

**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 September 30, 2024

OR

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

Commission file number: 001-41406

Enhabit, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

47-2409192

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

6688 N. Central Expressway, Suite 1300, Dallas, Texas

(Address of Principal Executive Offices)

75206

(Zip Code)

(214) 239-6500

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	EHAB	New York Stock Exchange

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 November 6, 2024, the registrant had 50,284,120 shares of its common stock, par value \$0.01 per share, outstanding.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report contains historical information, as well as forward-looking statements (within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) that involve known and unknown risks and relate to, among other things, future events, projections, financial guidance, legislative or regulatory developments, strategy or growth opportunities, our future financial performance, our projected business results, or our projected capital expenditures. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. In some cases, the reader can identify forward-looking statements by terminology such as “may,” “will,” “should,” “could,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “targets,” “potential,” or “continue” or the negative of these terms or other comparable terminology. Any forward-looking statement speaks only as of the date of this report, and the Company undertakes no duty to publicly update or revise such forward-looking information, whether as a result of new information, future events, or otherwise. Such forward-looking statements are necessarily estimates based upon current information and involve a number of risks and uncertainties, many of which are beyond our control. Actual events or results may differ materially from the results anticipated in these forward-looking statements as a result of a variety of factors. While it is impossible to identify all such factors, factors which could cause actual events or results to differ materially from those estimated by the Company include, but are not limited to, our ability to execute on our strategic plans; regulatory and other developments impacting the markets for our services; changes in reimbursement rates; general economic conditions; changes in the episodic versus non-episodic mix of our payors, the case mix of our patients, and payment methodologies; our ability to attract and retain key management personnel and healthcare professionals; potential disruptions or breaches of our or our vendors’, payors’, and other contract counterparties’ information systems; the outcome of litigation; our ability to successfully complete and integrate de novo locations, acquisitions, investments, and joint ventures; the impact of Hurricanes Helene and Milton on our operations; and our ability to control costs, particularly labor and employee benefit costs. Our Annual Report on Form 10-K for the year ended December 31, 2023 dated March 15, 2024, which can be found on the Company’s website at <http://investors.ehab.com>, discusses these and other risks and factors that could cause actual results to differ materially from those expressed or implied by any forward-looking statement in this report.

Part I - Financial Information

Item 1. Financial Statements (Unaudited)

Enhabit, Inc. and Subsidiaries
Condensed Consolidated Statements of Income
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
(In Millions, Except Per Share Data)				
Net service revenue	\$ 253.6	\$ 258.3	\$ 776.6	\$ 785.7
Cost of service, excluding depreciation and amortization	131.7	134.0	397.7	402.1
General and administrative expenses	103.8	108.8	321.3	327.1
Depreciation and amortization	8.2	7.7	23.6	23.2
Impairment of goodwill	107.9	—	107.9	85.8
Operating (loss) income	(98.0)	7.8	(73.9)	(52.5)
Interest expense and amortization of debt discounts and fees	10.8	10.9	32.8	30.7
Other income	—	(0.1)	—	(0.2)
Loss before income taxes and noncontrolling interests	(108.8)	(3.0)	(106.7)	(83.0)
Income tax expense (benefit)	0.7	(0.8)	1.5	(9.9)
Net loss	(109.5)	(2.2)	(108.2)	(73.1)
Less: Net income attributable to noncontrolling interests	0.7	0.2	2.0	1.0
Net loss attributable to Enhabit, Inc.	\$ (110.2)	\$ (2.4)	\$ (110.2)	\$ (74.1)
Weighted average common shares outstanding:				
Basic	50.2	49.9	50.2	49.8
Diluted	50.2	49.9	50.2	49.8
Loss per common share:				
Basic loss per share attributable to Enhabit, Inc. common stockholders	\$ (2.20)	\$ (0.05)	\$ (2.20)	\$ (1.48)
Diluted loss per share attributable to Enhabit, Inc. common stockholders	\$ (2.20)	\$ (0.05)	\$ (2.20)	\$ (1.48)

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

Enhabit, Inc. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2024	2023	2024	2023
	(In Millions)			
Net loss	\$ (109.5)	\$ (2.2)	\$ (108.2)	\$ (73.1)
Other comprehensive (loss) income:				
Unrealized (loss) gain on cash flow hedges, net of tax (benefit) expense of \$(0.5), \$0.2, \$(0.1) and \$0.8, respectively	(1.8)	0.7	(0.4)	2.3
Total other comprehensive (loss) income	(1.8)	0.7	(0.4)	2.3
Comprehensive loss including noncontrolling interests	(111.3)	(1.5)	(108.6)	(70.8)
Less: Comprehensive income attributable to noncontrolling interests	0.7	0.2	2.0	1.0
Comprehensive loss attributable to Enhabit, Inc.	\$ (112.0)	\$ (1.7)	\$ (110.6)	\$ (71.8)

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

Enhabit, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(Unaudited)

	September 30, 2024	December 31, 2023
(In Millions)		
Assets		
Current assets:		
Cash and cash equivalents	\$ 45.7	\$ 27.4
Restricted cash	1.7	2.4
Accounts receivable, net of allowances	150.9	164.7
Prepaid expenses and other current assets	9.9	15.6
Total current assets	208.2	210.1
Property and equipment, net	19.4	19.0
Operating lease right-of-use assets	54.3	57.5
Goodwill	953.8	1,061.7
Intangible assets, net	63.9	80.0
Other long-term assets	4.7	5.3
Total assets⁽¹⁾	\$ 1,304.3	\$ 1,433.6
Liabilities and stockholders' equity		
Current liabilities:		
Current portion of long-term debt	\$ 23.0	\$ 22.5
Current operating lease liabilities	11.7	11.8
Accounts payable	9.9	7.6
Accrued payroll	47.1	38.5
Refunds due patients and other third-party payors	4.1	8.2
Accrued medical insurance	8.5	8.4
Other current liabilities	38.6	40.7
Total current liabilities	142.9	137.7
Long-term debt, net of current portion	502.9	530.1
Long-term operating lease liabilities, net of current portion	43.4	45.7
Deferred income tax liabilities	17.1	17.1
Other long-term liabilities	0.1	1.3
Total liabilities	706.4	731.9
Commitments and contingencies (See Note 7)		
Redeemable noncontrolling interests	5.0	5.0
Stockholders' equity:		
Total Enhabit, Inc. stockholders' equity	566.1	669.7
Noncontrolling interests	26.8	27.0
Total stockholders' equity	592.9	696.7
Total liabilities⁽¹⁾ and stockholders' equity	\$ 1,304.3	\$ 1,433.6

(1) Our consolidated assets as of September 30, 2024 and December 31, 2023 include total assets of variable interest entities of \$16.3 million and \$18.0 million, respectively, that cannot be used by us to settle the obligations of other entities. Our consolidated liabilities as of September 30, 2024 and December 31, 2023 include total liabilities of the variable interest entities of \$1.1 million and \$0.6 million, respectively. See Note 2, *Variable Interest Entities*.

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

Enhabit, Inc. and Subsidiaries
Condensed Consolidated Statements of Stockholders' Equity
(Unaudited)

Three Months Ended September 30, 2024

Enhabit, Inc. Common Stockholders									
Number of Common Shares Outstanding	Common Stock	Capital in Excess of Par Value	Other Comprehensive Income	Retained Earnings	Number of Treasury Shares Outstanding	Treasury Stock	Noncontrolling Interests	Total	
(In Millions)									
Balance at June 30, 2024	50.2	\$ 0.5	\$ 419.8	\$ 0.9	\$ 254.5	0.2	\$ (1.4)	\$ 26.1	\$ 700.4
Net (loss) income	—	—	—	—	(110.2)	—	—	0.7	(109.5)
Other comprehensive loss, net of tax	—	—	—	(1.8)	—	—	—	—	(1.8)
Stock-based compensation expense	—	—	3.8	—	—	—	—	—	3.8
Issuance of common stock pursuant to omnibus incentive plan	0.1	—	—	—	—	—	—	—	—
Balance at September 30, 2024	50.3	\$ 0.5	\$ 423.6	\$ (0.9)	\$ 144.3	0.2	\$ (1.4)	\$ 26.8	\$ 592.9

Three Months Ended September 30, 2023

Enhabit, Inc. Common Stockholders									
Number of Common Shares Outstanding	Common Stock	Capital in Excess of Par Value	Other Comprehensive Income	Retained Earnings	Number of Treasury Shares Outstanding	Treasury Stock	Noncontrolling Interests	Total	
(In Millions)									
Balance at June 30, 2023	50.1	\$ 0.5	\$ 411.0	\$ 0.9	\$ 263.3	0.1	\$ (0.5)	\$ 26.9	\$ 702.1
Net (loss) income	—	—	—	—	(2.4)	—	—	0.3	(2.1)
Other comprehensive income, net of tax	—	—	—	0.7	—	—	—	—	0.7
Stock-based compensation expense	—	—	3.1	—	—	—	—	—	3.1
Balance at September 30, 2023	50.1	\$ 0.5	\$ 414.1	\$ 1.6	\$ 260.9	0.1	\$ (0.5)	\$ 27.2	\$ 703.8

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

Enhabit, Inc. and Subsidiaries
Condensed Consolidated Statements of Stockholders' Equity
(Unaudited)

Nine Months Ended September 30, 2024

Enhabit, Inc. Common Stockholders									
	Number of Common Shares Outstanding	Common Stock	Capital in Excess of Par Value	Other Comprehensive Income	Retained Earnings	Number of Treasury Shares Outstanding	Treasury Stock	Noncontrolling Interests	Total
(In Millions)									
Balance at December 31, 2023	50.1	\$ 0.5	\$ 415.8	\$ (0.5)	\$ 254.5	0.1	\$ (0.6)	\$ 27.0	\$ 696.7
Net (loss) income	—	—	—	—	(110.2)	—	—	2.0	(108.2)
Other comprehensive loss, net of tax	—	—	—	(0.4)	—	—	—	—	(0.4)
Capital distributions	—	—	—	—	—	—	—	(2.2)	(2.2)
Stock-based compensation expense	—	—	7.8	—	—	—	—	—	7.8
Restricted stock forfeited, including forfeitures due to net share settlement of income taxes	(0.1)	—	—	—	—	0.1	(0.8)	—	(0.8)
Issuance of common stock pursuant to omnibus incentive plan	0.3	—	—	—	—	—	—	—	—
Balance at September 30, 2024	50.3	\$ 0.5	\$ 423.6	\$ (0.9)	\$ 144.3	0.2	\$ (1.4)	\$ 26.8	\$ 592.9

Nine Months Ended September 30, 2023

Enhabit, Inc. Common Stockholders									
	Number of Common Shares Outstanding	Common Stock	Capital in Excess of Par Value	Other Comprehensive Income	Retained Earnings	Number of Treasury Shares Outstanding	Treasury Stock	Noncontrolling Interests	Total
(In Millions)									
Balance at December 31, 2022	50.1	\$ 0.5	\$ 406.9	\$ (0.7)	\$ 335.0	—	\$ —	\$ 28.4	\$ 770.1
Net (loss) income	—	—	—	—	(74.1)	—	—	1.0	(73.1)
Other comprehensive income, net of tax	—	—	—	2.3	—	—	—	—	2.3
Capital distributions	—	—	—	—	—	—	—	(2.2)	(2.2)
Stock-based compensation expense	—	—	7.2	—	—	—	—	—	7.2
Restricted stock forfeited, including forfeitures due to net share settlement of income taxes	—	—	—	—	—	0.1	(0.5)	—	(0.5)
Balance at September 30, 2023	50.1	\$ 0.5	\$ 414.1	\$ 1.6	\$ 260.9	0.1	\$ (0.5)	\$ 27.2	\$ 703.8

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

Enhabit, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30,	
	2024	2023
	(In Millions)	
Cash flows from operating activities:		
Net loss	\$ (108.2)	\$ (73.1)
Adjustments to reconcile net loss to net cash provided by operating activities—		
Depreciation and amortization	23.6	23.2
Amortization of debt related costs	1.1	1.0
Impairment of goodwill	107.9	85.8
Stock-based compensation	7.8	7.2
Deferred income taxes	0.1	(13.1)
Other	(0.7)	0.7
Changes in assets and liabilities, net of acquisitions—		
Accounts receivable, net of allowances	13.8	(17.8)
Prepaid expenses and other assets	5.9	19.9
Accounts payable	2.3	2.2
Accrued payroll	8.6	13.1
Other liabilities	(6.9)	(3.6)
Net cash provided by operating activities	55.3	45.5
Cash flows from investing activities:		
Acquisition of businesses, net of cash acquired	—	(2.8)
Purchases of property and equipment, including capitalized software costs	(3.2)	(3.6)
Other	1.1	0.6
Net cash used in investing activities	(2.1)	(5.8)
Cash flows from financing activities:		
Principal payments on term loan facility	(15.0)	(15.0)
Principal payments on revolving credit facility	(15.0)	(10.0)
Debt issuance costs	—	(1.1)
Distributions paid to noncontrolling interests of consolidated affiliates	(2.2)	(2.5)
Other	(3.4)	(3.1)
Net cash used in financing activities	(35.6)	(31.7)
Increase in cash, cash equivalents, and restricted cash	17.6	8.0
Cash, cash equivalents, and restricted cash at beginning of period	29.8	27.2
Cash, cash equivalents, and restricted cash at end of period	\$ 47.4	\$ 35.2
Supplemental cash flow information:		
Income tax payments (refunds), net	\$ (0.6)	\$ (5.4)
Interest paid on long-term debt	\$ 33.1	\$ 27.9
Supplemental schedule of noncash activities:		
Property and equipment additions through finance leases	\$ 5.4	\$ 2.7
Operating lease additions	\$ 8.6	\$ 29.3

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

Enhabit, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Summary of Significant Accounting Policies:

Organization and Description of Business—

Enhabit, Inc. (“Enhabit,” “we,” “us,” “our,” and the “Company”), incorporated in Delaware in 2014, provides a comprehensive range of Medicare-certified skilled home health and hospice services in 34 states, with a concentration in the southern half of the United States. We manage our operations and disclose financial information using two reportable segments: (1) home health and (2) hospice. See Note 8, *Segment Reporting*. Prior to July 1, 2022, the Company operated as a reporting segment of Encompass Health Corporation (“Encompass”).

Separation from Encompass—

On July 1, 2022, Encompass completed the separation of the Company through the distribution of all of the outstanding shares of common stock, par value \$0.01 per share, of Enhabit to the stockholders of record of Encompass (the “Distribution”). As a result of the Distribution, Enhabit is now an independent public company, and its common stock is listed under the symbol “EHAB” on the New York Stock Exchange (the “Separation”).

The Separation was completed pursuant to a separation and distribution agreement (the “Separation and Distribution Agreement”) and other agreements with Encompass related to the Separation, including, but not limited to, a tax matters agreement (the “Tax Matters Agreement”), an employee matters agreement (the “Employee Matters Agreement”), and a transition services agreement (the “Transition Services Agreement” or “TSA”). Following the Separation, certain functions were provided by Encompass under the TSA. As of April 1, 2024, these functions are being performed using the Company’s own resources or third-party providers.

In early 2022, in anticipation of the Distribution, we transferred the “Encompass” trade name with a book value of \$135.2 million and the related deferred tax liabilities with a book value of \$31.0 million to Encompass, as they will continue to operate under the Encompass brand.

See also Note 4, *Long-Term Debt*.

Basis of Presentation and Consolidation—

The accompanying unaudited condensed consolidated financial statements of the Company and its subsidiaries should be read in conjunction with the audited consolidated financial statements and accompanying notes contained in the Company’s Annual Report for the year ended December 31, 2023 on Form 10-K (the “Form 10-K”) filed with the United States Securities and Exchange Commission (the “SEC”) on March 15, 2024. The unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the SEC applicable to interim financial information. Certain information and note disclosures included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) have been omitted in these interim statements, as allowed by such SEC rules and regulations. The unaudited Condensed Consolidated Balance Sheet as of December 31, 2023 has been derived from audited financial statements, but it does not include all disclosures required by GAAP. However, we believe the disclosures are adequate to make the information presented not misleading.

The unaudited results of operations for the interim periods shown in these financial statements are not necessarily indicative of operating results for the entire year. In our opinion, the accompanying unaudited condensed consolidated financial statements recognize all adjustments of a normal recurring nature considered necessary for a fair statement of the financial position, results of operations, and cash flows for each interim period presented.

The unaudited condensed consolidated financial statements include the assets, liabilities, revenues, and expenses of all wholly owned subsidiaries, majority-owned subsidiaries over which we exercise control, and, when applicable, entities in which we have a controlling financial interest. We eliminate all intercompany accounts and transactions within the Company from our financial results.

Enhabit, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Net Service Revenue—

Our *Net service revenue* disaggregated by payor source and segment are as follows (in millions):

	Home Health		Hospice		Consolidated	
	Three Months Ended September 30,		Three Months Ended September 30,		Three Months Ended September 30,	
	2024	2023	2024	2023	2024	2023
Medicare	\$ 117.3	\$ 141.0	\$ 51.7	\$ 46.7	\$ 169.0	\$ 187.7
Medicare Advantage	59.2	45.7	—	—	59.2	45.7
Managed care	22.2	21.2	0.3	—	22.5	21.2
Medicaid	2.2	2.9	0.6	0.7	2.8	3.6
Other	0.1	0.1	—	—	0.1	0.1
Total	\$ 201.0	\$ 210.9	\$ 52.6	\$ 47.4	\$ 253.6	\$ 258.3

	Home Health		Hospice		Consolidated	
	Nine Months Ended September 30,		Nine Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023	2024	2023
Medicare	\$ 367.3	\$ 426.5	\$ 150.0	\$ 140.5	\$ 517.3	\$ 567.0
Medicare Advantage	179.8	148.3	—	—	179.8	148.3
Managed care	68.8	56.5	2.2	4.3	71.0	60.8
Medicaid	7.1	8.7	—	0.4	7.1	9.1
Other	1.4	0.5	—	—	1.4	0.5
Total	\$ 624.4	\$ 640.5	\$ 152.2	\$ 145.2	\$ 776.6	\$ 785.7

For a discussion of our significant accounting policies, including our policy related to *Net service revenue*, see Note 1, *Summary of Significant Accounting Policies*, to the consolidated financial statements included in the Form 10-K.

Loss Per Common Share—

The following table sets forth the computation of diluted weighted average common shares outstanding for the three and nine months ended September 30, 2024 and 2023 (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Weighted average common shares outstanding:				
Basic	50.2	49.9	50.2	49.8
Dilutive effect of restricted stock, restricted stock units and performance units	—	—	—	—
Diluted	50.2	49.9	50.2	49.8

A total of 0.3 million options to purchase Enhabit's shares and 2.1 million shares of restricted stock awards, performance units and restricted stock units were excluded from the diluted weighted average common shares outstanding for the three and nine months ended September 30, 2024 because their effects were anti-dilutive. A total of 0.3 million options to purchase Enhabit's shares and 1.5 million shares of restricted stock awards, performance units and restricted stock units were excluded from the diluted weighted average common shares outstanding for the three and nine months

Enhabit, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

ended September 30, 2023 because their effects were anti-dilutive. See Note 9, *Stock-Based Payments*, to the consolidated financial statements included in the Form 10-K for additional information.

Cash, Cash Equivalents, and Restricted Cash—

The following table details supplemental cash flow disclosures related to the reconciliation of cash and cash equivalents and restricted cash balances reported within the Condensed Consolidated Balance Sheets that sum to the total of the same such amounts shown in the Condensed Consolidated Statements of Cash Flows (in millions):

	September 30, 2024	December 31, 2023
Cash, cash equivalents, and restricted cash reconciliation:		
Cash and cash equivalents	\$ 45.7	\$ 27.4
Restricted cash	1.7	2.4
Cash, cash equivalents, and restricted cash presented in the statements of cash flows	<u>\$ 47.4</u>	<u>\$ 29.8</u>

Recent Accounting Pronouncements—

In November 2023, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2023-07, “Segment Reporting (*Topic 280*): Improvements to Reportable Segments Disclosures.” This standard provides guidance to improve 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 standard is effective for fiscal years beginning after December 15, 2023 and interim periods in fiscal years beginning after December 15, 2024. Early adoption is permitted, and the disclosures in this standard are required to be applied on a retrospective basis. The Company does not expect the adoption of this standard to have an impact on its consolidated financial statements, but it will require certain additional disclosures.

In December 2023, the FASB issued ASU 2023-09, “Income Taxes (*Topic 740*): Improvements to Income Tax Disclosures.” This standard requires disaggregated income tax disclosures on the effective tax rate reconciliation and income taxes paid. This standard is effective for annual periods beginning after December 15, 2024. Early adoption is permitted, and the disclosures in this standard are required to be applied on a prospective basis with the option to apply the standard retrospectively. The Company is currently evaluating the potential impact this standard will have on its consolidated financial statements and related disclosures.

In November 2024, the FASB issued ASU 2024-03, “Income Statement (*Topic 220*): Reporting Comprehensive Income—Expense Disaggregation Disclosures.” This standard requires more detailed information about specified categories of expenses (purchases of inventory, employee compensation, depreciation, amortization, and depletion) included in certain expense captions presented on the face of the income statement. This ASU is effective for fiscal years beginning after December 15, 2026 and for interim periods within fiscal years beginning after December 15, 2027. Early adoption is permitted. The amendments may be applied either (1) prospectively to financial statements issued for reporting periods after the effective date of this ASU or (2) retrospectively to all prior periods presented in the financial statements. The Company is currently evaluating the potential impact this standard will have on its consolidated financial statements and related disclosures.

2. Variable Interest Entities (“VIEs”):

As of September 30, 2024 and December 31, 2023, we consolidated two joint venture entities that are VIEs and of which we are the primary beneficiary. Our ownership percentages in these entities are 60% and 90% as of September 30, 2024. Through partnership and management agreements either with or governing these entities, we manage these entities and handle all day-to-day operating decisions. Accordingly, we have the decision-making power over the activities that most significantly impact the economic performance of the VIEs and an obligation to absorb losses or receive benefits from the VIEs that could potentially be significant to the VIEs. These decisions and significant activities include, but are not limited to, marketing efforts, oversight of patient admissions, medical training, nurse and therapist scheduling, provision of healthcare services, billing, collections, and creation and maintenance of medical records. The terms of the agreements governing the VIEs prohibit us from using the assets of the VIEs to satisfy the obligations of other entities.

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The carrying amounts and classifications of the consolidated VIEs' assets and liabilities, which are included in our unaudited Condensed Consolidated Balance Sheets, are as follows (in millions):

	September 30, 2024	December 31, 2023
Assets		
Current assets:		
Restricted cash	\$ 1.2	\$ 1.8
Accounts receivable, net of allowances	1.9	2.3
Other current assets	—	0.5
Total current assets	3.1	4.6
Operating lease right-of-use assets	0.1	0.1
Goodwill	12.4	12.4
Intangible assets, net	0.7	0.9
Total assets	\$ 16.3	\$ 18.0
Liabilities		
Current liabilities:		
Current operating lease liabilities	\$ 0.6	\$ 0.1
Accrued payroll	0.3	0.2
Other current liabilities	0.1	0.2
Total current liabilities	1.0	0.5
Other long-term liabilities	0.1	0.1
Total liabilities	\$ 1.1	\$ 0.6

3. Goodwill and Other Intangible Assets:

We are required to test our goodwill for impairment at least annually, as of October 1, or more frequently if events or changes in circumstances indicate that it is more likely than not goodwill is impaired.

During the three and nine months ended September 30, 2024, we identified potential impairment triggering events and determined a quantitative analysis of our two reporting units should be performed. These triggering events included a decrease in our share price and market capitalization. Based on the quantitative analysis performed in the third quarter of 2024, we recorded an impairment charge of \$107.9 million for the three and nine months ended September 30, 2024 to reflect a decrease in the carrying value of our home health reporting unit. As of September 30, 2024 and December 31, 2023, the home health reporting unit had an allocated goodwill balance of \$736.0 million and \$843.9 million, respectively. The fair value of the hospice reporting unit as of September 30, 2024 exceeded its carrying value by less than 5%. As of September 30, 2024 and December 31, 2023, the hospice reporting unit had an allocated goodwill balance of \$217.8 million.

During the nine months ended September 30, 2023, we identified potential impairment triggering events during the second quarter and determined a quantitative analysis of our two reporting units should be performed. These triggering events included our performance against the 2023 forecast, a decrease in our share price and market capitalization, and the release of the 2024 proposed rule for home health on June 30, 2023, which included a net negative home health payment update. Based on the quantitative analysis in the second quarter of 2023, we recorded an impairment charge of \$85.8 million for the nine months ended September 30, 2023 to reflect a decrease in the carrying value of our hospice reporting unit. No impairment charge was recorded for the three months ended September 30, 2023.

The cumulative impairments to our goodwill totaled \$302.7 million and \$194.8 million as of September 30, 2024 and December 31, 2023, respectively.

We estimated the fair value of our reporting units using both the income approach and the market approach. The assumptions used in the income approach incorporate a number of significant estimates and judgments, including revenue growth rates, timing of de novo openings, forecasted operating margins, the weighted-average cost of capital, and terminal

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growth rates. The market approach utilizes the guideline public company methodology, which uses valuation indicators, including market multiples of earnings before interest, taxes, depreciation, and amortization, from other businesses that are similar to each reporting unit and implied control premiums.

While management believes the assumptions used are reasonable and commensurate with the views of a market participant, there is also uncertainty in current general economic and market conditions. The result of the analysis is sensitive to changes in key assumptions, such as assumed future reimbursement rates, interest rates, labor costs, and delays in our ability to complete de novo openings, which could negatively impact our forecasted cash flows and result in an impairment charge in future periods.

4. Long-Term Debt:

Our long-term debt outstanding consists of the following (in millions):

	September 30, 2024	December 31, 2023
Credit agreement—		
Advances under revolving credit facility	\$ 165.0	\$ 180.0
Term loan A facility	352.7	367.1
Finance lease obligations	8.2	5.5
	525.9	552.6
Less: Current portion	(23.0)	(22.5)
Long-term debt, net of current portion	\$ 502.9	\$ 530.1

The following table shows scheduled principal payments due on long-term debt for the next five years (in millions):

	Amount
October 1 through December 31, 2024	\$ 5.8
2025	22.7
2026	22.3
2027	477.1
2028	0.3
Gross maturities	528.2
Less: Unamortized debt issuance costs	(2.3)
Total	\$ 525.9

In June 2022, the Company entered into a credit agreement (the “Credit Agreement”) that consists of a \$400.0 million term loan A facility (the “Term Loan A Facility”) and a \$350.0 million revolving credit facility (the “Revolving Credit Facility” and together with the Term Loan A Facility, the “Credit Facilities”). The Credit Facilities mature in June 2027. Interest on the loans under the Credit Facilities is calculated by reference to the Secured Overnight Financing Rate (“SOFR”) or an alternative base rate, plus an applicable interest rate margin. Enhabit may voluntarily prepay outstanding loans under the Credit Facilities at any time without premium or penalty, other than customary breakage costs with respect to SOFR loans. The Term Loan A Facility contains customary mandatory prepayments, including with respect to proceeds from asset sales and from certain incurrences of indebtedness.

On June 30, 2022, we drew the full \$400.0 million of the Term Loan A Facility and \$170.0 million on the Revolving Credit Facility. The net proceeds of \$566.6 million were distributed to Encompass prior to the completion of the Distribution. For additional information on the Separation, see Note 1, *Summary of Significant Accounting Policies*, to the accompanying unaudited condensed consolidated financial statements.

The Term Loan A Facility amortizes by an amount per annum equal to 5.0% of the outstanding principal amount thereon as of the closing date, payable in equal quarterly installments, with the balance being payable in June 2027. The Revolving Credit Facility provides the ability to borrow and obtain letters of credit, which is subject to a \$75.0 million

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submit. Obligations under the Credit Facilities are guaranteed by our existing and future wholly owned domestic material subsidiaries (the “Guarantors”), subject to certain exceptions. Borrowings under the Credit Facilities are secured by first priority liens on substantially all the assets of Enhabit and the Guarantors, subject to certain exceptions. The Credit Facilities contain representations and warranties, affirmative and negative covenants, and events of default customary for secured financings of this type, including limitations with respect to liens, fundamental changes, indebtedness, restricted payments, investments, and affiliate transactions, in each case, subject to a number of important exceptions and qualifications.

On June 27, 2023, we amended the Credit Facilities (the “First Amendment”) to provide for, among other things: (i) a new tier to the pricing grid for interest rate margins when the total net leverage ratio exceeds 4.50 to 1.00; (ii) changes to the conditions concerning the Company’s total net leverage ratio that must be met for the Company to borrow incremental ratio-based amounts; (iii) an increase in the maximum permitted total net leverage ratio to 5.25 to 1.00 for the quarters ending June 30, 2023, September 30, 2023, and December 31, 2023, stepping down to 5.00 to 1.00 for the quarter ending March 31, 2024, 4.75 to 1.00 for the quarter ending June 30, 2024, and 4.50 to 1.00 for the quarter ending September 30, 2024 and thereafter; and (iv) modifications to the Company’s ability to declare and make certain restricted payments.

On September 29, 2023, we entered into a Limited Waiver (the “Waiver”) with Wells Fargo Bank, National Association, as administrative agent to the other lenders (the “Administrative Agent”) under the Credit Agreement and the First Amendment. The Waiver released the Company from the requirement to comply with the total net leverage ratio and the interest coverage ratio covenants for the three months ended September 30, 2023. The Waiver also required that, until such time as the Company certified compliance with the waived financial covenants, the aggregate principal amount of the Company’s revolving loans allowed under the Credit Agreement was decreased from \$350.0 million to \$230.0 million. All other covenants and terms of the Credit Agreement remained unchanged and in effect. Although we were not required to be in compliance with the financial covenants as of September 30, 2023, we were in compliance with the financial covenants under the Credit Facilities.

As of September 30, 2023, our forecasted results suggested there was uncertainty of meeting our covenants through a period of one year from the issuance date of the September 30, 2023 financial statements. As a result, on November 3, 2023, we amended the Credit Facilities (the “Second Amendment”) to provide for, among other things, (i) an increase in the maximum permitted Total Net Leverage Ratio (as defined in the Credit Agreement) to 6.75 to 1.00 for the quarters ending December 31, 2023 and March 31, 2024, stepping down to 6.50 to 1.00 for the quarters ending June 30, September 30 and December 31, 2024, 5.75 to 1.00 for the quarter ending March 31, 2025, and 4.50 to 1.00 for the quarter ending June 30, 2025 and thereafter; (ii) the addition of a Fixed Charge Coverage Ratio (as defined in the Credit Agreement) covenant of 1.15 to 1.00 until the end of the Covenant Adjustment Period (as defined below); (iii) no Interest Coverage Ratio (as defined in the Credit Agreement) covenant until the end of the Covenant Adjustment Period; (iv) a permanent reduction in the Revolving Credit Facility commitment from \$350.0 million to \$220.0 million; (v) an increase in the Applicable Commitment Fee (as defined in the Credit Agreement) during the Covenant Adjustment Period; (vi) suspension of the ability of the Company to request incremental commitments under the Credit Agreement during the Covenant Adjustment Period; (vii) an increase of 0.25% in the applicable interest rate margins on amounts outstanding under the Credit Agreement during the Covenant Adjustment Period; (viii) limits on the amount of cash the Company can keep on hand and outside the lender group during the Covenant Adjustment Period; and (ix) additional limits on permitted indebtedness and acquisitions, permitted liens, restricted payments and permitted investments during the Covenant Adjustment Period. The “Covenant Adjustment Period” begins on the date of the Second Amendment and ends on the earlier of (a) the date that the Company provides evidence of compliance with the financial covenants in the Credit Agreement, as amended, for the fiscal quarter ending June 30, 2025 and (b) the date that the Company provides evidence of compliance with the financial covenants in the Credit Agreement as in effect immediately prior to the First Amendment for the applicable quarter.

Under specified circumstances, including non-compliance with any of the covenants described above and the unavailability of any waiver, amendment or other modification thereto, we may not be able to borrow under the Revolving Credit Facility. Additionally, violation of the covenants would result in an event of default under the Credit Facilities. A default that occurs, and is not cured within any applicable cure period or is not waived, would permit lenders to accelerate the maturity of the debt under the Credit Facilities and to foreclose upon any collateral securing the debt.

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As a result of the amendment above, our forecasted results indicate we will continue to be in compliance with those financial covenants through a period of one year from the issuance date of the September 30, 2024 financial statements. We cannot guarantee we will be in compliance with our financial covenants for each reporting period through a period of one year from the issuance date of the September 30, 2024 financial statements. As of September 30, 2024, we were in compliance with our financial covenants under the Credit Facilities. We continually evaluate our expected compliance with the covenants described above and take all appropriate steps to proactively renegotiate such covenants when appropriate.

As of September 30, 2024, amounts drawn under the Term Loan A Facility and the Revolving Credit Facility had an interest rate of 7.9%. On October 20, 2022, we entered into an interest rate swap to manage our exposure to interest rate movements for a portion of our Term Loan A Facility. The interest rate swap has a \$200.0 million notional value and a maturity date of October 20, 2025. Beginning in October 2022, we receive the one-month SOFR and pay a fixed rate of interest of 4.3%. See also Note 6, *Derivative Instrument*.

The carrying amounts and estimated fair values of our long-term debt are presented in the following table (in millions):

	As of September 30, 2024		As of December 31, 2023	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Long-term debt:				
Advances under revolving credit facility	\$ 165.0	\$ 165.0	\$ 180.0	\$ 180.0
Term loan A facility	\$ 352.7	\$ 347.1	\$ 367.1	\$ 354.4
Finance lease obligations	\$ 8.2	\$ 8.2	\$ 5.5	\$ 5.5

Fair values for our long-term debt and financial commitments are determined using inputs, including quoted prices in nonactive markets, that are observable either directly or indirectly, or Level 2 inputs within the fair value hierarchy. See Note 1, *Summary of Significant Accounting Policies—Fair Value Measurements*, to the consolidated financial statements included in the Form 10-K.

5. Income Taxes:

Our effective income tax rate was (0.6)% and (1.4)% for the three and nine months ended September 30, 2024, respectively. These rates differed from the federal statutory rate primarily due to permanent differences attributable to the impairment of goodwill in the third quarter of 2024 and a valuation allowance. On a quarterly basis, we assess all available positive and negative evidence, and we recognize only the portion of our deferred tax assets that are more likely than not to be realized. For the three months ended September 30, 2024, we recorded a valuation allowance of \$12.0 million against a portion of our deferred tax assets. Of this amount, \$3.4 million relates to deferred tax assets arising in a prior year.

Our effective income tax rate was 26.7% and 11.9% for the three and nine months ended September 30, 2023, respectively. The rate for the nine months ended September 30, 2023 differed from the federal statutory rate primarily due to permanent differences attributable to the impairment of goodwill in the second quarter of 2023.

At the Distribution, the Company entered into the Tax Matters Agreement with Encompass. The Tax Matters Agreement governs the companies' respective rights, responsibilities and obligations with respect to taxes (including responsibility for taxes arising in the ordinary course of business and taxes, if any, incurred as a result of any failure of the Distribution to qualify as tax-free for U.S. federal income tax purposes), entitlement to refunds, allocation of tax attributes, preparation of tax returns, control of tax contests and other matters.

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6. Derivative Instrument:

In October 2022, we entered into an interest rate swap agreement with a notional value of \$200.0 million with a maturity of October 20, 2025. See Note 4, *Long-Term Debt*.

The activities of the cash flow hedge included in *Accumulated other comprehensive income* for the three and nine months ended September 30, 2024 and 2023 are presented in the following table (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Balance at beginning of period	\$ 0.9	\$ 0.9	\$ (0.5)	\$ (0.7)
Unrealized (loss) gain recognized in other comprehensive income, net of tax	(1.4)	1.1	0.7	3.0
Reclassified to interest expense, net of tax	(0.4)	(0.4)	(1.1)	(0.7)
Balance at end of period	<u>\$ (0.9)</u>	<u>\$ 1.6</u>	<u>\$ (0.9)</u>	<u>\$ 1.6</u>

The fair value of derivative assets and liabilities within the unaudited Condensed Consolidated Balance Sheets are presented in the following table (in millions):

	September 30, 2024	December 31, 2023
Prepaid and other current assets	\$ —	\$ 0.7
Other current liabilities	(1.0)	—
Other long-term liabilities	(0.1)	(1.3)
Total	<u>\$ (1.1)</u>	<u>\$ (0.6)</u>

Fair value for our derivative instrument is determined using inputs, including quoted prices in nonactive markets, that are observable either directly or indirectly, or Level 2 inputs within the fair value hierarchy. See Note 1, *Summary of Significant Accounting Policies—Fair Value Measurements*, to the consolidated financial statements included in the Form 10-K.

7. Contingencies and Other Commitments:

We operate in a highly regulated industry in which healthcare providers are routinely subject to litigation. As a result, various lawsuits, claims, and legal and regulatory proceedings have been and can be expected to be instituted or asserted against us. The resolution of any such lawsuits, claims, or legal and regulatory proceedings could materially and adversely affect our financial position, results of operations, and cash flows in a given period.

The unaudited Condensed Consolidated Balance Sheets as of September 30, 2024 and December 31, 2023 include \$0.1 million and \$0.2 million, respectively, in *Other current liabilities* for claims made against the Company that are probable of loss and reasonably estimable and recoverable based on the Company's insurance policies. As of September 30, 2024 and December 31, 2023, accrued legal fees of \$7.5 million and \$9.9 million, respectively, are included in *Other current liabilities* in the unaudited Condensed Consolidated Balance Sheets.

Other Commitments—

We are a party to service and other contracts in connection with conducting our business. Minimum amounts due under these agreements are \$3.8 million in 2024, \$2.0 million in 2025, and \$0.8 million in 2026. These contracts primarily relate to software licensing and support.

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8. Segment Reporting:

Our internal financial reporting and management structure is focused on the major types of services provided by the Company. We manage our operations using two operating segments that are also our reportable segments: (1) home health and (2) hospice. These reportable operating segments are consistent with information used by our Chief Executive Officer, who is our chief operating decision maker, to assess performance and allocate resources. The following is a brief description of our reportable segments:

- *Home Health*—Our home health operations represent the nation’s fourth-largest provider of Medicare-certified skilled home health services, measured by 2022 Medicare revenues. As of September 30, 2024, we operated 256 home health locations in 34 states, with a concentration in the southern half of the United States. We are the sole owner of 245 of these locations. We retain 50.0% to 81.0% ownership in the remaining 11 jointly owned locations. Our home health services include a comprehensive range of Medicare-certified home health nursing services to adult patients in need of care. These services include, among others, skilled nursing, physical, occupational, and speech therapy, medical social work, and home health aide services.
- *Hospice*—Our hospice operations represent one of the nation’s largest providers of Medicare-certified hospice services, measured by 2022 Medicare revenues. As of September 30, 2024, we operated 112 hospice locations in 24 states, with a concentration in the southern half of the United States. We are the sole owner of 108 of these locations. We retain 50.0% to 90.0% ownership in the remaining four jointly owned locations. Hospice care focuses on the quality of life for patients who are experiencing an advanced, life limiting illness while treating the person and symptoms of the disease, rather than the disease itself.

The accounting policies of our reportable segments are the same as those described in Note 1, *Summary of Significant Accounting Policies*, to the consolidated financial statements included in the Form 10-K. All revenues for our services are generated through external customers. See Note 1, *Summary of Significant Accounting Policies—Net Service Revenue*, for the disaggregation of our revenues. No corporate overhead is allocated to either of our reportable segments. Our Chief Executive Officer evaluates the performance of our segments and allocates resources to them based on adjusted earnings before interest, taxes, depreciation, and amortization (“Segment Adjusted EBITDA”). Segment assets are not reviewed by our Chief Executive Officer and therefore are not disclosed below.

Selected financial information for our reportable segments is as follows (in millions):

	Home Health		Hospice	
	Three Months Ended September 30,		Three Months Ended September 30,	
	2024	2023	2024	2023
Net service revenue	\$ 201.0	\$ 210.9	\$ 52.6	\$ 47.4
Cost of service, excluding depreciation and amortization	105.9	110.0	25.8	24.0
General and administrative expenses	58.2	59.0	16.5	15.7
Other income	—	(0.1)	—	—
Net income attributable to noncontrolling interests	0.4	0.2	0.3	—
Segment Adjusted EBITDA	\$ 36.5	\$ 41.8	\$ 10.0	\$ 7.7

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	Home Health		Hospice	
	Nine Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Net service revenue	\$ 624.4	\$ 640.5	\$ 152.2	\$ 145.2
Cost of service, excluding depreciation and amortization	322.7	329.5	75.0	72.6
General and administrative expenses	176.3	181.3	48.5	48.0
Other income	—	(0.2)	—	—
Net income attributable to noncontrolling interests	1.5	1.0	0.5	—
Segment Adjusted EBITDA	\$ 123.9	\$ 128.9	\$ 28.2	\$ 24.6

Segment reconciliations (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
	Total Segment Adjusted EBITDA	\$ 46.5	\$ 49.5	\$ 152.1
Non-segment general and administrative expenses	(25.3)	(31.0)	(88.7)	(90.6)
Interest expense and amortization of debt discounts and fees	(10.8)	(10.9)	(32.8)	(30.7)
Depreciation and amortization	(8.2)	(7.7)	(23.6)	(23.2)
Impairment of goodwill	(107.9)	—	(107.9)	(85.8)
Stock-based compensation expense	(3.8)	(3.1)	(7.8)	(7.2)
Net income attributable to noncontrolling interests	0.7	0.2	2.0	1.0
Loss before income taxes and noncontrolling interests	\$ (108.8)	\$ (3.0)	\$ (106.7)	\$ (83.0)

Additional detail regarding the revenues of our operating segments by service line follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
	Home Health:			
Medicare	\$ 117.3	\$ 141.0	\$ 367.3	\$ 426.5
Non-Medicare	81.5	67.4	250.5	206.2
Private duty ⁽¹⁾	2.2	2.5	6.6	7.8
Total home health	201.0	210.9	624.4	640.5
Hospice	52.6	47.4	152.2	145.2
Total net service revenue	\$ 253.6	\$ 258.3	\$ 776.6	\$ 785.7

(1) Private duty represents long-term comprehensive hourly nursing medical care.

9. Related Party Transactions:

In connection with the Separation, as discussed in Note 1, *Summary of Significant Accounting Policies*, we entered into several agreements with Encompass that governed the relationship of the parties following the Distribution, including a Separation and Distribution Agreement, a Transition Services Agreement, a Tax Matters Agreement, and an Employee Matters Agreement. The Separation and Distribution Agreement contains provisions that, among other things, relate to (i) assets, liabilities, and contracts to be transferred, assumed, and assigned to each of Enhabit and Encompass as part of the Separation, (ii) cross-indemnities principally designed to place financial responsibility for the obligations and liabilities of the Enhabit business with Enhabit and financial responsibility for the obligations and liabilities of Encompass's remaining business with Encompass, (iii) procedures with respect to claims subject to indemnification and related matters, (iv) the allocation between Enhabit and Encompass of rights and obligations under existing insurance policies with respect to

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occurrences prior to completion of the Distribution, as well as the right to proceeds and the obligation to incur certain deductibles under certain insurance policies, and (v) procedures governing Enhabit's and Encompass's obligations and allocations of liabilities with respect to ongoing litigation matters that may implicate each of Enhabit's business and Encompass's business.

Transition Services Agreement—

Historically, Encompass provided the Company with certain services, including, but not limited to, executive oversight, treasury, legal, accounting, human resources, tax, internal audit, financial reporting, information technology and investor relations. After the Separation, some of these services continued to be provided by Encompass to the Company on a temporary basis under the TSA. The TSA expired under its terms on March 31, 2024.

Data Analytics Investment—

During 2019, we made a \$2.0 million investment in Medalogix, LLC ("Medalogix"), a healthcare predictive data and analytics company. During 2021, Medalogix became a wholly owned subsidiary of TVG Holdings, LLC ("TVG"), which resulted in the Company obtaining a minority equity investment in TVG in exchange for its investment in Medalogix. This investment is accounted for under the measurement alternative for investments. During the three and nine months ended September 30, 2024, we incurred costs of approximately \$1.2 million and \$3.6 million, respectively, in connection with the usage of Medalogix's analytics platforms. During the three and nine months ended September 30, 2023, we incurred costs of approximately \$0.8 million and \$3.2 million, respectively, in connection with the usage of Medalogix's analytics platforms. These costs are included in *Cost of service, excluding depreciation and amortization* and *General and administrative expenses* in the unaudited Condensed Consolidated Statements of Income.

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

You should read the following discussion and analysis together with our unaudited condensed consolidated financial statements and related notes included under Part I, Item 1, “Financial Statements (Unaudited),” of this report. Among other things, those historical financial statements include more detailed information regarding the basis of presentation for the financial data included in the following discussion. This discussion contains forward-looking statements about our business, operations and industry that involve risks and uncertainties, as described under the section titled “Cautionary Note Regarding Forward-Looking Statements.”

Overview

We are a leading provider of home health and hospice services in the United States. We strive to provide superior, cost-effective care where patients prefer it: in their homes. For over twenty years, we have provided care in the low-cost home setting while achieving high-quality clinical outcomes. Over that time, we have grown to become the fourth largest provider of home health services and a leading provider of hospice services nationally, measured by 2022 Medicare revenues. As of September 30, 2024, our footprint comprised 256 home health locations and 112 hospice locations across 34 states.

Our operations are principally managed on a services basis and include two operating segments for financial reporting purposes: (1) home health and (2) hospice. For additional information about our business and reportable segments, see Item 1, “*Business*,” and Item 1A, “*Risk Factors*,” in the Company’s Annual Report for the year ended December 31, 2023 on Form 10-K (the “*Form 10-K*”) filed with the United States Securities and Exchange Commission (the “*SEC*”) on March 15, 2024 and Note 8, *Segment Reporting*, to the accompanying unaudited condensed consolidated financial statements, and “—*Segment Results of Operations*” section of this item.

Recent Developments

Termination of UnitedHealth Group Contract

In August 2024, the Company provided a notice of termination under its national contract with UnitedHealth Group (“*United*”), which has less favorable payment terms than most of the Company’s other payor contracts. The termination will become effective on January 31, 2025 unless the parties negotiate a new agreement.

As previously disclosed, one of our primary growth strategies has been to shift business to Medicare Advantage contracts that pay us at improved rates. We have been successful in recent quarters shifting admissions to alternate payors with improved rates, and due to our termination notice in the third quarter, we shifted additional volumes away from *United*.

Since delivery of our termination notice, we have maintained an ongoing dialogue and negotiation with *United*, but we have not yet executed a new agreement. If we cannot negotiate a new agreement, we believe we will be able to continue to replace *United* revenue with revenue from other payors, but there can be no assurance this will happen or how quickly we will be able to complete the shift.

Impact of Hurricanes Helene and Milton

Certain of our home health operations in Florida, Georgia, North Carolina, and South Carolina were impacted by Hurricane Helene, which made landfall on September 26, 2024, and Hurricane Milton, which made landfall on October 9, 2024 (the “*Hurricanes*”). While admissions and visits in branches located in areas impacted by the Hurricanes have substantially recovered, we do not anticipate being able to replace a material portion of 2024 admissions and visits lost due to the Hurricanes.

Our operations were primarily affected by reduced home health admissions resulting from the displacement of employees, patients, and referral sources, and the postponement of procedures resulting in lower *Net service revenue* due to lost visits and reduced admissions. For the three and nine months ended September 30, 2024, Hurricane Helene did not have a material impact on our operations; however, for the three months and year ending December 31, 2024, we estimate lost *Net service revenue* and Adjusted EBITDA of approximately \$2 million from the impact of the Hurricanes.

Factors Affecting Our Performance

There are a number of factors that have impacted, and we believe will continue to impact, our results of operations and growth. These factors include:

Pricing

On July 30, 2024, the Centers for Medicare and Medicaid Services (“CMS”) issued its final rule for hospice payments for fiscal year 2025 (the “2025 Hospice Final Rule”). Effective October 1, 2024, CMS will implement a 2.9% net increase to reimbursement rates as compared to 2024 reimbursement rates. This update represents a 3.4% update to the market basket, reduced by a 0.5% productivity adjustment. Based on our analysis, which utilizes, among other things, our patient mix annualized over the twelve-month period ended September 30, 2024, our specific geographic coverage area, and other factors, we believe the 2025 Hospice Final Rule will result in a net increase to our Medicare payment rates of approximately 4% effective for services provided beginning October 1, 2024.

On November 1, 2024, CMS issued its final rule for home health payments for fiscal year 2025 (the “2025 Home Health Final Rule”). CMS proposed a 0.5% estimated net increase to payments as compared to 2024 payments. This update represents a 2.7% update to the home health payment, reduced by a 1.8% permanent behavior adjustment and a 0.4% decrease that represents an adjustment to the fixed dollar loss ratio for outlier payments. We are currently evaluating the impact the 2025 Home Health Final Rule will have on our operations.

For further discussion of other pricing factors that impact our results of operations and growth, see Item 7, “*Management's Discussion and Analysis of Financial Condition and Results of Operations*,” in the Form 10-K.

Volume

The volume of services we provide has a significant impact on our *Net service revenue*. For a discussion of factors that impact our ability to maintain and grow our home health and hospice volumes, see Item 7, “*Management's Discussion and Analysis of Financial Condition and Results of Operations*,” in the Form 10-K.

Efficiency

Cost and operating efficiencies impact the profitability of the patient care services we provide. We use a number of strategies to drive cost and operating efficiencies within our business. We target markets for expansion and growth that allow us to leverage our existing operations to create operating efficiencies through scale and density. We also leverage technology to create operating and supply chain efficiencies throughout our organization. See Item 1, “*Business—Our Competitive Strengths*,” in the Form 10-K for further discussion of the ways we seek to reduce costs while improving patient outcomes.

Recruiting and Retaining High-Quality Personnel

Recruiting and retaining qualified personnel, including management, for our home health and hospice agencies remains a high priority for us. We attempt to maintain a comprehensive compensation and benefits package to compete in the current challenging staffing environment.

Results of Operations

Revenues and expenses are measured in accordance with the policies and procedures described in Note 1, *Summary of Significant Accounting Policies*, to the consolidated financial statements included in the Form 10-K.

Our consolidated results of operations were as follows:

	Three Months Ended September 30,		Percentage Change	Nine Months Ended September 30,		Percentage Change
	2024	2023	2024 vs. 2023	2024	2023	2024 vs. 2023
(In Millions, Except Percentage Change)						
Net service revenue	\$ 253.6	\$ 258.3	(1.8)%	\$ 776.6	\$ 785.7	(1.2)%
Cost of service, excluding depreciation and amortization	131.7	134.0	(1.7)%	397.7	402.1	(1.1)%
Gross margin, excluding depreciation and amortization	121.9	124.3	(1.9)%	378.9	383.6	(1.2)%
General and administrative expenses	103.8	108.8	(4.6)%	321.3	327.1	(1.8)%
Depreciation and amortization	8.2	7.7	6.5 %	23.6	23.2	1.7 %
Impairment of goodwill	107.9	—	N/A	107.9	85.8	25.8 %
Operating (loss) income	(98.0)	7.8	(1,356.4)%	(73.9)	(52.5)	40.8 %
Interest expense and amortization of debt discounts and fees	10.8	10.9	(0.9)%	32.8	30.7	6.8 %
Other income	—	(0.1)	(100.0)%	—	(0.2)	(100.0)%
Loss before income taxes and noncontrolling interests	(108.8)	(3.0)	3,526.7 %	(106.7)	(83.0)	28.6 %
Income tax expense (benefit)	0.7	(0.8)	(187.5)%	1.5	(9.9)	(115.2)%
Net loss	(109.5)	(2.2)	4,877.3 %	(108.2)	(73.1)	48.0 %
Less: Net income attributable to noncontrolling interests	0.7	0.2	250.0 %	2.0	1.0	100.0 %
Net loss attributable to Enhabit, Inc.	\$ (110.2)	\$ (2.4)	4,491.7 %	\$ (110.2)	\$ (74.1)	48.7 %

The following table sets forth our consolidated results as a percentage of *Net service revenue*:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Cost of service, excluding depreciation and amortization	51.9 %	51.9 %	51.2 %	51.2 %
General and administrative expenses	40.9 %	42.1 %	41.4 %	41.6 %
Depreciation and amortization	3.2 %	3.0 %	3.0 %	3.0 %

Net Service Revenue

Net service revenue decreased during the three and nine months ended September 30, 2024 compared to the same periods of 2023 primarily due to lower Medicare recertifications in home health.

Cost of Service, Excluding Depreciation and Amortization

Cost of service, excluding depreciation and amortization decreased in terms of dollars during the three and nine months ended September 30, 2024 compared to the same periods of 2023 primarily due to a reduction in contract labor and favorable experience in workers' compensation and group medical claims. *Cost of service, excluding depreciation and amortization* remained flat as a percentage of *Net service revenue* during the three and nine months ended September 30, 2024 compared to the same periods of 2023.

General and Administrative Expenses

General and administrative expenses decreased in terms of dollars and as a percentage of *Net service revenue* during the three and nine months ended September 30, 2024 compared to the same periods of 2023 primarily due to lower incentive compensation and cost control initiatives undertaken in the second half of 2023 and throughout 2024.

Impairment of Goodwill

Impairment of goodwill during the three and nine months ended September 30, 2024 resulted from a goodwill charge of \$107.9 million to reduce the carrying value of our home health reporting unit to its fair value. During the nine months ended September 30, 2023, *Impairment of goodwill* resulted from a goodwill charge of \$85.8 million to reduce the carrying value of our hospice reporting unit to its fair value. See Note 3, *Goodwill and Other Intangible Assets*, to the accompanying unaudited condensed consolidated financial statements for additional information.

Interest Expense and Amortization of Debt Discounts and Fees

Interest expense and amortization of debt discounts and fees decreased for the three months ended September 30, 2024 compared to the same period of 2023 primarily due to a lower average borrowing level under our credit facilities partially offset by higher average interest rates.

Interest expense and amortization of debt discounts and fees increased for the nine months ended September 30, 2024 compared to the same period of 2023 primarily due to higher average interest rates partially offset by a lower average borrowing level under our credit facilities. See additional discussion on Note 4, *Long-Term Debt*, to the accompanying unaudited condensed consolidated financial statements and “—*Liquidity and Capital Resources*” within this item.

Income Tax Expense (Benefit)

Our effective income tax rate was (0.6)% and (1.4)% for the three and nine months ended September 30, 2024, respectively. These rates differed from the federal statutory rate primarily due to permanent differences attributable to the impairment of goodwill in the third quarter of 2024 and a valuation allowance. On a quarterly basis, we assess all available positive and negative evidence, and we recognize only the portion of our deferred tax assets that are more likely than not to be realized. For the three months ended September 30, 2024, we recorded a valuation allowance of \$12.0 million against a portion of our deferred tax assets. Of this amount, \$3.4 million relates to deferred tax assets arising in a prior year.

Our effective income tax rate was 26.7% and 11.9% for the three and nine months ended September 30, 2023, respectively. The tax benefit recorded for the three months ended September 30, 2023 was not materially different than the tax benefit calculated at the federal statutory rate. The rate for the nine months ended September 30, 2023 differed from the federal statutory rate primarily due to permanent differences attributable to the impairment of goodwill in the second quarter of 2023.

See additional discussion in Note 5, *Income Taxes*, to the accompanying unaudited condensed consolidated financial statements.

Adjusted EBITDA

Adjusted EBITDA is a non-GAAP measure of our financial performance. Management believes Adjusted EBITDA assists investors in comparing our operating performance across operating periods on a consistent basis by excluding items we do not believe are indicative of our operating performance.

We calculate Adjusted EBITDA as *Net loss* adjusted to exclude (1) interest expense and amortization of debt discounts and fees, (2) income tax expense (benefit), (3) depreciation and amortization, (4) gains or losses on disposal or impairment of assets or goodwill, (5) stock-based compensation, (6) net income attributable to noncontrolling interests and (7) unusual or nonrecurring items not typical of ongoing operations.

Adjusted EBITDA is not a measure of financial performance under generally accepted accounting principles in the United States of America (“GAAP”), and the items excluded from Adjusted EBITDA are significant components in understanding and assessing financial performance. Therefore, Adjusted EBITDA should not be considered a substitute for *Net loss*. Because Adjusted EBITDA is not a measurement determined in accordance with GAAP and is thus susceptible to varying calculations, Adjusted EBITDA, as presented, may not be comparable to other similarly titled measures of other companies. Revenues and expenses are measured in accordance with the policies and procedures described in Note 1, *Summary of Significant Accounting Policies*, to the accompanying unaudited condensed consolidated financial statements.

The following table reconciles *Net loss* to Adjusted EBITDA (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Net loss	\$ (109.5)	\$ (2.2)	\$ (108.2)	\$ (73.1)
Interest expense and amortization of debt discounts and fees	10.8	10.9	32.8	30.7
Income tax expense (benefit)	0.7	(0.8)	1.5	(9.9)
Depreciation and amortization	8.2	7.7	23.6	23.2
Gains on disposal of assets	(0.3)	(0.2)	(0.5)	(0.2)
Impairment of goodwill	107.9	—	107.9	85.8
Stock-based compensation	3.8	3.1	7.8	7.2
Net income attributable to noncontrolling interests	(0.7)	(0.2)	(2.0)	(1.0)
Unusual or nonrecurring items that are not typical of ongoing operations	3.6	4.9	12.1	9.8
Adjusted EBITDA	<u>\$ 24.5</u>	<u>\$ 23.2</u>	<u>\$ 75.0</u>	<u>\$ 72.5</u>

The following table reconciles *Net cash provided by operating activities* to Adjusted EBITDA (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Net cash provided by operating activities	\$ 28.4	\$ 6.3	\$ 55.3	\$ 45.5
Interest expense, excluding amortization of debt discounts and fees	10.4	10.7	31.7	30.3
Current portion of income tax (benefit) expense	(0.5)	1.3	1.4	3.2
Change in assets and liabilities, excluding derivative instrument	(16.7)	—	(23.6)	(15.0)
Net income attributable to noncontrolling interests	(0.7)	(0.2)	(2.0)	(1.0)
Unusual or nonrecurring items that are not typical of ongoing operations	3.6	4.9	12.1	9.8
Other	—	0.2	0.1	(0.3)

Adjusted EBITDA

\$	24.5	\$	23.2	\$	75.0	\$	72.5
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Unusual or nonrecurring items in the three months ended September 30, 2024 include: (i) third-party legal and advisory fees related to shareholder activism and (ii) restructuring activities and severance costs. The nine months ended September 30, 2024 include: (i) third-party legal and advisory fees related to shareholder activism; (ii) third-party legal and advisory fees related to the strategic review process that concluded in May 2024; and (iii) certain third-party, nonrecurring litigation fees related to a lawsuit in which the Company is a plaintiff, styled *Enhabit, Inc. et al. v. Nautic Partners IX, L.P., et al.* and pending in the Chancery Court of Delaware, and in which the Company has asserted claims for breach of fiduciary duty, aiding and abetting, and usurpation of corporate opportunity arising from actions involving its former officers. In the three months ended September 30, 2023, they include: (i) third-party legal fees associated with the suit *Enhabit, Inc. et al. v. Nautic Partners IX, L.P., et al.* and (ii) third-party legal and advisory fees related to the strategic review process. The nine months ended September 30, 2023 also include third-party legal and advisory fees related to shareholder activism.

For additional information, see “—*Segment Results of Operations.*”

Segment Results of Operations

Our segment and consolidated *Net service revenue* is provided in the following tables:

	Three Months Ended September 30,			
	2024	Percentage of Consolidated Revenue	2023	Percentage of Consolidated Revenue
		(In Millions, Except Percentage Change)		
Home health segment net service revenue	\$ 201.0	79.3 %	\$ 210.9	81.6 %
Hospice segment net service revenue	52.6	20.7 %	47.4	18.4 %
Consolidated net service revenue	\$ 253.6	100.0 %	\$ 258.3	100.0 %

	Nine Months Ended September 30,			
	2024	Percentage of Consolidated Revenue	2023	Percentage of Consolidated Revenue
		(In Millions, Except Percentage Change)		
Home health segment net service revenue	\$ 624.4	80.4 %	\$ 640.5	81.5 %
Hospice segment net service revenue	152.2	19.6 %	145.2	18.5 %
Consolidated net service revenue	\$ 776.6	100.0 %	\$ 785.7	100.0 %

For the three and nine months ended September 30, 2024, our *Net service revenue* decreased from the same periods of 2023 primarily due to lower Medicare recertifications in home health partially offset by *Net service revenue* growth in hospice. The increase in hospice *Net service revenue* was attributable to an increase in patient days and increased Medicare reimbursement rates.

For additional information regarding our business segments, including a detailed description of the services we provide, financial data for each segment, and a reconciliation of total adjusted earnings before interest, taxes, depreciation, and amortization (“Segment Adjusted EBITDA”) to *Loss before income taxes and noncontrolling interests*, see Note 8, *Segment Reporting*, to the accompanying unaudited condensed consolidated financial statements.

Home Health

Our home health segment derived its *Net service revenue* from the following payor sources:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Medicare	58.4 %	66.9 %	58.9 %	66.6 %
Medicare Advantage	29.5 %	21.7 %	28.8 %	23.2 %
Managed care	11.0 %	10.0 %	11.0 %	8.8 %
Medicaid	1.1 %	1.4 %	1.1 %	1.4 %
Other	— %	— %	0.2 %	— %
Total	100.0 %	100.0 %	100.0 %	100.0 %

See Item 1, “*Business*,” in the Form 10-K for additional information on our payor mix.

Additional information regarding our home health segment's operating results is as follows:

	Three Months Ended September 30,		Percentage Change	Nine Months Ended September 30,		Percentage Change
	2024	2023	2024 vs. 2023	2024	2023	2024 vs. 2023
(In Millions, Except Percentage Change)						
Net service revenue:						
Medicare	\$ 117.3	\$ 141.0	(16.8)%	\$ 367.3	\$ 426.5	(13.9)%
Non-Medicare	81.5	67.4	20.9 %	250.5	206.2	21.5 %
Private duty ⁽¹⁾	2.2	2.5	(12.0)%	6.6	7.8	(15.4)%
Home health net service revenue	201.0	210.9	(4.7)%	624.4	640.5	(2.5)%
Cost of service, excluding depreciation and amortization	105.9	110.0	(3.7)%	322.7	329.5	(2.1)%
Gross margin, excluding depreciation and amortization	95.1	100.9	(5.7)%	301.7	311.0	(3.0)%
General and administrative expenses	58.2	59.0	(1.4)%	176.3	181.3	(2.8)%
Other income	—	(0.1)	(100.0)%	—	(0.2)	(100.0)%
Net income attributable to noncontrolling interests	0.4	0.2	100.0 %	1.5	1.0	50.0 %
Home health segment adjusted EBITDA⁽²⁾	\$ 36.5	\$ 41.8	(12.7)%	\$ 123.9	\$ 128.9	(3.9)%

(Actual Amounts)

Medicare:						
Admissions	23,422	25,585	(8.5)%	73,381	81,715	(10.2)%
Recertifications	16,101	19,321	(16.7)%	50,392	59,143	(14.8)%
Completed episodes	38,866	44,350	(12.4)%	123,657	141,109	(12.4)%
Visits	561,525	660,380	(15.0)%	1,791,314	2,075,636	(13.7)%
Visits per episode	14.4	14.9	(3.4)%	14.5	14.7	(1.4)%
Revenue per episode	\$ 3,018	\$ 3,179	(5.1)%	\$ 2,970	\$ 3,022	(1.7)%
Non-Medicare:						
Admissions	29,950	24,938	20.1 %	91,040	73,726	23.5 %
Recertifications	14,112	13,411	5.2 %	42,188	38,709	9.0 %
Visits	552,815	501,764	10.2 %	1,705,430	1,498,073	13.8 %
Total:						
Admissions	53,372	50,523	5.6 %	164,421	155,441	5.8 %
<i>Same-store total admissions growth</i>			5.5 %			5.6 %
Recertifications	30,213	32,732	(7.7)%	92,580	97,852	(5.4)%
<i>Same-store total recertifications growth</i>			(7.8)%			(5.6)%
Visits	1,114,340	1,162,144	(4.1)%	3,496,744	3,573,709	(2.2)%
Visits per episode	14.1	14.9	(5.4)%	14.4	14.8	(2.7)%
Cost per visit	\$ 94	\$ 93	1.1 %	\$ 91	\$ 91	— %

(1) Private duty represents long-term comprehensive hourly nursing medical care.

(2) Segment Adjusted EBITDA is presented in conformity with ASC 280, *Segment Reporting*, as a measure reported to management for purposes of making decisions on allocating resources and addressing the performance of our segments. Segment Adjusted EBITDA is calculated similarly to consolidated Adjusted EBITDA but excludes corporate overhead costs that are not allocated to reportable segments because they are not considered when management evaluates segment performance. For more information, see Note 8, *Segment Reporting*, to the unaudited condensed consolidated financial statements.

With an advanced episodic model added to our Payor Innovation contracts effective January 1, 2024, we have updated how we report volume and pricing metrics for our home health segment, separating traditional Medicare from all other payor contracts. The prior periods were changed to conform to the current period presentation, which had no impact on the consolidated financial statements.

Expenses as a Percentage of Net Service Revenue

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Cost of service, excluding depreciation and amortization	52.7 %	52.2 %	51.7 %	51.4 %
General and administrative expenses	29.0 %	28.0 %	28.2 %	28.3 %

Net Service Revenue

The decrease in home health *Net service revenue* during the three and nine months ended September 30, 2024 compared to the same periods of 2023 was primarily due to lower Medicare volume as a result of lower recertifications.

Segment Adjusted EBITDA

The decrease in home health segment adjusted EBITDA during the three and nine months ended September 30, 2024 compared to the same periods of 2023 was primarily due to the decrease in *Net service revenue*.

Hospice

Our hospice segment derived its *Net service revenue* from the following payor sources:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Medicare	98.3 %	98.5 %	98.6 %	96.8 %
Managed care	0.6 %	— %	1.4 %	2.9 %
Medicaid	1.1 %	1.5 %	— %	0.3 %
Total	100.0 %	100.0 %	100.0 %	100.0 %

Additional information regarding our hospice segment's operating results is as follows:

	Three Months Ended September 30,		Percentage Change	Nine Months Ended September 30,		Percentage Change
	2024	2023	2024 vs. 2023	2024	2023	2024 vs. 2023
(In Millions, Except Percentage Change)						
Hospice net service revenue	\$ 52.6	\$ 47.4	11.0 %	\$ 152.2	\$ 145.2	4.8 %
Cost of service, excluding depreciation and amortization	25.8	24.0	7.5 %	75.0	72.6	3.3 %
Gross margin, excluding depreciation and amortization	26.8	23.4	14.5 %	77.2	72.6	6.3 %
General and administrative expenses	16.5	15.7	5.1 %	48.5	48.0	1.0 %
Net income attributable to noncontrolling interests	0.3	—	N/A	0.5	—	N/A
Hospice segment adjusted EBITDA⁽¹⁾	<u>\$ 10.0</u>	<u>\$ 7.7</u>	29.9 %	<u>\$ 28.2</u>	<u>\$ 24.6</u>	14.6 %

(Actual Amounts)

Total:						
Admissions	3,046	2,882	5.7 %	8,966	8,841	1.4 %
<i>Same-store total admissions growth</i>			4.1 %			(0.7)%
Patient days	333,247	311,719	6.9 %	961,815	940,211	2.3 %
Discharged average length of stay	100	107	(6.5)%	104	110	(5.5)%
Average daily census	3,622	3,388	6.9 %	3,510	3,444	1.9 %
Revenue per patient day	\$ 158	\$ 152	3.9 %	\$ 158	\$ 154	2.6 %
Cost per patient day	\$ 77	\$ 77	— %	\$ 78	\$ 77	1.3 %

- (1) Segment Adjusted EBITDA is presented in conformity with ASC 280, *Segment Reporting*, as a measure reported to management for purposes of making decisions on allocating resources and addressing the performance of our segments. Segment Adjusted EBITDA is calculated similarly to consolidated Adjusted EBITDA but excludes corporate overhead costs that are not allocated to reportable segments because they are not considered when management evaluates segment performance. For more information, see Note 8, *Segment Reporting*, to the unaudited condensed consolidated financial statements.

Expenses as a Percentage of Net Service Revenue

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Cost of service, excluding depreciation and amortization	49.0 %	50.6 %	49.3 %	50.0 %
General and administrative expenses	31.4 %	33.1 %	31.9 %	33.1 %

Net Service Revenue

Hospice *Net service revenue* increased for the three and nine months ended September 30, 2024 compared to the same periods of 2023 primarily due to an increase in patient days and increased Medicare reimbursement rates.

Segment Adjusted EBITDA

The increase in hospice segment adjusted EBITDA during the three and nine months ended September 30, 2024 compared to the same periods of 2023 was primarily due to increased *Net service revenue*.

Liquidity and Capital Resources

Our principal sources of short-term liquidity are our cash on hand and our revolving credit facility. We use these sources to fund working capital requirements, capital expenditures and acquisitions, and to service our debt. See “—*Contractual Obligations*” for more information about our material cash requirements from our contractual obligations at September 30, 2024.

As of September 30, 2024 and December 31, 2023, we had \$45.7 million and \$27.4 million, respectively, in *Cash and cash equivalents*. These amounts exclude \$1.7 million and \$2.4 million, respectively, in *Restricted cash*. Our *Restricted cash* pertains primarily to a joint venture in which our joint venture partner requested, and we agreed, the joint venture’s cash not be commingled with other corporate cash accounts. See Note 1, *Summary of Significant Accounting Policies—Cash and Cash Equivalents* and —*Restricted Cash*, to the consolidated financial statements included in the Form 10-K. As of September 30, 2024, we also had \$48.4 million available to us under the Revolving Credit Facility.

For additional information regarding our debt, see Note 4, *Long-Term Debt*, to the accompanying unaudited condensed consolidated financial statements and Item 3, “*Quantitative and Qualitative Disclosures About Market Risk*.”

The following table shows the cash flows provided by or used in operating, investing, and financing activities (in millions):

	Nine Months Ended September 30,	
	2024	2023
Net cash provided by operating activities	\$ 55.3	\$ 45.5
Net cash used in investing activities	(2.1)	(5.8)
Net cash used in financing activities	(35.6)	(31.7)
Increase in cash, cash equivalents, and restricted cash	<u>\$ 17.6</u>	<u>\$ 8.0</u>

Operating activities. The increase in *Net cash provided by operating activities* during the nine months ended September 30, 2024 as compared to 2023 primarily resulted from changes in working capital.

Investing activities. During the nine months ended September 30, 2024, *Net cash used in investing activities* primarily resulted from the purchases of property and equipment. During the nine months ended September 30, 2023, *Net cash used in investing activities* primarily resulted from purchases of property and equipment and the Specialty Home Health Care, Inc. acquisition in February 2023.

Financing activities. During the nine months ended September 30, 2024 and 2023, *Net cash used in financing activities* primarily resulted from repayments of borrowings under our credit facilities.

Our consolidated contractual obligations as of September 30, 2024 are as follows (in millions):

	Total	Current	Long-Term
Long-term debt obligations:			
Long-term debt, excluding revolving credit facility, finance lease obligations and unamortized debt issuance costs ⁽¹⁾	\$ 355.0	\$ 20.0	\$ 335.0
Revolving credit facility	165.0	—	165.0
Interest on long-term debt ⁽²⁾	115.6	38.5	77.1
Finance lease obligations ⁽¹⁾	9.0	3.4	5.6
Operating lease obligations ⁽³⁾	67.7	14.9	52.8
Purchase obligations ⁽⁴⁾	6.6	5.4	1.2
Total	\$ 718.9	\$ 82.2	\$ 636.7

- (1) We lease automobiles for our clinicians under finance leases. Amounts include the interest portion of future minimum finance lease payments. For more information, see Note 6, *Leases*, to the consolidated financial statements included in the Form 10-K.
- (2) Interest on long-term debt was calculated using the rate for the Term Loan A Facility as of September 30, 2024.
- (3) In addition to our corporate headquarters office space, our home health and hospice segments lease: (1) relatively small office spaces in the localities they serve; and (2) equipment in the normal course of business. Amounts include the interest portion of future minimum operating lease payments. For more information, see Note 6, *Leases*, to the consolidated financial statements included in the Form 10-K.
- (4) Purchase obligations include agreements to purchase goods or services that are enforceable and legally binding and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum, or variable price provisions; and the approximate timing of the transaction. Purchase obligations exclude agreements that are cancelable without penalty. Our purchase obligations primarily relate to software licensing and support. Purchase obligations are not recognized in our unaudited Condensed Consolidated Balance Sheet. For more information, see Note 6, *Contingencies and Other Commitments*, to the accompanying unaudited condensed consolidated financial statements.

Our capital expenditures include costs associated with computer hardware and licensing software we utilize to run our business, as well as leasehold improvements. During 2024, we expect to spend approximately \$5 million to \$7 million for capital expenditures. During the nine months ended September 30, 2024 and 2023, we made capital expenditures of \$3.2 million and \$3.6 million, respectively, for property and equipment and capitalized software. Actual amounts spent will be dependent upon the timing of projects for our business.

Critical Accounting Estimates

Except for the updates set forth below, there have been no material changes to our critical accounting estimates from those disclosed in Item 7, “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Estimates*,” in the Form 10-K.

During the three months ended September 30, 2024, we identified potential impairment triggering events in the quarter and determined a quantitative analysis of our two reporting units should be performed. Based on this quantitative analysis, we recorded an impairment charge of \$107.9 million for the three months ended September 30, 2024 to reflect a decrease in the carrying value of our home health reporting unit. For additional information regarding our *Goodwill*, see Note 3, *Goodwill and Other Intangible Assets*, to the accompanying unaudited condensed consolidated financial statements.

As a result of the impairment charge discussed above, we performed a sensitivity analysis by reporting unit and determined that, assuming all other assumptions and inputs used in the discounted cash flow analysis were held constant, a 50 basis point increase for home health and a 100 basis point increase for hospice in the discount rate assumption would result in decreases in the fair value of the Home Health and Hospice reporting units of approximately \$35 million and \$20 million, respectively. We based our fair value estimates on assumptions management believes to be reasonable but which are unpredictable and inherently uncertain. Actual future results may differ from those estimates.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our primary exposure to market risk is to changes in interest rates on our variable rate long-term debt. We use sensitivity analysis models to evaluate the impact of interest rate changes on our variable rate debt. As of September 30, 2024, our primary variable rate debt outstanding related to \$165.0 million in advances under our Revolving Credit Facility and \$355.0 million under our Term Loan A Facility.

On October 20, 2022, we entered into an interest rate swap. The interest rate swap has a \$200.0 million notional value and a maturity date of October 20, 2025. Beginning in October 2022, we receive the one-month SOFR and pay a fixed rate of interest of 4.3%. The impact of increases and decreases in interest rates on our cash flow discussed below includes the impact of the interest rate swap.

Assuming outstanding balances were to remain the same and including the impact of our interest rate swap agreement, a 1% increase in interest rates would result in an incremental negative cash flow of \$3.2 million over the next 12 months, while a 1% decrease in interest rates would result in an incremental positive cash flow of \$3.2 million over the next 12 months.

See Note 4, *Long-Term Debt*, to the accompanying unaudited condensed consolidated financial statements for additional information regarding our long-term debt.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms and (2) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2024. Based on the evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There were no changes during the quarter ended September 30, 2024 in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II - Other Information

Item 1. Legal Proceedings

We provide services in the highly regulated healthcare industry. In the ordinary course of our business, we are a party to various legal actions, proceedings, and claims as well as regulatory and other governmental audits and investigations. These matters could potentially subject us to sanctions, damages, recoupments, fines, and other penalties. Some of these matters have been material to us in the past, and others in the future may, either individually or in the aggregate, be material and adverse to our business, financial position, results of operations, and liquidity. We do not believe any of our pending legal proceedings are material to us, but there can be no assurance our assessment will not change based on future developments.

Additionally, the False Claims Act (the “FCA”) allows private citizens, called “relators,” to institute civil proceedings on behalf of the United States alleging violations of the FCA. These lawsuits, also known as “qui tam” actions, are common in the healthcare industry and can involve significant monetary damages, fines, attorneys’ fees and the award of bounties to the relators who successfully prosecute or bring these suits to the government. It is possible that qui tam lawsuits have been filed against us, which suits remain under seal, or that we are unaware of such filings or precluded by existing law or court order from discussing or disclosing the filing of such suits. Therefore, from time to time, we may be party to one or more undisclosed qui tam cases brought pursuant to the FCA.

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in Item 1A, “*Risk Factors*,” in the Form 10-K for the period ended December 31, 2023.

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

During the three months ended September 30, 2024, we purchased shares of our common stock as follows:

	<u>Total Number of Shares Purchased ⁽¹⁾</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans</u>	<u>Approximate Dollar Value of Shares That May Yet Be Purchased Under Our Share Repurchase Plans</u>
July 1 through July 31	3,734	\$ 8.75	—	—
August 1 through August 31	1,592	8.50	—	—
September 1 through September 30	—	—	—	—
Total	<u>5,326</u>	<u>\$ 8.68</u>	<u>—</u>	<u>—</u>

(1) Represents shares of common stock we repurchased to satisfy employee tax-withholding obligations in connection with the vesting of stock-based compensation awards.

Item 5. Other Information

None of the Company’s directors or officers adopted, modified or terminated a Rule 10b5-1 trading arrangement or a non-Rule 10b5-1 trading arrangement during the Company’s fiscal quarter ended September 30, 2024.

Item 6. Exhibits**EXHIBIT INDEX**

Exhibit Number	Exhibit Description
2.1	Separation and Distribution Agreement, dated as of June 30, 2022, by and between Encompass Health Corporation and Enhabit, Inc. (incorporated by reference to Exhibit 2.1 to Enhabit, Inc.'s Current Report on Form 8-K filed on July 5, 2022).
3.1	Amended and Restated Certificate of Incorporation of Enhabit, Inc. (incorporated by reference to Exhibit 3.1.2 to Enhabit, Inc.'s Current Report on Form 8-K filed on July 5, 2022).
3.2	Amended and Restated Bylaws of Enhabit, Inc. (incorporated by reference to Exhibit 3.2 to Enhabit, Inc.'s Quarterly Report on Form 10-Q for the three months ended September 30, 2022).
10.1	Separation and Release Agreement between Advanced Homecare Management, Inc. d/b/a Enhabit Home Health & Hospice and Crissy Carlisle, dated August 6, 2024 (incorporated by reference to Exhibit 10.1 to Enhabit, Inc.'s Current Report on Form 8-K filed on August 6, 2024).
10.2†	Enhabit, Inc. Director Deferred Compensation Plan.
31.1†	Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2†	Certification of Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1†	Certification of Chief 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 Chief 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†	XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document).
101.SCH†	Inline XBRL Taxonomy Extension Schema Document.
101.CAL†	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF†	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB†	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE†	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104†	Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document.

The exhibits marked with the cross symbol (†) are submitted electronically, herewith.

SIGNATURE

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.

ENHABIT, INC.

By: _____ */s/ Crissy B. Carlisle*
Crissy B. Carlisle
Chief Financial Officer

Date: November 8, 2024

ENHABIT, INC.

DIRECTOR DEFERRED COMPENSATION PLAN

Enhabit, Inc. hereby adopts, effective as of October 1, 2024, the Enhabit, Inc. Director Deferred Compensation Plan. The Plan provides Non-Employee Directors the opportunity to elect to receive Common Stock in lieu of Cash Compensation. The Plan also provides Non-Employee Directors the opportunity to defer payment of such Common Stock received in lieu of Cash Compensation in the form of DSUs, at their election, in accordance with the provisions hereof.

ARTICLE I

DEFINITIONS

For the purposes of the Plan, the following words and phrases shall have the meanings indicated in this Article. Certain other words and phrases are defined throughout the Plan and shall have the meaning so ascribed to them.

1. “**Account**” or “**Sub-Account**” shall mean the Account and Sub-Accounts established for a Participant pursuant to **Section 1** of **Article IV**.
 2. “**Beneficiary**” or “**Beneficiaries**” shall mean the person or persons designated by a Participant in accordance with the Plan to receive payment (in whole shares of Common Stock) of the remaining balance of the Participant’s Account in the event of the death of the Participant prior to receipt of the entire amount credited to the Participant’s Account.
 3. “**Board**” shall mean the Board of Directors of the Company.
 4. “**Cash Compensation**” shall mean cash compensation earned as a Non-Employee Director, including retainer and committee fees.
 5. “**Change in Control**” shall mean:
 - (i) the acquisition (other than from the Company) by any person, entity or “group” (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act, but excluding, for this purpose, the Company or its subsidiaries, or any employee benefit plan of the Company or its subsidiaries which acquires beneficial ownership of voting securities of the Company) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of thirty percent (30%) or more of either the then-outstanding shares of Common Stock or the combined voting power of the Company’s then-outstanding voting securities entitled to vote generally in the election of directors; or
 - (ii) during any period of up to twenty-four (24) consecutive months, individuals who at the beginning of such period constituted the Board (together with any new directors whose election by the Board or whose nomination for election by the stockholders of the Company was approved by a vote of a majority of the directors of the Company then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease to constitute at least a majority of the Board; or
 - (iii) the Company is liquidated or dissolved or adopts a plan of liquidation or dissolution; or
 - (iv) the consummation of a merger or consolidation of the Company with or into another person or the merger of another person with or into the Company, or the sale of all or substantially all the assets of the Company (determined on a consolidated basis) to another person, other than a transaction following which (A) in the case of a merger or consolidation transaction, holders of securities that represented one hundred percent (100%) of the combined voting power entitled to vote generally in the election of directors of the Company immediately prior to such transaction (or other securities into which such securities are converted as part of such merger or consolidation transaction) own directly or indirectly at least a majority of the combined voting power entitled to vote generally in the election of directors of the surviving person in such transaction immediately after such transaction and (B) in the case of a sale of assets, each transferee is owned by holders of securities that represented at least a majority of the combined voting power entitled to vote generally in the election of directors of the Company immediately prior to such sale.
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6. “**Code**” shall mean the Internal Revenue Code of 1986, as amended, and the regulations thereunder, as such law and regulations may be amended from time to time.
 7. “**Committee**” shall mean the Compensation & Human Capital Committee of the Board (or its successor), or such other committee of the Board as may be authorized by the Board to administer the Plan.
 8. “**Common Stock**” shall mean the common stock, par value \$0.01 per share, of the Company, or any other security into which the common stock shall be changed pursuant to the adjustment provisions of **Section 6** of **Article IV**.
 9. “**Common Stock Portion**” shall mean the portion of a Participant’s Cash Compensation that the Participant elects to receive in the form of Common Stock pursuant to **Section 1** of **Article II**, whether on a current or deferred basis.
 10. “**Company**” shall mean Enhabit, Inc. and its successors, including, without limitation, the surviving corporation resulting from any merger or consolidation of Enhabit, Inc. with any other corporation or corporations.
 11. “**Current Common Stock Portion**” shall mean the portion of a Participant’s Common Stock Portion that is not subject to a Deferral Election.
 12. “**Current Common Stock Portion Percentage**” shall mean the percentage of a Participant’s Cash Compensation that the Participant elects to receive in the form of Common Stock and does not elect to defer pursuant to a Deferral Election.
 13. “**Deferral Election**” shall mean the portion of the Election Agreement completed by a Participant and filed with the Company that indicates the percentage of his or her Common Stock Portion that is or will be deferred under the Plan in the form of DSUs for the applicable period.
 14. “**Deferred Common Stock Portion**” shall mean the portion of a Participant’s Common Stock Portion that the Participant elects to defer pursuant to a Deferral Election under the Plan.
 15. “**Deferred Common Stock Portion Percentage**” shall mean the percentage of a Participant’s Cash Compensation that the Participant elects to receive in the form of Common Stock and to defer pursuant to a Deferral Election under the Plan.
 16. “**Deferred Stock Unit**” or “**DSU**” shall mean the right to receive a share of Common Stock in the future with none of the attendant rights of a holder of such share, including, without limitation, the right to vote such share or the right to receive dividends thereon, except to the extent specifically provided herein.
 17. “**Election Agreement**” shall mean an agreement in the form that the Company may designate from time to time that is consistent with the terms of the Plan.
 18. “**Election Filing Date**” shall mean December 31 of the Year immediately prior to the first day of the Year for which Cash Compensation would otherwise be earned.
 19. “**ERISA**” shall mean the Employee Retirement Income Security Act of 1974, as amended.
 20. “**Exchange Act**” shall mean the Securities Exchange Act of 1934, as amended and the rules and regulations promulgated thereunder.
 21. “**Fair Market Value**” shall mean, as of any particular date, the closing price of a share of Common Stock on the trading day immediately preceding such date as reported on the New York Stock Exchange or, if the Common Stock is not then listed on the New York Stock Exchange, on any other national securities exchange on which the Common Stock is listed. If there is no regular public trading market for the Common Stock, then the Fair Market Value of a share of Common Stock will be the fair market value as determined in good faith by the Committee.
 22. “**Non-Employee Director**” shall mean any member of the Board who is not an employee of the Company or its affiliates.
 23. “**Omnibus Plan**” shall mean the Enhabit, Inc. 2022 Omnibus Performance Incentive Plan, as amended from time to time, or any successor plan.
 24. “**Participant**” shall mean any Non-Employee Director who has elected to receive Cash Compensation in the form of Common Stock (whether current or deferred) in accordance with the Plan.
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25. “**Payment Election**” shall mean the portion of the Election Agreement completed by a Participant and filed with the Company that indicates the timing of the payment of the Participant’s Deferred Common Stock Portion.
26. “**Plan**” shall mean this Enhabit, Inc. Director Deferred Compensation Plan, as amended or amended and restated from time to time.
27. “**Specified Employee**” shall mean a “specified employee” with respect to the Company (or a controlled group member) determined pursuant to procedures adopted by the Company in compliance with Section 409A of the Code and Treasury Regulation Section 1.409A-1(i) or any successor provision.
28. “**Termination of Service**” means a “separation from service” within the meaning of Treasury Regulation Section 1.409A-1(h)(2)(i).
29. “**Unforeseeable Emergency**” means an event that results in severe financial hardship to a Participant resulting from (a) an illness or accident of the Participant or his or her spouse, dependent (as defined in Section 152(a) of the Code), or Beneficiary, (b) loss of the Participant’s property due to casualty, or (c) other similar extraordinary and unforeseeable circumstances arising as of result of events beyond the control of the Participant.
30. “**Year**” shall mean a calendar year.

ARTICLE II

COMPENSATION ELECTIONS

1. Election to Receive Common Stock in Lieu of Cash. With respect to Cash Compensation payable to a Non-Employee Director with respect to any Year (each, a “**Covered Year**”), such Non-Employee Director may elect that all or a specified percentage of the Cash Compensation for such Covered Year be paid in the form of Common Stock under the Omnibus Plan, with the balance of such Cash Compensation (if any) being paid in cash (such election, the “**Stock Election**”). For purposes of this Section, (i) except as otherwise provided in the applicable Election Agreement, such Stock Election will be effective only for the Covered Year, and a Non-Employee Director who desires to make a Stock Election with respect to a subsequent Year must make such Stock Election for such subsequent Year, and (ii) if a Non-Employee Director fails to make a Stock Election for a Covered Year, then such Non-Employee Director’s Cash Compensation for such Covered Year shall be paid entirely in cash.
 2. Election of Current or Deferred Common Stock. A Participant may receive his or her Common Stock Portion with respect to any Year, elected pursuant to **Section 1** of this Article, in the form of shares of Common Stock paid at the time the related Cash Compensation would have otherwise been paid, or may elect to defer receipt of all or a specified portion of such Common Stock Portion in the form of DSUs by making a Deferral Election in the Participant’s Election Agreement. Any portion of a Participant’s Common Stock Portion that is subject to a Deferral Election will be subject to the provisions of **Article IV**, and any remaining portion of the Common Stock Portion will be subject to the provisions of **Article III**. If permitted by the Committee, an Election Agreement may provide that the Participant’s Deferral Election applicable to a Year shall continue to be effective for his or her Common Stock Portion for each Year thereafter until terminated or modified by filing a new Deferral Election.
 3. Procedure for Elections. Any Stock Election made pursuant to **Section 1** of this Article (including any Deferral Election made pursuant to **Section 2** of this Article) shall be (x) made on an Election Agreement filed with the Chief Human Resources Officer of the Company (or other Company administrative representative as may be designated by the Committee) and (y) made by, and shall be effective as of, the applicable Election Filing Date; provided, however, that an individual who first becomes eligible to participate in the Plan during the course of a Year, rather than as of the applicable Election Filing Date, shall make such Stock Election (and, if applicable, Deferral Election) within thirty days following the date the Non-Employee Director first becomes eligible to participate in the Plan (the “**Newly Eligible Window**”). Any Stock Election (and, if applicable, Deferral Election) made during a Newly Eligible Window shall be effective on the first day of the first complete calendar quarter commencing after the date of such Stock Election (and, if applicable, Deferral Election) with regard to Cash Compensation earned during such Year following the filing of the Election Agreement with the Company. For purposes of the preceding sentence, where an individual has ceased being eligible to participate in the Plan (other than the accrual of earnings), regardless of whether all amounts deferred under the Plan have been paid, and subsequently becomes eligible to participate in the Plan again, the individual shall be treated as being initially eligible to participate in the Plan if the individual had not been eligible to participate in the Plan (other than the accrual of earnings) at any time during the twenty-four month period ending on the date the individual again becomes eligible to participate in the Plan.
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4. Revoking an Election. Any Stock Election made pursuant to **Section 1** of this Article (and, if applicable, any Deferral Election made pursuant to **Section 2** of this Article) shall be, once effective, irrevocable. In order to revoke or modify a Stock Election or Deferral Election for any particular Year, a revocation or modification must be delivered to the Chief Human Resources Officer of the Company (or other Company administrative representative as was previously designated by the Committee) prior to the applicable deadline for making a Stock Election and Deferral Election under this Article (the Election Filing Date or the end of the Newly Eligible Window).

ARTICLE III

CURRENT COMMON STOCK IN LIEU OF CASH COMPENSATION

Amounts subject to a Participant's Current Common Stock Portion will be paid in the form of Common Stock at the time the related Cash Compensation would have otherwise been paid, and the number of shares of Common Stock so paid will be equal to (i) the Current Common Stock Portion Percentage, multiplied by (ii) the quotient (rounded to the nearest whole share) of (x) the dollar value of the Cash Compensation that would have otherwise been paid on such date, divided by (y) the Fair Market Value of one share of Common Stock on such date.

ARTICLE IV

DEFERRED STOCK UNITS IN LIEU OF CASH COMPENSATION

1. DSU Accounts. For each Participant who makes a Deferral Election, there shall be established on the books and records of the Company, for bookkeeping purposes only, a separate Account to reflect the Participant's interest under the Plan. Each Participant's Account shall consist of a separate Sub-Account for each Year with respect to which the Participant has elected to defer payment of his or her Common Stock Portion. The Account so established shall be maintained in accordance with the following in respect of each Deferral Election made pursuant to **Section 2** of **Article II**:
- (i) On each day that, absent such Deferral Election, Cash Compensation would be paid to the Participant for service as a Non-Employee Director, the Participant's Account and appropriate Sub-Account shall be credited with DSUs, the number of which shall be determined by multiplying (x) the Deferred Common Stock Portion Percentage by (y) the quotient (rounded to the nearest whole share) of (A) the dollar value of the Cash Compensation that would have otherwise been paid on such date, divided by (B) the Fair Market Value of one share of Common Stock on such date.
 - (ii) As of each date on which the Company pays a cash dividend on its Common Stock, each Participant's Account and appropriate Sub-Account shall be credited with additional DSUs (rounded to the nearest whole share), the number of which shall be determined by (A) multiplying the number of DSUs in the Participant's Account and appropriate Sub-Account on the record date for such dividend by the per-share amount of the dividend so paid, and (B) dividing the amount determined pursuant to clause (A) by the Fair Market Value of one share of Common Stock on the dividend payment date.
 - (iii) A Participant's interest in his or her Account and Sub-Accounts shall be fully vested and nonforfeitable at all times.
2. Payment Elections. A Participant who makes a Deferral Election pursuant to **Section 2** of **Article II** must also make a Payment Election with respect to the Deferred Common Stock Portion. Subject to **Sections 4** and **5** of this Article, all Payment Elections are irrevocable, shall be made on an Election Agreement filed with the Chief Human Resources Officer of the Company (or other Company administrative representative as may be designated by the Committee), and shall comply with the following requirements:
- (i) Each Payment Election shall contain the Participant's election regarding the time at which the payment of DSUs credited to the specific Sub-Account shall be made.
 - 1. A Participant may elect to receive payment (in whole shares of Common Stock) upon either (A) the date the Participant incurs a Termination of Service for any reason or (B) the earlier of the date otherwise specified by the Participant in the Election Agreement in accordance with election procedures established by the Committee in compliance with Section 409A of the Code and the date the Participant incurs a Termination of Service for any reason.
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2. Subject to **Section 2(iii)** of this Article, payments made in accordance with the Participant's election under **Section 2(i)(1)** of this Article shall be paid (in whole shares of Common Stock) within 90 days following the date triggering payment pursuant to the election under **Section 2(i)(1)**, provided that, in either case, the Participant shall not have the right to designate the Year of payment.
 - (ii) If the Payment Elections are not made by the applicable Election Filing Date or the date provided for under **Section 3** of **Article II**, if applicable, with respect to a Sub-Account, or are insufficient to be deemed effective as of such date, then the Participant shall be deemed to have elected to receive payment upon Termination of Service.
 - (iii) Notwithstanding the foregoing provisions of **Section 2** of this Article, if the Participant is a Specified Employee at the time of his or her Termination of Service, then any payment on account of Termination of Service that was scheduled to be made during the six-month period immediately following the Participant's Termination of Service shall be made on the first day of the seventh month after such Termination of Service (or, if earlier, the date of death). Any payments on account of Termination of Service that are scheduled to be paid more than six months after such Participant's Termination of Service shall not be delayed and shall be paid in accordance with provisions of **Section 3** of this Article.
 3. **Method of Payment.** A Participant's Account and Sub-Accounts under the Plan shall be paid at the time(s) provided for under this Article in a lump sum consisting of a number of whole shares of Common Stock equal to the total number of whole DSUs in the Account and Sub-Accounts that are payable at such time. Any DSUs settled in shares of Common Stock will be delivered under the Omnibus Plan or any other applicable stockholder-approved equity plan of the Company. There shall be deducted from the amount of any payment otherwise required to be made under the Plan all federal, state and local taxes required by law to be withheld by the Company, if any, with respect to such payment.
 4. **Death of a Participant.** In the event of the death of a Participant, the amount of the Participant's Account and Sub-Accounts shall be paid (in whole shares of Common Stock) to the Beneficiary or Beneficiaries designated in a writing on a form that the Company may designate from time to time (the "**Beneficiary Designation**") within 90 days of the day of death; provided, that the Beneficiary or Beneficiaries shall not have the right to designate the Year of payment. A Participant's Beneficiary Designation may be changed at any time prior to his or her death by the execution and delivery of a new Beneficiary Designation. The Beneficiary Designation on file with the Company that bears the latest date at the time of the Participant's death shall govern. In the absence of a Beneficiary Designation or the failure of any Beneficiary to survive the Participant, the amount of the Participant's Account and Sub-Accounts shall be paid (in whole shares of Common Stock) to the Participant's estate within 90 days of the day of death; provided that the representative of the estate shall not have the right to designate the Year of payment.
 5. **Change in Control; Unforeseeable Emergency.** Notwithstanding the foregoing provisions of this Article:
 - (iv) If a Change in Control occurs, the total amount of each Participant's Account and Sub-Accounts shall immediately be paid to the Participant in the form of a single, lump sum payment of whole shares of Common Stock; provided that if such Change in Control does not constitute a "change in the ownership or effective control" or a "change in the ownership of a substantial portion of the assets" of the Company within the meaning of Section 409A(a)(2)(A)(v) of the Code and Treasury Regulation Section 1.409A-3(i)(5), or any successor provision, then payment shall be made, to the extent necessary to comply with the provisions of Section 409A of the Code, to the Participant on the date (or dates) the Participant would otherwise be entitled to a distribution (or distributions) in accordance with the provisions of the Plan.
 - (v) In the event of an Unforeseeable Emergency and at the request of a Participant or Beneficiary, the Committee may in its sole discretion accelerate the payment (of whole shares of Common Stock) to the Participant or Beneficiary of all or a part of his or her Account or Sub-Accounts. Payments of amounts as a result of an Unforeseeable Emergency may not exceed the amount necessary to satisfy such Unforeseeable Emergency plus amounts necessary to pay taxes reasonably anticipated as a result of the distribution(s), after taking into account the extent to which the hardship is or may be relieved through reimbursement or compensation by insurance or otherwise by liquidation of the Participant's assets (to the extent the liquidation of such assets would not itself cause severe financial hardship).
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6. Adjustments. The Committee shall make or provide for such adjustments in the numbers of shares of Common Stock credited to Participants' Accounts and Sub-Accounts, and in the kind of such shares, as the Committee in its sole discretion, exercised in good faith, may determine is equitably required to prevent dilution or enlargement of the rights of Participants that otherwise would result from (i) any stock dividend, stock split, combination of shares, recapitalization or other change in the capital structure of the Company, or (ii) any merger, consolidation, spin-off, split-off, spin-out, split-up, reorganization, partial or complete liquidation or other distribution of assets, issuance of rights or warrants to purchase securities, or (iii) any other corporate transaction or event having an effect similar to any of the foregoing. Moreover, in the event of any such transaction or event, the Committee, in its discretion, may provide in substitution for any or all shares of Common Stock deliverable under the Plan such alternative consideration as it, in good faith, may determine to be equitable in the circumstances.
7. Fractional Shares. The Company shall not be required to issue any fractional shares of Common Stock pursuant to the Plan.

ARTICLE V

ADMINISTRATION

1. The Company, through the Committee, shall be responsible for the general administration of the Plan and for carrying out the provisions hereof. The Committee shall have all such powers as may be necessary to carry out the provisions of the Plan, including the power to (i) determine all questions relating to eligibility for participation in the Plan and the amount in the Account or Sub-Accounts of any Participant and all questions pertaining to claims for benefits and procedures for claim review, (ii) resolve all other questions arising under the Plan, including any questions of construction, and (iii) take such further action as the Committee shall deem advisable in the administration of the Plan. The actions taken and the decisions made by the Committee hereunder shall be final and binding upon all interested parties.
2. No member of the Committee shall be liable for any action, omission, or determination relating to the Plan, and the Company shall indemnify and hold harmless each member of the Committee and each other director or employee of the Company to whom any duty or power relating to the administration or interpretation of the Plan has been delegated, against any cost or expense (including counsel fees) or liability (including any sum paid in settlement of a claim with the approval of the Committee) arising out of any action, omission, or determination relating to the Plan, unless, in either case, such action, omission, or determination was taken or made by such member, director, or employee in bad faith and without reasonable belief that it was in the best interests of the Company.

ARTICLE VI

AMENDMENT AND TERMINATION

The Company reserves the right to amend or terminate the Plan at any time by action of the Board; provided, however, that no such action shall adversely affect any Participant or Beneficiary who has an Account, or result in the acceleration of payment of the amount of any Account (except as otherwise permitted under the Plan), without the consent of the Participant or Beneficiary; provided, further, that the consent requirement of Participants or Beneficiaries to certain actions shall not apply to any amendment or termination made by the Company pursuant to Section 8(iii) of Article VII. Notwithstanding the preceding sentence, the Committee, in its sole discretion, may terminate the Plan to the extent and in circumstances described in Treasury Regulation Section 1.409A-3(j)(4)(ix), or any successor provision.

ARTICLE VII

MISCELLANEOUS

1. Limitation on Stock Elections. Notwithstanding anything in the Plan to the contrary, in no event will a Non-Employee Director's Stock Election for a Year result in such Non-Employee Director receiving equity awards under the Omnibus Plan in such Year that exceed any applicable limit on non-employee director equity awards set forth in the Omnibus Plan. In furtherance of the foregoing, the Committee may approve a limit on the aggregate amount of a Non-Employee Director's Cash Compensation that may be subject to a Stock Election for any applicable Year, which limit shall be set forth in the applicable Election Agreement. To the extent that delivery of Common Stock or DSUs pursuant to a Non-Employee Director's Stock Election on any applicable date would cause any applicable limit on non-employee director equity awards under the Omnibus Plan to be exceeded, such excess portion will instead be
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deferred in the form of cash, and the terms of any Deferral Election with respect to such amount will otherwise apply with respect to the cash amount. In the event of such a cash deferral, the Committee may determine the method of payment and a deemed investment medium or interest rate with respect to such cash amount in compliance with Section 409A of the Code.

2. Non-alienation of Deferred Compensation. No right or interest under the Plan of any Participant or Beneficiary may be transferred or otherwise disposed of by a Participant or Beneficiary, including by way of sale, assignment, transfer, pledge, hypothecation or otherwise, except as permitted by the Plan or by the Committee, or by will or the laws of descent and distribution. No purported sale, assignment, mortgage, hypothecation, transfer, pledge, encumbrance, gift, transfer in trust (voting or other) or other disposition of, or creation of a security interest in or lien on, any such right or interest by any holder thereof in violation of the provisions of the Plan shall be valid.
 3. Interest of Director. The obligation of the Company under the Plan to make payment of amounts reflected in an Account merely constitutes the unsecured promise of the Company to make payments from its general assets, as provided herein, and no Participant or Beneficiary shall have any interest in, or a lien or prior claim upon, any property of the Company. It is the intention of the Company that the Plan be unfunded for tax purposes and for purposes of Title I of ERISA. The Company may create a trust to hold funds to be used in payment of its obligations under the Plan, and may fund such trust; provided, however, that any funds contained therein shall remain liable for the claims of the Company's general creditors and provided, further, that no amount shall be transferred to trust if, pursuant to Section 409A of the Code, such amount would, for purposes of Section 83 of the Code, be treated as property transferred in connection with the performance of services.
 4. Claims of Other Persons. The provisions of the Plan shall in no event be construed as giving any other person, firm or corporation any legal or equitable right as against the Company or any subsidiary or the officers, employees or Non-Employee Directors of the Company, except any such rights as are specifically provided for in the Plan or are hereafter created in accordance with the terms and provisions of the Plan.
 5. Severability. The invalidity and unenforceability of any particular provision of the Plan shall not affect any other provision hereof, and the Plan shall be construed in all respects as if such invalid or unenforceable provision were omitted herefrom.
 6. Governing Law. Except to the extent preempted by federal law, the provisions of the Plan shall be governed and construed in accordance with the laws of the State of Delaware.
 7. Relationship to Other Plans. The Plan is intended to serve the purposes of and to be consistent with the Omnibus Plan and any similar plan approved by the Committee for purposes of the Plan. The issuance or transfer of shares of Common Stock pursuant to the Plan shall be subject in all respects to the terms and conditions of the Omnibus Plan and any other such plan.
 8. Compliance with Section 409A of the Code.
 - (i) To the extent applicable, it is intended that the Plan (including all amendments thereto) comply with the provisions of Section 409A of the Code, so that the income inclusion provisions of Section 409A(a)(1) of the Code do not apply to the Participant or a Beneficiary. The Plan shall be administered in a manner consistent with this intent.
 - (ii) Neither a Participant nor any of a Participant's creditors or beneficiaries shall have the right to subject any deferred compensation (within the meaning of Section 409A of the Code) payable under the Plan to any anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment or garnishment. Except as permitted under Section 409A of the Code, any deferred compensation (within the meaning of Section 409A of the Code) payable to a Participant or for a Participant's benefit under the Plan may not be reduced by, or offset against, any amount owing by a Participant to the Company or any of its affiliates.
 - (iii) Notwithstanding any provision of the Plan to the contrary, in light of the uncertainty with respect to the proper application of Section 409A of the Code, the Company reserves the right to make amendments to the Plan as the Company deems necessary or desirable to avoid the imposition of taxes or penalties under Section 409A of the Code. In any case, a Participant shall be solely responsible and liable for the satisfaction of all taxes and penalties that may be imposed on a Participant or for a Participant's Account and Sub-Accounts in connection with the Plan (including any taxes and penalties under Section 409A of the Code), and neither the
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Company nor any of its affiliates shall have any obligation to indemnify or otherwise hold a Participant harmless from any or all of such taxes or penalties.

9. Headings: Interpretation.

- (i) Headings in the Plan are inserted for convenience of reference only and are not to be considered in the construction of the provisions hereof.
- (ii) Any reference in the Plan to Section 409A of the Code will also include any applicable proposed, temporary, or final regulations or any other applicable formal guidance promulgated with respect to such Section 409A of the Code by the U.S. Department of Treasury or the Internal Revenue Service. Further, any specific reference to a Code section or a Treasury Regulation section shall include any successor provision of the Code or the Treasury Regulation, as applicable.
- (iii) For purposes of the Plan, the phrase “permitted by Section 409A of the Code,” or words or phrases of similar import, shall mean that the event or circumstance that may occur or exist only if permitted by Section 409A of the Code would not cause an amount deferred or payable under the Plan to be includible in the gross income of a Participant or Beneficiary under Section 409A(a)(1) of the Code.

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO RULE 13a-14(a) AND RULE 15d-14(a) OF THE
SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Barbara A. Jacobsmeyer, certify that:

1. I have reviewed this Form 10-Q of Enhabit, 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: November 8, 2024

By: /s/ BARBARA A. JACOBSMEYER

Barbara A. Jacobsmeyer
President and Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO RULE 13a-14(a) AND RULE 15d-14(a) OF THE
SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Crissy B. Carlisle, certify that:

1. I have reviewed this Form 10-Q of Enhabit, 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: November 8, 2024

By: /s/ CRISSY B. CARLISLE

Crissy B. Carlisle
Chief Financial Officer

**CERTIFICATE OF CHIEF EXECUTIVE OFFICER
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 of Enhabit, Inc. on Form 10-Q for the period ended September 30, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Barbara A. Jacobsmeyer, President and Chief Executive Officer of Enhabit, Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

Date: November 8, 2024

By: /s/ BARBARA A. JACOBSMEYER

Barbara A. Jacobsmeyer
President and Chief Executive Officer

**CERTIFICATE OF CHIEF FINANCIAL OFFICER
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 of Enhabit, Inc. on Form 10-Q for the period ended September 30, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Crissy B. Carlisle, Chief Financial Officer of Enhabit, Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

Date: November 8, 2024

By: /s/ CRISSY B. CARLISLE

Crissy B. Carlisle
Chief Financial Officer