its operations with those of its competitors. Segment Adjusted EBITDAR from Operations is net income (loss) attributable to the Company's reportable segments excluding interest expense, provision for income taxes, depreciation and amortization expense, rent, and, in order to view the operations performance on a comparable basis from period to period, certain adjustments including: (1) costs at start-up operations, (2) share-based compensation, (3) acquisition related costs and credit allowances, (4) the costs associated with transitioning operations, (5) unusual, non-recurring or redundant charges, and (6) net income attributable to noncontrolling interest. General

THE PENNANT GROUP, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

and administrative expenses are not allocated to the reportable segments, and are included as "All Other", Other," accordingly the segment earnings measure reported is before allocation of corporate general and administrative expenses. The Company's segment measures may be different from the calculation methods used by other companies and, therefore, comparability may be limited.

THE PENNANT GROUP, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The following tables present certain financial information regarding the Company's reportable segments, general and administrative expenses are not allocated to the reportable segments and are included in "All Other" for the three and six months ended March 31, 2024 June 30, 2024 and 2023:

Three Months Ended March 31, 2024	Home Health and Hospice Services	Home Health and Hospice Services	Senior Living Services	All Other	Total	Home Health and Hospice Services	Senior Living Services	All Other	Total

Three Months Ended June 30, 2024

Revenue
Revenue
Revenue

Segment Adjusted EBITDAR from Operations

Three Months Ended March 31, 2023

Three Months Ended June 30, 2023

Revenue
Revenue
Revenue

Segment Adjusted EBITDAR from Operations

	Home Health and Hospice Services	Senior Living Services	All Other	Total
Six Months Ended June 30, 2024				
Revenue	\$ 241,791	\$ 83,869	\$ —	\$ 325,660
Segment Adjusted EBITDAR from Operations	\$ 40,764	\$ 24,815	\$ (20,707)	\$ 44,872
Six Months Ended June 30, 2023				
Revenue	\$ 186,099	\$ 72,646	\$ —	\$ 258,745
Segment Adjusted EBITDAR from Operations	\$ 30,093	\$ 21,921	\$ (15,399)	\$ 36,615

The following table provides a reconciliation of Segment Adjusted EBITDAR from Operations to income Condensed Consolidated Income from operations: Operations:

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2024	Three Months Ended March 31, 2024	Three Months Ended June 30, 2024	Six Months Ended June 30, 2024	2023
Segment Adjusted EBITDAR from Operations						
Segment Adjusted EBITDAR from Operations						
Segment Adjusted EBITDAR from Operations						
Less: Depreciation and amortization						
Less: Depreciation and amortization						
Less: Depreciation and amortization						
Rent—cost of services						
Rent—cost of services						
Rent—cost of services						
Other income						
Other income						
Other income						
Adjustments to Segment EBITDAR from Operations:						
Adjustments to Segment EBITDAR from Operations:						
Other (expense) income						
Adjustments to Segment EBITDAR from Operations:						
Less: Costs at start-up operations(a)						
Less: Costs at start-up operations(a)						

Less: Costs at start-up operations ^(a)
Share-based compensation expense and related taxes ^(b)
Share-based compensation expense and related taxes ^(b)
Share-based compensation expense and related taxes ^(b)
Acquisition related costs and credit allowances ^(c)
Acquisition related costs and credit allowances ^(c)
Acquisition related costs and credit allowances ^(c)
Costs associated with transitioning operations ^(d)
Costs associated with transitioning operations ^(d)
Costs associated with transitioning operations ^(d)
Unusual, non-recurring or redundant charges ^(e)
Unusual, non-recurring or redundant charges ^(e)
Unusual, non-recurring or redundant charges ^(e)
Add: Net income attributable to noncontrolling interest
Add: Net income attributable to noncontrolling interest
Add: Net income attributable to noncontrolling interest
Condensed Consolidated Income from Operations
Condensed Consolidated Income from Operations
Condensed Consolidated Income from Operations

(a) Represents results related to start-up operations. This amount excludes rent and depreciation and amortization expense related to such operations.

(b) Share-based compensation expense and related payroll taxes incurred. Share-based compensation expense and related payroll taxes are included in cost of services and general and administrative expense.

(c) Non-capitalizable costs associated with acquisitions, credit allowances, and write offs for amounts in dispute with the prior owners of certain acquired operations.

THE PENNANT GROUP, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(d) During the three months ended March 31, 2023, an affiliate of the Company placed its memory care units into transition and **is actively began** seeking to sublease the units to an unrelated third party. The amount above represents the net operating impact attributable to the units in transition. The amounts reported exclude rent and depreciation and amortization expense related to such operations and include legal settlement costs associated with one of the entities transitioned to Ensign.

(e) Represents unusual or non-recurring charges for legal services, implementation costs, integration costs, and consulting fees in general and administrative and cost of services expenses.

7. ACQUISITIONS

The Company is focused on acquiring operations that are complementary to the Company's current businesses, accretive to the Company's business or otherwise advance the Company's strategy. The results of all the Company's

THE PENNANT GROUP, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

independent operating subsidiaries are included in the Interim Financial Statements subsequent to the date of acquisition. Acquisitions are accounted for using the acquisition method of accounting.

2024 Acquisitions

During the **three six** months ended **March 31, 2024** **June 30, 2024**, the Company expanded its operations with the addition of **one four** home health **agency described below** agencies, two hospice agencies, and **two three** senior living communities. The Company also acquired the real estate of two of three senior living communities. The aggregate purchase price of the real estate of the two senior living **communities** acquired was \$10,380 which consisted primarily of land and building. In connection with the third senior living community, the Company entered into a new long-term "triple-net" lease. A subsidiary of the Company entered into a separate operations transfer agreement with the **prior operator of each acquired operation as part of each transaction**. These new communities included **223 261** operational senior living units to be operated by the Company's independent **operating** subsidiaries.

On January 1, 2024, the Company announced it closed on a **joint venture for a** home health **joint venture agency** with John Muir Health ("Muir"), a leading nonprofit integrated health system serving communities throughout the east bay region of San Francisco, California. The transaction combines certain assets and the operations of Muir's home health business and the assets and operations of a local Pennant-affiliated home health agency. The joint venture is majority-owned and managed by an independent operating subsidiary of the Company and **provide provides** home health services to patients throughout the San Francisco east bay region. Along with the assets contributed by a local Pennant-affiliated home health agency, the Company paid Muir \$11,680 for a majority interest in the joint venture.

The fair value of assets for the joint venture acquired was mostly concentrated in goodwill and intangible assets and as such, ~~these~~ this transaction was classified as a business combination in accordance with ASC Topic 805, *Business Combinations* ("ASC 805"). The fair value of assets acquired for the business combination was \$23,406, \$28,406, which preliminarily consisted of goodwill of \$16,206 and \$19,473, indefinite-lived intangible assets of \$7,200 \$8,800 related to a Medicare and Medicaid license, license, and equipment of \$133. The Company acquired a 60.0% ownership interest in the joint venture. The contributions of assets by Muir to the joint venture, resulted in the Company recording a noncontrolling interest with a fair value of \$11,726. The Company anticipates that the total goodwill recognized will be fully deductible for tax purposes.

The aggregate fair value of assets for one home health agency and one hospice agency acquired were mostly concentrated in goodwill and intangible assets. This transaction was classified as a business combination in accordance with ASC Topic 805, *Business Combinations* ("ASC 805"). The purchase price of for the real estate of the two senior living communities acquired business combination was \$10,380 \$5,000, which preliminarily consisted primarily of land goodwill of \$3,267, indefinite-lived intangible assets of \$1,600 related to Medicare and building, Medicaid licenses, and equipment and other assets of \$133. The Company anticipates that the total goodwill recognized will be fully deductible for tax purposes.

One hospice and two home health agencies acquired were Medicare licenses and are considered asset acquisitions. The fair value of the licenses acquired was \$1,000 and was recorded in other indefinite-lived intangibles.

There were no material acquisition costs that were expensed related to the business combinations during the three six months ended March 31, 2024 June 30, 2024.

2023 Acquisitions

During the three six months ended March 31, 2023 June 30, 2023, the Company expanded its operations with the addition of one three home health agencies, one hospice agency, as well as two home care agencies, and two senior living communities. In connection with the

THE PENNANT GROUP, INC. NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

addition of the two senior living communities, the Company entered into a new long-term "triple-net" lease. A subsidiary of the Company entered into a separate operations transfer agreement with the prior operator of each acquired operation as part of each transaction.

The fair value of assets for two home health agencies, two home care agencies, and one hospice agency acquired were mostly concentrated in goodwill and intangible assets and as such, these transactions were classified as business combinations in accordance with ASC Topic 805, *Business Combinations* ("ASC 805"). The purchase price for the business combinations was \$7,261, which consisted of equipment and other assets of \$1,027, goodwill of \$4,117, and indefinite-lived intangible assets of \$2,012 related to Medicare and Medicaid licenses, and other intangible assets of \$186 less assumed liabilities of \$81. The Company anticipates that the total goodwill recognized will be fully deductible for tax purposes.

One home health agency acquired was a Medicare license and is considered an asset acquisition. The fair value of the home health license acquired was \$210 and was allocated to indefinite-lived intangible assets.

There were no material acquisition costs that were expensed related to the business combinations during the six months ended June 30, 2023.

Subsequent Events

On April 12, 2024 August 1, 2024, the Company closed on an acquisition of one home health agency in Washington. On May 1, 2024, the Company expanded its operations with one senior living community in Idaho and the acquisition of one home health certain affiliates of Signature Healthcare at Home ("Signature") located in Washington and one hospice agency in Utah. In connection with the addition of the senior living community, the Company entered into a new long-term "triple-net" lease.

The total Idaho for an aggregate purchase price of \$32,000. The acquisition will add to the two home health agencies Company's existing strength in the region while building out its operational footprint. We are currently in the process of finalizing our accounting for this transaction and the one hospice agency was \$1,000. As of the date of this report, the expect to complete our preliminary allocation of the purchase consideration in a subsequent quarter.

The Company has an agreement to purchase additional Signature assets located in Oregon which is anticipated to close January 1, 2025. The final purchase price for is subject to certain adjustments based on potential changes in the acquisitions acquired subsequent to March 31, 2024 were not completed as necessary valuation information was not yet available. As such, business between the determination whether these acquisitions should be classified as business combinations or asset acquisitions under ASC 805 will be determined upon completion signing and closing of the allocation of the purchase price, agreement.

THE PENNANT GROUP, INC. NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

8. PROPERTY AND EQUIPMENT—NET

Property and equipment, net consist of the following:

March 31, 2024

December 31, 2023

	June 30, 2024	December 31, 2023
Land		
Building		
Leasehold improvements		
Equipment		
Furniture and fixtures		
	66,973	
	68,666	
Less: accumulated depreciation		
Property and equipment, net		

Depreciation expense was \$1,331, \$1,468 and \$2,799 for the three and six months ended March 31, 2024, June 30, 2024, respectively, and \$1,275, \$1,211 and \$2,486 for the three and six months ended March 31, 2023, June 30, 2023 respectively.

The Company measures certain assets at fair value on a non-recurring basis, including long-lived assets, which are evaluated for impairment. Long-lived assets include assets such as property and equipment, operating lease assets and certain intangible assets. The inputs used to determine the fair value of long-lived assets in the impairment analysis are considered Level 3 measurements due to their subjective nature. Management has evaluated its long-lived assets and determined there was no impairment recorded during the three and six months ended March 31, 2024 and 2023.

9. GOODWILL AND OTHER INDEFINITE-LIVED INTANGIBLE ASSETS

The following table represents activity in goodwill by segment for the three months ended March 31, 2024:

	Home Health and Hospice Services	Senior Living Services	Total
December 31, 2023	\$ 87,372	\$ 3,642	\$ 91,014
Additions	16,206	—	16,206
March 31, 2024	\$ 103,578	\$ 3,642	\$ 107,220

Other indefinite-lived intangible assets consist of the following:

	March 31, 2024	December 31, 2023
Trade name	\$ 1,385	\$ 1,385
Medicare and Medicaid licenses	73,557	66,357
Total	\$ 74,942	\$ 67,742

No goodwill or intangible asset impairment charges were recorded during the three months ended March 31, 2024, June 30, 2024 and 2023.

THE PENNANT GROUP, INC. NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

9. GOODWILL AND OTHER INDEFINITE-LIVED INTANGIBLE ASSETS

The following table represents activity in goodwill by segment for the six months ended June 30, 2024:

	Home Health and Hospice Services	Senior Living Services	Total
December 31, 2023	\$ 87,372	\$ 3,642	\$ 91,014
Additions	19,473	—	19,473
June 30, 2024	\$ 106,845	\$ 3,642	\$ 110,487

Other indefinite-lived intangible assets consist of the following:

	June 30, 2024	December 31, 2023
Trade name	\$ 1,385	\$ 1,385
Medicare and Medicaid licenses	76,157	66,357

Total	\$	77,542	\$	67,742
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No goodwill or intangible asset impairment charges were recorded during the three and six months ended June 30, 2024 and 2023.

10. OTHER ACCRUED LIABILITIES

Other accrued liabilities consist of the following:

	March 31, 2024	December 31, 2023
	June 30, 2024	December 31, 2023
Refunds payable		
Deferred revenue		
Resident deposits		
Property taxes		
Deferred state relief funds		
Accrued self-insurance liabilities		
Other		
Other		
Other		
Other accrued liabilities		

Refunds payable includes payables related to overpayments, duplicate payments and credit balances from various payor sources. Deferred revenue occurs when the Company receives payments in advance of services provided. Resident deposits include refundable deposits to residents.

11. DEBT

Long-term debt, net consists of the following:

	March 31, 2024	December 31, 2023
	June 30, 2024	December 31, 2023
Revolving Credit Facility		
Less: unamortized debt issuance costs ^(a)		
Long-term debt, net		

(a) Amortization expense for debt issuance costs was \$130 and \$261 for the three and six months ended March 31, 2024 June 30, 2024, respectively, and \$130 and \$261 for the three and six months ended March 31, 2023 June 30, 2023, respectively, and is recorded in interest expense, net on the Condensed Consolidated Statements of Income.

THE PENNANT GROUP, INC. NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

On February 23, 2021, Pennant entered into an amendment to its existing credit agreement (as amended, the "Credit Agreement"), which provides for an increased revolving credit facility with a syndicate of banks with a borrowing capacity of \$150,000 (the "Revolving Credit Facility"). On June 12, 2023, Pennant entered into a second amendment to the Credit Agreement that modified the reference rate from LIBOR to Standard Overnight Financing Rate ("SOFR"). The interest rates applicable to loans under the Revolving Credit Facility are, at the Company's election, either (i) Adjusted Term SOFR (as defined in the Credit Agreement) plus a margin ranging from 2.25% to 3.25% per annum or (ii) Base Rate plus a margin ranging from 1.25% to 2.25% per annum, in each case, based on the ratio of Consolidated Total Net Debt to Consolidated EBITDA (each, as defined in the Credit Agreement). In addition, Pennant pays a commitment fee on the undrawn portion of the commitments under the Revolving Credit Facility which ranges from 0.35% to 0.50% per annum, depending on the Consolidated Total Net Debt to Consolidated EBITDA ratio of the Company and its subsidiaries. The Company is not required to repay any loans under the Credit Agreement prior to maturity in 2026, other than to the extent the outstanding borrowings exceed the aggregate commitments under the Credit Agreement. As of March 31, 2024 June 30, 2024, the Company's weighted average interest rate on its outstanding debt was 8.22% 8.35%. As of March 31, 2024 June 30, 2024, the Company had available borrowing on the Revolving Credit Facility of \$61,564, \$62,814, which is net of outstanding letters of credit of \$4,186.

The fair value of the Revolving Credit Facility approximates carrying value, due to the short-term nature and variable interest rates. The fair value of this debt is categorized within Level 2 of the fair value hierarchy based on the observable market borrowing rates.

The Credit Agreement is guaranteed, jointly and severally, by certain of the Company's independent operating subsidiaries, and is secured by a pledge of stock of the Company's material independent operating subsidiaries as well as a first lien on substantially all of each material operating subsidiary's personal property. The Credit Agreement contains customary covenants that, among other things, restrict, subject to certain exceptions, the ability of the Company and its independent operating subsidiaries to grant liens on their assets, incur indebtedness, sell assets, make investments, engage in acquisitions,

THE PENNANT GROUP, INC. NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

mergers or consolidations, amend certain material agreements and pay certain dividends and other restricted payments. Financial covenants require compliance with certain levels of leverage ratios that impact the amount of interest. As of **March 31, 2024** **June 30, 2024**, the Company was compliant with all such financial covenants.

Subsequent Events

On July 31, 2024, Pennant entered into an amendment to the Credit Agreement (the "Amended Credit Agreement"), which provides for a revolving credit facility (the "2024 Revolving Credit Facility") with a syndicate of banks with a borrowing capacity of \$250,000. The interest rates applicable to loans under the 2024 Revolving Credit Facility are, at the Company's election, either (i) Term SOFR (as defined in the Amended Credit Agreement) plus a margin ranging from 1.75% to 2.75% per annum or (ii) Base Rate plus a margin ranging from 0.75% to 1.75% per annum, in each case based on the ratio of Consolidated Total Net Debt to Consolidated EBITDA (each, as defined in the Amended Credit Agreement). In addition, Pennant will pay a commitment fee on the undrawn portion of the commitments under the Revolving Credit Facility that will range from 0.25% to 0.45% per annum, depending on the Consolidated Total Net Debt to Consolidated EBITDA ratio of the Company and its subsidiaries. The Company is not required to repay any loans under the Amended Credit Agreement prior to maturity in July 2029.

12. OPTIONS AND AWARDS

Outstanding options and restricted stock awards of the Company were granted under the 2019 Omnibus Incentive Plan (the "OIP") and Long-Term Incentive Plan (the "LTIP," and together with the OIP, the "Pennant Plans").

Under the Pennant Plans, stock-based payment awards, including employee stock options, restricted stock awards ("RSA"), and restricted stock units ("RSU" and together with RSA, "Restricted Stock") are issued based on estimated fair value. The following disclosures represent share-based compensation expense relating to employees of the Company's subsidiaries and non-employee directors who have awards under the Pennant Plans.

THE PENNANT GROUP, INC. NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Total share-based compensation expense for all Plans for the three and six months ended **March 31, 2024** **June 30, 2024** and 2023 was:

	Three Months Ended March 31,		Three Months Ended March 31,		Three Months Ended March 31,		Three Months Ended March 31,		Three Months Ended June 30,		Six Months Ended June 30,					
	2024		2024		2024		2023		2024		2023		2024	2023	2024	2023
Share-based compensation expense related to stock options																
Share-based compensation expense related to Restricted Stock																
Share-based compensation expense related to Restricted Stock to non-employee directors																
Total share-based compensation																

In future periods, the Company estimates it will recognize the following share-based compensation expense for unvested stock options and unvested Restricted Stock as of **March 31, 2024** **June 30, 2024**:

	Unrecognized Compensation Expense		Unrecognized Compensation Expense		Weighted Average Recognition Period (in years)		Unrecognized Compensation Expense		Weighted Average Recognition Period (in years)
Unvested Stock Options	Unvested Stock Options	\$14,536	3.7		Unvested Stock Options	\$15,396	3.7		3.7
Unvested Restricted Stock	Unvested Restricted Stock	1,971	3.3		Unvested Restricted Stock	1,822	3.1		3.1
Total unrecognized share-based compensation expense									
Stock Options									

Under the Pennant Plans, options granted to employees of the subsidiaries of Pennant generally vest over five years at 20% per year on the anniversary of the grant date. Options expire ten years after the date of grant.

The Company uses the Black-Scholes option-pricing model to recognize the value of stock-based compensation expense for share-based payment awards under the Plans. Determining the appropriate fair-value model and calculating the fair value of stock-based awards at the grant date requires considerable judgment, including estimating stock price volatility and expected option life. The Company develops estimates based on historical data and market information, which can change significantly over time.

THE PENNANT GROUP, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The fair value of each option is estimated on the grant date using a Black-Scholes option-pricing model with the following weighted average assumptions for stock options granted as of **March 31, June 30:**

Grant Year	Grant Year	Options Granted	Risk-Free Interest Rate	Expected Life ^(a)	Expected Volatility ^(b)	Dividend Yield	Weighted Average Fair Value of Options	Grant Year	Options Granted	Risk-Free Interest Rate	Expected Life ^(a)	Expected Volatility ^(b)	Dividend Yield	Weighted Average Fair Value of Options
2024														
2023														
(a)	Under the midpoint method, the expected option life is the midpoint between the contractual option life and the average vesting period for the options being granted. This resulted in an expected option life of 6.5 years for the options granted.													
(b)	Because the Company's equity shares have been traded for a relatively short period of time, expected volatility assumption was based on the volatility of related industry stocks.													

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The following table represents the employee stock option activity during the **three** six months ended **March 31, 2024 June 30, 2024:**

Number of Options Outstanding	Weighted Average Exercise Price	Number of Options Vested	Weighted Average
			Number of Options Outstanding
December 31, 2023			2,924
Granted			498 714
Exercised			(73) (172)
Forfeited			(64) (107)
Expired			(11) (60)
March 31, June 30, 2024			3,274 3,299 \$

Restricted Stock

A summary of the status of Pennant's non-vested Restricted Stock, and changes during the **three** six months ended **March 31, 2024 June 31, 2024:**

	Non-Vested Restricted Stock	Non-Vested Restricted Stock	Weighted Average Grant Date Fair Value
December 31, 2023			
Granted			
Vested			
Forfeited			
March 31, 2024			
June 30, 2024			

13. LEASES

The Company's independent operating subsidiaries lease senior living communities and its administrative offices under non-cancelable op The Company's independent operating subsidiaries also lease the administrative offices of home health and hospice agencies, which generally i renewal options, most involve rent increases and none contain purchase options. The lease term excludes lease renewals because the renewal renew the lease, and it is not reasonably certain that the Company will exercise the extension options. The Company elected the accounting policy components into a single lease component; and (ii) exclude recording short-term leases as right-of-use assets and liabilities on the condensed overall, are combined with lease components.

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As of **March 31, 2024** **June 30, 2024**, the Company's independent operating subsidiaries leased 29 senior living communities from subsidiaries of Ensign are for **have** initial terms of between 14 to 20 years. The total amount of rent expense included in rent - cost of services for the three and six months ended **March 31, 2024** **June 30, 2024**, respectively, and \$3,416 **\$3,333** and **\$6,749** for the three and six months ended March 31, 2023. **June** required to pay the following: (1) all impositions and taxes levied on or with respect to the leased properties (other than taxes on the income of the properties and the business conducted on the leased properties; (3) all insurance required in connection with the leased properties and the business conducted on the leased properties; and (5) all fees in connection with any licenses or authorizations necessary or appropriate for the leased properties and the business conducted on the leased properties.

Fourteen of the Company's affiliated senior living communities, excluding the communities that are operated under the Ensign Leases (as defined in the Ensign Leases), are operated under master leases. Under these master leases, a breach at a single community could subject one or more of the other communities covered by the same master lease to a similar breach.

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default risk. Failure to comply with Medicare and Medicaid provider requirements is a default under several of the Company's leases and master leases. A breach of the master lease could result in the termination of the master lease without the consent of the landlord.

The components of operating lease cost, are as follows:

	Three Months Ended March 31, Three Months Ended March 31, Three Months Ended March 31,	Three Months Ended June 30,	\$
	2024	2024	
Operating Lease Costs:			
Community Rent—cost of services			
Community Rent—cost of services			
Community Rent—cost of services			
Office Rent—cost of services			
Rent—cost of services			
Rent—cost of services			
Rent—cost of services			
General and administrative expense			
General and administrative expense			
General and administrative expense			
Variable lease cost ^(a)			
(a)	Represents variable lease cost for operating leases, which costs include property taxes and insurance, common area maintenance, and consumer price index increases, included in the lease agreement for the three and six months ended March 31, 2024 June 30, 2024 and 2023.		

The following table shows the lease maturity analysis for all leases as of **March 31, 2024** **June 30, 2024**, for the years ended December 31:

Year	Year
2024 (Remainder)	
2025	
2026	
2027	
2028	
Thereafter	
Total lease payments	
Less: present value adjustments	
Present value of total lease liabilities	

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14. INCOME TAXES

The Company recorded income tax expense of \$3,603 and \$2,828, or 24.4% and 36.5% of earnings before income taxes for the six month periods ended June 30, 2014 and June 30, 2013, respectively. The increase in the effective tax rate is primarily due to not having the impact of a change in the deductibility of equity compensation of certain executives in the current year.

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15. DEFINED CONTRIBUTION PLAN

During fiscal year 2021, the Company implemented a non-qualified deferred compensation plan (the "DCP") for executives, other directors which went into effect on June 1, 2021, effective for compensation to be paid in 2022 and thereafter. The independent contractor's 401(k) plan. The DCP allows participants to defer the receipt of a portion of their base compensation, and further allows certain participation fees. At the participant's election, payments can be deferred until a specific date at least one year after the year of deferral or until termination of annual installments. Separate deferral elections can be made for each year, and in limited circumstances, existing payment elections may be changed based on actual performance of the deemed investments selected by the participant. The rate of return for each participant varies depending on the specific employee deferrals into a rabbi trust and the funds are generally invested in individual variable life insurance contracts owned by the Company. The Company paid for related administrative costs, which were immaterial during the fiscal years presented.

As of **March 31, 2024**, **June 30, 2024** and 2023, the Company's deferred compensation liabilities were **\$1,965**, **\$2,020** and \$855, **\$968**, respectively, and are included in the consolidated balance sheets. The cash surrender value of the individual variable life insurance contracts is based on investment funds that shadow the investment allocations of the Company's pension plan. As of **March 31, 2024**, **June 30, 2024** and 2023, the cash surrender value of the company owned life insurance ("COLI") policies were **\$1,997**, **\$2,019** and \$852, **\$950**, respectively, and are included in the consolidated balance sheets. There are no outstanding loan amounts offset against the cash surrender value of the COLI policies. The losses recognized are included in the consolidated balance sheets.

16. COMMITMENTS AND CONTINGENCIES

Regulatory Matters - The Company provides services in complex and highly regulated industries. The Company's compliance with applicable laws and regulations may be subject to governmental review and adverse findings may result in significant regulatory action, which could include sanctions, damage to reputation, or exclusion from government programs. The Company is a party to various regulatory and other governmental audits and investigations in the ordinary course of business. A state regulatory survey, audit or investigation. While governmental audits and investigations are the subject of administrative appeals, the appeal may be subject to appeal may remain in place during such appeals, which may include suspension, termination, or revocation of participation in government programs. The Department of Justice, HHS, CMS, or other federal and state enforcement and regulatory agencies may conduct additional investigations related to the Company's operations in all material respects with all applicable laws and regulations.

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Cost-Containment Measures - Government and third-party payors have instituted cost-containment measures designed to limit payments measures, and there can be no assurance that future measures designed to limit payments made to providers will not adversely affect the Company.

Indemnities - From time to time, the Company enters into certain types of contracts that contingently require the Company to indemnify parties to certain contracts, including (i) real estate leases, under which the Company may be required to indemnify property owners or prior operators for post-transfer environmental or other claims arising out of the use of the premises, (ii) operations transfer agreements, in which the Company agrees to indemnify past operators of agencies and communities the Company has transferred, (iii) and/or the operation thereof after the transfer, (iii) certain Ensign lending agreements, and (iv) certain agreements with management, directors and officers of the Company to indemnify such persons for liabilities arising out of their employment relationships. The terms of such obligations vary by contract and, in most instances, are subject to change.

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Generally, amounts under these contracts cannot be reasonably estimated until a specific claim is asserted. Consequently, because no claims have been asserted, the Company has not recorded any amounts for these contracts in the Company's Condensed Consolidated Balance Sheets for any of the periods presented.

Litigation - The Company's businesses involve a significant risk of liability given the age and health of the patients and residents at the Company's independent operating subsidiaries, and others in the industry may be subject to a number of claims and lawsuits, including negligence and professional liability claims, wrongful death or other related claims. Healthcare litigation (including class action litigation) is common and is filed based upon a wide variety of claims in the ordinary course of business, including potential claims related to patient care and treatment, and professional negligence, as well as employment claims. California and Nevada, recently adopted laws that increase the maximum amount of non-economic damages that may be awarded to a successful plaintiff provided by our independent operating subsidiaries. These changes in applicable law may also increase the cost of obtaining and maintaining professional liability insurance for such claims. If there were a significant increase in the number of these claims or an increase in amounts owing should plaintiffs be successful, it could have a negative impact on the Company's business, financial condition, results of operations and cash flows. In addition, the defense of these lawsuits may result in significant legal fees or damage awards.

In addition to the potential lawsuits and claims described above, the Company also is subject to potential lawsuits under the False Claims Act ("FCA") for services to any governmental healthcare program (such as Medicare) or commercial payor. A violation may provide the basis for exclusion from the program, which could have a correlative negative impact on the Company's financial performance. Some states, including California, Arizona and Texas, have enacted similar legislation. The False Claims Act of 2005 created incentives for states to enact anti-fraud legislation modeled on the FCA, for which 18 states have qualified, including California, Arizona and Texas. Such legislation may increase the face scrutiny, potential liability and legal expenses and costs based on claims under state false claims acts in markets in which it conducts business.

Under the Fraud Enforcement and Recovery Act ("FERA") and its associated rules, healthcare providers face significant penalties for false or fraudulent claims. Providers have an obligation to proactively exercise "reasonable diligence" to identify overpayments and return those overpayments to the payor, whichever is later. Retention of overpayments beyond this period may create liability under the FCA. In addition, FERA protects whistleblowers who report such violations.

The Company cannot predict or provide any assurance as to the possible outcome of any litigation. If any litigation were to proceed, and the Company were to settle or agree to a settlement of, claims or obligations under federal Medicare statutes, the FCA, or similar state and federal statutes and related regulations, it could have a negative impact on cash flows could be materially and adversely affected. Among other things, any settlement or litigation could involve the payment of substantial sums or the incurrence of specific procedural and financial obligations by the Company or its subsidiaries.

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The Company's independent operating subsidiaries are in compliance with the requirements of the Corporate Integrity Agreement and/or other arrangement with the government.

Medicare Revenue Recoupments - The Company is subject to probe reviews relating to Medicare services, billings and potential overpayments. Such reviews may be conducted by Regional Office Contractors ("RAC"), Zone Program Integrity Contractors ("ZPIC"), Program Safeguard Contractors ("PSC"), Supplemental Medical Review Contractors ("SMRC") or other contractors. Reviews are ongoing and the Company is foregoing collectively referred to as "Reviews."

As of March 31, 2024 June 30, 2024, ten 13 of the Company's independent operating subsidiaries had Reviews scheduled, on appeal or in dispute resolution process. If a Review is successful, the operation could then be subject to extended Review, suspension of payment, or extrapolation of the identified overpayments. The Company receives record requests in Reviews which have resulted in claim denials on previously paid claims. The Company has appealed substantially all such denials. As of March 31, 2024 June 30, 2024, and through the filing of this Quarterly Report on Form 10-Q, the Company's

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The Company's independent operating subsidiaries have responded to the Reviews that are currently ongoing, on appeal or in dispute resolution process. The Company is subject to governmental Reviews. While such Reviews are the subject of administrative appeals, the appeals process, even if successful, may take several months to complete and an adverse determination in such Reviews may subject the Company to sanctions, damages, extrapolation of damage findings, additional Medicare payments, and termination from Medicare programs which may, either individually or in the aggregate, have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

From June 2021 to May 2022, one hospice provider number was subject to a Medicare payment suspension imposed by a UPIC. The total amount of Medicare payments made to the provider number during the suspension. As of March 31, 2024 June 30, 2024, the total remaining amount due from the government payor included in the Company's assets.

In May 2022, the Company received communication that the Medicare payment suspension for the above-referenced hospice provider number was complete. The UPIC reviewed 107 patient records covering a 10-month period to determine whether, in its view, a Medicare overpayment was not made. The UPIC identified and extrapolated overpayments of \$5,105, and withheld that amount through continued recoupment of Medicare payments. The Company is pursuing recovery of the overpayments.

the methodology used by the UPIC to perform statistical extrapolation. To date the Company has been successful in appealing most of the pre amounts totaling ~~\$3,363~~ \$4,859 as of ~~March 31, 2024~~ June 30, 2024. Subsequent to March 31, 2024, the Company received refund payments total remaining denied claims and expects to be successful in those appeals. Based on the information currently available to the Company, the Company expects refunds to be received. As of March 31, 2024, the Company has an accrued liability that is immaterial for this review which was recorded as an offset.

Insurance - The Company retains risk for a substantial portion of potential claims for general and professional liability, workers' compensation damages that may be recovered for professional negligence or malpractice claims in states where we operate, including California and Nevada, the Company recognizes obligations associated with these costs, up to specified deductible limits in the period in which a claim is incurred, including general and professional liability insurance has a retention limit of \$150 per claim with a \$500 corridor as an additional out-of-pocket retention for losses. The workers' compensation insurance has a retention limit of \$250 per claim, except for policies held in Texas, Washington and Wyoming.

The Company is self-insured for claims related to employee health, dental, and vision care. To protect itself against loss exposure, the Company has individual health claims that exceed \$350 for each covered person for fiscal year 2024 and fiscal year 2023.

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

You should read the following discussion and analysis in conjunction with the Interim Financial Statements and the related notes thereto (the "Financial Statements") contained in this Quarterly Report is not a complete description of our business or the risks associated with an investment in our securities. The information contained in this Quarterly Report and in our other reports filed with the Securities and Exchange Commission ("SEC"), including our Annual Report, which discusses our business and related risks in greater detail, as well as subsequent reports we may file from time to time (collectively, the "Reports"), in addition to the other information in this Quarterly Report and in our other filings with the SEC, before deciding to purchase, hold or sell our securities.

Special Note About Forward-Looking Statements

This Quarterly Report contains "forward-looking statements" within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995, as amended, and on information currently available to our management. Forward-looking statements include all statements that are not historical facts, including words "outlook," "believes," "expects," "potential," "continues," "may," "might," "will," "should," "could," "seeks," "approximately," "goals," "future," "projections," and the negative version of these words or other comparable words. Forward-looking statements include, but are not limited to, statements related to our liquidity and capital resources, the effects of competition and the effects of future legislation or regulations and other non-historical statements.

The risk factors discussed in this Quarterly Report and the 2023 Annual Report under the heading "Risk Factors," could cause our results to differ materially from those in the forward-looking statements include, but are not limited to:

- federal and state changes to, or delays receiving, reimbursement and other aspects of Medicaid and Medicare;
- changes in, and compliance with, the laws and regulations affecting the U.S. healthcare industry;
- proposed changes to payment models and reimbursement amounts within the Medicare and Medicaid fee schedules for future calendar years;
- future cost containment measures undertaken by payors;
- government reviews, audits and investigations of our business;
- potential additional regulation affecting the transparency, ownership, operating standards, and staffing of businesses in our industry;
- increased competition and increased cost of acquisition or retention for, or a shortage of, skilled personnel;
- achievement and maintenance of competitive quality of care ratings and referrals from referral sources;
- changes in, and compliance with, state and federal employment, fair housing, safety, licensing and other laws;
- competition from other healthcare providers, federal and state efforts to regulate or deregulate the healthcare services industry, including the number of home health, hospice or senior living operations;
- actions of labor unions, including strikes, work stoppages, unfair labor practices claims, or related labor activity;
- costs associated with litigation or any future litigation settlements;
- the leases of our affiliated senior living communities;
- inability to complete future acquisitions at attractive prices or at all, and failure to successfully or efficiently integrate new acquisitions into our operations;
- general economic conditions, including a housing downturn, which could affect seniors' ability to afford resident fees, or inflation and interest rate increases may affect the delivery and affordability of our services;

- security breaches and other cyber security incidents;
- the performance of the financial and credit markets and uncertainties related to our ability to obtain financing or the terms of such financing;
- uncertainties related to the lingering effect of the COVID-19 pandemic, including new regulatory risks impacting our operations, the effects of

Forward-looking statements involve risks, uncertainties and assumptions. Actual results may differ materially from those expressed in these forward-looking statements in this Quarterly Report. Although we may from time to time voluntarily update our prior forward-looking statements, we disclaim

Overview

We are a leading provider of high-quality healthcare services to patients of all ages, including the growing senior population, in the United States through our innovative operating model. We operate in multiple lines of businesses including home health, hospice and senior living services across Arizona, California, Florida, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Nevada, New Jersey, New York, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Washington, Wisconsin and Wyoming. As of March 31, 2024 June 30, 2024, our home health and hospice business provided home health, hospice services in 35 states, and our senior living business operated 53 54 senior living communities throughout six states.

The following table summarizes our affiliated home health and hospice agencies and senior living communities as of:

	December 31,					December 31,				
	2016	2016	2017	2018	2019	2020	2021	2022	2023	2024
Home health and hospice agencies										
Senior living communities										
Senior living units										
Total number of home health, hospice, and senior living operations										

Recent Activities

Acquisitions. During the three six months ended March 31, 2024 June 30, 2024, we expanded our operations with the addition of one four senior living communities. A subsidiary of the Company entered into a separate operations transfer agreement with the prior operator of each acquired operation.

Trends

We have experienced modest senior living occupancy improvement throughout the three six months ended March 31, 2024 June 30, 2024, based on care setting as compared to the negative impacts of the global pandemic have subsided. same period in 2023. Though we have seen steady occupancy growth over year, the highly competitive environment for senior living residents and inflationary factors will continue to impact the rate at which we return to pre-pandemic levels. communities.

When we acquire turnaround or start-up operations, we expect that our combined metrics may be impacted. We expect these metrics to be lower than our existing portfolio. We have generally experienced lower occupancy rates and higher costs at our senior living communities and lower census and higher costs of care. As a result, we generally anticipate lower and/or fluctuating consolidated and segment margins during years of acquisition growth.

Government Regulation

We have disclosed under the heading "Government Regulation" in the 2023 Annual Report a summary of regulations that we believe may impact our business. At the time of the filing of the 2023 Annual Report, the following regulations have been updated.

On July 31, 2024, CMS issued the 2025 Hospice Payment Rate Update final rule (the "Hospice Payment Final Rule"). The Hospice Payment Final Rule increases the payment rate by \$790 million in payments from fiscal year 2024. The payment update percentage is based on a 3.4% market basket percentage increase. The Hospice Payment Final Rule also requires quality reporting requirements under the Hospice Quality Reporting Program (HQR) will receive a 4% reduction to the annual hospice payment up to the payment update percentage for fiscal year 2025 contained in the Hospice Payment Final Rule for hospices that fail to submit required quality measures to HQR, timely reassessment of pain impact, and timely reassessment of non-pain symptom impact, which are both expected to be implemented by the statutory aggregate cap that limits the overall payments per patient that may be made to a hospice annually. The hospice cap amount for the year 2025 will be \$12,000 per patient per year, plus any clarifying revisions to the hospice conditions of participation; updates statistical area delineations; and makes changes to the Consumer Assessment of Healthcare Providers and Systems (CAHPS) survey.

On June 26, 2024, CMS issued the 2025 Home Health Prospective Payment System Proposed Rule (the "Home Health Payment PPS Rule"). The Home Health Payment PPS Rule increases the payment rate by \$415 million from fiscal year 2024, which is offset by an estimated -3.6% behavioral adjustment. The Home Health Payment PPS Rule also recalibrates the aggregate net decrease of 1.7% or \$280 million compared to fiscal year 2024. The Home Health Payment Proposed Rule also recalibrates the thresholds, and establishes or updates certain LUPA add-ons.

In June 2024, CMS announced a Period of Enhanced Oversight for newly enrolled hospices in Arizona, California, Nevada, and Texas. The enhanced oversight period begins on July 13, 2023. Such hospices are subject to enhanced oversight for up to one year and may undergo medical review by CMS contractors.

On March 28, 2024, CMS issued the 2025 Hospice Payment Rate Update proposed rule (the “Hospice Payment Proposed Rule”). The H estimated increase of \$705 million in payments from fiscal year 2024. The payment update percentage is based on a 3.0% market basket percent fail to meet quality reporting requirements will receive a 4% reduction to the annual hospice payment update percentage increase for that year, w contained in the Hospice Payment Proposed Rule for hospices that fail to submit required quality reporting data to CMS. In addition, the Hospice P payments per patient that may be made to a hospice annually. The proposed hospice cap amount for the 2025 fiscal year is \$34,364.85. The H conditions of payment, proposes to update statistical area delineations, and solicits comments regarding a proposed separate payment mechanis rule, the final rule that is expected later in 2024 may contain significant changes, or even remove, the provisions contained within the Hospice Pay

Segments

Key Performance Indicators

We manage the fiscal aspects of our business by monitoring key performance indicators that affect our financial performance. These indicators

Home Health and Hospice Services

- **Total home health admissions.** Total admissions of home health patients, including new acquisitions, new admissions and readmissions.
- **Total Medicare home health admissions.** Total admissions of home health patients, who are receiving care under Medicare reimbursement programs.
- **Average Medicare revenue per completed 60-day home health episode.** The average amount of revenue for each completed 60-day home health episode under Medicare reimbursement programs.
- **Total hospice admissions.** Total admissions of hospice patients, including new acquisitions, new admissions and recertifications.
- **Average hospice daily census.** The average number of patients who are receiving hospice care during any measurement period divided by the number of days in the measurement period.
- **Hospice Medicare revenue per day.** The average daily Medicare revenue recorded during any measurement period for services provided to hospice patients.

The following table summarizes our overall home health and hospice statistics for the periods indicated:

	2023	2024	2025
Home health services:			
Total home health admissions	1,000	1,000	1,000
Total home health admissions	1,000	1,000	1,000
Total home health admissions	1,000	1,000	1,000
Total Medicare home health admissions	1,000	1,000	1,000
Average Medicare revenue per 60-day completed episode ^(a)	\$1,000	\$1,000	\$1,000
Hospice services:			
Total hospice admissions	1,000	1,000	1,000

Total hospice admissions
Total hospice admissions
Average hospice daily census
Hospice Medicare revenue per day

(a) The year-to-date average Medicare revenue per 60-day completed episode includes post period claim adjustments for prior quarters.

Senior Living Services

- **Occupancy.** The ratio of actual number of days our units are occupied during any measurement period to the number of days units are available during such measurement period.
- **Average monthly revenue per occupied unit.** The revenue for senior living services during any measurement period divided by actual occupied units for such measurement period.

The following table summarizes our senior living statistics for the periods indicated:

	Three Months Ended March 31, 2024			Three Months Ended June 30, 2024		
	Occupancy	78.5	%	Occupancy	78.1	%
Occupancy						
Average monthly revenue per occupied unit						

Revenue Sources

Home Health and Hospice Services

Home Health. We derive the majority of our home health revenue from Medicare and managed care. The Medicare payment is adjusted to obtain appropriate billing documentation or authorizations acceptable to the payor and other reasons unrelated to credit risk. Net service revenue provides agencies with payments for each 30-day period of care provided to beneficiaries. If a beneficiary is still eligible for care after the end of the 30-day period, there are no limits to the number of periods of care a beneficiary who remains

eligible for the home health benefit can receive. While payment for each 30-day period of care is adjusted to reflect the beneficiary's health condition, we pay more for those beneficiaries that have the most expensive care needs. The PDGM payment under the Medicare program is also adjusted for certain variations: (a) if the number of visits is below an established threshold that varies based on the diagnosis of a beneficiary; (b) a partial payment if the patient transfers before completing the period of care; (c) adjustment to the admission source of claim if it is determined that the patient had a qualifying stay in a prior facility; (d) the timing of the 30-day payment period provided to a patient in relation to the admission date, regardless of whether the same home health provider cared for the patient during the previous 30-day period of care; (f) changes in the base payments established by the Medicare program; (g) adjustments to reflect overpayments. For further detail regarding PDGM see the *Government Regulation* section of our 2023 Annual Report.

Hospice. We derive the majority of our hospice business revenue from Medicare reimbursement. The estimated payment rates are calculated for specific levels of care, are adjusted by a wage index to reflect healthcare labor costs across the country and are established annually through federal rulemaking.

- **Routine Home Care ("RHC").** Care that is not classified under any of the other levels of care, such as the work of nurses, social workers or other healthcare professionals.
- **General Inpatient Care.** Pain control or acute or chronic symptom management that cannot be managed in a setting other than an inpatient facility.
- **Continuous Home Care.** Care for patients experiencing a medical crisis that requires nursing services to achieve palliation and symptom management.
- **Inpatient Respite Care.** Short-term, inpatient care to give temporary relief to the caregiver who regularly provides care to the patient.

CMS has established a two-tiered payment system for RHC. **RHC services.** Hospices are reimbursed at a higher rate for RHC services provided on days of service. CMS also provides for a Service Intensity Add-On, which increases payments for certain RHC services provided by registered nurses.

Medicare reimbursement is adjusted for an inability to obtain appropriate billing documentation or authorizations acceptable to the payor. If Medicare reimbursement is subject to an inpatient cap limit and an overall payment cap, we monitor our provider numbers and estimate amounts due back to Medicare.

Senior Living Services. As of **March 31, 2024** **June 30, 2024**, we provided assisted living, independent living and memory care services primarily from private pay sources, with a portion earned from Medicaid or other state-specific programs.

Primary Components of Expense

Cost of Services (excluding rent, general and administrative expense and depreciation and amortization). Our cost of services primarily consists of payroll and related benefits, supplies, purchased services, and ancillary expenses such as the cost of pharmacy and therapy and professional liability insurance and other general cost of services specifically attributable to our operations.

Rent—Cost of Services. Rent—cost of services consists solely of base minimum rent amounts payable under lease agreements to our real estate at our operations, and these amounts do not include taxes, insurance, impounds, capital reserves or other charges payable under the applicable lease agreements.

General and Administrative Expense. General and administrative expense consists primarily of payroll and related benefits and travel expenses. General and administrative expense also includes professional fees (including accounting and legal fees), costs relating to information systems, stock-based compensation and other expenses.

administrative expense also includes professional fees (including accounting and legal fees), costs relating to information systems, stock-based compensation and other expenses.

Depreciation and Amortization. Property and equipment are recorded at their original historical cost. Depreciation is computed using the straight-line method (ranging from one to 40 years). Leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful lives or the term of the lease.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based on Interim Financial Statements, which have been prepared in accordance with GAAP ("GAAP"). The preparation of the Interim Financial Statements and related disclosures requires us to make judgments, estimates and assumptions about the carrying amounts of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. These judgments, estimates and assumptions are not limited to those related to self-insurance reserves, revenue, intangible assets, and goodwill. We base our estimates and judgments upon our historical experience and the assumptions that we believe to be reasonable under the circumstances. By their nature, these estimates are subject to uncertainty, and actual results could differ materially from the amounts reported. While we believe that our estimates, assumptions, and judgments are reasonable, they are based on the information available to us at the time they were made. Refer to Note 2, *Basis of Presentation and Summary of Significant Accounting Policies*, within the 2023 Annual Report for further information.

- **Self-insurance reserves** - The valuation methods and assumptions used in estimating costs up to retention amounts to settle open claims that have been incurred but not reported;
- **Revenue recognition** - The amounts owed by private pay individuals for services and estimate of variable considerations to arrive at settlements with Medicare and Medicaid adjustments due to audits and reviews; and
- **Acquisition accounting and goodwill** - The assumptions used to allocate the purchase price paid for assets acquired and liabilities assumed to the identifiable intangible assets at the Company's annual impairment test date or upon the occurrence of a triggering event.

Recent Accounting Pronouncements

Information concerning recently issued accounting pronouncements, if applicable, are included in Note 2, *Basis of Presentation and Summary of Significant Accounting Policies*, within the 2023 Annual Report.

Results of Operations

The following table sets forth details of our revenue, expenses and earnings as a percentage of total revenue for the periods indicated:

		Three Months Ended
		Three Months Ended
		Three Months Ended
		Three Months Ended
		Three Months Ended
		Three Months Ended
		Three Months Ended
	2024	
Total revenue		
Total revenue		
Total revenue		
Expense:		
Expense:		
Expense:		
Cost of services		
Cost of services		
Cost of services		
Rent—cost of services		
Rent—cost of services		
Rent—cost of services		
General and administrative expense		
General and administrative expense		
General and administrative expense		
Depreciation and amortization		
Depreciation and amortization		
Depreciation and amortization		
Gain on disposition of property and equipment, net		
Gain on disposition of property and equipment, net		
Gain on disposition of property and equipment, net		
Loss (gain) on disposition of property and equipment, net		
Loss (gain) on disposition of property and equipment, net		
Loss (gain) on disposition of property and equipment, net		
Total expenses		
Total expenses		
Total expenses		
Income from operations		
Income from operations		
Income from operations		
Other expense:		
Other expense:		
Other expense:		
Other income		
Other income		
Other income		
Interest expense, net		
Interest expense, net		
Interest expense, net		
Other expense, net		
Other expense, net		
Other expense, net		
Income before provision for income taxes		
Income before provision for income taxes		
Income before provision for income taxes		

Provision for income taxes
Provision for income taxes
Provision for income taxes
Net income
Net income
Net income
Less: net income attributable to noncontrolling interest
Less: net income attributable to noncontrolling interest
Less: net income attributable to noncontrolling interest
Net income attributable to Pennant
Net income attributable to Pennant
Net income attributable to Pennant

The following table presents our consolidated GAAP Financial measures for the three and six months ended March 31, 2024 June 30, 2024

	Three Months Ended March 31
	Three Months Ended March 31
	Three Months Ended March 31
	Three Months Ended June 30,
	Three Months Ended June 30,
	Three Months Ended June 30,
	2024
	(In thousands)
	(In thousands)
	(In thousands)

Consolidated GAAP Financial Measures:

Total revenue
Total revenue
Total revenue
Total expenses
Total expenses
Total expenses
Income from operations
Income from operations
Income from operations

The following tables present certain financial information regarding our reportable segments for the periods presented. General and administrative expenses are included in "All Other":

	Home Health and Hospice Services	Home Health and Hospice Services	Senior Living Services	All Other
	(In thousands)			(In thousands)
Segment GAAP Financial Measures:				
Three Months Ended March 31, 2024				
Three Months Ended March 31, 2024				
Three Months Ended March 31, 2024				
Three Months Ended June 30, 2024				
Three Months Ended June 30, 2024				
Three Months Ended June 30, 2024				
Revenue				
Revenue				

Revenue
Segment Adjusted EBITDAR from
Operations
Three Months Ended March 31, 2023
Three Months Ended June 30, 2023

Revenue
Revenue
Revenue
Segment Adjusted EBITDAR from
Operations

	Home Health and Hospice		
	Services	Senior Living	
Segment GAAP Financial Measures:			
Six Months Ended June 30, 2024			
Revenue	\$	241,791	\$
Segment Adjusted EBITDAR from Operations	\$	40,764	\$
Six Months Ended June 30, 2023			
Revenue	\$	186,099	\$
Segment Adjusted EBITDAR from Operations	\$	30,093	\$

The table below provides a reconciliation of Segment Adjusted EBITDAR from Operations to Condensed Consolidated Income from operations

	Three Months Ended March 31, Three Months Ended March 31, Three Months Ended March 31, Three Months Ended June 30,	
	2024	2024
	(In thousands)	
Segment Adjusted EBITDAR from Operations ^(a)		
Less: Depreciation and amortization		
Rent—cost of services		
Other (expense) income		
Adjustments to Segment EBITDAR from Operations:		
Less: Costs at start-up operations ^(b)		
Less: Costs at start-up operations ^(b)		
Less: Costs at start-up operations ^(b)		
Share-based compensation expense ^(c)		
Acquisition related costs and credit allowances ^(d)		
Costs associated with transitioning operations ^(e)		
Costs associated with transitioning operations ^(e)		
Costs associated with transitioning operations ^(e)		
Unusual, non-recurring or redundant charges ^(f)		
Add: Net income attributable to noncontrolling interest		
Condensed Consolidated Income from Operations		

- (a) Segment Adjusted EBITDAR from Operations is net income (loss) attributable to the Company's reportable segments excluding interest expense, provision for income taxes on a comparable basis from period to period, certain adjustments including: (1) costs at start-up operations, (2) share-based compensation, (3) acquisition related costs and other non-redundant charges, and (6) net income attributable to noncontrolling interest. General and administrative expenses are not allocated to the reportable segments, and are included in corporate general and administrative expenses. The Company's segment measures may be different from the calculation methods used by other companies and, therefore, not comparable.
- (b) Represents results related to start-up operations. This amount excludes rent and depreciation and amortization expense related to such operations.
- (c) Share-based compensation expense and related payroll taxes incurred. Share-based compensation expense and related payroll taxes are included in cost of services and general and administrative expenses.
- (d) Non-capitalizable costs associated with acquisitions, credit allowances, and write offs for amounts in dispute with the prior owners of certain acquired operations.
- (e) During the three months ended March 31, 2023, an affiliate of the Company placed its memory care units into transition and is actively **began** seeking to sublease the units in transition. The amounts reported exclude rent and depreciation and amortization expense related to such operations and include legal settlement costs associated with the transition.
- (f) Represents unusual or non-recurring charges for legal services, implementation costs, integration costs, and consulting fees in general and administrative and cost of service.

Performance and Valuation Measures:

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2024
	Three Months Ended March 31, 2023	Three Months Ended March 31, 2024
	Three Months Ended March 31, 2023	Three Months Ended March 31, 2024
	Three Months Ended June 30, 2024	
	2024	2024
	(In thousands)	

Consolidated Non-GAAP Financial Measures:

Performance Metrics

Performance Metrics

Performance Metrics

Consolidated EBITDA

Consolidated EBITDA

Consolidated EBITDA

Consolidated Adjusted EBITDA

Valuation Metric

Consolidated Adjusted EBITDAR

Consolidated Adjusted EBITDAR

Consolidated Adjusted EBITDAR

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2024
	Three Months Ended March 31, 2023	Three Months Ended March 31, 2024
	Three Months Ended March 31, 2023	Three Months Ended March 31, 2024
	Three Months Ended June 30, 2024	S
	2024	2024
	(In thousands)	

Segment Non-GAAP Measures:(a)

Segment Adjusted EBITDA from Operations

Segment Adjusted EBITDA from Operations

Segment Adjusted EBITDA from Operations

Home health and hospice services

Home health and hospice services

Home health and hospice services

Senior living services

- (a) General and administrative expenses are not allocated to any segment for purposes of determining segment profit or loss.

The tables below reconcile Consolidated Net Income to the consolidated Non-GAAP financial measures, Consolidated EBITDA and Consolidated Adjusted EBITDAR, for the periods presented:

Consolidated net income
Less: Net income attributable to noncontrolling interest
Less: Net income attributable to noncontrolling interest
Less: Net income attributable to noncontrolling interest
Add: Provision for income taxes
Add: Provision for income taxes
Add: Provision for income taxes
Interest expense, net
Interest expense, net
Interest expense, net
Depreciation and amortization
Depreciation and amortization
Depreciation and amortization
Consolidated EBITDA
Consolidated EBITDA
Consolidated EBITDA
Adjustments to Consolidated EBITDA
Adjustments to Consolidated EBITDA
Adjustments to Consolidated EBITDA
Add: Costs at start-up operations ^(a)
Add: Costs at start-up operations ^(a)
Add: Costs at start-up operations ^(a)
Share-based compensation expense ^(b)
Share-based compensation expense ^(b)
Share-based compensation expense ^(b)
Acquisition related costs and credit allowances ^(c)
Acquisition related costs and credit allowances ^(c)
Acquisition related costs and credit allowances ^(c)
Costs associated with transitioning operations ^(d)
Costs associated with transitioning operations ^(d)
Costs associated with transitioning operations ^(d)
Unusual, non-recurring or redundant charges ^(e)
Unusual, non-recurring or redundant charges ^(e)
Unusual, non-recurring or redundant charges ^(e)
Rent related to items (a) and (d) above
Rent related to items (a) and (d) above
Rent related to items (a) and (d) above

Consolidated Adjusted EBITDA
Consolidated Adjusted EBITDA
Consolidated Adjusted EBITDA
Rent—cost of services
Rent—cost of services
Rent—cost of services
Rent related to items (a) and (d) above
Rent related to items (a) and (d) above
Rent related to items (a) and (d) above
Adjusted rent—cost of services
Adjusted rent—cost of services
Adjusted rent—cost of services
Consolidated Adjusted EBITDAR
Consolidated Adjusted EBITDAR
Consolidated Adjusted EBITDAR

- (a) Represents results related to start-up operations. This amount excludes rent and depreciation and amortization expense related to such operations.
- (b) Share-based compensation expense and related payroll taxes incurred. Share-based compensation expense and related payroll taxes are included in cost of services and ge
- (c) Non-capitalizable costs associated with acquisitions, credit allowances, and write offs for amounts in dispute with the prior owners of certain acquired operations.
- (d) During the three months ended March 31, 2023, an affiliate of the Company placed its memory care units into transition and is actively began seeking to sublease the units units in transition. The amounts reported exclude rent and depreciation and amortization expense related to such operations and include legal settlement costs associated wi
- (e) Represents unusual or non-recurring charges for legal services, implementation costs, integration costs, and consulting fees in general and administrative and cost of service

The tables below reconciles Segment Adjusted EBITDAR from Operations to Segment Adjusted EBITDA from Operations for the periods pr

Three Months Ended March 31,			
Home Health and Hospice	Home Health and Hospice		
2024	2024	2023	2024
(In thousands)			
Segment Adjusted EBITDAR from Operations			
Less: Rent—cost of services			
Rent related to start-up and transitioning operations			
Segment Adjusted EBITDA from Operations			

	Home Hea
	2024
Segment Adjusted EBITDAR from Operations	\$ 40,76
Less: Rent—cost of services	3,39
Rent related to start-up and transitioning operations	(12
Segment Adjusted EBITDA from Operations	\$ 37,49

The following discussion includes references to certain performance and valuation measures, which are non-GAAP financial measures, inc EBITDA from Operations, and Consolidated Adjusted EBITDAR (collectively, “Non-GAAP Financial Measures”). Non-GAAP Financial Measures are GAAP and should not be relied upon to the exclusion of GAAP financial measures. Non-GAAP Financial Measures reflect an additional way of vi results and the accompanying reconciliations to corresponding GAAP financial measures, we believe can provide a more comprehensive understa

We believe these Non-GAAP Financial Measures are useful to investors and other external users of our financial statements regarding our

- they are widely used by investors and analysts in our industry as a supplemental measure to evaluate the overall performance of companies and depreciation and amortization, which can vary substantially from company to company depending on the book value of assets, the method of depreciation and amortization, and the useful life of the assets;
- they help investors evaluate and compare the results of our operations from period to period by removing the impact of our asset base and depreciation and amortization;
- Consolidated Adjusted EBITDAR is used by investors and analysts in our industry to value the companies in our industry without regard to capital expenditures and debt.

We use Non-GAAP Financial Measures:

- as measurements of our operating performance to assist us in comparing our operating performance on a consistent basis from period to period;
- to allocate resources to enhance the financial performance of our business;
- to assess the value of a potential acquisition;
- to assess the value of a transformed operation's performance;
- to evaluate the effectiveness of our operational strategies; and
- to compare our operating performance to that of our competitors.

We typically use Non-GAAP Financial Measures to compare the operating performance of each operation from period to period. We find that such costs as interest expense, income taxes, depreciation and amortization expense, which may vary from period-to-period depending upon the acquisition of a community or business, and the tax law of the state in which a business unit operates.

We also establish compensation programs and bonuses for our leaders that are partially based upon the achievement of Consolidated Adjusted EBITDA.

Non-GAAP Financial Measures have no standardized meaning defined by GAAP. Therefore, our Non-GAAP Financial Measures have limitations and should not substitute for analysis of our results as reported in accordance with GAAP. Some of these limitations are:

- they do not reflect our current or future cash requirements for capital expenditures or contractual commitments;
- they do not reflect changes in, or cash requirements for, our working capital needs;
- they do not reflect the net interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;
- in the case of Consolidated Adjusted EBITDAR, it does not reflect rent expenses, which are normal and recurring operating expenses that are not cash charges;
- they do not reflect any income tax payments we may be required to make;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future with cash expenditures;
- other companies in our industry may calculate the same Non-GAAP Financial Measures differently than we do, which may limit their usefulness.

We compensate for these limitations by using Non-GAAP Financial Measures only to supplement net income on a basis prepared in accordance with GAAP and factors and trends affecting our business. Our use of Non-GAAP Financial Measures should not be construed as an inference that our future results will be similar to those reported.

We strongly encourage investors to review the Interim Financial Statements, included in this Quarterly Report in their entirety and to not rely solely on Non-GAAP Financial Measures. Because Non-GAAP financial measures are not standardized, it may not be possible to compare these financial measures with other companies' non-GAAP financial measures having the same name. Non-GAAP financial measures should be considered a substitute for, nor superior to, financial results and measures determined or calculated in accordance with GAAP. We strongly urge investors to review and consider the Non-GAAP Financial Measures in the table presented above, along with the Interim Financial Statements and related notes included elsewhere in this Quarterly Report.

We believe the following Non-GAAP Financial Measures are useful to investors as key operating performance measures and valuation measures.

Performance Measures:

Consolidated EBITDA

We believe Consolidated EBITDA is useful to investors in evaluating our operating performance because it helps investors evaluate and compare our operating results from period to period by removing the impact of our asset base (depreciation and amortization expense) from our operating results.

We calculate Consolidated EBITDA as net income, before (a) interest expense (b) provision for income taxes and (c) depreciation and amortization expense.

Consolidated Adjusted EBITDA

We adjust Consolidated EBITDA when evaluating our performance because we believe that the exclusion of the additional items described below is necessary to provide a more complete understanding of our ongoing operating performance. We believe that the presentation of Consolidated Adjusted EBITDA, when considered with Consolidated EBITDA, provides a more complete understanding of our operating performance.

We calculate Consolidated Adjusted EBITDA by adjusting Consolidated EBITDA to exclude the effects of non-core business items, which for

- costs at start-up operations;
- share-based compensation expense;
- acquisition related costs and credit allowances;
- costs associated with transitioning operations; and
- unusual, non-recurring, or redundant charges.

Segment Adjusted EBITDA from Operations

We calculate Segment Adjusted EBITDA from Operations by adjusting Segment Adjusted EBITDAR from Operations to include rent-cost of services and rent related to start up operations from Consolidated Adjusted EBITDA. supplemental information to investors regarding our ongoing operating performance for each segment.

Valuation Measure:

Consolidated Adjusted EBITDAR

We use Consolidated Adjusted EBITDAR as one measure in determining the value of prospective acquisitions. It is also a measure commonly used by different companies in the healthcare industry, without regard to differences in capital structures. Additionally, we believe the use of Consolidated Adjusted EBITDAR provides a more complete understanding of our operational results of companies with operating and finance leases. A significant portion of finance lease expenditures are recorded in interest, which

This measure is not displayed as a performance measure as it excludes rent expense, which is a normal and recurring operating expense. Our presentation of Consolidated Adjusted EBITDAR should not be construed as a financial performance measure.

The adjustments made and previously described in the computation of Consolidated Adjusted EBITDA are also made when computing Consolidated Adjusted EBITDAR. The adjustments made and previously described in the computation of Consolidated Adjusted EBITDA are also made when computing Consolidated Adjusted EBITDAR, excluding rent-cost of services and rent related to start up operations from Consolidated Adjusted EBITDA.

Three Months Ended March 31, 2024 June 30, 2024 Compared to the Three Months Ended March 31, 2023

June 30, 2023

Revenue

	Three Months Ended March 31,						Three Months Ended June 30,	
	2024	2024		2023			2024	
Revenue	Revenue	Revenue	Revenue	Revenue	Revenue		Revenue	
Dollars	Dollars	Percentage	Dollars	Percentage	Percentage		Dollars	
(In thousands)								
Home health and hospice services								
Home health								
Home health								
Home health	\$ 57,212	36.5	36.5 %	\$ 41,780	33.0	33.0 %	\$ 61,637	36.5
Hospice								

Home care and other ^(a)												
Total home health and hospice services												
Senior living services												
Total revenue	Total revenue	\$156,915	100.0	100.0 %		\$126,464	100.0	100.0 %	Total revenue	\$168,745	100.0	100.0 %

Our total revenue increased \$30.5 million, or 24.1%, during the three months ended March 31, 2024, compared to the three months ended March 31, 2023. The increase was primarily driven by the combination of increased occupancy and improved average rate per occupied room. Our Home Health and Hospice segment from increased admissions and rates when compared to the three months ended June 30, 2023. The growth was primarily driven by the combination of increased occupancy and improved average rate per occupied room.

		Three Months 2024
		(In thousands)
Home health and hospice revenue		
Home health services	\$	61,637
Hospice services		59,347
Home care and other		4,317
Total home health and hospice revenue	\$	125,301
		Three Months 2024
Home health services:		
Total home health admissions		14,140
Total Medicare home health admissions		5,738
Average Medicare revenue per 60-day completed episode	\$	3,752
Hospice services:		
Total hospice admissions		3,051
Average daily hospice census		3,220
Hospice Medicare revenue per day	\$	184
Number of home health and hospice agencies at period end		117

Senior Living Services

Senior living revenue increased \$6.2 million, or 16.6%, for the three months ended June 30, 2024 compared to the prior year quarter. For the three months ended June 30, 2024, revenue increased due to an increase in the number of occupied unit and an increase of 80 basis points in occupancy between June 30, 2023 and June 30, 2024. Growth was also driven by the addition of new residents, resulting in an increase of \$3.3 million, or 8.8%, overall.

Cost of Services

The following table sets forth total cost of services by each of our reportable segments for the periods indicated:

		Three Months Ended June 30, 2024
		(In thousands)
Home Health and Hospice	\$	104,546
Senior Living		30,767
Total cost of services	\$	135,313

Total consolidated cost of services increased \$29.1 million, or 27.4%, for the three months ended June 30, 2024 when compared to the three months ended June 30, 2023. The increase was primarily due to an increase in the number of occupied units and a decrease of 20 basis points from 80.4% to 80.2% for the three months ended June 30, 2024 when compared to the three months ended June 30, 2023.

Home Health and Hospice Services

		Three Months Ended June 30, 2024
		(In thousands)
Cost of service	\$	104,546
Cost of services as a percentage of revenue		83.4 %

Cost of services related to our Home Health and Hospice Services segment increased \$24.5 million, or 30.6%, primarily due to increased wages and benefits for the three months ended June 30, 2024 decreased 90 basis points when compared to the three months ended June 30, 2023.

Senior Living Services

		Three Months Ended June 30, 2024
		(In thousands)
Cost of service	\$	30,767
Cost of services as a percentage of revenue		70.8 %

Cost of services related to our Senior Living Services segment increased \$4.7 million, or 17.9%, primarily due to increased wages and benefits for the three months ended June 30, 2024 when compared to the three months ended June 30, 2023.

Rent—Cost of Services. Rent expense increased 7.0% from \$9.8 million to \$10.5 million in the three months ended June 30, 2024 when compared to the three months ended June 30, 2023. The increase was primarily due to new leases on the acquired home health and hospice operations and senior living community. Rent as a percentage of total revenue decreased from 6.2% for the three months ended June 30, 2024.

General and Administrative Expense. Our general and administrative expense increased \$3.1 million, or 35.1%, from \$8.8 million to \$11.9 million for the three months ended June 30, 2024 compared to the three months ended June 30, 2023. General and administrative expense as a percentage of revenue increased 40 basis points from 6.6% to 7.0% due to an increase of \$2.7 million in payroll and related benefits, for the three months ended June 30, 2024 when compared to the three months ended June 30, 2023.

Depreciation and Amortization. Depreciation and amortization expense remained consistent with the comparable period.

Provision for Income Taxes. We recorded income tax expense of \$1.8 million and \$1.9 million or 23.2% and 39.7% of earnings before income taxes for the three months ended June 30, 2024 and 2023, respectively. The decrease in the effective tax rate is primarily due to the non-deductibility of equity compensation of certain executives in the prior year.

Six Months Ended June 30, 2024 Compared to the Six Months Ended June 30, 2023

Revenue

	2024	
	Revenue Dollars	Revenue Per Occupied Room
Home health and hospice services		
Home health	\$ 118,849	
Hospice	113,954	
Home care and other ^(a)	8,988	
Total home health and hospice services	241,791	
Senior living services	83,869	
Total revenue	\$ 325,660	

(a) Home care and other revenue is included with home health revenue in other disclosures in this Quarterly Report.

Our total revenue increased \$66.9 million, or 25.9%, during the six months ended June 30, 2024. The increase in revenue was driven by hospice admissions, hospice revenue per day, hospice average daily census, senior living occupancy, and senior living revenue per occupied room.

Home Health and Hospice Services

	Three Months Ended March 31,		Six Months Ended June 30,							
	2024	2023	2024	2023	Change	% Change	2024	2023	Change	% Change
	(In thousands)									
Home health and hospice revenue										
Home health and hospice revenue										
Home health and hospice revenue										
Home health services										
Home health services										
Home health services	\$ 57,212	\$ 41,780	\$ 116,490	\$ 91,079	\$ 15,432	36.9	\$ 118,849	\$ 84,125	\$ 34,724	40.9
Hospice services										
Home care and other										
Total home health and hospice revenue	\$ 116,490	\$ 91,079	\$ 241,791	\$ 175,204	\$ 66,587	27.9	\$ 241,791	\$ 174,079	\$ 67,712	39.0
	Three Months Ended March 31,		Three Months Ended March 31,		Three Months Ended March 31,					

	Six Months Ended June 30,			Six Months Ended June 30,			Six Months Ended June 30,				
	2024			2024			2024				
	2024	2023		Change			% Change	2023			
Home health services:											
Total home health admissions											
Total home health admissions											
Total home health admissions	14,649	10,910	10,910	3,739	3,739	34.3	34.3	%	28,789	21,351	
Total Medicare home health admissions											
Average Medicare revenue per 60-day completed episode ^(a)											
Hospice services:											
Total hospice admissions											
Total hospice admissions											
Total hospice admissions											
Average daily census											
Hospice Medicare revenue per day											
Number of home health and hospice agencies at period end											
(a) The year-to-date average for Medicare revenue per 60-day completed episode includes post period claim adjustments for prior periods.											
Home health and hospice revenue increased \$25.4 million \$55.7 million, or 27.9% 29.9% during the three six months ended March 31, 2024 increase in hospice average daily census of 21.4% 25.3%, an increase of 34.3% 34.8% in home health admissions, inclusive of an increase i 25.7% 28.5% in hospice admissions. The addition of sixteen home health and hospice operations between March 31, 2023 June 30, 2023 and 14.1% 15.6%.											
Senior Living Services											
	Three Months Ended March 31,			Six Months Ended June 30,			2024				

	2024		2023		Change	% Change	
	2024		2023				
Revenue (in thousands)							
Revenue (in thousands)							
Revenue (in thousands)	\$	40,425	\$	35,385	\$ 5,040	14.2	14.2 % \$
Number of communities at period end							
Occupancy							
Average monthly revenue per occupied unit							
Average monthly revenue per occupied unit							
Average monthly revenue per occupied unit							

Senior living revenue increased \$5.0 million \$11.2 million, or 14.2% 15.4%, for the three six months ended March 31, 2024 June 30, 2024 8.5% 8.6% in average monthly revenue per occupied unit and an increase of 40 60 basis points in the occupancy rate between March 31, 2023 June 30, 2023 living communities between March 31, 2023 June 30, 2023 and March 31, 2024 June 30, 2024, added \$1.5 million \$4.7 million, or 4.1% 6.5%, in revenue

Cost of Services

		Three Months Ended March 31,							
		Six Months Ended June 30,							
		2024							
		2024							
		2024	2023	Change	% Change			2024	2023
		(In thousands)							
Home Health and Hospice									
Home Health and Hospice									
Home Health and Hospice		\$ 97,320	\$ 77,406	\$ 19,914	25.7	25.7 %	\$ 201,866	\$ 161,866	\$ 39,999
Senior Living									
Total cost of services		\$125,995	\$102,602	\$ 23,393	22.8	22.8 %	Total cost of services	\$261,308	\$211,308

Consolidated cost of services increased \$23.4 \$52.5 million, or 22.8% 25.2%, during the three six months ended March 31, 2024 June 30, 2024 percentage of revenue for the three six months ended March 31, 2024 June 30, 2024 decreased by 80 50 basis points to 80.3% 80.2% from 81.1% 8

Home Health and Hospice Services

		Three Months Ended March 31,		Six Months Ended June 30,					
		2024		2024					
		2024	2023	Change	% Change				
Cost of service (in thousands)	Cost of service (in thousands)	\$97,320	\$ 77,406	\$ 19,914	25.7	25.7 %	Cost of service (in thousands)		
Cost of services as a percentage of revenue									

Cost of services related to our Home Health and Hospice services segment increased \$19.9 million \$44.4 million, or 25.7% 28.2%, compared to services from the growth in admissions and average daily census. Cost of services as a percentage of revenue for the three six months ended March 31, 2024 June 30, 2024 decreased by 80 50 basis points to 80.3% 80.2% from 81.1% 8

Senior Living Services

		Three Months Ended March 31,		Six Months Ended June 30,					
		2024		2024					
		2024	2023	Change	% Change				
Cost of service (in thousands)	Cost of service (in thousands)	\$28,675	\$ 25,196	\$ 3,479	13.8	13.8 %	Cost of service (in thousands)		
Cost of services as a percentage of revenue									

Cost of services related to our Senior Living services segment increased \$3.5 million \$8.1 million, or 13.8% 15.9%, during the three six months ended March 31, 2024 June 30, 2024 when compared to the three six months ended March 31, 2023 June 30, 2023. The increase in cost of services was primarily due to higher occupancy and wage rate increases. As a percentage of revenue, costs of service decreased increased by 30 ba compared to the three six months ended March 31, 2023 June 30, 2023.

Rent—Cost of Services. Rent increased 8.2% 7.6% from \$9.6 million \$19.4 million to \$10.4 million \$20.9 million during the three six months ended March 31, 2024 June 30, 2024 when compared to the three six months ended March 31, 2023 June 30, 2023. The increase in rent was primarily as a result of the newly new leases on the acquired home health and hospice operations and senior living communities. communi points when compared to the three six months ended March 31, 2023 June 30, 2023 due to improved senior living performance.

General and Administrative Expense. Our general and administrative expense increased \$2.7 \$5.8 million, or 31.4% 33.3%, from \$8.7 million \$14.5 million during the three six months ended March 31, 2024 June 30, 2024 when compared to the three six months ended March 31, 2023 June 30, 2023. The increase in general and administrative expense was primarily due to an increase in salaries and benefits, and an increase in professional fees. The increase in general and administrative expense was primarily due to an increase in salaries and benefits, and an increase in professional fees. The increase in general and administrative expense was primarily due to an increase in salaries and benefits, and an increase in professional fees.

Depreciation and Amortization. Depreciation and amortization expense was essentially flat. remained consistent with the comparable period.

Gain on disposition of property and equipment, net. We recorded a gain of \$0.8 million for insurance proceeds received in excess of the carrying amount of property and equipment during the three six months ended March 31, 2024 June 30, 2024. No gain on disposition of property and equipment was recorded during the three six months ended March 31, 2023 June 30, 2023.

Provision for Income Taxes. We recorded income tax expense of \$1.8 million \$3.6 million and \$0.9 million \$2.8 million, or 25.8% 24.4% and 2023, respectively. The decrease in the effective tax rate is primarily due to the increase non-deductibility of certain expenses. The decrease in the effective tax rate is primarily due to the increase non-deductibility of certain expenses. The decrease in the effective tax rate is primarily due to the increase non-deductibility of certain expenses.

Liquidity and Capital Resources

Our primary sources of liquidity are net cash provided by operating activities and borrowings under our revolving credit facility.

Revolving Credit Facility

On February 23, 2021, Pennant entered into an amendment to its existing credit agreement (as amended, the "Credit Agreement"), which increased the borrowing capacity of \$150.0 million (the "Revolving Credit Facility"). The Revolving Credit Facility is not subject to interim amortization and the maturity date is prior to maturity in 2026. On June 12, 2023, Pennant entered into a second amendment to the Credit Agreement that modified the reference rate for the loans under the Revolving Credit Facility prior to maturity without premium or penalty, subject to reimbursement of the cost of the amendment.

The Credit Agreement contains customary covenants that, among other things, restrict, subject to certain exceptions, the ability of the Company to incur indebtedness, sell assets, make investments, engage in acquisitions, mergers or consolidations, amend certain material agreements and pay dividends. The Company is in compliance with certain levels of leverage ratios that impact the amount of interest. As of March 31, 2024 June 30, 2024, the Company was in compliance with the covenants of the Credit Agreement.

As of March 31, 2024 June 30, 2024, we had \$2.7 million \$3.0 million of cash and \$61.6 million \$62.8 million of available borrowing capacity under the Revolving Credit Facility. Financial Statements in Part I of this Quarterly Report, on July 31, 2024, Pennant entered into an amendment to the Credit Agreement which provided for an increase in the borrowing capacity of the Revolving Credit Facility to \$150.0 million.

We believe that our existing cash, cash generated through operations, and access to available borrowing capacity under our existing Amended Credit Agreement are sufficient to meet our working capital requirements and to fund our operations for the next twelve months for our operating activities and for opportunities of acquisition growth.

The following table presents selected data from our Condensed Consolidated Statement of Cash Flows for the periods presented:

	2024	Three Months Ended March 31, 2024
		(In thousand)
Net cash provided by operating activities		
Net cash used in investing activities		
Net cash provided by (used in) financing activities		
Net (decrease) increase in cash		
Cash at beginning of period		
Cash at end of period		

Three Six Months Ended March 31, 2024 June 30, 2024 Compared to the Three Six Months Ended March 31, 2023 June 30, 2023

Our net cash flow from operating activities for the three six months ended March 31, 2024 June 30, 2024 decreased by \$8.5 million \$4.5 million compared to the three six months ended March 31, 2023 June 30, 2023. The primary driver of this difference was a decrease in cash flows from the change in operating assets and liabilities of \$10.5 million \$8.0 million by an increase in Net net income of \$3.1 million \$6.2 million.

Our net cash used in investing activities for the ~~three~~six months ended ~~March 31, 2024~~June 30, 2024 increased by ~~\$21.3 million~~\$22.1 million, primarily driven by an increase in business and asset acquisitions.

Our net cash used in financing activities increased by approximately ~~\$25.6 million~~\$22.8 million for the ~~three~~six months ended ~~March 31, 2024~~June 30, 2023. The increase was primarily due to a net increase in the balance on our line of credit during the ~~three~~six months ended ~~March 31, 2024~~June 30, 2023.

Contractual Obligations, Commitments and Contingencies

We continue to make draws and payments on our Revolving Credit Facility, as described in Note 11, *Debt*, to the Interim Financial Statements obtained in exchange for new operating lease obligations, as described in the supplemental disclosures of cash flow information in the Condensed Financial Statements in Part I of this Quarterly Report.

Other than those transactions there have been no other material changes to our total obligations during the period covered by this Quarterly Report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk. We are exposed to risks associated with market changes in interest rates. On June 12, 2023, Pennant entered into a swap agreement to convert LIBOR to SOFR. A 1.0% interest rate change would cause interest expense to change by approximately \$0.8 million annually based upon our current exposure to this market risk by monitoring available financing alternatives.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the period covered by this report. Our Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and that our disclosure controls and procedures, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no material changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are involved in various claims and lawsuits arising in the ordinary course of business, none of which, in the opinion of management, is expected to have a material effect on our financial condition. However, the results of such matters cannot be predicted with certainty and we cannot assure you that the ultimate resolution of any legal matter will not have a material effect on our business, financial condition, results of operations and cash flows. See Note 15, *Commitments and Contingencies*, to the Interim Financial Statements for more information on our business.

Item 1A. Risk Factors

We have disclosed under the heading "Risk Factors" in the 2023 Annual Report risk factors that materially affect our business, financial condition and results of operations. You should carefully consider the risk factors set forth in the 2023 Annual Report, as well as the risk factors set forth elsewhere in this Quarterly Report. You should be aware that these risk factors and other information may not describe every risk that we face or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 1B. Other Information

Rule 10b5-1 Plan Election

Brent J. Guerisoli, Chief Executive Officer, entered into a Rule 10b5-1 trading arrangement on May 28, 2024 (the "Rule 10b5-1 Plan"). Mr. Guerisoli has agreed not to trade the Company's common stock between August 27, 2024 and May 23, 2025. Additionally, Mr. Guerisoli entered into another Rule 10b5-1 trading arrangement on July 25, 2025. This arrangement provides for the potential sale of up to 24,000 shares of the Company's common stock between July 25, 2025 and July 25, 2027.

This Rule 10b5-1 trading arrangement was entered into during open trading windows and is intended to satisfy the affirmative defense conditions of the Company's policies regarding transactions in Company securities.

Item 6. Exhibits

EXHIBIT INDEX	
Exhibit	Description
3.1	Amended and Restated Certificate of Incorporation of The Pennant Group, Inc., effective as of September 27, 2019 (incorporated by reference to Form 8-K (File No. 001-38900) filed with the SEC on October 3, 2019).
3.2	Second Amended and Restated Bylaws of The Pennant Group, Inc., effective as of February 21, 2022 (incorporated by reference to Form 8-K (File No. 001-38900) filed with the SEC February 22, 2022).
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL 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 Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

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 duly authorized officer.

	The Pennant Group, Inc.
Dated: May 6, 2024 August 6, 2024	BY: <u>/s/ LYNETTE B. WALBOR</u> Lynette B. Walbor Chief Financial Officer

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I, Brent J. Guerisoli, certify that:

- I have reviewed this quarterly report on Form 10-Q of The Pennant Group, Inc;
- 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, not misleading with respect to the period covered by this report;
- 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 Company, and for the periods presented in this report;

Date: May 6, 2024 August 6, 2024

/s/ LYNETTE B. WALBOM
Name: Lynette B. Walbo
Title: Chief Financial C
Accounting Offia

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

In connection with the Quarterly Report of The Pennant Group, Inc. (the Company) on Form 10-Q for the period ended March 31, 2024 June 30, 2024 (the Report), I, Brent J. Guerisoli, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of t

- 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 C

/s/ BRENT J. GUERISOLI
Name: Brent J. Guerisoli
Title: Chief Executive Offi

May August 6, 2024

A signed original of this written statement required by 18 U.S.C. Section 1350 has been provided to the Company and will be retained by the Comp. request.

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

In connection with the Quarterly Report of The Pennant Group, Inc. (the Company) on Form 10-Q for the period ended March 31, 2024 June 30, 2024 (the Report), I, Lynette B. Walbom, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of

- 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 C

/s/ LYNETTE B. WALBOM

Name:

Lynette B. Walbom

Title:

Chief Financial Officer and Duly Authorized

May 6, 2024

A signed original of this written statement required by 18 U.S.C. Section 1350 has been provided to the Company and will be retained by the Company upon request.

DISCLAIMER

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