

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

or

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

For the transition period from _____ to _____

Commission File Number: 001-40033



P3 Health Partners Inc.

(Exact name of registrant as specified in its charter)

Delaware

85-2992794

(State or other jurisdiction of incorporation or organization)

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

2370 Corporate Circle Suite 300 Henderson, Nevada

89074

(Address of principal executive offices)

(Zip Code)

(702) 910-3950

(Registrant's telephone number, including area code)

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Class A common stock, par value \$0.0001 per share	PIII	The Nasdaq Stock Market LLC
Warrants, each whole warrant exercisable for one share of Class A common stock at an exercise price of \$11.50	PIIIW	The Nasdaq Stock Market LLC

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

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

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

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

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

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

As of May 1, 2024, the registrant had 119,620,285 shares of Class A common stock, par value \$0.0001 and 196,494,420 shares of Class V common stock, par value \$0.0001 outstanding.

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SIGNATURES

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

In addition to historical information, this Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2024 (the "Form 10-Q") contains "forward-looking statements" within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements other than statements of historical facts contained in this Form 10-Q, including statements regarding our future results of operations and financial position, business and growth strategy, prospective products, research and development costs, future revenue, market opportunity, timing and likelihood of success, plans and objectives of management for future operations, our ability to raise additional capital and continue as a going concern, future results of anticipated products and prospects, are forward-looking statements. In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "expect," "plan," "anticipate," "could," "intend," "target," "project," "contemplate," "believe," "estimate," "predict," "potential," "would" or "continue" or the negative of these terms or other similar expressions, although not all forward-looking statements contain these words.

The forward-looking statements in this Form 10-Q are only predictions and are based largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition and results of operations. These forward-looking statements speak only as of the date of this Form 10-Q and are subject to a number of known and unknown risks, uncertainties and assumptions, and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements, including, without limitation, the following:

- Our ability to continue as a going concern.
- Our need to raise additional capital to fund our existing operations or develop and commercialize new services or expand our operations.
- We have a history of net losses. We expect to continue to incur losses for the foreseeable future and we may never achieve or maintain profitability.
- We may not be able to maintain compliance with our debt covenants in the future, which could result in an event of default.
- Our relatively limited operating history makes it difficult to evaluate our future prospects and the risks and challenges we may encounter.
- A significant portion of our assets consists of other intangible assets, the value of which may be reduced if we determine that those assets are impaired.
- We rely on our management team and key employees and our business, financial condition, cash flows and results of operations could be harmed if we are unable to retain qualified personnel.
- Our growth depends in part on our ability to identify and develop successful new geographies, physician partners, payors and patients. If we are not able to successfully execute upon our growth strategies, there may be material adverse effect on our business, financial condition, cash flows and results of operations.
- If growth in the number of patients and physician partners on our platform decreases, or the number of services that we are able to provide to physician partners and members decreases, due to legal, economic or business developments, our business, financial condition and results of operations will be harmed.
- We primarily depend on reimbursement by third-party payors, as well as payments by individuals, which could lead to delays, uncertainties and disagreements regarding the timing and process of reimbursement, including any changes or reductions in Medicare reimbursement rates or rules.
- The termination or non-renewal of the Medicare Advantage ("MA") contracts held by the health plans with which we contract, or the termination or nonrenewal of our contracts with those plans, could have a material adverse effect on our revenue and our operations.

- We are dependent on our affiliated professional entities and other physician partners and other providers to effectively manage the quality and cost of care and perform obligations under payor contracts.
- Reductions in the quality ratings of the health plans we serve could have a material adverse effect on our business, results of operations, financial condition and cash flows.
- Developments affecting spending by the healthcare industry could adversely affect our business.
- Our business and operations would suffer in the event of information technology system failures, security breaches, cyberattacks or other deficiencies in cybersecurity.
- Actual or perceived failures to comply with applicable data protection, privacy and security laws, regulations, standards and other requirements could adversely affect our business, financial condition and results of operations.
- We conduct business in a heavily regulated industry and if we fail to adhere to all of the complex government laws and regulations that apply to our business, we could incur fines or penalties or be required to make changes to our operations or experience adverse publicity, any or all of which could have a material adverse effect on our business, results of operations, financial condition, cash flows, and reputation.
- If our arrangements with our affiliated professional entities and other physician partners are found to constitute the improper rendering of medical services or fee splitting under applicable state laws, our business, financial condition and our ability to operate in those states could be adversely impacted.
- We face inspections, reviews, audits and investigations under federal and state government programs and contracts. These audits could have adverse findings that may negatively affect our business, including our results of operations, liquidity, financial condition and reputation.
- The impact on us of recent healthcare legislation and other changes in the healthcare industry and in healthcare spending is currently unknown, but may adversely affect our business, financial condition and results of operations.
- Our only significant asset is the ownership of a minority of the economic interest in P3 LLC, and such ownership may not be sufficient to generate the funds necessary to meet our financial obligations or to pay any dividends on our Class A common stock.
- We will be required to make payments under the TRA (defined herein) for certain tax benefits we may claim, and the amounts of such payments could be significant.
- Foresight Sponsor Group, LLC and the Chicago Pacific Founders funds, and their respective affiliates and representatives, non-employee directors and other non-employee stockholders are not limited in their ability to compete with us, and the corporate opportunity provisions in our certificate of incorporation could enable such persons to benefit from corporate opportunities that might otherwise be available to us, which presents potential conflicts of interest.
- The impact of the material weaknesses we have identified in our internal control over financial reporting and our ability to establish and maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act.
- We may not be able to maintain compliance with the continued listing rules of The Nasdaq Stock Market, LLC.
- The factors described under Part I, Item 1A. "Risk Factors" and Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2023, filed with the Securities and Exchange Commission (the "SEC") on March 28, 2024 (the "2023 Form 10-K"), in Part II, Item 1A. "[Risk Factors](#)" and Part I,

Item 2. "[Management's Discussion and Analysis of Financial Conditions and Results of Operations](#)" in this Form 10-Q and in our subsequent filings with the SEC.

Because forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified and some of which are beyond our control, you should not rely on these forward-looking statements as predictions of future events. The events and circumstances reflected in our forward-looking statements may not be achieved or occur and actual results could differ materially from those projected in the forward-looking statements. Moreover, we operate in an evolving environment. New risk factors and uncertainties may emerge from time to time, and it is not possible for management to predict all risk factors and uncertainties. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained herein, whether as a result of any new information, future events, changed circumstances or otherwise.

You should read this Form 10-Q and the documents that we reference in this Form 10-Q and have filed as exhibits hereto completely and with the understanding that our actual future results, performance and achievements may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements.

Unless the context otherwise requires, "we," "us," "our," "P3" and the "Company" refer to P3 Health Partners Inc. and its subsidiaries. "P3 LLC" refers to the surviving entity after the consummation of a series of business combinations in December 2021, which was renamed P3 Health Group, LLC.

PART I—FINANCIAL INFORMATION.

Item 1. Financial Statements.

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P3 HEALTH PARTNERS INC. and SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except per share amounts)
(unaudited)

	March 31, 2024	December 31, 2023
ASSETS		
CURRENT ASSETS:		
Cash	\$ 27,300	\$ 36,320
Restricted cash	5,005	4,614
Health plan receivable, net of allowance for credit losses of \$ 150	143,695	118,497
Clinic fees, insurance and other receivable	48	2,973
Prepaid expenses and other current assets	6,909	3,613
TOTAL CURRENT ASSETS	182,957	166,017
Property and equipment, net	8,121	8,686
Intangible assets, net	645,703	666,733
Other long-term assets	19,144	19,531
TOTAL ASSETS ⁽¹⁾	<u><u>\$ 855,925</u></u>	<u><u>\$ 860,967</u></u>
LIABILITIES, MEZZANINE EQUITY, AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 11,603	\$ 8,663
Accrued expenses and other current liabilities	28,628	36,884
Accrued payroll	5,048	3,506
Health plan settlements payable	22,048	34,992
Claims payable	222,177	178,009
Premium deficiency reserve	14,670	13,670
Accrued interest	28,035	23,648
Short-term debt	1,441	—
TOTAL CURRENT LIABILITIES	333,650	299,372
Operating lease liability	12,944	13,622
Warrant liabilities	869	1,085
Contingent consideration	4,907	4,907
Long-term debt, net	118,123	108,319
TOTAL LIABILITIES ⁽¹⁾	<u><u>470,493</u></u>	<u><u>427,305</u></u>
COMMITMENTS AND CONTINGENCIES (Note 12)		
MEZZANINE EQUITY:		
Redeemable non-controlling interest	238,836	291,532
STOCKHOLDERS' EQUITY:		
Class A common stock, \$ 0.0001 par value; 800,000 shares authorized; 119,409 and 116,588 shares issued and outstanding as of March 31, 2024 and December 31, 2023, respectively	12	12
Class V common stock, \$ 0.0001 par value; 205,000 shares authorized; 196,494 and 196,569 shares issued and outstanding as of March 31, 2024 and December 31, 2023, respectively	20	20
Additional paid in capital	532,608	509,442
Accumulated deficit	(386,044)	(367,344)
TOTAL STOCKHOLDERS' EQUITY	<u><u>146,596</u></u>	<u><u>142,130</u></u>
TOTAL LIABILITIES, MEZZANINE EQUITY, AND STOCKHOLDERS' EQUITY	<u><u>\$ 855,925</u></u>	<u><u>\$ 860,967</u></u>

(1) The Company's condensed consolidated balance sheets include the assets and liabilities of its consolidated variable interest entities ("VIEs"). As discussed in Note 13 "Variable Interest Entities," P3 LLC is itself a VIE. P3 LLC represents substantially all the assets and liabilities of the Company. As a result, the language and amounts below refer only to VIEs held at the P3 LLC level. The condensed consolidated balance sheets include total assets that can be used only to settle obligations of P3 LLC's consolidated VIEs totaling \$ 10.5 million and \$ 8.6 million as of March 31, 2024 and December 31, 2023, respectively, and total liabilities of P3 LLC's consolidated VIEs for which creditors do not have recourse to the general credit of the Company totaled \$ 14.9 million and \$ 13.6 million as of March 31, 2024 and December 31, 2023, respectively. These VIE assets and liabilities do not include \$ 44.6 million and \$ 44.2 million of net amounts due to affiliates as of March 31, 2024 and December 31, 2023, respectively, as these are eliminated in consolidation and not presented within the condensed consolidated balance sheets.

See accompanying notes to condensed consolidated financial statements.

P3 HEALTH PARTNERS INC. and SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended March 31,	
	2024	2023
OPERATING REVENUE:		
Capitated revenue	\$ 384,134	\$ 298,704
Other patient service revenue	4,354	3,373
TOTAL OPERATING REVENUE	388,488	302,077
OPERATING EXPENSE:		
Medical expense	382,057	285,570
Premium deficiency reserve	1,000	5,140
Corporate, general and administrative expense	27,401	37,643
Sales and marketing expense	322	1,001
Depreciation and amortization	21,539	21,540
TOTAL OPERATING EXPENSE	432,319	350,894
OPERATING LOSS	(43,831)	(48,817)
OTHER INCOME (EXPENSE):		
Interest expense, net	(4,256)	(4,086)
Mark-to-market of stock warrants	216	649
Other	337	96
TOTAL OTHER EXPENSE	(3,703)	(3,341)
LOSS BEFORE INCOME TAXES	(47,534)	(52,158)
PROVISION FOR INCOME TAXES	(2,072)	(290)
NET LOSS	(49,606)	(52,448)
LESS: NET LOSS ATTRIBUTABLE TO REDEEMABLE NON-CONTROLLING INTEREST	(30,906)	(43,249)
NET LOSS ATTRIBUTABLE TO CONTROLLING INTEREST	\$ (18,700)	\$ (9,199)
NET LOSS PER SHARE (Note 9):		
Basic	\$ (0.16)	\$ (0.22)
Diluted	\$ (0.16)	\$ (0.22)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING (Note 9):		
Basic	118,887	41,579
Diluted	118,887	41,579

See accompanying notes to condensed consolidated financial statements.

P3 HEALTH PARTNERS INC. and SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND MEZZANINE EQUITY
(in thousands)
(unaudited)

	Redeemable Non-controlling Interest	Class A Common Stock		Class V Common Stock		Additional Paid in Capital	Accumulated Deficit	Total Stockholders' Equity
		Shares	Amount	Shares	Amount			
STOCKHOLDERS' EQUITY, December 31, 2022	\$ 516,805	41,579	\$ 4	201,592	\$ 20	\$ 315,375	\$ (309,545)	\$ 5,854
Cumulative adjustment due to adoption of new credit loss standard	(124)	—	—	—	—	—	(26)	(26)
Vesting of Class V common stock awards	—	—	—	275	—	—	—	—
Equity-based compensation	291	—	—	—	—	686	—	686
Net loss	(43,249)	—	—	—	—	—	(9,199)	(9,199)
STOCKHOLDERS' EQUITY, March 31, 2023	\$ 473,723	41,579	\$ 4	201,867	\$ 20	\$ 316,061	\$ (318,770)	\$ (2,685)
	Redeemable Non-controlling Interest	Class A Common Stock		Class V Common Stock		Additional Paid in Capital	Accumulated Deficit	Total Stockholders' Equity
		Shares	Amount	Shares	Amount			
STOCKHOLDERS' EQUITY, December 31, 2023	\$ 291,532	116,588	\$ 12	196,569	\$ 20	\$ 509,442	\$ (367,344)	\$ 142,130
Exchanges of redeemable non-controlling interest for Class A common stock	—	75	—	(75)	—	—	—	—
Issuance of Class A common stock upon settlement of restricted stock units, net of shares withheld for tax	—	2,746	—	—	—	(73)	—	(73)
Equity-based compensation	—	—	—	—	—	1,449	—	1,449
Fair value adjustment to redeemable non-controlling interest	(20,579)	—	—	—	—	20,579	—	20,579
Remeasurement adjustment to redeemable non-controlling interest resulting from ownership changes	(1,211)	—	—	—	—	1,211	—	1,211
Net loss	(30,906)	—	—	—	—	—	(18,700)	(18,700)
STOCKHOLDERS' EQUITY, March 31, 2024	\$ 238,836	119,409	\$ 12	196,494	\$ 20	\$ 532,608	\$ (386,044)	\$ 146,596

See accompanying notes to condensed consolidated financial statements.

P3 HEALTH PARTNERS INC. and SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Three Months Ended March 31,	
	2024	2023
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net loss	\$ (49,606)	\$ (52,448)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	21,539	21,540
Equity-based compensation	1,449	977
Amortization of original issue discount and debt issuance costs	(140)	279
Accretion of contingent consideration	—	113
Mark-to-market adjustment of stock warrants	(216)	(649)
Premium deficiency reserve	1,000	5,140
Changes in operating assets and liabilities:		
Health plan receivable	(25,198)	(21,273)
Clinic fees, insurance, and other receivable	2,892	2,542
Prepaid expenses and other current assets	(3,296)	(454)
Other long-term assets	(17)	(1,364)
Accounts payable, accrued expenses, and other current liabilities	(5,553)	8,316
Accrued payroll	1,542	(823)
Health plan settlements payable	(12,944)	(1,224)
Claims payable	44,168	13,690
Accrued interest	4,387	2,275
Operating lease liability	(37)	(359)
Net cash used in operating activities	<u>(20,030)</u>	<u>(23,722)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Purchases of property and equipment	—	(464)
Net cash used in investing activities	—	(464)
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Proceeds from long-term debt, net of original issue discount	10,000	14,102
Proceeds from at-the-market sales, net of offering costs paid	33	—
Payment of tax withholdings upon settlement of restricted stock unit awards	(73)	—
Repayment of short-term and long-term debt	(430)	—
Proceeds from short-term debt	1,871	—
Net cash provided by financing activities	<u>11,401</u>	<u>14,102</u>
Net change in cash and restricted cash	(8,629)	(10,084)
Cash and restricted cash, beginning of period	40,934	18,457
Cash and restricted cash, end of period	<u>\$ 32,305</u>	<u>\$ 8,373</u>

See accompanying notes to condensed consolidated financial statements.

P3 HEALTH PARTNERS INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Note 1: Organization

P3 Health Partners Inc. ("P3") is a patient-centered and physician-led population health management company and, for accounting purposes, the successor to P3 Health Group Holdings, LLC and its subsidiaries (collectively, "P3 LLC," and together with P3, the "Company") after the consummation of a series of business combinations in December 2021 with Foresight Acquisition Corp. (the "Business Combinations"). As the sole manager of P3 LLC, P3 operates and controls all of the business and affairs of P3 LLC and P3's only assets are equity interests in P3 LLC.

P3 LLC was founded on April 12, 2017 and began commercial operations on April 20, 2017 to provide population health management services on an at-risk basis to insurance plans offering medical coverage to Medicare beneficiaries under Medicare Advantage programs. Medicare Advantage programs are insurance products created solely for Medicare beneficiaries. Insurance plans contract directly with the Centers for Medicare and Medicaid Services ("CMS") to offer Medicare beneficiaries benefits that replace traditional Medicare fee-for-service ("FFS") coverage.

The Company's contracts with health plans are based on an at-risk shared savings model. Under this model, the Company is financially responsible for the cost of all contractually-covered services provided to members assigned to the Company by health plans in exchange for a fixed monthly "capitation" payment, which is generally a percentage of the payment health plans receive from CMS. Under this arrangement, Medicare beneficiaries generally receive all their healthcare coverage through the Company's network of employed and affiliated physicians and specialists.

The services provided to health plans' members vary by contract. These may include utilization management, care management, disease education, and maintenance of a quality improvement and quality management program for members assigned to the Company. The Company is also responsible for the credentialing of its providers, processing and payment of claims, and the establishment of a provider network for certain health plans.

In addition to the Company's contracts with health plans, the Company provides primary healthcare services through its employed physician clinic locations. These primary care clinics are reimbursed for services provided under FFS contracts with various payers and through capitated – per member, per month ("PMPM") arrangements.

Note 2: Going Concern and Liquidity

The accompanying unaudited condensed consolidated financial statements have been prepared assuming the Company will continue as a going concern. The Company has experienced losses since its inception and had net losses of \$ 49.6 million and \$ 52.4 million for the three months ended March 31, 2024 and 2023, respectively. Such losses were primarily the result of costs incurred in adding new members, building relationships with physician partners and payors, and developing new services. The Company anticipates operating losses and negative cash flows to continue for the foreseeable future as it continues to grow membership.

As of March 31, 2024 and December 31, 2023, the Company had \$ 27.3 million and \$ 36.3 million, respectively, in unrestricted cash and cash equivalents available to fund future operations. The Company's capital requirements will depend on many factors, including the pace of the Company's growth, ability to manage medical costs, the maturity of its members, and its ability to raise capital. The Company continues to explore raising additional capital through a combination of debt financing and equity issuances. When the Company pursues additional debt and/or equity financing, there can be no assurance that such financing will be available on terms commercially acceptable to the Company. If the Company is unable to obtain additional funding when needed, it will need to curtail planned activities in order to reduce costs, which will likely have an unfavorable effect on the Company's ability to execute on its business plan, and have an adverse effect on its business, results of operations, and future prospects. As a result of these matters, substantial doubt exists about the Company's ability to continue as a going concern within one year after the date the financial statements are issued. The accompanying unaudited condensed consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Note 3: Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of the U.S. Securities and Exchange Commission ("SEC") Regulation S-X. The

unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2023. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to SEC rules and regulations dealing with interim financial statements.

Management believes the accompanying unaudited condensed consolidated financial statements reflect all adjustments of a normal recurring nature necessary for a fair presentation of periods presented. The consolidated operating results for the three months ended March 31, 2024 are not necessarily indicative of the results that may be expected for the year ending December 31, 2024, or for any other future annual or interim period.

Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company and all significant intercompany transactions and balances have been eliminated.

The Company periodically evaluates entities for consolidation either through ownership of a majority voting interest, or through means other than voting interest, in accordance with the Variable Interest Entity ("VIE") accounting model. This evaluation includes a qualitative review of the design of the entity, its organizational structure, including decision making ability and financial agreements, as well as a quantitative review. The Company consolidates a VIE when it has a variable interest that provides it with a controlling financial interest in the VIE, referred to as the primary beneficiary of the VIE.

As the sole managing member of P3 LLC, P3 has the right to direct the most significant activities of P3 LLC and the obligation to absorb losses and receive benefits. The rights of the non-managing members of P3 LLC are limited and protective in nature and do not give substantive participation rights over the sole managing member. Accordingly, P3 identifies itself as the primary beneficiary of P3 LLC and began consolidating P3 LLC as of December 3, 2021, the closing date of the Business Combinations (the "Closing Date"), resulting in a non-controlling interest related to the common units of P3 LLC ("Common Units") held by members other than P3. Additionally, as more fully described in Note 13 "Variable Interest Entities," P3 LLC is the primary beneficiary of the following physician practices (collectively, the "Network VIEs"):

- Kahan, Wakefield, Abdou, PLLC
- Bacchus, Wakefield, Kahan, PC
- P3 Health Partners Professional Services, P.C.
- P3 Medical Group, P.C.
- P3 Health Partners California, P.C. (f/k/a Omni IPA Medical Group, Inc.)

Comprehensive Loss

Comprehensive loss includes net loss to common stockholders as well as other changes in equity that result from transactions and economic events other than those with stockholders. There was no difference between comprehensive loss and net loss to common stockholders for the periods presented.

Use of Estimates

The preparation of these unaudited condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that could affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. On an ongoing basis, the Company evaluates its estimates, including, but not limited to, those related to allowance for credit losses, revenue recognition, the liability for unpaid claims, equity-based compensation, premium deficiency reserves ("PDR"), fair value and impairment recognition of long-lived assets (including intangibles), fair value of liability classified instruments, and judgments related to deferred income taxes. The Company bases its estimates on the best information available at the time, its experiences, and various other assumptions believed to be reasonable under the circumstances. Actual results could differ from those estimates.

Significant Accounting Policies

A description of the Company's significant accounting policies is included in the audited consolidated financial statements within Annual Report on Form 10-K for the year ended December 31, 2023. No changes to significant accounting policies have occurred since December 31, 2023.

Revenue Recognition

In the first quarter of 2024, the Company released a portion of the constraint applied in previous periods with respect to risk adjustment revenue for dates of service in 2023, which resulted in an increase to capitation revenue in the amount of \$ 7.7 million for the three months ended March 31, 2024.

The Company categorizes revenue based on various factors such as the nature of contracts as follows:

Revenue Type	Three Months Ended March 31, 2024	% of Total	Three Months Ended March 31, 2023	% of Total
	(dollars in thousands)			
Capitated revenue	\$ 384,134	98.9 %	\$ 298,704	98.9 %
Other patient service revenue:				
Clinical fees & insurance revenue	1,945	0.5	1,480	0.5
Care coordination / management fees	2,390	0.6	1,850	0.6
Incentive fees	19	0.0	43	0.0
Total other patient service revenue	4,354	1.1	3,373	1.1
Total revenue	\$ 388,488	100.0 %	\$ 302,077	100.0 %

During each of the three months ended March 31, 2024 and 2023, four health plan customers each accounted for 10% or more of total revenue and collectively comprised 61 % of the Company's total revenue. Four and three health plan customers accounted for 10% or more of total health plan receivable as of March 31, 2024 and December 31, 2023, respectively.

Note 4: Recent Accounting Pronouncements**Recently Adopted Accounting Pronouncements****ASU 2024-02, Codification Improvements—Amendments to Remove References to the Concepts Statements ("ASU 2024-02")**

Accounting Standards Update ("ASU") 2024-02 removes references to various Financial Accounting Standards Board ("FASB") Concepts Statements from the FASB accounting standards codification (the "Codification") to simplify and clarify the accounting guidance. The ASU aims to distinguish between authoritative and nonauthoritative literature and to address unintended applications of guidance. The Company adopted ASU 2024-02 effective January 1, 2024. The guidance will be applied prospectively to all new transactions recognized on or after January 1, 2024.

ASU 2020-06, Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging — Contracts in Entity's Own Equity (Subtopic 815-40), Accounting for Convertible Instruments and Contracts in an Entity's Own Equity ("ASU 2020-06")

ASU 2020-06 eliminates two of the three models in ASC 470-20 that require issuers to separately account for embedded conversion features and eliminates some of the requirements for equity classification in ASC 815-40-25 for contracts in an entity's own equity. The guidance also requires entities to use the if-converted method for all convertible instruments in the diluted earnings per share calculation and generally requires them to include the effect of potential share settlement for instruments that may be settled in cash or shares. The Company adopted ASU 2020-06 effective January 1, 2024 using the modified retrospective method. The Company's liability-classified stock warrants remained classified as liabilities under the amended guidance. The adoption of this standard did not have a material impact on the Company's consolidated financial statements and related disclosures.

Recent Accounting Pronouncements Not Yet Adopted

ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures ("ASU 2023-09")

ASU 2023-09 enhances the transparency and decision usefulness of income tax disclosures, in response to investors' feedback, indicating the need for improved information to assess an entity's operations, tax risks, and planning opportunities, particularly in understanding exposure to jurisdictional tax changes and their impact on cash flows. The amendments address these concerns by improving income tax disclosures, primarily related to the rate reconciliation and income taxes paid information. The amendments in this update are effective for annual periods beginning after December 15, 2024 and should be applied prospectively. Early adoption and retrospective application is permitted. The Company is evaluating the effect ASU 2023-09 will have on its consolidated financial statements and related disclosures.

ASU 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures ("ASU 2023-07")

ASU 2023-07 improves the disclosures about a public entity's reportable segments and addresses requests from investors for additional, more detailed information about a reportable segment's expenses. The amendments in this update are effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. The amendments require retrospective application to all prior periods presented in the financial statements. Upon transition, the segment expense categories and amounts disclosed in the prior periods should be based on the significant segment expense categories identified and disclosed in the period of adoption. The Company is evaluating the effect ASU 2023-07 will have on its financial statements and related disclosures.

ASU 2023-06, Disclosure Improvements: Codification Amendments In Response to the SEC's Disclosure Update and Simplification Initiative ("ASU 2023-06")

ASU 2023-06 clarifies or improves disclosure and presentation requirements on a variety of topics and aligns the requirements in the Codification with the SEC's regulations. The effective date for each amendment will be the date on which the SEC's removal of that related disclosure from Regulation S-X or Regulation S-K becomes effective, with early adoption prohibited. The amendments in this update should be applied prospectively. If by June 30, 2027, the SEC has not removed the applicable requirement from Regulation S-X or Regulation S-K, the pending content of the related amendment will be removed from the Codification and will not become effective for any entity. The Company is evaluating the effect ASU 2023-06 will have on its consolidated financial statements and related disclosures.

Note 5: Fair Value Measurements and Hierarchy

Information about the Company's financial liabilities measured at fair value on a recurring basis is presented below:

	Level 1	Level 2	Level 3	Total
(in thousands)				
Warrant liability as of March 31, 2024	\$ 845	\$ —	\$ 24	\$ 869
Warrant liability as of December 31, 2023	\$ 1,056	\$ —	\$ 29	\$ 1,085

The key Level 3 inputs into the option pricing model related to the private placement warrants to purchase Class A common stock were as follows:

	March 31, 2024	December 31, 2023
Volatility	88 %	75 %
Risk-free interest rate	4.50 %	4.01 %
Exercise price	\$ 11.50	\$ 11.50
Expected term	2.7 Years	2.9 Years

Generally, an increase in the market price of the Company's shares of common stock, an increase in the volatility of the Company's shares of common stock, and an increase in the remaining term of the warrants would each result in a directionally similar change in the estimated fair value of the Company's warrant liabilities. Such changes would increase the associated liability while decreases in these assumptions would decrease the associated liability. An increase in the risk-

free interest rate would result in a decrease in the estimated fair value measurement and thus a decrease in the associated liability. The Company has not, and does not plan to, declare dividends on its common stock and, as such, there is no change in the estimated fair value of the warrant liabilities due to the dividend assumption.

The following table sets forth a summary of changes in the fair value of the Company's private placement warrants to purchase Class A common stock, which are considered to be Level 3 fair value measurements:

	Three Months Ended March 31,		(in thousands)
	2024	2023	
Beginning balance	\$ 29	\$ 40	
Mark-to-market adjustment of stock warrants	(5)	(16)	
Ending balance	\$ 24	\$ 24	

The Company recorded gains on the changes in the fair value of public warrants of \$ 0.2 million and \$ 0.6 million during the three months ended March 31, 2024 and 2023, respectively.

The book value of cash; clinic fees, insurance receivables, and other receivables; accounts payable; and accrued expenses and other current liabilities approximate fair value because of the short maturity and high liquidity of these instruments.

Note 6: Property and Equipment

The Company's property and equipment balances consisted of the following as of:

	March 31, 2024	December 31, 2023	(in thousands)
Leasehold improvements	\$ 2,935	\$ 2,933	
Furniture & fixtures	1,172	1,165	
Computer equipment & software	7,086	3,699	
Medical equipment	1,106	1,106	
Software (development in process)	343	3,877	
Vehicles	654	654	
Other	34	33	
	13,330	13,467	
Less: accumulated depreciation	(5,209)	(4,781)	
Property and equipment, net	\$ 8,121	\$ 8,686	

Total depreciation of property and equipment recognized on the condensed consolidated statements of operations was \$ 0.5 million and \$ 0.6 million for the three months ended March 31, 2024 and 2023, respectively.

Note 7: Intangible Assets

Intangible assets, net consisted of the following as of:

	March 31, 2024			December 31, 2023		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
(in thousands)						
Indefinite lived intangible assets:						
Medical licenses	\$ 700	\$ —	\$ 700	\$ 700	\$ —	\$ 700
Definite lived intangible assets:						
Customer relationships	684,000	(159,600)	524,400	684,000	(142,500)	541,500
Trademarks	148,635	(35,363)	113,272	148,635	(31,671)	116,964
Payor contracts	4,700	(1,058)	3,642	4,700	(940)	3,760
Provider network	4,800	(1,111)	3,689	4,800	(991)	3,809
Total	\$ 842,835	\$ (197,132)	\$ 645,703	\$ 842,835	\$ (176,102)	\$ 666,733

Amortization of intangible assets was \$ 21.0 million and \$ 20.9 million during the three months ended March 31, 2024 and 2023, respectively.

Note 8: Debt

Short-term Debt

In January 2024, the Company entered into a short-term financing agreement totaling \$ 2.3 million for the funding of certain insurance policies. The term of the agreement is nine months and the annual interest rate is 8.25 %. Remaining scheduled principal payments as of March 31, 2024 are as follows:

Second quarter 2024	\$ 645
Third quarter 2024	645
Fourth quarter 2024	151
Total	\$ 1,441

Long-term Debt

Long-term debt consisted of the following:

	March 31, 2024			December 31, 2023		
	(in thousands)					
Repurchase promissory note, interest paid at 11.0 %, due June 2026	\$ 15,000	\$ 15,000				
Term loan facility, interest paid at 12.0 %, due December 2025	65,000	65,000				
Unsecured promissory note, interest paid at 14.0 %, due May 2026	29,102	29,102				
VGS 2 Promissory Note	10,375	—				
Long-term debt, gross	119,477	109,102				
Less: unamortized debt issuance costs and original issue discount	(1,354)	(783)				
Long-term debt, net	\$ 118,123	\$ 108,319				

VGS 2 Promissory Note

On March 22, 2024, P3 LLC entered into a related party financing transaction with VBC Growth SPV 2, LLC ("VGS 2"), consisting of the issuance by P3 LLC of an unsecured promissory note (the "VGS 2 Promissory Note") to VGS

2. The VGS 2 Promissory Note provides for funding of up to \$ 25.0 million, available for draw by P3 LLC in two tranches, as follows: (i) a first tranche of \$ 10.0 million which was drawn immediately on March 22, 2024, and (ii) a second tranche of \$ 15.0 million which was drawn on April 5, 2024. The VGS 2 Promissory Note matures on September 30, 2027. Interest is payable at 17.5 % per annum on a quarterly cycle (in arrears) beginning June 30, 2024. P3 LLC may elect to pay either (1) 8.0 % cash interest and 9.5 % PIK interest, or (2) 17.5 % PIK interest, provided that payment of cash interest will be permitted only to the extent permitted by the Term Loan Agreement and the 2024 Subordination Agreement (defined below), and if not so permitted, such interest shall accrue as PIK interest. The VGS 2 Promissory Note provides for mandatory prepayments with the proceeds of certain asset sales, and VGS 2 has the right to demand payment in full upon (i) a change of control of the Company and (ii) certain qualified financings (as defined in the VGS 2 Promissory Note).

The VGS 2 Promissory Note restricts P3 LLC's ability and the ability of its subsidiaries to, among other things, incur indebtedness and liens, and make investments and restricted payments. The maturity date may be accelerated as a remedy under the certain default provisions in the agreement, or in the event a mandatory prepayment event occurs.

P3 LLC paid VGS 2 an up-front fee of 1.5 % of the aggregate principal amount of the loan in-kind. In addition, P3 LLC will pay VGS 2 a back-end fee at the time the VGS 2 Promissory Note is redeemed as follows: (i) if paid prior to June 30, 2024, 2.25 %; (ii) if paid after June 30, 2024 and on or before September 30, 2024, 4.5 %; (iii) if paid after September 30, 2024 and on or before December 31, 2024, 6.75 % and (iv) if paid after December 31, 2024, 9.0 %. As of March 31, 2024, the Company had recorded debt issuance costs and original issue discount of \$ 0.4 million related to this financing.

2024 Subordination Agreement

In connection with the transactions described above, P3 LLC entered into a subordination agreement, dated as of March 22, 2024 (the "2024 Subordination Agreement"), by and among the Company, CRG Servicing LLC ("CRG"), as administrative agent under the Term Loan Facility and VGS 2. Pursuant to the 2024 Subordination Agreement, VGS 2 agreed to subordinate its right of payment under the VGS 2 Promissory Note to the right of payment and security interests of the lenders under the Term Loan Facility. The terms of the 2024 Subordination Agreement will effectively require P3 LLC to pay all interest under the VGS 2 Promissory Note in-kind.

Amendment to Term Loan Agreement and Consent

In connection with the transactions described above, P3 LLC entered into that certain (1) Fourth Amendment to Term Loan Agreement (the "Term Loan Amendment"), dated as of the March 22, 2024, by and among P3 LLC, as borrower, the subsidiary guarantors party thereto, the lenders from time to time party thereto and CRG, as administrative agent and collateral agent and (2) Consent (the "Consent"), dated as of the March 22, 2024, by and between P3 LLC, as borrower, and VBC Growth SPV, LLC, as holder. The Term Loan Amendment and Consent collectively permit the issuance of the VGS 2 Promissory Note and the entry into the 2024 Subordination Agreement.

The Company was in compliance with its covenants under the term loan facility and the unsecured promissory notes as of March 31, 2024; however, there can be no assurance that the Company will be able to maintain compliance with these covenants in the future or that the lenders under the term loan facility and the unsecured promissory notes or the lenders of any future indebtedness the Company may incur will grant any waiver or forbearance with respect to such covenants that we may request in the future.

Note 9: Net Loss per Share

The following table provides the computation of basic and diluted net loss per share:

	Three Months Ended March 31,	
	2024	2023
(in thousands, except per share data)		
Numerator—basic:		
Net loss attributable to Class A common stockholders—basic	\$ (18,700)	\$ (9,199)
Numerator—diluted:		
Net loss attributable to Class A common stockholders—basic	\$ (18,700)	\$ (9,199)
Effective of dilutive securities:		
Shares of Class V common stock	—	—
Net loss attributable to Class A common stockholders—diluted	\$ (18,700)	\$ (9,199)
Denominator—basic:		
Weighted average Class A common shares outstanding—basic	118,887	41,579
Net loss per share attributable to Class A common stockholders—basic	\$ (0.16)	\$ (0.22)
Denominator—diluted:		
Weighted average Class A common shares outstanding—basic	118,887	41,579
Weighted average effect of dilutive securities:		
Shares of Class V common stock	—	—
Weighted average shares outstanding—diluted	118,887	41,579
Net loss per share attributable to Class A common stockholders—diluted	\$ (0.16)	\$ (0.22)

Shares of Class V common stock do not share in the earnings or losses of P3 and are therefore not participating securities. As such, separate presentation of basic and diluted net income per share for Class V common stock under the two-class method is not required. The following table presents potentially dilutive securities excluded from the computation of diluted net loss per share for the periods presented because their effect would have been anti-dilutive.

	Three Months Ended March 31,	
	2024	2023
(in thousands)		
Stock warrants ⁽¹⁾	81,938	11,248
Stock options ⁽¹⁾	5,547	5,487
RSUs ⁽¹⁾	4,657	—
Shares of Class V common stock ⁽²⁾	196,559	201,972
Total	288,701	218,707

(1) Represents the number of instruments outstanding at the end of the period. Application of the treasury stock method would reduce this amount if they had a dilutive effect and were included in the computation of diluted net loss per share

(2) Shares of Class V common stock at the end of the period, including shares tied to unvested Common Units, are considered potentially dilutive shares of Class A common stock under application of the if-converted method.

Note 10: Redeemable Non-controlling Interest

Non-controlling interest represents the portion of P3 LLC that the Company controls and consolidates but does not own (i.e., the Common Units held directly by equity holders other than the Company).

The ownership of the Common Units is summarized as follows:

	March 31, 2024		December 31, 2023	
	Units (in thousands)	Ownership %	Units (in thousands)	Ownership %
P3 Health Partners Inc.'s ownership of Common Units	119,409	37.8 %	116,588	37.2 %
Non-controlling interest holders' ownership of Common Units	196,494	62.2	196,569	62.8
Total Common Units	315,903	100.0 %	313,157	100.0 %

During the three months ended March 31, 2024, there were an aggregate of 0.1 million shares of Class A common stock issued to P3 LLC members in connection with such members' redemptions of an equivalent number of Common Units and corresponding cancellation and retirement of an equivalent number of Class V common stock. Such retired shares of Class V common stock may not be reissued. The redemptions occurred pursuant to the terms of the P3 LLC Amended and Restated Limited Liability Agreement (the "P3 LLC A&R LLC Agreement"). There was no Common Unit exchange or redemption activity during the three months ended March 31, 2023.

As of March 31, 2024, there was a \$ 20.6 million remeasurement adjustment recorded as the fair value of redeemable non-controlling interest (i.e., based on the five-day volume-weighted average price of a share of Class A common stock) was less than the carrying value. As of March 31, 2023, there was no remeasurement adjustment recorded as the fair value of redeemable non-controlling interest was less than the carrying value. The offset of the fair value adjustment was recorded to additional paid in capital.

Note 11: Segment Reporting

The Company's operations are organized under one reportable segment. The Chief Executive Officer, who is the Company's chief operating decision maker, manages the Company's operations and reviews financial information on a consolidated basis. Decisions regarding resource allocation and assessment of profitability are based on the Company's responsibility to deliver high quality primary medical care services to its patient population. For the periods presented, all the Company's revenue was earned in the United States. Likewise, all the Company's long-lived assets were located in the United States.

Note 12: Commitments and Contingencies

In 2021, a discrepancy was identified in the service agreement with one of the Company's health plans resulting in a renegotiation of the agreement, which was settled in January 2023 and reflected within health plan settlements payable as of December 31, 2022. The remaining settlement balance within health plan settlements payable was \$ 2.4 million and \$ 3.0 million as of March 31, 2024 and December 31, 2023, respectively.

Note 13: Variable Interest Entities

P3 LLC has Management Services Agreements ("MSAs") and deficit funding agreements with the Network VIEs. The MSAs provide that the P3 LLC will furnish administrative personnel, office supplies and equipment, general business services, contract negotiation, and billing and collection services to the Network VIEs. Fees for these services are the excess of the Network VIEs' revenue over expenses. Per the deficit funding agreements, P3 LLC is obligated to advance funds, as needed, to support the Network VIE's working capital needs to the extent operating expenses exceed gross revenue. These advances accrue interest at a rate of prime plus 2 %. Net advances made to the Network VIEs and accrued interest on those advances are presented within due to consolidated entities of P3 in the table below. Additionally, P3 LLC entered into stock transfer restriction agreements with the practice shareholders of the Network VIEs, which, by way of a call option, unequivocally permit P3 LLC to appoint successor physicians if a practice shareholder vacates their ownership position. Accordingly, P3 LLC identifies itself as the primary beneficiary of the Network VIEs. Practice shareholders, who are employees of P3 LLC, retain equity ownership in the Network VIEs, which represents nominal non-controlling interests; however, the non-controlling interests do not participate in the profit or loss of the Network VIEs.

P3 LLC, directly or indirectly via its wholly owned subsidiaries, may not use or access any net assets of the Network VIEs to settle its obligations or the obligations of its wholly owned subsidiaries. Additionally, the creditors of the Network VIEs do not have recourse to the net assets of P3 LLC.

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Since P3 LLC represents substantially all the assets and liabilities of the Company, the following tables provide a summary of the assets, liabilities, and operating performance of only VIEs held at the P3 LLC level.

	March 31, 2024	December 31, 2023
	(in thousands)	
ASSETS		
Cash	\$ 7,547	\$ 6,491
Clinic fees, insurance and other receivable	1,046	138
Health plan receivable	572	571
Prepaid expenses and other current assets	1,191	1,261
Property and equipment, net	33	23
Other long-term assets	140	153
TOTAL ASSETS	\$ 10,529	\$ 8,637
LIABILITIES AND MEMBERS' DEFICIT		
Accounts payable	\$ 4,946	\$ 5,073
Accrued expenses and other current liabilities	746	515
Accrued payroll	3,508	3,141
Claims payable	4,767	3,973
Other long-term liabilities	939	946
Due to consolidated entities of P3	44,609	44,200
TOTAL LIABILITIES	59,515	57,848
MEMBERS' DEFICIT	(48,986)	(49,211)
TOTAL LIABILITIES AND MEMBERS' DEFICIT	\$ 10,529	\$ 8,637
Three Months Ended March 31,		
	2024	2023
(in thousands)		
Revenue	\$ 9,764	\$ 10,839
Expense	9,897	13,675
Net loss	\$ (133)	\$ (2,836)

Note 14: Subsequent Events

In April 2024, the Company borrowed the remaining availability on the VGS 2 Promissory Note of \$ 15.0 million.

On December 31, 2023, 1,500,000 restricted stock units ("RSU"), each RSU representing the right to receive one share of Class A common stock of the Company, previously granted to Sherif Abdou, M.D., its Chief Executive Officer, vested pursuant to the terms of a Restricted Stock Unit Agreement between the Company and Dr. Abdou. The Company timely paid \$ 0.7 million in withholding taxes attributable to the vesting of the RSUs to the Internal Revenue Service on behalf of Dr. Abdou on January 10, 2024. Dr. Abdou repaid such sum to the Company on May 2, 2024.

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

The following discussion and analysis is intended to provide the reader with an understanding of our business, including an overview of our results of operations and liquidity and should be read in conjunction with the unaudited condensed consolidated financial statements and related notes included elsewhere in this Form 10-Q, as well as our audited financial statements and related notes and in Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our 2023 Form 10-K. This discussion contains forward-looking statements and involves numerous risks and uncertainties. Our actual results may differ materially from those anticipated in any forward-looking statements as a result of many factors, including those set forth under "Cautionary Statement Regarding Forward-Looking Statements," in Part II, Item 1A. "Risk Factors" and elsewhere in this Form 10-Q. Our historical results are not necessarily indicative of the results that may be expected for any periods in the future.

Overview

P3 is a patient-centered and physician-led population health management company. We strive to offer superior care to all those in need. We believe that the misaligned incentives in the fee-for-service ("FFS") healthcare payment model and the fragmentation between physicians and care teams has led to sub-optimal clinical outcomes, limited access, high spending and unnecessary variability in the quality of care. We believe that a platform such as ours, which helps to realign incentives and focuses on treating the full patient, is uniquely positioned to address these healthcare challenges.

We have leveraged the expertise of our management team's more than 20 years of experience in population health management, to build our "P3 Care Model." The key attributes that differentiate P3 include: 1) patient-focused model, 2) physician-led model, and 3) our broad delegated model. Our model operates by entering into arrangements with payors providing for monthly payments to manage the total healthcare needs of members attributed to our primary care physicians. In tandem, we enter into arrangements directly with existing physician groups or independent physicians in the community to join our value-based care ("VBC") network. In our model, physicians are able to retain their independence and entrepreneurial spirit, while gaining access to the tools, teams and technologies that are key to success in a VBC model, all while sharing in the savings from successfully improving the quality of patient care and reducing costs.

We operate in the \$944 billion Medicare market, which covers approximately 67 million eligible lives as of January 2024. Our core focus is the MA market, which makes up approximately 51% of the overall Medicare market, or nearly 31 million Medicare eligible lives in 2023. Medicare beneficiaries may enroll in an MA plan, under which payors contract with the Centers for Medicare and Medicaid Services ("CMS") to provide a defined range of healthcare services that are comparable to Medicare FFS (which is also referred to as "traditional Medicare").

We predominantly enter into capitated contracts with the nation's largest health plans to provide holistic, comprehensive healthcare to MA members. Under the typical capitation arrangement, we are entitled to per member per month ("PMPM") fees from payors to provide a defined range of healthcare services for MA health plan members attributed to our primary care physicians ("PCPs"). These PMPM fees comprise our capitated revenue and are determined as a percent of the premium ("POP") payors receive from CMS for these members. Our contracted recurring revenue model offers us highly predictable revenue, and rewards us for providing high-quality care rather than driving a high volume of services. In this capitated arrangement, our goals are well-aligned with payors and patients alike—the more we improve health outcomes, the more profitable we will be over time.

Under this capitated contract structure, we are generally responsible for all members' medical costs across the care continuum, including, but not limited to emergency room and hospital visits, post-acute care admissions, prescription drugs, specialist physician spend, and primary care spend. Keeping members healthy is our primary objective. When they need medical care, delivery of the right care in the right setting can greatly impact outcomes. When our members need care outside of our network of PCPs, we utilize a number of tools including network management, utilization management and claims processing to ensure that the appropriate quality care is provided.

Our company was formed in 2017 and our first at-risk contract became effective on January 1, 2018. We have demonstrated an ability to rapidly scale, primarily entering markets with our affiliate physician model, and expanding to a PCP network of approximately 2,900 physicians, in 27 markets (counties) across five states in over six full years of operations as of March 31, 2024. As of March 31, 2024, our PCP network served approximately 126,800 at-risk members.

Key Factors Affecting our Performance

Growing Medicare Advantage Membership on Our Platform

Membership and revenue are tied to the number of members attributed to our physician network by our payors. We believe we have multiple avenues to serve additional members, including through:

- Growth in membership under our existing contracts and existing markets:
 - Patients who are attributed to our physician network who (a) age into Medicare and elect to enroll in MA or (b) elect to convert from Medicare FFS to MA.
- Adding new contracts (either payor contracts or physician contracts) in existing markets.
- Adding new contracts (either payor contracts or physician contracts) in adjacent and new markets.

Growing Existing Contract Membership

As new patients age-in to Medicare and enroll in MA through our payors, they become attributed to our network of physicians with little incremental cost to us.

In addition to age-ins, Medicare eligible patients can change their enrollment selections during select periods throughout the year. Our sales and marketing teams actively work with local community partners to connect with Medicare eligible patients and make them aware of their healthcare choices and the services that we offer with our VBC model, including greater access to their physicians and customized care plans catered to their needs. The ultimate effect of our marketing efforts is increased awareness of P3 and additional patients choosing us as their primary care provider. We believe that our marketing efforts also help to grow our payor partners' membership base as we grow our own patient base and help educate patients about their choices on Medicare, further aligning our model with that of healthcare payors.

Growing Membership in Adjacent and New Markets

Our affiliate model allows us to quickly and efficiently enter into new and adjacent markets in two ways: (1) partnering with payors and (2) partnering with providers. Because our model honors the existing patient-provider relationship, we are able to deploy our care model around existing physicians in a given a market. By utilizing the local healthcare infrastructure, we can quickly build a network of PCPs to serve the healthcare needs of contracted members.

Our business development and managed care teams maintain an active pipeline of new partnership opportunities for both providers and payors. These potential opportunities are developed through significant inbound interest and the deep relationships our team has developed with their more than 20 years of experience in the VBC space and our proactive assessment of expansion markets. When choosing a market to enter, we make our decision on a county-by-county basis across the United States. We look at various factors including: (i) population size, (ii) payor participants and concentration, (iii) health system participants and concentration, and (iv) competitive landscape.

When entering a new market, we supplement the existing physician network with local market leadership teams and support infrastructure to drive the improvement in medical cost and quality. When entering an adjacent market, we are able to leverage the investments we previously made to have a faster impact on our expanded footprint. As of March 31, 2024, we operate in 27 markets, markets being counties, across five states.

Growing Membership in Existing Markets

Once established in a market, we have an opportunity to efficiently expand both our provider and payor contracts. Given the benefits PCPs experience from joining our P3 Care Model, which offers providers the teams, tools and technologies to better support their patient base, we often experience growth in our affiliate network after entering a market. Because of the benefits, we have also historically experienced high retention with our affiliate providers. From 2018 through March 31, 2024, we experienced a 97% physician retention rate in our affiliate provider network. By expanding our affiliate provider network and adding new physicians to the P3 network, we can quickly increase the number of contracted at-risk members under our existing health plan arrangements.

Additionally, by expanding the number of contracted payors, we can leverage our existing infrastructure to quickly increase our share of patients within our physician network.

Growing Capitated Revenue Per Member

Medicare pays capitation using a risk adjusted model, which compensates payors based on the health status, or acuity, of each individual member. Payors with higher acuity members receive a higher payment and those with lower acuity members receive a lower payment. Moreover, some of our capitated revenue also includes adjustments for performance incentives or penalties based on the achievement of certain clinical quality metrics as contracted with payors. Given the prevalence of FFS arrangements, our patients often have historically not participated in a VBC model, and therefore their health conditions are poorly documented. Through the P3 Care Model, we determine and assess the health needs of our patients and create an individualized care plan consistent with those needs. We capture and document health conditions as a part of this process. We expect that our PMPM revenue will continue to improve as longer members participate in our care model as we better understand and assess their health status (acuity) and coordinate their medical care.

Effectively Managing Member Medical Expense

Our medical claims expense is our largest expense category, representing 88% of our total operating expense for the three months ended March 31, 2024. We manage our medical costs by improving our members access to healthcare. Our care model focuses on maintaining health and leveraging the primary care setting as a means of avoiding costly downstream healthcare costs, such as emergency department visits and acute hospital inpatient admissions. The power of our model is reflected in the relative performance of our network when compared to local FFS benchmarks.

Achieving Operating Efficiencies

As a result of our affiliate model and ability to leverage our existing local and national infrastructure, we generate operating efficiencies at both the market and enterprise level. Our local corporate, general and administrative expense, which includes our local leadership, care management teams and other operating costs to support our markets, are expected to decrease over time as a percentage of revenue as we add members to our existing contracts, grow membership with new payor and physician contracts, and our revenue subsequently increases. Our corporate general and administrative expenses at the enterprise level include resources and technology to support payor contracting, quality, data management, delegated services, finance and legal functions. While we expect our absolute investment in our enterprise resources to increase over time, we expect our investment will decrease as a percentage of revenue when we are able to leverage our infrastructure across a broader group of at-risk members. We expect our corporate, general and administrative expenses to increase in absolute dollars in the future as we continue to invest to support growth of our business, as well as due to the costs required to operate as a public company, including insurance coverage, investments in internal audit, investor relations and financial reporting functions, fees paid to the Nasdaq Stock Market, and increased legal and audit fees.

Impact of Seasonality

Our operational and financial results reflect some variability depending upon the time of year in which they are measured. This variability is most notable in the following areas:

At-Risk Member Growth. While new members are attributed to our platform throughout the year, we experience the largest portion of our at-risk member growth during the first quarter. Contracts with new payors typically begin on January 1, at which time new members become attributed to our network of physicians. Additionally, new members are attributed to our network on January 1, when plan enrollment selections made during the prior Annual Enrollment Period from October 15 through December 7 of the prior year take effect.

Revenue Per Member. Our revenue is based on percentage of premium we have negotiated with our payors as well as our ability to accurately and appropriately document the acuity of a member's health status. We experience some seasonality with respect to our per member revenue as it will generally decline over the course of the year. In January of each year, CMS revises the risk adjustment factor for each patient based upon health conditions documented in the prior year, leading to an overall increase in per-patient revenue. As the year progresses, our per-patient revenue declines as new patients join us typically with less complete or accurate documentation (and therefore lower risk-adjustment scores) and patients with more severe acuity profiles (and, therefore, higher per member revenue rates) expire.

Medical Costs. Medical expense is driven by utilization of healthcare services by our attributed membership. Medical expense will vary seasonally depending on a number of factors, including the weather and the number of business days. Certain illnesses, such as the influenza virus, are far more prevalent during colder months of the year, which will result in an increase in medical expenses during these time periods. We would therefore expect to see higher levels of per-member medical expense in the first and fourth quarters. Business days can also create year-over-year comparability issues if one year has a different number of business days compared to another.

Non-GAAP Financial Measures and Key Performance Metrics

We use certain financial measures, which are not calculated in accordance with accounting principles generally accepted in the U.S. ("GAAP"), as well as key performance metrics, to supplement our consolidated financial statements. The measures set forth below should not be considered in isolation from, or as a substitute for, financial information presented in compliance with GAAP, and non-GAAP financial measures and key performance metrics as used by us may not be comparable to similarly titled measures used by other companies. Our presentation of these measures should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. The presentation of non-GAAP financial measures and key performance metrics provides additional information to investors regarding our results of operations that our management believes is useful for identifying trends, analyzing and benchmarking the performance of our business.

Non-GAAP Financial Measures

Adjusted EBITDA

The key non-GAAP metric we utilize to measure our profitability and performance is Adjusted EBITDA. We present Adjusted EBITDA because we believe it helps investors understand underlying trends in our business and facilitates an understanding of our operating performance from period to period because it facilitates a comparison of our recurring core business operating results.

By definition, EBITDA consists of net income (loss) before interest, income taxes, depreciation, and amortization. We define Adjusted EBITDA as EBITDA, further adjusted to exclude the effect of certain supplemental adjustments, such as mark-to-market warrant gain/loss, premium deficiency reserves, equity-based compensation expense, and certain other items that we believe are not indicative of our core operating performance. Our definition of Adjusted EBITDA may not be the same as the definitions used in any of our debt agreements.

Adjusted EBITDA is not a measure of performance or liquidity calculated in accordance with GAAP. It is unaudited and should not be considered an alternative to, or more meaningful than, net income (loss) as an indicator of our operating performance. Uses of cash flows that are not reflected in Adjusted EBITDA include capital expenditures, interest payments, debt principal repayments, and other expenses defined above, which can be significant. As a result, Adjusted EBITDA should not be considered as a measure of our liquidity.

Because of these limitations, Adjusted EBITDA should not be considered in isolation or as a substitute for performance measures calculated in accordance with GAAP. We compensate for these limitations by relying primarily on our GAAP results and using Adjusted EBITDA on a supplemental basis. You should review the reconciliation of net loss to Adjusted EBITDA set forth below and not rely on any single financial measure to evaluate our business.

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The following table sets forth a reconciliation of our net loss, the most directly comparable GAAP metric, to Adjusted EBITDA:

	Three Months Ended March 31,	
	2024	2023
(in thousands)		
Net loss	\$ (49,606)	\$ (52,448)
Interest expense, net	4,256	4,086
Depreciation and amortization expense	21,539	21,540
Provision for income taxes	2,072	290
Mark-to-market of stock warrants	(216)	(649)
Premium deficiency reserve	1,000	5,140
Equity-based compensation	1,449	977
Transaction and other related costs ⁽¹⁾	—	70
Other ⁽²⁾	(264)	1,861
Adjusted EBITDA loss	\$ (19,770)	\$ (19,133)

(1) Transaction and other related costs during the three months ended March 31, 2023 consisted of legal fees incurred related to acquisition-related litigation.

(2) Other during the three months ended March 31, 2024 consisted of (i) interest income partially offset by (ii) valuation allowance on our notes receivable. Other during the three months ended March 31, 2023 consisted of (i) interest income offset by (ii) a legal settlement outside of the ordinary course of business, (iii) valuation allowance on our notes receivable, (iv) restructuring and other charges, including severance and benefits paid to employees pursuant to workforce reduction plans, (v) the disposition of our Pahrump operations, (vi) expenses for third-party consultants to assist us with the development, implementation, and documentation of new and enhanced internal controls and processes for compliance with Sarbanes-Oxley Section 404(b).

Medical Margin

Medical margin is a non-GAAP financial metric. We present medical margin because we believe it helps investors understand underlying trends in our business and facilitates an understanding of our operating performance from period to period by facilitating a comparison of our recurring core business operating results.

Medical margin represents the amount earned from capitated revenue after medical claims expenses are deducted. Medical claims expenses represent costs incurred for medical services provided to our members. As our platform grows and matures over time, we expect medical margin to increase in absolute dollars; however, medical margin PMPM may vary as the percentage of new members brought onto our platform fluctuates. New membership added to the platform is typically dilutive to medical margin PMPM.

Medical margin should not be considered in isolation or as a substitute for performance measures calculated in accordance with GAAP. We compensate for these limitations by relying primarily on our GAAP results and using medical margin on a supplemental basis. You should review the reconciliation of gross profit to medical margin set forth below and not rely on any single financial measure to evaluate our business.

The following table presents our medical margin:

	Three Months Ended March 31,	
	2024	2023
(in thousands)		
Capitated revenue	\$ 384,134	\$ 298,704
Less: medical claims expense	(347,582)	(259,458)
Medical margin	\$ 36,552	\$ 39,246

The following table sets forth a reconciliation of our gross profit, the most directly comparable GAAP metric, to medical margin:

	Three Months Ended March 31,	
	2024	2023
(in thousands)		
Gross profit	\$ 6,431	\$ 16,507
Other patient service revenue	(4,354)	(3,373)
Other medical expense	34,475	26,112
Medical margin	\$ 36,552	\$ 39,246

Key Performance Metrics

We monitor the following operating metrics to help us evaluate our business, identify trends affecting our business, formulate business plans and make strategic decisions.

Gross Profit

Gross profit represents the amount earned from total operating revenue less the sum of: (i) medical claims expenses and (ii) other medical expenses including physician compensation expense related to surplus sharing and bonuses and other direct medical expenses incurred to improve care for our members. We believe this metric provides insight into the economics of the P3 Care Model, as it includes all medical claims expense associated with our members' care as well as partner compensation and additional medical costs we incur as part of our aligned partnership model. Other medical expenses are largely variable and proportionate to the level of surplus in each respective market, among other cost factors.

The following table presents our gross profit:

	Three Months Ended March 31,	
	2024	2023
(in thousands)		
Total operating revenue	\$ 388,488	\$ 302,077
Less: medical claims expense	(347,582)	(259,458)
Less: other medical expense	(34,475)	(26,112)
Gross profit	\$ 6,431	\$ 16,507

At-Risk Membership

At-risk membership represents the approximate number of Medicare members for whom we receive a fixed percentage of premium under capitation arrangements as of the end of the reporting period. We had 126,800 and 103,400 at-risk members as of March 31, 2024 and 2023, respectively.

Affiliate Primary Care Physicians

Affiliate primary care physicians represent the approximate number of primary care physicians included in our affiliate network, with whom members may be attributed under our capitation arrangements, as of the end of the reporting period. We had 2,900 and 2,800 primary care physicians as of March 31, 2024 and 2023, respectively.

Platform Support Costs

Our platform support costs, which include regionally-based support personnel and other operating costs to support our markets, are expected to decrease over time as a percentage of revenue as our physician partners add members and our revenue grows. Our operating expenses at the enterprise level include resources and technology to support payor contracting, clinical program development, quality, data management, finance, and legal functions. We exclude costs related to the operations of our owned medical clinics and wellness centers.

The table below represents costs to support our markets and enterprise functions, which are included in corporate, general and administrative expenses:

	Three Months Ended March 31,	
	2024	2023
	(dollars in thousands)	
Platform support costs	\$ 21,272	\$ 30,479
% of total operating revenue	5.5 %	10.1 %

Key Components of Results of Operations

Revenue

Capitated revenue. We contract with health plans using an at-risk model. Under the at-risk model, we are responsible for the cost of all covered health care services provided to members assigned by the health plans to the Company in exchange for a fixed payment, which generally is a PMPM based on health plans' premiums received from CMS. Through this capitation arrangement, we stand ready to provide assigned MA members all their medical care via our directly employed and affiliated physician/specialist network.

The premiums health plans receive are determined via a competitive bidding process with CMS and are based on the costs of care in local markets and the average utilization of services by patients enrolled. Medicare pays capitation using a "risk adjustment model," which compensates providers based on the health status (acuity) of each individual patient. MA plans with higher acuity patients receive higher premiums. Conversely, MA plans with lower acuity patients receive lesser premiums. Under the risk adjustment model, capitation is paid on an interim basis based on enrollee data submitted for the preceding year and is adjusted in subsequent periods after final data is compiled. As premiums are adjusted via this risk adjustment model (using a Risk Adjustment Factor, "RAF"), our PMPM payments change commensurately with how our contracted Medicare Advantage plans' premiums change with CMS.

The transaction price for these contracts is variable as it primarily includes PMPM fees, which can fluctuate throughout the course of the year based on the acuity of each individual enrollee. In certain contracts, PMPM fees also include adjustments for items such as performance incentives or penalties based on the achievement of certain clinical quality metrics as contracted with payors. Capitated revenue is recognized based on a PMPM transaction price to transfer the service for a distinct increment of the series and is recognized net of projected acuity adjustments and performance incentives or penalties. We recognize revenue in the month in which attributed members are entitled to receive healthcare benefits during the contract term. The capitation amount is subject to possible retroactive premium risk adjustments based on the member's individual acuity.

Other patient service revenue. Other patient service revenue is comprised primarily of encounter-related fees to treat patients outside of our at-risk arrangements at company owned clinics. Other patient service revenue also includes ancillary fees earned under contracts with certain payors for the provision of certain care coordination and other care management services. These services are provided to patients covered by these payors regardless of whether those patients receive their care from our directly employed or affiliated medical groups.

Operating Expense

Medical expense. Medical expenses primarily include costs of all covered services provided to members by non-P3 employed providers. This also includes an estimate of the cost of services that have been incurred, but not yet reported ("IBNR"). IBNR is recorded as claims payable on the accompanying condensed consolidated balance sheets. Estimates for incurred claims are based on historical enrollment and cost trends while also taking into consideration operational changes. Future and actual results typically differ from estimates. Differences could result from an overall change in medical expenses per member, changes in member mix or simply due to the addition of new members. IBNR estimates are made on an accrual basis and adjusted in future periods as required. To the extent we revise our estimates of incurred but not reported claims for prior periods up or down, there would be a correspondingly favorable or unfavorable effect on our current period results that may or may not reflect changes in long term trends in our performance.

Premium deficiency reserve. Premium deficiency reserves ("PDR") are recognized when it is probable that expected future health care costs and maintenance costs under a group of existing contracts will exceed anticipated future

premiums and stop-loss insurance recoveries on those contracts. PDR represents the advance recognition of a probable future loss in the current period's financial statements.

Corporate, general and administrative expense. Corporate, general and administrative expenses include employee-related expenses, including salaries and related costs and equity-based compensation for our executive, technology infrastructure, operations, clinical and quality support, finance, legal, and human resources departments. In addition, general and administrative expenses include all corporate technology and occupancy costs.

Sales and marketing expense. Sales and marketing expenses consist of costs related to patient and provider marketing and community outreach. These expenses capture all costs for both our local and enterprise sales and marketing efforts.

Depreciation and amortization expense. Depreciation expense is associated with our property and equipment, including leasehold improvements, computer equipment and software, furniture and fixtures, and internally developed software. Amortization expense is associated with definite lived intangible assets, including trademarks and tradenames, customer contracts, provider network agreements, and payor contracts.

Other Income (Expense)

Interest expense, net. Interest expense primarily consists of interest on our term loan facility and unsecured promissory notes and amortization of debt issuance costs and original issue discount.

Mark-to-market of stock warrants. Mark-to-market of stock warrants consists of the change in the fair value on the revaluation of warrant liabilities associated with our public and private placement Class A common stock warrants.

Other. Other consists of gains and losses resulting from other transactions.

Income Taxes

P3 LLC is treated as a partnership for U.S. federal and most applicable state and local income tax jurisdictions. As a partnership, P3 LLC is generally not subject to taxes, other than entity level state income taxes, such as the Oregon corporate activity tax, a quasi-gross receipts tax that is levied on our Oregon sourced revenue. Any taxable income or loss generated by P3 LLC is passed through to and included within the taxable income or loss of its members, including us, on a pro rata basis. We are subject to U.S. federal income taxes, in addition to state and local income taxes with respect to our allocable share of any taxable income or loss generated by P3 LLC.

Non-controlling Interest

We consolidate the financial results of P3 LLC and report a non-controlling interest on our consolidated statements of operations, representing the portion of net income or loss attributable to the non-controlling interest. The weighted average ownership percentages during the period are used to calculate the net income or loss attributable to P3 Health Partners Inc. and the non-controlling interest.

Results of Operations

The following table sets forth our condensed consolidated statements of operations data for the periods indicated. Amounts may not sum due to rounding.

Three Months Ended March 31, 2024 Compared to Three Months Ended March 31, 2023

	Three Months Ended March 31, 2024	% of Revenue	Three Months Ended March 31, 2023	% of Revenue
(dollars in thousands)				
Operating revenue:				
Capitated revenue	\$ 384,134	99 %	\$ 298,704	99 %
Other patient service revenue	4,354	1	3,373	1
Total operating revenue	388,488	100	302,077	100
Operating expense:				
Medical expense	382,057	98	285,570	95
Premium deficiency reserve	1,000	0	5,140	2
Corporate, general and administrative expense	27,401	7	37,643	12
Sales and marketing expense	322	0	1,001	0
Depreciation and amortization	21,539	6	21,540	7
Total operating expense	432,319	111	350,894	116
Operating loss	(43,831)	(11)	(48,817)	(16)
Other (expense) income:				
Interest expense, net	(4,256)	(1)	(4,086)	(1)
Mark-to-market of stock warrants	216	0	649	0
Other	337	0	96	0
Total other expense	(3,703)	(1)	(3,341)	(1)
Loss before income taxes	(47,534)	(12)	(52,158)	(17)
Provision for income taxes	(2,072)	(1)	(290)	0
Net loss	(49,606)	(13)	(52,448)	(17)
Net loss attributable to redeemable non-controlling interest	(30,906)	(8)	(43,249)	(14)
Net loss attributable to controlling interest	\$ (18,700)	(5) %	\$ (9,199)	(3) %

Revenue

	Three Months Ended March 31,		Change	
	2024	2023	Amount	%
(dollars in thousands)				
Capitated revenue	\$ 384,134	\$ 298,704	\$ 85,430	29 %
Other patient service revenue	4,354	3,373	981	29 %
Total operating revenue	\$ 388,488	\$ 302,077	\$ 86,411	29 %

Capitated revenue was \$384.1 million for the three months ended March 31, 2024, an increase of \$85.4 million, or 29%, compared to \$298.7 million for the three months ended March 31, 2023. This increase was primarily driven by a 23% increase in the total number of at-risk members from 103,400 at March 31, 2023 to 126,800 at March 31, 2024, which was primarily due to an increase of nine counties under contract with our health plans, effective January 1, 2024, and a 5% increase in capitated revenue rates, due to increased premiums from patients with a higher average level of acuity. Capitated revenue was approximately 99% of total operating revenue for each of the three months ended March 31, 2024 and 2023.

Other patient service revenue was \$4.4 million for the three months ended March 31, 2024, an increase of \$1.0 million, or 29%, compared to \$3.4 million for the three months ended March 31, 2023. Other patient service revenue was approximately 1% of total operating revenue for each of the three months ended March 31, 2024 and 2023.

Medical Expense

	Three Months Ended March 31,		Change	
	2024	2023	Amount	%
	(dollars in thousands)			
Medical expense	\$ 382,057	\$ 285,570	\$ 96,487	34 %

Medical expense was \$382.1 million for the three months ended March 31, 2024, an increase of \$96.5 million, or 34%, compared to \$285.6 million for the three months ended March 31, 2023. The increase was primarily driven by an increase in the total number of at-risk members year-over-year, as described above, resulting from an increase of nine counties under contract with our health plans, effective January 1, 2024.

Premium Deficiency Reserve

	Three Months Ended March 31,		Change	
	2024	2023	Amount	%
	(dollars in thousands)			
Premium deficiency reserve	\$ 1,000	\$ 5,140	\$ (4,140)	(81)%

Premium deficiency reserve was an expense of \$1.0 million for the three months ended March 31, 2024, a decrease of \$4.1 million, or 81%, compared to an expense of \$5.1 million for the three months ended March 31, 2023. The change was due to management's assessment of the profitability of contracts, wherein increased membership and the maturation of our overall contractual arrangements are expected to reduce our future losses.

Corporate, General and Administrative Expense

	Three Months Ended March 31,		Change	
	2024	2023	Amount	%
	(dollars in thousands)			
Corporate, general and administrative expense	\$ 27,401	\$ 37,643	\$ (10,242)	(27)%

Corporate, general and administrative expense was \$27.4 million for the three months ended March 31, 2024, a decrease of \$10.2 million, or 27%, compared to \$37.6 million for the three months ended March 31, 2023. The decrease was primarily driven by decreases of \$7.1 million in professional fees supporting our operations as a public company and \$2.5 million in salary and related expense as head count decreased 20% from March 31, 2023 to March 31, 2024.

Liquidity and Capital Resources

P3 Health Partners Inc. is a holding company and has no material assets other than its ownership of equity interests in P3 LLC. As such, we have no independent means of generating revenue or cash flow, and our ability to pay taxes, make payments under the Tax Receivable Agreement ("TRA"), and to pay dividends will depend on the financial results and cash flows of P3 LLC and the distributions received from P3 LLC. Deterioration in the financial condition, earnings or cash flow of P3 LLC for any reason could limit or impair P3 LLC's ability to pay such distributions. Additionally, to the extent that we need funds and P3 LLC is restricted from making such distributions under applicable law or regulation or under the terms of any financing arrangements, or P3 LLC is otherwise unable to provide such funds, it could materially adversely affect our liquidity and financial condition. It is anticipated that the distributions we will receive from P3 LLC may, in certain periods, exceed the actual tax liabilities and obligations to make payments under the TRA.

Cash Sources

To date, we have financed our operations principally through the cash we obtained as a result of the Business Combinations, private placements of our equity securities, payments from our payors, issuances of promissory notes, and

borrowings under the Term Loan Facility (as defined below). We generate cash from our operations, generally from our contracts with payors. As of March 31, 2024, we had cash and restricted cash of \$32.3 million.

We have experienced losses since our inception and net losses of \$49.6 million and \$52.4 million for the three months ended March 31, 2024 and 2023, respectively. We expect to continue to incur operating losses and generate negative cash flows from operations for the foreseeable future due to the strong growth we have experienced over the last seven years and the investments we are making in expanding our business, which require up-front expenses. Our future capital requirements will depend on many factors, including the pace of our growth, ability to manage medical costs, the maturity of our members, and our ability to raise capital. We may need to raise additional capital through a combination of debt financing, other non-dilutive financing and/or equity financing and to the extent we are unsuccessful at doing so, we may need to adjust our growth trajectory to accommodate our capital needs and look for additional ways to generate cost efficiencies.

[Shelf Registration](#)

On November 9, 2023, we filed a shelf Registration Statement on Form S-3 with a capacity of \$250 million (the "Shelf Registration"), which was declared effective by the SEC on November 20, 2023, and entered into an Open Market Sales Agreement ("Sales Agreement") pursuant to which we may issue and sell, from time to time, through the sales agent, shares of our Class A common stock with an aggregate value of up to \$75 million. The sales agent will make commercially reasonable efforts, following our instructions, to sell shares over time, adhering to specified limits. Sales will be conducted through at-the-market offerings as defined by Rule 415(a)(4) under the Securities Act. The aggregate value of shares of Class A common stock that may be offered, issued, and sold under the Sales Agreement is included in the aggregate value of securities that may be offered, issued, and sold by us under the Shelf Registration. Upon termination of the Sales Agreement, any unused portion will be available for sale in other offerings pursuant to the Shelf Registration. As of March 31, 2024, we have sold approximately 27,000 shares of our Class A common stock under the Sales Agreement for net proceeds of approximately \$33,000.

[March 2023 Private Placement](#)

On April 6, 2023, pursuant to a Securities Purchase Agreement (the "Purchase Agreement"), dated March 30, 2023 with the purchasers named therein (the "Purchasers"), which included certain affiliated entities of CPF and our Chief Medical Officer and member of our board of directors, we issued 79.9 million units at a price of approximately \$1.12 per unit for institutional investors, and a purchase price of approximately \$1.19 per unit for employees and consultants. Each unit consisted of one share of Class A common stock and 0.75 of a warrant to purchase one share of Class A common stock at an exercise price of \$1.13. Certain institutional investors elected to receive pre-funded warrants to purchase Class A common stock in lieu of a portion of their Class A common stock. In total, we sold (i) an aggregate of 69.2 million shares of our Class A common stock, (ii) Common Warrants to purchase an aggregate of 59.9 million shares of Class A common stock, and (iii) Pre-Funded Warrants to purchase an aggregate of 10.8 million shares of Class A common stock to the Purchasers for aggregate proceeds of approximately \$86.6 million, net of offering costs of approximately \$2.9 million (collectively, the "March 2023 Private Placement").

[Term Loan](#)

In November 2020, we entered into a Term Loan and Security Agreement with CRG Servicing, LLC (as amended, the "Term Loan Agreement") providing for funding of up to \$100.0 million (the "Term Loan Facility"). The Term Loan Facility's maturity date is December 31, 2025. As of March 31, 2024, we had \$65.0 million of borrowings outstanding under the Term Loan Facility, and remaining availability under the Term Loan Facility ended upon termination of the commitment period on February 28, 2022. Interest is payable at 12.0% per annum on a quarterly cycle (in arrears), which began on March 31, 2021. In March 2021, we elected to pay interest at 8.0% with the remaining interest at 4.0% being added to principal as paid in-kind ("PIK") for a period of three years (or 12 payments).

We are required to remain in compliance with financial covenants such as minimum liquidity of \$5.0 million and annual minimum revenue levels. In addition, the Term Loan Agreement restricts our ability and the ability of our subsidiaries to, among other things, incur indebtedness and liens. On an annual basis, we must post a minimum amount of annual revenue equal to \$585.0 million in 2024 and \$650.0 million in 2025. The maturity date may be accelerated as a remedy under the certain default provisions in the Term Loan Agreement, or in the event a mandatory prepayment event occurs.

In connection with the issuance of the VGS Promissory Note (defined below) and entry into the 2022 Subordination Agreement (defined below), on December 13, 2022, we entered into an amendment to the Term Loan Agreement to permit the issuance of the VGS Promissory Note and the entry into the 2022 Subordination Agreement.

In connection with the issuance of the VGS 2 Promissory Note (defined below) and entry into the 2024 Subordination Agreement (defined below), on March 22, 2024, we entered into the Fourth Amendment to the Term Loan Agreement to permit the issuance of the VGS 2 Promissory Note and the entry into the 2024 Subordination Agreement.

VGS Promissory Note

On December 13, 2022, we entered into a financing transaction with VBC Growth SPV LLC ("VGS") which included the issuance of an unsecured promissory note (the "VGS Promissory Note") to VGS and the entry into a warrant agreement and the 2022 Subordination Agreement (defined below). The VGS Promissory Note provided for funding of up to \$40.0 million. The maturity date of the VGS Promissory Note is May 19, 2026. As of March 31, 2024, we had \$29.1 million of borrowings outstanding under the VGS Promissory Note, and remaining availability under the VGS Promissory Note ended upon termination of the commitment period on February 3, 2023. We paid VGS an up-front fee of 1.5% and will pay a back-end fee of 9.0% at the time the VGS Promissory Note is paid. Interest is payable at 14.0% per annum on a quarterly cycle (in arrears) beginning March 31, 2023. We may elect to pay interest of 6.0% in kind and 8.0% in cash, subject to certain limitations.

The VGS Promissory Note may be prepaid, at our option, either in whole or in part, without penalty or premium, at any time and from time to time, subject to the payment of the back-end fee; provided that prepayments must be in increments of at least \$2.0 million. The VGS Promissory Note provides for mandatory prepayments with the proceeds of certain asset sales, and the Lender has the right to demand payment in full upon (i) a change of control of the Company and (ii) certain qualified financings (as defined in the VGS Promissory Note).

The VGS Promissory Note restricts our ability to, among other things, incur indebtedness and liens, and make investments and restricted payments. The maturity date may be accelerated as a remedy under the certain default provisions in the agreement, or in the event a mandatory prepayment event occurs.

In connection with the issuance of the VGS Promissory Note, we also entered into a subordination agreement, dated as of December 13, 2022 (the "2022 Subordination Agreement") with VGS which subordinates VGS's right of payment under the VGS Promissory Note to the right of payment and security interests of the lenders under the Term Loan Facility. Under the terms of the 2022 Subordination Agreement, we will be required to pay all interest under the VGS Promissory Note in-kind. The VGS Promissory Note may be prepaid, at our option, either in whole or in part, without penalty or premium subject to certain conditions.

VGS 2 Promissory Note

On March 22, 2024, we entered into a financing transaction with VBC Growth SPV 2, LLC ("VGS 2"), consisting of the issuance by P3 LLC of an unsecured promissory note (the "VGS 2 Promissory Note") to VGS 2. The VGS 2 Promissory Note provides for funding of up to \$25.0 million, available for draw by P3 LLC in two tranches, as follows: (i) a first tranche of \$10.0 million which was immediately drawn on March 22, 2024, and (ii) a second tranche of \$15.0 million which was drawn on April 5, 2024. The VGS 2 Promissory Note matures on September 30, 2027. Interest is payable at 17.5% per annum on a quarterly cycle (in arrears) beginning June 30, 2024. We may elect to pay either (1) 8.0% cash interest and 9.5% PIK interest, or (2) 17.5% PIK interest, provided that payment of cash interest will be permitted only to the extent permitted by the Term Loan Agreement and the 2024 Subordination Agreement, and if not so permitted, such interest shall accrue as PIK interest. The VGS 2 Promissory Note provides for mandatory prepayments with the proceeds of certain asset sales, and VGS 2 has the right to demand payment in full upon (i) a change of control of the Company and (ii) certain qualified financings (as defined in the VGS 2 Promissory Note).

The VGS 2 Promissory Note restricts P3 LLC's ability and the ability of its subsidiaries to, among other things, incur indebtedness and liens, and make investments and restricted payments. The maturity date may be accelerated as a remedy under the certain default provisions in the agreement, or in the event a mandatory prepayment event occurs.

In connection with the issuance of the VGS 2 Promissory Note, we also entered into a subordination agreement, dated as of March 22, 2024 (the "2024 Subordination Agreement") with VGS 2 which subordinates VGS 2's right of payment under the VGS 2 Promissory Note to the right of payment and security interests of the lenders under the Term

Loan Facility. Under the terms of the 2024 Subordination Agreement, we will be required to pay all interest under the VGS 2 Promissory Note in-kind.

We paid VGS 2 an up-front fee of 1.5% of the aggregate principal amount of the loan in-kind. In addition, we will pay VGS 2 a back-end fee at the time the VGS 2 Promissory Note is redeemed as follows: (i) if paid prior to June 30, 2024, 2.25%; (ii) if paid after June 30, 2024 and on or before September 30, 2024, 4.5%; (iii) if paid after September 30, 2024 and on or before December 31, 2024, 6.75% and (iv) if paid after December 31, 2024, 9.0%.

As of March 31, 2024, we were in compliance with the covenants under our Term Loan Facility, VGS Promissory Note, and VGS 2 Promissory Note; however, there can be no assurance that we will be able to maintain compliance with these covenants in the future or that the lenders under the term loan facility and unsecured promissory note or the lenders of any future indebtedness we may incur will grant any waiver or forbearance with respect to such covenants that we may request in the future.

Repurchase Promissory Note

In June 2019, we issued a share repurchase promissory note to a former equity investor for \$15.0 million, which was subsequently amended in November 2020 (as amended, the "Repurchase Promissory Note"). The Repurchase Promissory Note automatically matures and is due and payable on the earlier of June 30, 2026, a change in control transaction, or an underwritten primary public offering, each as defined in the agreement. The Repurchase Promissory Note accrues PIK interest of 11.0% per year. The principal balance, accrued interest, and an exit fee of \$0.6 million are due at maturity.

Cash Uses

Our primary uses of cash include payments for medical expenses, administrative expenses, cost associated with our care model, debt service, and capital expenditures. Final reconciliation and receipts of amounts due from payors are typically settled in arrears.

Pursuant to our election under Section 754 of the Internal Revenue Code (the "Code"), we expect to obtain an increase in our share of the tax basis in the net assets of P3 LLC when its units are redeemed or exchanged. We intend to treat any redemptions and exchanges of P3 LLC units as direct purchases of the units for U.S. federal income tax purposes. These increases in tax basis may reduce the amounts that we would otherwise pay in the future to various tax authorities. They may also decrease gains (or increase losses) on future dispositions of certain capital assets to the extent the tax basis is allocated to those capital assets.

In connection with the Business Combinations, we entered into a TRA that provides for the payment by us of 85% of the amount of any tax benefits that we actually realize, or in some cases are deemed to realize, as a result of (i) increases in our share of the tax basis in the net assets of P3 LLC resulting from any redemptions or exchanges of P3 LLC, (ii) tax basis increases attributable to payments made under the TRA, and (iii) deductions attributable to imputed interest pursuant to the TRA (the "TRA Payments"). We expect to benefit from the remaining 15% of any tax benefits that we may actually realize.

The estimation of a liability under the TRA is, by its nature, imprecise and subject to significant assumptions regarding a number of factors, including (but not limited to) the amount and timing of taxable income generated by the Company each year as well as the tax rate then applicable. The TRA liability is estimated to be \$11.0 million as of March 31, 2024. Due to the Company's history of losses, the Company has not recorded tax benefits associated with the increase in tax basis as a result of the Business Combinations. As a result, the Company determined that payments to TRA holders are not probable and no TRA liability has been recorded as of March 31, 2024.

As non-controlling interest holders exercise their right to exchange their units in P3 LLC, a TRA liability may be recorded based on 85% of the estimated future tax benefits that the Company may realize as a result of increases in the tax basis of P3 LLC. The amount of the increase in the tax basis, the related estimated tax benefits, and the related TRA liability to be recorded will depend on the price of the Company's Class A common stock at the time of the relevant redemption or exchange.

As of March 31, 2024, there were no material changes to our primary short-term and long-term requirements for liquidity and capital as disclosed in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our 2023 Form 10-K.

Liquidity and Going Concern

As of the date of this Form 10-Q, we believe that our existing cash resources are not sufficient to support planned operations for at least the next year from the issuance of the unaudited condensed consolidated financial statements included elsewhere in this Form 10-Q. As a result, we have concluded that there is substantial doubt about our ability to continue as a going concern within one year after the date the unaudited condensed consolidated financial statements included elsewhere in this Form 10-Q are issued. In evaluating our ability to continue as a going concern, we considered our current projections of future cash flows, current financial condition, sources of liquidity, and debt obligations for at least one year from the date of issuance of this Form 10-Q in considering whether we have the ability to meet our obligations. This evaluation of our cash resources available over the next year from the date of issuance of the unaudited condensed consolidated financial statements included elsewhere in this Form 10-Q does not take into consideration the potential mitigating effect of our ongoing efforts to raise capital or our plans that have not been fully implemented or the many factors that determine our capital requirements, including the pace of our growth, ability to manage medical costs and the maturity of our members. We continue to explore raising additional capital through a combination of debt financing and equity issuances. If we raise funds by issuing debt securities or preferred stock, or by incurring loans, these forms of financing would have rights, preferences, and privileges senior to those of holders of our common stock. If we raise capital through the issuance of additional equity, such sales and issuance would dilute the ownership interests of the existing holders of our Class A common stock. The availability and the terms under which we may be able to raise additional capital could be disadvantageous, and the terms of debt financing or other non-dilutive financing may involve restrictive covenants and dilutive financing instruments, which could place significant restrictions on our operations. Macroeconomic conditions and credit markets could also impact the availability and cost of potential future debt financing. There can be no assurances that any additional debt, other non-dilutive and/or equity financing would be available to us on favorable terms, or potentially at all. We expect to continue to incur net losses, comprehensive losses, and negative cash flows from operating activities in accordance with our operating plan. If we are unable to obtain additional funding when needed, we will need to curtail planned activities in order to reduce costs, which will likely have an unfavorable effect on our ability to execute on our business plan, and have an adverse effect on our business, results of operations, and future prospects.

The unaudited condensed consolidated financial statements included elsewhere in this Form 10-Q have been prepared assuming we will continue as a going concern and do not include any adjustments that might result from the outcome of these uncertainties.

Cash Flows

The following table summarizes our cash flows:

	Three Months Ended March 31,	
	2024	2023
	(in thousands)	
Net cash used in operating activities	\$ (20,030)	\$ (23,722)
Net cash used in investing activities	—	(464)
Net cash provided by financing activities	11,401	14,102
Net change in cash	(8,629)	(10,084)
Cash at beginning of period	40,934	18,457
Cash at end of period	\$ 32,305	\$ 8,373

Operating Activities

Net cash used in operating activities was \$20.0 million for the three months ended March 31, 2024, compared to net cash used in operating activities of \$23.7 million for the three months ended March 31, 2023. Significant changes impacting net cash used in operating activities during the three months ended March 31, 2024 as compared to the three months ended March 31, 2023 were primarily due to changes in working capital.

[Investing Activities](#)

Net cash used in investing activities was zero for the three months ended March 31, 2024. Net cash used in investing activities was \$0.5 million for the three months ended March 31, 2023, primarily consisting of the acquisition of two medical practices, net of cash acquired, and purchases of property and equipment.

[Financing Activities](#)

Net cash provided by financing activities was \$11.4 million for the three months ended March 31, 2024, consisting of proceeds from the issuance of the VGS 2 Promissory Note and short-term financing agreements for the funding of certain insurance policies. Net cash provided by financing activities was \$14.1 million for the three months ended March 31, 2023, consisting of proceeds from the issuance of the VGS Promissory Note.

Critical Accounting Estimates

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these consolidated financial statements requires management use judgment in the application of accounting policies, including making estimates and assumptions that could affect assets and liabilities, revenue and expenses and related disclosures of contingent assets and liabilities. Management bases its estimates on the best information available at the time, its experiences and various other assumptions believed to be reasonable under the circumstances. Actual results could differ from those estimates. To the extent that there are differences between our estimates and actual results, our future financial statement presentation, financial condition, results of operations, and cash flows will be affected. On an ongoing basis, we evaluate the continued appropriateness of our accounting estimates to make adjustments we consider appropriate under the facts and circumstances. There have been no significant changes to our critical accounting estimates as disclosed in our 2023 Form 10-K.

Recent Accounting Pronouncements

See Note 4 "Recent Accounting Pronouncements" to our unaudited condensed consolidated financial statements included elsewhere in this Form 10-Q for a description of recent accounting standards issued and the anticipated effects on our unaudited condensed consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not required for Smaller Reporting Companies.

Item 4. Controls and Procedures.

Limitations on effectiveness of controls and procedures

In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Evaluation of disclosure controls and procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated, as of the end of the period covered by this Form 10-Q, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, due to the material weaknesses described below, our disclosure controls and procedures were not effective at the reasonable assurance level as of March 31, 2024.

Material weaknesses

In connection with the audit of our financial statements for the years ended December 31, 2023 and 2022, we concluded that there were material weaknesses in our internal control over financial reporting. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

As previously reported, management has identified the following material weaknesses in the Company's internal control over financial reporting, which continued to exist as of March 31, 2024:

- We did not have adequate policies and procedures or sufficient qualified resources with appropriate technical knowledge to maintain effective internal controls over the accounting related to significant accounts and related financial statement disclosures;
- We did not design and implement a sufficient risk assessment process to identify and assess risks impacting internal control over financial reporting;
- We had ineffective evaluation and determination as to whether the components of internal control were present and functioning;
- We did not design and implement effective information technology general controls in the areas of user access related to certain information technology systems that support our financial reporting process;
- We did not maintain sufficient segregation of duties over the performance of control activities for financial close and reporting, including over the review of account reconciliations and journal entries;
- We did not design and maintain effective management review controls at a sufficient level of precision over all financial statement areas; and
- We did not design and maintain effective controls at a sufficient level of precision over the estimation of claims expense and payable including controls over the review of historical claims data, including the completeness and accuracy of data used to determine the financial statement amounts.

Remediation activities

In response to these material weaknesses, with oversight from the Audit Committee of the Board of Directors, we have continued to implement significant changes to improve our internal control structure. Specifically, we have:

- engaged an external advisor to assist with documenting internal controls, including (i) enhancing controls to ensure proper communication of critical information, review and approvals, (ii) evaluating effectiveness of internal controls, and (iii) assisting with the remediation of deficiencies and training of personnel, as necessary;
- formalized enhanced policies, procedures, and documentation for significant areas of accounting, including each area where a material weakness was identified;
- hired qualified accounting, financial reporting, information technology, and other key management personnel with public company experience;
- implemented a revised information technology general controls framework that is customized to our application landscape and information risks inherent in the financial reporting process;
- implemented user access reviews across all significant information technology applications, standardized and improved the change management process to mitigate execution risks, and provided training to control owners; and

- designed a segregation of duties risk framework in order to establish a technology-enabled process to identify and evaluate user roles to mitigate segregation of duties conflicts.

We are committed to maintaining a strong internal control environment. We are still in the process of implementing these steps and cannot assure investors that these measures will significantly improve or remediate the material weaknesses described above. The material weaknesses cannot be considered remediated until the newly designed control activity operates for a sufficient period of time and management has concluded, through testing, that the control is operating effectively. We may also conclude that additional measures may be required to remediate the material weaknesses in our internal control over financial reporting, which may necessitate additional implementation and evaluation time. We will continue to assess the effectiveness of our internal control over financial reporting and take steps to remediate the known material weaknesses expeditiously.

Changes in internal control over financial reporting

Other than the actions taken to remediate our material weaknesses, described above, which were ongoing as of the date of issuance of this Form 10-Q, there were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended March 31, 2024 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

Item 1. Legal Proceedings.

The Company is a party to various claims, legal and regulatory proceedings, lawsuits and administrative actions arising in the ordinary course of business and associated with the Business Combinations. The Company carries general and professional liability insurance coverage to mitigate the Company's risk of potential loss in such cases. An accrual is established when a specific contingency is probable and estimable. The Company also faces contingencies that are reasonably possible to occur that cannot currently be estimated. The Company believes that disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, net loss or cash flows. It is the Company's policy to expense costs associated with loss contingencies, including any related legal fees, as they are incurred.

Hudson Class D Dispute

On June 11, 2021, Hudson Vegas Investment SPV, LLC ("Hudson"), a holder of P3's Class D Units, filed an action in the Delaware Court of Chancery captioned Hudson Vegas Investments SPV, LLC v. Chicago Pacific Founders Fund, L.P., et al., C.A. No. 2021-0518-JTL (the "Hudson Action"), in which it challenged the Business Combinations. Specifically, Hudson purports to assert claims against P3, certain managers that were on the P3 Board of Managers, certain of its officers, and Chicago Pacific Founders Fund, L.P. ("CPF") for breach of P3's then-existing LLC agreement (the "LLC Agreement") (against P3 and CPF), breach of fiduciary duty (against certain of P3's officers) and breach of contract claims related to the then-existing LLC Agreement (against the P3 Board of Managers) in connection with the process leading up to, and approval of, the Business Combinations. In the Hudson Action, Hudson sought to enjoin the consummation of the Business Combinations and seeks a declaration that the Business Combinations violate its rights under the P3 then-existing LLC Agreement, a declaration that certain managers on the P3 Board of Managers and certain of P3's officers breached their fiduciary duties, and money damages including attorneys' fees.

On June 13, 2021, P3 filed an action in the Delaware Court of Chancery captioned P3 Health Group Holdings, L.L.C. v. Hudson Vegas Investment SPV, LLC, C.A. No. 2021-0519-JTL (the "P3 Action"). In the P3 Action, P3 seeks: (i) a declaration that the Business Combinations do not violate Section 3.10 of P3's Existing LLC Agreement; and (ii) reformation of a provision of P3's Existing LLC Agreement. The P3 Action was consolidated with the Hudson Action. The combined cases are captioned In re P3 Health Group Holdings, L.L.C., C.A. No. 2021-0518-JTL.

On June 22, 2021, Hudson filed a motion for expedited proceedings in the Hudson Action in which it sought expedited discovery and a hearing on its motion for preliminary injunction to enjoin the consummation of the Business Combinations. The defendants in the Hudson Action determined not to oppose Hudson's motion for expedited proceedings and engaged in expedited discovery in advance of a preliminary injunction hearing that took place September 9, 2021.

On September 14, 2021, the Court of Chancery issued an oral ruling denying Hudson's motion for preliminary injunction due to the lack of probability of success on the merits or, with respect to the Section 5.10 of the then-existing P3 LLC Agreement (the "Purchase Option") only, lack of a showing of irreparable harm based on the condition that the escrow described below be created. This ruling was made subject to the condition that Defendants memorialize their commitment to escrow, pending final resolution of this action, the consideration Hudson would be entitled to receive if it is determined that the Purchase Option can be validly exercised, in a stipulation filed with the Court. On September 17, 2021, Defendants filed a stipulation and proposed order and the Court entered the Order regarding escrow which confirmed their commitment to do so and to cause the Payment Spreadsheet (as that term is defined in Section 2.01(f) of the Merger Agreement) to provide that such consideration will be directed to such escrow.

The former members of P3 (other than Hudson) have agreed to indemnify the Company and P3 LLC following the Closing, for any damages, including reasonable attorney's fees, arising out of matters relating to the dispute with Hudson.

On December 27, 2021, Hudson filed a Motion for Leave to Amend the Verified Complaint. The proposed Amended Complaint contains certain of Hudson's original claims and also adds additional claims, including bad faith breach of contract claims against certain of the former P3 Managers, an additional contractual claim against P3, and a tortious interference with contract claim against Foresight Acquisition Corp., Foresight Acquisition Corp. II, P3 Partners Inc., Sameer Mathur, and Greg Wasson. Defendants informed Hudson that they did not oppose the Motion for Leave to Amend the Verified Complaint, and on February 4, 2022, Hudson filed its Verified Amended Complaint.

From September 12, 2022 through November 7, 2022, the Court issued a series of Orders ruling on the Defendants' Motions to Dismiss the Verified Amended Complaint. Such Orders provided for the dismissal with prejudice of, among other claims, (i) Hudson's claim to a Purchase Option and (ii) part of Hudson's claim to a priority right to cash distributed as a result of the transactions.

The Court granted in part and denied in part a motion to dismiss filed by Mr. Leisure, Mr. Kazarian, Mr. Abdou, Mr. Bacchus, Mr. Garrett, Mr. Price, Ms. Glisson, and Mr. Leavitt (the "Manager Defendants") with respect to Hudson's claim for bad faith breach of contract under a variety of theories. The Court also granted in part and denied in part the Manager Defendants' motion, permitting Hudson's bad faith breach of contract claim to proceed against the Manager Defendants on certain theories, but dismissing other theories, including that the Manager Defendants committed a bad faith breach of contract by failing to act in good faith to facilitate the Purchase Option.

On November 7, 2022, the Court issued an order denying in part and granting in part the motion to dismiss the breach of fiduciary claims against the officer Defendants, including Mr. Kazarian, Mr. Abdou, Mr. Bacchus, Ms. Glisson, and Ms. Puathasnanon. On November 9, 2022, the Court issued an order denying the motion to dismiss the claim against Mr. Mathur for tortious interference with Hudson's contract rights. On June 21, 2023, the Court entered a scheduling order for the case, pursuant to which, a five day trial is scheduled to commence on July 22, 2024. The parties are now currently engaged in discovery on Hudson's surviving claims.

Item 1A. Risk Factors.

There have been no material changes to the risk factors previously disclosed in Part I, Item 1A., "Risk Factors" of our 2023 Form 10-K. You should carefully consider the risk factors discussed in our 2023 Form 10-K, which could materially affect our business, financial condition or future results.

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

None.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

(a) None.

(b) None.

(c) *Insider Trading Arrangements and Policies.*

During the three months ended March 31, 2024, no director or "officer" (as defined in Rule 16a-1(f) under the Exchange Act) of the Company adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408(a) of Regulation S-K.

Item 6. Exhibits.

Exhibit Number	Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
2.1	Agreement and Plan of Merger, dated as of May 25, 2021, by and between Foresight Acquisition Corp., P3 Health Group Holdings, LLC and FAC Merger Sub LLC.	8-K	001-40033	2.1	6/1/2021
2.2	Transaction and Combination Agreement, dated as of May 25, 2021, by and among Foresight Acquisition Corp., the Merger Corps, the Blockers, Splitter and the Blocker Sellers.	8-K	001-40033	2.2	6/1/2021
2.3	First Amendment to Merger Agreement, dated as of November 21, 2021, by and among Foresight Acquisition Corp., FAC Merger Sub LLC and P3 Health Group Holdings, LLC.	8-K	001-40033	2.1	11/22/2021
2.4	Second Amendment, dated as of December 3, 2021, to the Agreement and Plan of Merger, dated as of May 25, 2021, by and among Foresight Acquisition Corp., FAC Merger Sub LLC and P3 Health Group Holdings, LLC.	8-K	001-40033	2.4	12/9/2021
2.5	The First Amendment to the Transaction and Combination Agreement between Foresight Acquisition Corp., the Merger Corps, the Blockers, Splitter and the Blocker Sellers.	8-K	001-40033	2.5	12/9/2021
3.1	Amended and Restated Certificate of Incorporation of the Company.	8-K	001-40033	3.1	12/9/2021
3.2	Amended and Restated Bylaws of the Company.	8-K	001-40033	3.1	3/12/2024
10.1	Unsecured Promissory Note, by and between P3 Health Group, LLC and VBC Growth SPV 2, LLC.	8-K	001-40033	10.1	3/28/2024
10.2	Subordination Agreement, by and among P3 Health Group, LLC, CRG Servicing LLC and VBC Growth SPV 2, LLC.	8-K	001-40033	10.2	3/28/2024
10.3	Fourth Amendment to Term Loan Agreement, by and among P3 Health Group, LLC, the subsidiary guarantors party thereto, the lenders party thereto and CRG Servicing LLC.	8-K	001-40033	10.3	3/28/2024
10.4	Consent, by and between P3 Health Group, LLC and VBC Growth SPV LLC.	8-K	001-40033	10.4	3/28/2024
31.1	* Certification of Principal Executive Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15(d)-14(a), as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
31.2	* Certification of Principal Financial Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15(d)-14(a), as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
32.1	** Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
32.2	** Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
101.INS	* Inline XBRL Instance Document				
101.SCH	* Inline XBRL Taxonomy Extension Schema Document				

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Exhibit Number	Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
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 Document				
104	* Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)				

ed herewith
rnished herewith

SIGNATURES

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

Date: May 8, 2024

P3 Health Partners Inc.

By: /s/ Atul Kavthekar

Atul Kavthekar

Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

CERTIFICATION

I, Aric Coffman, M.D., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of P3 Health Partners Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2024

/s/ Aric Coffman, M.D.

Aric Coffman, M.D.

Chief Executive Officer

(Principal Executive Officer)

CERTIFICATION

I, Atul Kavthekar, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of P3 Health Partners Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2024

/s/ Atul Kavthekar

Atul Kavthekar

Chief Financial Officer

(Principal Financial Officer)

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

In connection with the Quarterly Report on Form 10-Q of P3 Health Partners Inc. (the "Company") for the quarterly period ended March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Aric Coffman, M.D., Chief Executive Officer of the Company, do hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: May 8, 2024

/s/ Aric Coffman, M.D.

Aric Coffman, M.D.

Chief Executive Officer

(Principal Executive Officer)

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

In connection with the Quarterly Report on Form 10-Q of P3 Health Partners Inc. (the "Company") for the quarterly period ended March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Atul Kavthekar, Chief Financial Officer of the Company, do hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: May 8, 2024

/s/ Atul Kavthekar

Atul Kavthekar

Chief Financial Officer

(Principal Financial Officer)