

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

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**FORM 10-Q**

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(Mark One)

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

**For the quarterly period ended September 30, 2022**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 001-34221**

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**ModivCare Inc.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**86-0845127**  
(I.R.S. Employer  
Identification No.)

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

**(303) 728-7030**  
(Registrant's telephone number, including area code)

**N/A**  
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer,"

“smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer   
Non-accelerated filer

Accelerated filer   
Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act.

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

As of October 28, 2022, there were 14,138,324 shares outstanding (excluding treasury shares of 5,427,999) of the registrant’s Common Stock, \$0.001 par value per share.

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**PART I—FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

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

	<u>September 30, 2022</u>	<u>December 31, 2021</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 72,703	\$ 133,139
Accounts receivable, net of allowance of \$2,670 and \$2,296, respectively	266,177	233,121
Other receivables	6,117	4,740
Prepaid expenses and other current assets	36,681	38,551
Restricted cash	28	283
Total current assets	381,706	409,834
Property and equipment, net	67,413	53,549
Goodwill	968,420	924,787
Payor network, net	408,147	425,516
Other intangible assets, net	51,643	64,697
Equity investment	43,477	83,069
Operating lease right-of-use assets	38,368	43,750
Other assets	30,671	22,223
Total assets	\$ 1,989,845	\$ 2,027,425
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 44,242	\$ 8,690
Accrued contract payables	243,800	281,586
Accrued transportation costs	90,114	103,294
Accrued expenses and other current liabilities	145,217	123,791
Current portion of operating lease liabilities	10,134	9,873
Total current liabilities	533,507	527,234
Long-term debt, net of deferred financing costs of \$21,699 and \$24,775, respectively	978,301	975,225
Deferred tax liabilities	62,666	94,611
Operating lease liabilities, less current portion	30,595	34,524
Other long-term liabilities	30,628	22,564
Total liabilities	1,635,697	1,654,158
Commitments and contingencies (Note 13)		
<b>Stockholders' equity</b>		
Common stock: Authorized 40,000,000 shares; \$0.001 par value; 19,632,749 and 19,589,422, respectively, issued and outstanding (including treasury shares)	20	20
Additional paid-in capital	436,839	430,449
Retained earnings	186,970	211,829
Treasury shares, at cost, 5,574,905 and 5,568,983 shares, respectively	(269,681)	(269,031)
Total stockholders' equity	354,148	373,267
Total liabilities and stockholders' equity	\$ 1,989,845	\$ 2,027,425

See accompanying notes to the unaudited condensed consolidated financial statements

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

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Service revenue, net	\$ 647,782	\$ 493,059	\$ 1,850,472	\$ 1,421,117
Grant income (Note 2)	789	—	4,587	3,500
Operating expenses:				
Service expense	534,563	399,272	1,498,108	1,139,170
General and administrative expense	75,889	68,205	232,108	179,595
Depreciation and amortization	25,672	12,608	74,376	36,667
Total operating expenses	636,124	480,085	1,804,592	1,355,432
Operating income	12,447	12,974	50,467	69,185
Other expenses:				
Interest expense, net	15,557	17,702	46,429	34,412
Income (loss) before income taxes and equity method investment	(3,110)	(4,728)	4,038	34,773
Provision (benefit) for income taxes	(1,053)	(2,001)	877	8,409
Equity in net loss of investee, net of tax	26,448	4,845	28,020	1,424
Net income (loss)	\$ (28,505)	\$ (7,572)	\$ (24,859)	\$ 24,940
Earnings (loss) per common share:				
Basic	\$ (2.03)	\$ (0.54)	\$ (1.77)	\$ 1.77
Diluted	\$ (2.03)	\$ (0.54)	\$ (1.77)	\$ 1.75
Weighted-average number of common shares outstanding:				
Basic	14,051,794	13,993,438	14,041,224	14,102,371
Diluted	14,051,794	13,993,438	14,041,224	14,278,331

See accompanying notes to the unaudited condensed consolidated financial statements

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

	<b>Nine months ended September 30,</b>	
	<b>2022</b>	<b>2021</b>
<b>Operating activities</b>		
Net income (loss)	\$ (24,859)	\$ 24,940
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	14,398	8,839
Amortization	59,978	27,828
Provision for doubtful accounts	(2,670)	(1,712)
Stock-based compensation	5,152	4,225
Deferred income taxes	(31,232)	(3,295)
Amortization of deferred financing costs and debt discount	3,878	2,175
Equity in net loss of investees	38,883	1,978
Reduction of right-of-use assets	8,680	8,681
Changes in operating assets and liabilities:		
Accounts receivable and other receivables	(28,507)	(69,597)
Prepaid expenses and other	(4,194)	(5,330)
Accrued contract payables	(37,786)	151,950
Accounts payable and accrued expenses	55,887	9,475
Accrued transportation costs	(13,180)	12,354
Other long-term liabilities	1,098	2,183
Net cash provided by operating activities	45,526	174,694
<b>Investing activities</b>		
Purchase of property and equipment	(25,518)	(13,852)
Acquisition, net of cash acquired	(78,872)	(667,228)
Net cash used in investing activities	(104,390)	(681,080)
<b>Financing activities</b>		
Proceeds from debt	100,000	625,000
Repayment of debt	(100,000)	(125,000)
Repurchase of common stock, for treasury	—	(39,040)
Debt issuance costs	(2,415)	(13,486)
Proceeds from common stock issued pursuant to stock option exercise	1,237	3,099
Restricted stock surrendered for employee tax payment	(649)	(851)
Net cash provided by (used in) financing activities	(1,827)	449,722
Net change in cash, cash equivalents and restricted cash	(60,691)	(56,664)
Cash, cash equivalents and restricted cash at beginning of period	133,422	183,356
Cash, cash equivalents and restricted cash at end of period	\$ 72,731	\$ 126,692

See accompanying notes to the unaudited condensed consolidated financial statements

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

<b>Supplemental cash flow information</b>	<b>Nine months ended September 30,</b>	
	<b>2022</b>	<b>2021</b>
Cash paid for interest	\$ 31,460	\$ 24,006
Cash paid for income taxes	\$ 4,159	\$ 12,846
Assets acquired under operating leases	\$ 3,298	\$ 21,829
Acquisitions:		
Purchase price	\$ 79,199	\$ 682,113
Less:		
Cash acquired	327	14,885
Acquisitions, net of cash acquired	\$ 78,872	\$ 667,228

See accompanying notes to the unaudited condensed consolidated financial statements

**ModivCare Inc.**  
**Unaudited Condensed Consolidated Statements of Stockholders' Equity**  
(in thousands, except share and per share data)

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

	Nine months ended September 30, 2021						
	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock		Total
	Shares	Amount			Shares	Amount	
Balance at December 31, 2020	19,570,598	\$ 20	\$ 421,318	\$ 218,414	5,287,283	\$ (228,141)	\$ 411,611
Net income	—	—	—	18,840	—	—	18,840
Stock-based compensation	—	—	1,149	—	—	—	1,149
Exercise of employee stock options	36,338	—	2,286	—	—	—	2,286
Restricted stock issued	15,821	—	—	—	—	—	—
Restricted stock surrendered for employee tax payment	—	—	—	—	4,253	(721)	(721)
Shares issued for bonus settlement and director stipends	260	—	38	—	—	—	38
Stock repurchase plan	—	—	—	—	94,235	(14,450)	(14,450)
Balance at March 31, 2021	19,623,017	\$ 20	\$ 424,791	\$ 237,254	5,385,771	\$ (243,312)	\$ 418,753
Net income	—	—	—	13,672	—	—	13,672
Stock-based compensation	—	—	1,416	—	—	—	1,416
Exercise of employee stock options	866	—	49	—	—	—	49
Restricted stock forfeited	(55,162)	—	—	—	—	—	—
Restricted stock surrendered for employee tax payment	—	—	—	—	713	(99)	(99)
Shares issued for bonus settlement and director stipends	324	—	56	—	—	—	56
Stock repurchase plan	—	—	—	—	175,173	(24,590)	(24,590)
Balance at June 30, 2021	19,569,045	\$ 20	\$ 426,312	\$ 250,926	5,561,657	\$ (268,001)	\$ 409,257
Net loss	—	—	—	(7,572)	—	—	(7,572)
Stock-based compensation	—	—	1,505	—	—	—	1,505
Exercise of employee stock options	12,296	—	765	—	—	—	765
Restricted stock forfeited	(455)	—	—	—	—	—	—
Restricted stock surrendered for employee tax payment	—	—	—	—	169	(31)	(31)
Shares issued for bonus settlement and director stipends	333	—	61	—	—	—	61
Balance at September 30, 2021	19,581,219	\$ 20	\$ 428,643	\$ 243,354	5,561,826	\$ (268,032)	\$ 403,985

See accompanying notes to the unaudited condensed consolidated financial statements



**ModivCare Inc.**  
**Notes to the Unaudited Condensed Consolidated Financial Statements**  
**September 30, 2022**

**1. Organization and Basis of Presentation**

***Description of Business***

ModivCare Inc. ("ModivCare" or the "Company") is a technology-enabled healthcare services company that provides a suite of integrated supportive care solutions for public and private payors and their patients. Its value-based solutions address the social determinants of health, or SDoH, connect members to care, help health plans manage risks, reduce costs, and improve outcomes. ModivCare is a provider of non-emergency medical transportation, or NEMT, personal care, and remote patient monitoring, or RPM, solutions, which serve similar, highly vulnerable patient populations.

The technology-enabled operating model includes NEMT core competencies in risk underwriting, contact center management, network credentialing, claims management and non-emergency medical transportation management. Additionally, its personal care services include placements of non-medical personal care assistants, home health aides and nurses primarily to Medicaid patient populations in need of care monitoring and assistance performing daily living activities in the home setting. ModivCare's remote patient monitoring services include personal emergency response systems, vitals monitoring and data-driven patient engagement solutions. ModivCare is further expanding its offerings to include meal delivery and working with communities to provide food-insecure individuals delivery of meals.

ModivCare also holds a 43.6% minority interest in CCHN Group Holdings, Inc. and its subsidiaries, which operates under the Matrix Medical Network brand, which we refer to as "Matrix". Matrix maintains a national network of community-based clinicians who deliver in-home and on-site services, and a fleet of mobile health clinics that provide community-based care with advanced diagnostic capabilities and enhanced care options.

***Basis of Presentation***

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

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

The Company has made estimates relating to the reporting of assets and liabilities, revenues and expenses, and certain disclosures in the preparation of these unaudited condensed consolidated financial statements in conformity with GAAP. Actual results could differ from those estimates. Operating results for the three and nine months ended September 30, 2022 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2022. Management has evaluated events and transactions that occurred after the balance sheet date and through the date these unaudited condensed consolidated financial statements were filed with the SEC and considered the effect of such events in the preparation of these unaudited condensed consolidated financial statements.

The unaudited condensed consolidated balance sheet at December 31, 2021 included in this Form 10-Q has been derived from audited financial statements at that date, but does not include all the information and footnotes required by GAAP for complete financial statements. The unaudited condensed consolidated financial statements contained herein should be read in conjunction with the audited financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

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

***Impact of the COVID-19 Pandemic***

Since March 2020, the COVID-19 pandemic and the measures enacted by state and government officials to prevent, prepare for, and respond to COVID-19 or slow its spread have had an ongoing adverse impact on the Company's business, as well as its patients, communities, and employees. With ongoing uncertainties around the duration and magnitude of the pandemic, the ultimate impact to the business remains uncertain. Accordingly, the COVID-19 pandemic could continue to have an adverse impact on the Company's financial statements with potential for (i) labor shortages or other disruptions that impact our ability to provide services, and (ii) decreased member comfort leaving the house to obtain transportation for non-emergency medical purposes; among other things. Despite ongoing uncertainties, the Company's priorities throughout the COVID-19 pandemic remain intact with emphasis on protecting the health and safety of its employees, maximizing the availability of its services and products to support the SDoH, and supporting the operational and financial stability of its business.

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

## **2. Significant Accounting Policies and Recent Accounting Pronouncements**

### ***Use of Estimates***

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

### ***Changes in Accounting Estimate***

In accordance with its policy, the Company reviews the estimated useful lives of its fixed assets and intangible assets on an ongoing basis. As a result of this review, the Company adjusted the estimated useful life of the Simplura trademarks and trade names intangible asset from 10 years to 3 years and adjusted the estimated useful life of the payor network from 15 years to 10 years effective as of January 1, 2022. This change was driven by strategic shifts in the Company's personal care segment operations, partially contributed to by the acquisition of Care Finders Total Care, LLC ("Care Finders"). Based on the intangible asset values as of December 31, 2021, the effect of the change in estimate during the three and nine months ended September 30, 2022 was an increase in amortization expense of \$3.6 million, a decrease in net income of \$2.4 million, and a decrease in earnings per share of \$0.17 per diluted common share outstanding, and an increase in amortization expense of \$10.7 million, a decrease in net income of \$8.4 million, and a decrease in earnings per share of \$0.60 per diluted common share outstanding, respectively.

### ***Government Grants***

The Company has received government grants under the CARES Act PRF and the ARPA SLFRF to provide economic relief and stimulus to combat health and economic impacts of the COVID-19 pandemic. Under these acts, the Company received distributions of approximately \$1.4 million during the three months ended September 30, 2022. No distributions were received during the three months ended September 30, 2021. The Company received distributions of approximately \$10.4 million and \$3.5 million during the nine months ended September 30, 2022 and September 30, 2021, respectively. Distributions received under these acts are targeted to assist with incremental health care related expenses or lost revenue attributable to the COVID-19 pandemic as well as provide stimulus to support long-term growth and recovery.

The payments from these acts are subject to certain restrictions and possible recoupment if not used for designated purposes. As a condition to receiving PRF distributions, providers must agree to certain terms and conditions, including that the funds are being used for healthcare related expenses and lost revenues attributable to COVID-19, as defined by the U.S. Department of Health and Human Services ("HHS"). All recipients of PRF payments are required to comply with the reporting requirements described in the terms and conditions and as determined by HHS. The Company has submitted the required

documents to meet reporting requirements through reporting period three, which ended September 30, 2022. The Company received an audit inquiry letter from HHS related to one of the business units that received PRF payments, to which the Company has responded and submitted all requested information and believes that the payments received are substantiated and within the terms and conditions defined by the HHS and continues to include these amounts as grant income. At this time, the Company is unaware of any other pending or upcoming audits or inquiries related to PRF received.

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

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

#### ***CARES Act Payroll Deferral***

The CARES Act also provides for certain federal income and other tax changes, including the deferral of the employer portion of Social Security payroll taxes. The Company has deferred payment of approximately \$12.3 million related to the deferral of employer payroll taxes as of September 30, 2022 and December 31, 2021 under the CARES Act which is recorded in accrued expenses on the unaudited condensed consolidated balance sheets. This balance is expected to be paid in the fourth quarter of 2022.

#### ***Recent Accounting Pronouncements***

The Company adopted the following accounting pronouncements during the nine months ended September 30, 2022:

In March 2020, the FASB issued ASU 2020-04, *Facilitation of the Effects of Reference Rate Reform on Financial Reporting* ("ASU 2020-04") which provides optional expedients and exceptions for applying GAAP to contract modifications, hedging relationships, and other transactions that reference the London Interbank Offered Rate ("LIBOR") or another reference rate expected to be discontinued due to reference rate reform. The relief granted in ASC 848, Reference Rate Reform ("ASC 848"), is applicable only to legacy contracts if the amendments made to the agreements are solely for reference rate reform activities. The provisions of ASC 848 must be applied for all transactions other than derivatives, which may be applied at a hedging relationship level. Entities may apply the provisions as of the beginning of the reporting period when the election is made (i.e. as early as the first quarter 2020). Unlike other topics, the provisions of this update are only available until December 31, 2022, when the reference rate replacement activity is expected to be completed. There was no material impact to the financial statements from the adoption of this ASU.

In October 2021, the FASB issued ASU 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers* ("ASU 2021-08"). The new guidance requires contract assets and contract liabilities acquired in a business combination to be recognized and measured by the acquirer on the acquisition date in accordance with ASC 606, *Revenue from Contracts with Customers*, as if it had originated the contracts. Under the current business combinations guidance, such assets and liabilities are recognized by the acquirer at fair value on the acquisition date. ASU 2021-08 is effective for public business entities for fiscal years beginning on or after November 1, 2023, including interim periods therein. The standard will not impact acquired contract assets or liabilities from business combinations occurring prior to the effective date of adoption, and the impact in future periods will depend on the contract assets and contract liabilities acquired in future business combinations. The Company has elected to early adopt this accounting standard and notes that there was no material impact to the financial statements from the adoption of this ASU.

### **3. Acquisitions**

#### **Business Combinations**

##### ***Care Finders Total Care, LLC***

On September 14, 2021, the Company acquired Care Finders which is a personal care provider in the Northeast, with operations in New Jersey, Pennsylvania, and Connecticut. The acquisition of Care Finders broadens access to in-home personal care solutions for patients and supports the Company's strategy to expand its personal care platform.

The equity transaction was accounted for in accordance with ASC 805, *Business Combinations* in which a wholly-owned subsidiary of the Company acquired 100.0% of the equity securities of Care Finders for \$333.4 million (a purchase price of \$344.8 million less \$11.4 million of cash that was acquired).

The following table summarizes information from the allocation of the consideration transferred to acquired identifiable assets and assumed liabilities, net of cash acquired, as of the acquisition date of September 14, 2021 (in thousands):

Cash	\$	11,424
Accounts receivable <sup>(1)</sup>		14,708
Prepaid expenses and other <sup>(2)</sup>		2,625
Property and equipment <sup>(3)</sup>		2,527
Inventories <sup>(4)</sup>		231
Operating right of use asset <sup>(5)</sup>		1,939
Intangibles <sup>(6)</sup>		100,750
Goodwill <sup>(7)</sup>		232,103
Other assets <sup>(8)</sup>		226
Accounts payable <sup>(9)</sup>		(2,720)
Accrued expenses and other accrued liabilities <sup>(9)</sup>		(14,344)
Operating lease liability <sup>(5)</sup>		(1,939)
Deferred tax liabilities <sup>(10)</sup>		(2,327)
Other liabilities <sup>(9)</sup>		(378)
<b>Total of assets acquired less liabilities assumed</b>	<b>\$</b>	<b>344,825</b>

- (1) Management has valued accounts receivable based on the estimated future collectability of the receivables portfolio.
- (2) Given the short-term nature of the balance of prepaid expenses, the carrying value represents the fair value.
- (3) The acquired property and equipment consists primarily of capitalized software, computer equipment, and automobiles.
- (4) Given the short-term nature of the balance of inventories, the carrying value represents the fair value.
- (5) The fair value of the operating lease liability and corresponding right-of-use asset (current and long-term) was recorded at \$1.9 million based on market rates available to the Company during the purchase price allocation.
- (6) The allocation of consideration exchanged for intangible assets acquired is as follows (in thousands):

	Type	Useful Life	Value
Payor network	Amortizable	7 years	\$ 97,200
Trade name	Amortizable	3 years	1,950
Non-compete agreement	Amortizable	5 years	1,600
			<u>\$ 100,750</u>

The Company valued the payor network utilizing the multi-period excess earnings method, trade names utilizing the relief-from-royalty method and the non-compete agreement utilizing the with/without method.

- (7) The acquisition initially resulted in \$232.2 million of goodwill as a result of expected synergies due to future customers driven by expansion into different markets, an increase in market share, and a growing demographic that will need home care solutions. In the third quarter of 2022, goodwill decreased by \$0.1 million as a result of changes to accounts payable and deferred tax liabilities, as discussed in detail below. All of the acquired goodwill is deductible for tax purposes.
- (8) Included in other assets are security deposits with a value of \$0.2 million.
- (9) Due to the short-term nature of the accounts, the carrying value is assumed to represent the fair value for accounts payable as well as certain other current and non-current liabilities as of the acquisition date. In the third quarter of 2022, it was determined that an additional \$0.2 million of accounts payable existed as of the acquisition date, and therefore, the initial balance of \$2.5 million was increased to \$2.7 million.

- (10) Net deferred tax liabilities represent the expected future tax consequences of temporary differences between the fair values of the assets acquired and liabilities assumed and their tax basis. In the third quarter of 2022, deferred tax liabilities of \$2.6 million decreased by \$0.3 million due to tax impacts of the acquisition.

#### VRI Intermediate Holdings, LLC

On September 22, 2021, the Company acquired VRI, a provider of remote patient monitoring solutions that manages a comprehensive suite of services including personal emergency response systems, vitals monitoring and data-driven patient engagement solutions. The acquisition of VRI accelerates the Company's strategy to build a holistic suite of supportive care solutions that address SDoH, introduces new technology-enabled in-home solutions that deepen the Company's engagement with payors and patients, and adds a new suite of services and operating team to advance the Company's broader technology and data strategy.

The stock transaction was accounted for in accordance with ASC 805, *Business Combinations* in which a wholly-owned subsidiary of the Company acquired 100.0% of the equity securities of VRI for \$314.6 million (a purchase price of \$317.5 million less \$2.9 million of cash that was acquired).

The following table summarizes the allocation of the consideration transferred to acquired identifiable assets and assumed liabilities, net of cash acquired, as of the acquisition date of September 22, 2021 (in thousands):

Cash	\$	2,922
Accounts receivable <sup>(1)</sup>		6,800
Inventory <sup>(2)</sup>		1,684
Prepaid expenses and other <sup>(3)</sup>		805
Property and equipment <sup>(4)</sup>		14,908
Intangible assets <sup>(5)</sup>		75,590
Goodwill <sup>(6)</sup>		236,317
Accounts payable and accrued liabilities <sup>(7)</sup>		(1,884)
Accrued expense <sup>(7)</sup>		(2,487)
Deferred revenue <sup>(7)</sup>		(67)
Deferred tax liabilities <sup>(8)</sup>		(17,070)
Total of assets acquired less liabilities assumed	\$	<u>317,518</u>

- (1) Management has valued accounts receivable based on the estimated future collectability of the receivables portfolio.
- (2) Given the short-term nature of the balance of inventories, the carrying value represents the fair value.
- (3) Given the short-term nature of the balance of prepaid expenses, the carrying value represents the fair value.
- (4) The acquired property and equipment consists primarily of personal emergency response system devices, with the remainder consisting of computer equipment, buildings and other equipment. The Company valued the personal emergency response system devices, computer equipment and other equipment utilizing the cost approach at \$12.7 million. The carrying value of the remainder of the property, plant and equipment, consisting primarily of buildings and land, is assumed to represent the fair value.
- (5) The allocation of consideration exchanged for intangible assets acquired is as follows (in thousands):

	Type	Useful Life	Value
Payor network	Amortizable	7 years	\$ 72,150
Trade name	Amortizable	3 years	890
Developed technology	Amortizable	3 years	2,550
			<u>\$ 75,590</u>

The Company valued the payor network utilizing the multi-period excess earnings method, trade names utilizing the relief-from-royalty method and developed technology utilizing the cost approach.

- (6) The acquisition initially resulted in \$236.7 million of goodwill as a result of expected synergies due to future customers driven by expansion into different markets and an increase in market share. In the third quarter of 2022, goodwill decreased by \$0.4 million due to a decrease in deferred tax liabilities, as discussed in more detail below. The related goodwill is not deductible for tax purposes.

- (7) Due to the short-term nature of the accounts, the carrying value is assumed to represent the fair value for accounts payable as well as certain other current and non-current liabilities as of the acquisition date.
- (8) Net deferred tax liabilities represent the expected future tax consequences of temporary differences between the fair values of the assets acquired and liabilities assumed and their tax basis. In the third quarter of 2022, deferred tax liabilities of \$17.5 million decreased by \$0.4 million due to tax impacts of the acquisition.

### **Guardian Medical Monitoring**

On May 11, 2022, the Company acquired Guardian Medical Monitoring ("GMM"), a provider of remote patient monitoring solutions that manages a comprehensive suite of services including personal emergency response systems and medication management. The acquisition of GMM supports the Company's strategy to expand its RPM segment and enhances the Company's suite of supportive care solutions that address SDoH.

The stock transaction was accounted for in accordance with ASC 805, *Business Combinations* in which a wholly-owned subsidiary of the Company acquired 100.0% of the equity securities of GMM for \$71.3 million (a purchase price of \$71.6 million less \$0.3 million of cash that was acquired).

The following is a preliminary estimate of the allocation of the consideration transferred to acquired identifiable assets and assumed liabilities, net of cash acquired, as of the acquisition date of May 11, 2022 (in thousands):

Cash	\$	327
Accounts receivable <sup>(1)</sup>		2,548
Prepaid expenses and other <sup>(2)</sup>		770
Property and equipment <sup>(3)</sup>		2,744
Intangible assets <sup>(4)</sup>		21,950
Goodwill <sup>(5)</sup>		44,113
Accounts payable <sup>(6)</sup>		(281)
Accrued expenses and other current liabilities <sup>(6)</sup>		(577)
<b>Total of assets acquired less liabilities assumed</b>	<b>\$</b>	<b>71,594</b>

The acquisition method of accounting requires us to record the assets acquired and liabilities assumed at their fair values as of the date of acquisition, which requires management to use currently available information to make estimates and assumptions. The Company believes that the available information provides a reasonable basis for estimating the fair values of assets acquired and liabilities assumed, however, if new information becomes available related to facts that existed at the acquisition date, preliminary estimates may be adjusted. Upon finalization of the preliminary items noted below, there may be related adjustments to certain of such items and to goodwill and income taxes.

- (1) Management has valued accounts receivable based on the estimated future collectability of the receivables portfolio. In the third quarter of 2022, it was determined that \$0.4 million of the initial accounts receivable balance was uncollectible, and therefore, the initial balance of \$2.9 million was decreased to \$2.5 million. This estimate is preliminary as the Company's evaluation of the collectability of receivables is ongoing.
- (2) Given the short-term nature of the balance of prepaid expenses and other assets, the carrying value represents the fair value.
- (3) The acquired property and equipment consists primarily of personal emergency response system devices, with the remainder consisting of computer equipment and furniture and fixtures. The Company valued the personal emergency response system devices utilizing the cost approach. The carrying value of the remainder of the property, plant and equipment, consisting primarily of computer equipment and furniture and fixtures, is assumed to represent the fair value. Management's assessment of the fair value for PP&E is ongoing.
- (4) The preliminary allocation of consideration exchanged for intangible assets acquired is as follows (in thousands):

	Type	Useful Life	Value
Payor network	Amortizable	7 years	\$ 21,600
Trade name	Amortizable	2 years	350
			<b>\$ 21,950</b>

The Company valued the payor network utilizing the multi-period excess earnings method and trade names utilizing the relief-from-royalty method.

- (5) The acquisition preliminarily resulted in \$43.7 million of goodwill as a result of expected synergies due to future customers driven by expansion into different markets and an increase in market share. In the third quarter of 2022, accounts receivable was adjusted down by \$0.4 million which caused a corresponding increase to goodwill for a total goodwill balance of \$44.1 million. The amount of goodwill deductible for tax purposes has yet to be determined.
- (6) Due to the short-term nature of the accounts, the carrying value is assumed to represent the fair value for accounts payable and accrued expenses and other current liabilities as of the acquisition date.

**Pro Forma Financial Information (unaudited)**

Assuming Care Finders, VRI, and GMM had been acquired as of January 1, 2021, and the results of each had been included in operations beginning on January 1, 2021, the following table provides estimated unaudited pro forma results of operations for the three and nine months ended September 30, 2022 and September 30, 2021 (in thousands, except earnings per share). The estimated pro forma net income adjusts for the effect of fair value adjustments related to each of the acquisitions, transaction costs and other non-recurring costs directly attributable to the transactions and the impact of the additional debt to finance the applicable acquisitions.

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Revenue	\$ 647,782	\$ 552,342	\$ 1,850,472	\$ 1,616,115
Income (loss) from continuing operations, net	(9,714)	(13,442)	(7,242)	12,439
Diluted earnings (loss) per share	\$ (0.69)	\$ (0.96)	\$ (0.52)	\$ 0.87

Estimated unaudited pro forma information is not necessarily indicative of the results that actually would have occurred had the acquisitions been completed on the date indicated or of future operating results. The supplemental pro forma earnings were adjusted to exclude the impact of historical interest expense of Care Finders and VRI of \$1.1 million and \$1.0 million, respectively, for the three months ended September 30, 2021 and \$3.7 million and \$3.2 million, respectively, for the nine months ended September 30, 2021.

Acquisition-related costs of approximately \$0.4 million and \$2.0 million for the three and nine months ended September 30, 2022 for GMM were expensed as incurred, recorded in selling, general and administrative expenses and are reflected in the pro forma table above at the assumed acquisition date. Acquisition-related costs consisted of professional fees for advisory, consulting, and underwriting services as well as other incremental costs directly related to the acquisition.

**Asset Acquisition**

On May 30, 2022, the Company entered into an asset purchase agreement with a private entity to purchase certain customer contracts. Pursuant to the purchase agreement, the contracts were acquired for total preliminary consideration of \$7.6 million in cash, subject to certain adjustments.

The transaction was accounted for as an asset acquisition in accordance with ASC 805, *Business Combinations*. The preliminary fair value of the net consideration is fully allocated to a payor network intangible asset recorded at the personal care segment and will be amortized over a period of 6 years.

#### 4. Segments

The Company's reportable segments are identified based on a number of factors related to how its chief operating decision maker ("CODM") determines the allocation of resources and assesses the performance of the Company's operations. The Company's CODM manages the Company under four reportable segments.

The Company's reportable segments are strategic units that offer different services under different financial and operating models to the Company's customers. The segments are managed separately because each requires different technology and marketing strategies. Furthermore, the different segments were each generally acquired as a unit, with the management of each at the time of acquisition retained to continue to operate their respective businesses.

The Company has determined each of the separate reportable segments based on the difference in services provided by each of the segments as provided in further detail below:

- **NEMT** - The Company's NEMT segment is its legacy segment and operates primarily under the brands ModivCare Solutions and Circulation. The NEMT segment is the largest manager of non-emergency medical transportation programs for state governments and managed care organizations, or MCOs, in the U.S. This segment also holds the results of the Company's captive insurance program.
- **Personal Care** - The Company's Personal Care segment began operations in November 2020 with the acquisition of Simplura and expanded in September 2021 with the acquisition of Care Finders. The Personal Care segment operates under the brands Simplura and Care Finders and provides personal care to State and Managed Medicaid, Medicare, and Private Pay patient populations in need of care monitoring and assistance performing activities of daily living;
- **RPM** - The Company's RPM segment began operations in September 2021 with the acquisition of VRI and expanded in May 2022 with the acquisition of GMM. The RPM segment operates under the VRI brand and is a provider of remote patient monitoring solutions, including personal emergency response systems, vitals monitoring and data-driven patient engagement solutions;
- **Corporate and Other** - Effective January 1, 2022, the Company completed its segment reorganization which resulted in the addition of a Corporate and Other segment that includes the costs associated with the Company's corporate operations. The operating results of the Corporate and Other segment include activities related to executive, accounting, finance, internal audit, tax, legal and certain strategic and corporate development functions for each segment, as well as the results of the Matrix investment. Prior to the segment reorganization, we reported the investment in Matrix as a separate operating segment, however based on the relative size of the Matrix investment and all related activity to the overall financial statements, the CODM no longer views it as a separate operating segment but reviews results in conjunction with the other corporate results of the business. The Company reclassified certain costs associated with this reorganization for the three and nine months ended September 30, 2021, to conform to this presentation.

The Company evaluates performance and allocates resources based on the operating income of the reportable segments, which includes an allocation of corporate expenses directly attributable to the specific segment and includes revenues and all other costs directly attributable to the specific segment.

The following table sets forth certain financial information from continuing operations attributable to the Company's business segments for the three and nine months ended September 30, 2022 and 2021 (in thousands):



**Three months ended September 30, 2022**

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

**Nine months ended September 30, 2022**

	NEMT	Personal Care	RPM	Corporate and Other	Total
Service revenue, net	\$ 1,309,449	\$ 491,661	\$ 49,362	\$ —	\$ 1,850,472
Grant income <sup>(1)</sup>	—	4,587	—	—	4,587
Service expense	1,100,801	379,423	17,884	—	1,498,108
General and administrative expense	102,736	68,536	17,520	43,316	232,108
Depreciation and amortization	21,576	37,976	14,201	623	74,376
Operating income (loss)	<u>\$ 84,336</u>	<u>\$ 10,313</u>	<u>\$ (243)</u>	<u>\$ (43,939)</u>	<u>\$ 50,467</u>
Equity in net loss (income) of investee, net of tax	\$ (143)	\$ —	\$ —	\$ 28,163	\$ 28,020
Equity investment	\$ 208	\$ —	\$ —	\$ 43,269	\$ 43,477
Goodwill <sup>(2)</sup>	\$ 135,186	\$ 552,775	\$ 280,429	\$ 30	\$ 968,420
Total assets	\$ 517,930	\$ 962,425	\$ 402,929	\$ 106,561	\$ 1,989,845

- (1) Grant income for the Personal Care segment includes funding received on a periodic basis from the PRF in relation to relief under the CARES Act and funding received from the SLFRF under ARPA in relation to economic recovery to combat health and economic impacts of the COVID-19 pandemic. See Note 2, *Significant Accounting Policies and Recent Accounting Pronouncements*.
- (2) In May 2022, the Company completed the acquisition of GMM which is included within the RPM segment. The Company recorded goodwill of \$43.7 million related to the acquisition during the second quarter of 2022. During the third quarter of 2022, the Company recorded an increase in GMM goodwill of \$0.4 million and a decrease in VRI goodwill of \$0.4 million related to measurement period adjustments as discussed in Note 3, *Acquisitions*, for a total GMM goodwill balance of \$44.1 million and a total VRI goodwill balance of \$236.3 million. Additionally, during the third quarter of 2022, the Company recorded a net decrease in goodwill of \$0.1 million in the Personal Care segment related to measurement period adjustments at the Care Finders subsidiary as discussed in Note 3, *Acquisitions*.

**Three months ended September 30, 2021**

	NEMT	Personal Care	RPM	Corporate and Other	Total
Service revenue, net	\$ 372,992	\$ 118,503	\$ 1,564	\$ —	\$ 493,059
Grant income <sup>(1)</sup>	—	—	—	—	—
Service expense	304,398	94,107	767	—	399,272
General and administrative expense	29,875	15,802	216	22,312	68,205
Depreciation and amortization	7,496	4,912	200	—	12,608
Operating income (loss)	<u>\$ 31,223</u>	<u>\$ 3,682</u>	<u>\$ 381</u>	<u>\$ (22,312)</u>	<u>\$ 12,974</u>
Equity in net loss of investee, net of tax	\$ —	\$ —	\$ —	\$ 4,845	\$ 4,845
Equity investment	\$ —	\$ —	\$ —	\$ 134,353	\$ 134,353
Goodwill	\$ 135,186	\$ 565,886	\$ 228,884	\$ 30	\$ 929,986
Total assets	\$ 552,912	\$ 1,037,886	\$ 343,277	\$ 201,078	\$ 2,135,153

**Nine months ended September 30, 2021**

	NEMT	Personal Care	RPM	Corporate and Other	Total
Service revenue, net	\$ 1,081,168	\$ 338,385	\$ 1,564	\$ —	\$ 1,421,117
Grant income <sup>(1)</sup>	—	3,500	—	—	3,500
Service expense	869,470	268,933	767	—	1,139,170
General and administrative expense	85,961	45,606	216	47,812	179,595
Depreciation and amortization	21,744	14,723	200	—	36,667
Operating income (loss)	<u>\$ 103,993</u>	<u>\$ 12,623</u>	<u>\$ 381</u>	<u>\$ (47,812)</u>	<u>\$ 69,185</u>
Equity in net loss of investee, net of tax	\$ —	\$ —	\$ —	\$ 1,424	\$ 1,424
Equity investment	\$ —	\$ —	\$ —	\$ 134,353	\$ 134,353
Goodwill	\$ 135,186	\$ 565,886	\$ 228,884	\$ 30	\$ 929,986
Total assets	\$ 552,912	\$ 1,037,886	\$ 343,277	\$ 201,078	\$ 2,135,153

**5. Revenue Recognition**

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

**Revenue Contract Structure**

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

Under capitated contracts, payors pay a fixed amount per eligible member per month. Capitation rates are generally based on expected costs and volume of services. We assume the responsibility of meeting the covered healthcare related transportation requirements based on per-member per-month fees for the number of eligible members in the payor's program. Revenue is recognized based on the population served during the period. Certain capitated contracts have provisions for reconciliations, risk corridors or profit rebates. For contracts with reconciliation provisions, capitation payment is received as a prepayment during the month service is provided. These prepayments are periodically reconciled based on actual cost and/or trip volume and may result in refunds to the payor, or additional payments due from the payor. Contracts with risk corridor or profit rebate provisions allow for profit within a certain corridor and once we reach profit level thresholds or maximums, we discontinue recognizing revenue and instead record a liability within the accrued contract payable account. This liability may be

reduced through future increases in trip volume or periodic settlements with the payor. While a profit rebate provision could only result in a liability from this profit threshold, a risk corridor provision could potentially result in receivables if the Company does not reach certain profit minimums, which would be recorded in the reconciliation contract receivables account.

#### *NEMT Fee-for-service Contracts*

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

#### *Personal Care Fee-for-service Contracts*

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

#### *RPM per-member-per-month Contracts*

RPM per-member-per-month ("PMPM") revenue consists of revenue from monitoring services provided to the customer. Under RPM contracts, payors pay per-enrolled-member-per-month based on enrolled membership. Consideration is generally fixed for each type of monitoring service and the contracts do not typically contain variable components of consideration. As such, the RPM segment recognizes revenue based on the monthly fee paid by customers.

#### *Disaggregation of Revenue by Contract Type*

The following table summarizes disaggregated revenue from contracts with customers by contract type for the three and nine months ended September 30, 2022 and September 30, 2021 (in thousands):

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
NEMT capitated contracts	\$ 399,859	\$ 311,913	\$ 1,145,694	\$ 916,976
NEMT FFS contracts	59,937	61,079	163,755	164,192
<b>Total NEMT revenue</b>	<b>459,796</b>	<b>372,992</b>	<b>1,309,449</b>	<b>1,081,168</b>
Personal Care FFS contracts	169,226	118,503	491,661	338,385
RPM PMPM contracts	18,760	1,564	49,362	1,564
<b>Total service revenue, net</b>	<b>\$ 647,782</b>	<b>\$ 493,059</b>	<b>\$ 1,850,472</b>	<b>\$ 1,421,117</b>

#### *Payor Information*

Service revenue, net, is derived from state and managed Medicaid contracts, managed Medicare contracts, as well as a small amount from private pay and other contracts. Of the NEMT segment's revenue, 10.4% and 10.8% were derived from one payor for the three months ended September 30, 2022 and 2021, respectively, and 11.0% and 9.7% were derived from one payor for the nine months ended September 30, 2022 and 2021, respectively. Of the Personal Care segment's revenue, 12.1% and 12.0% were derived from one payor for the three months ended September 30, 2022 and 2021, respectively, and 12.0% and 13.0% were derived from one payor for the nine months ended September 30, 2022 and 2021, respectively. Of the RPM segment's revenue, 18.4% was derived from one payor for the three months ended September 30, 2022, and 20.4% was derived from one payor for the nine months ended September 30, 2022. As the RPM segment was established on September 22, 2021, the concentration of revenue is not meaningful for the three and nine months ended September 30, 2021.

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
State and Managed Medicaid contracts	\$ 547,423	\$ 441,802	\$ 1,565,738	\$ 1,274,660
Managed Medicare contracts	92,228	44,074	254,835	125,571
Private pay and other contracts	8,131	7,183	29,899	20,886
Total service revenue, net	\$ 647,782	\$ 493,059	\$ 1,850,472	\$ 1,421,117

### Revenue Adjustments

During the three months ended September 30, 2022 and 2021, the Company recognized an increase of \$1.7 million and a reduction of \$0.1 million in service revenue, respectively, from contractual adjustments relating to performance obligations satisfied in previous periods to which the payor agreed. During the nine months ended September 30, 2022 and 2021, the Company recognized an increase of \$6.5 million and \$0.2 million in service revenue, respectively, from contractual adjustments relating to performance obligations satisfied in previous periods to which the payor agreed.

### Related Balance Sheet Accounts

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

	September 30, 2022	December 31, 2021
Accounts receivable	\$ 208,787	\$ 210,937
Reconciliation contracts receivable <sup>(1)</sup>	60,060	24,480
Allowance for doubtful accounts	(2,670)	(2,296)
Accounts receivable, net	\$ 266,177	\$ 233,121

- (1) Reconciliation contracts receivable primarily represent underpayments and receivables on certain contracts with reconciliation and risk corridor provisions. See the contract payables and receivables activity below.

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

	September 30, 2022	December 31, 2021
Accrued contract payables <sup>(1)</sup>	\$ 243,800	\$ 281,586
Deferred revenue, current	\$ 2,213	\$ 2,714

- (1) Accrued contract payables primarily represent overpayments and liability reserves on certain risk corridor, profit rebate and reconciliation contracts.

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

	December 31, 2021	Additional Amounts Recorded	Amounts Paid or Settled	September 30, 2022
Reconciliation contract payables	\$ 22,035	\$ 15,675	\$ (13,011)	\$ 24,699
Profit rebate/corridor contract payables	246,424	59,129	(99,123)	206,430
Overpayments and other cash items	13,127	7,529	(7,985)	12,671
Total contract payables	\$ 281,586	\$ 82,333	\$ (120,119)	\$ 243,800
Reconciliation contract receivables	\$ 24,403	\$ 37,838	\$ (15,848)	\$ 46,393
Corridor contract receivables	77	13,590	—	13,667
Total reconciliation contract receivables	\$ 24,480	\$ 51,428	\$ (15,848)	\$ 60,060

## 6. Equity Investment

As of September 30, 2022 and December 31, 2021, the Company owned a 43.6% non-controlling interest in Matrix. Pursuant to a Shareholder's Agreement, affiliates of Frazier Healthcare Partners hold rights necessary to control the fundamental operations of Matrix. The Company accounts for its investment in Matrix under the equity method of accounting and the Company's share of Matrix's income or losses are recorded as "Equity in net (income) loss of investee" in the accompanying unaudited condensed consolidated statements of operations. During the three and nine months ended September 30, 2022, Matrix recorded asset impairment charges of \$82.2 million and during the year ended December 31, 2021, Matrix recorded asset impairment charges of \$111.4 million. No asset impairment charges were recorded for the three and nine months ended September 30, 2021.

The Company's gross share of its Matrix's operations for the three months ended September 30, 2022 and September 30, 2021 was a loss of \$36.1 million and a loss of \$6.7 million, respectively, which is presented net of tax on the unaudited condensed consolidated statements of operations for a loss of \$26.7 million and a loss of \$4.8 million, respectively. For the nine months ended September 30, 2022 and September 30, 2021, the Company's gross share of its investment in Matrix was a loss of \$39.0 million and a loss of \$2.0 million, respectively, which is presented net of tax on the unaudited condensed consolidated statements of operations for a loss of \$28.2 million and a loss of \$1.4 million, respectively.

The carrying amount of the assets included in the Company's unaudited condensed consolidated balance sheets and the maximum loss exposure related to the Company's interest in Matrix as of September 30, 2022 and December 31, 2021 totaled \$43.5 million and \$83.1 million, respectively.

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

	September 30, 2022		December 31, 2021	
Current assets	\$	110,892	\$	124,081
Long-term assets	\$	381,096	\$	482,063
Current liabilities	\$	44,557	\$	57,048
Long-term liabilities	\$	330,794	\$	340,448

	Three months ended September 30,		Nine months ended September 30,					
	2022	2021	2022	2021				
Revenue	\$	76,461	\$	78,458	\$	235,582	\$	316,830
Operating income (loss)	\$	(79,992)	\$	(16,833)	\$	(81,604)	\$	3,324
Net loss	\$	(85,081)	\$	(15,627)	\$	(93,211)	\$	(7,143)

## 7. Prepaid Expenses and Other Current Assets

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

	September 30, 2022		December 31, 2021	
Prepaid insurance	\$	8,331	\$	9,487
Deferred ERP implementation costs		6,390		3,003
Deferred financing costs on credit facility		3,249		1,480
Prepaid income taxes		2,709		13,848
Inventory		1,864		1,458
Other prepaid expenses		14,138		9,275
Total prepaid expenses and other current assets	\$	36,681	\$	38,551

## 8. Accrued Expenses and Other Current Liabilities

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

	September 30, 2022	December 31, 2021
Accrued compensation and related liabilities <sup>(1)</sup>	\$ 52,107	\$ 54,564
Accrued interest	24,239	12,826
Accrued operating expenses	16,378	14,457
Insurance reserves	15,972	10,152
Accrued legal fees	11,016	5,081
Accrued government grants <sup>(2)</sup>	5,439	1,514
Union pension obligation	4,952	6,629
Deferred revenue	2,213	2,714
Deferred acquisition payments	50	3,578
Other	12,851	12,276
Total accrued expenses and other current liabilities	<u>\$ 145,217</u>	<u>\$ 123,791</u>

- (1) Accrued compensation and related liabilities include deferred payroll taxes, which are deferred as a result of the CARES Act. The CARES Act provides for certain federal income and other tax changes, including the deferral of the employer portion of Social Security payroll taxes. See Note 2, *Significant Accounting Policies and Recent Accounting Pronouncements*.
- (2) Accrued government grants include payments received from government entities in relation to the PRF and SLFRF to offset lost revenue or increased expenditures for which the related expenditure has not yet been incurred and thus the related payments are deferred as of as of September 30, 2022 and December 31, 2021.

## 9. Debt

### Senior Unsecured Notes

Senior unsecured notes as of September 30, 2022 and December 31, 2021 consisted of the following (in thousands):

Senior Unsecured Note	Date of Issuance	September 30, 2022	December 31, 2021
\$500.0 million 5.875% due November 15, 2025	11/4/2020	\$ 490,399	\$ 488,368
\$500.0 million 5.000% due October 1, 2029	8/24/2021	\$ 487,902	\$ 486,857

The Company pays interest on the Senior Unsecured Notes semi-annually in arrears. Principal payments are not required until the maturity date. Debt issuance costs of \$14.5 million in relation to the issuance of the Senior Notes due 2025 were incurred and these costs were deferred and are amortized to interest cost over the term of the Notes. Debt issuance costs of \$13.5 million were incurred in relation to the issuance of the Senior Notes due 2029 and these costs were deferred and are amortized to interest cost over the term of the Notes. As of September 30, 2022, \$21.7 million of unamortized deferred issuance costs was netted against the long-term debt balance on the unaudited condensed consolidated balance sheets. The Company was in compliance with all covenants as of September 30, 2022.

### Credit Facility

On February 3, 2022, the Company entered into a new credit agreement (the "New Credit Agreement") with JPMorgan Chase Bank, N.A., as administrative agent, swing line lender and an issuing bank, Wells Fargo Bank, National Association, as an issuing bank, Truist Bank and Wells Fargo Bank, National Association, as co-syndication agents, Deutsche Bank AG New York Branch, Bank of America, N.A., Regions Bank, Bank of Montreal and Capital One, National Association, as co-documentation agents, and JPMorgan Chase Bank, N.A., Truist Securities, Inc. and Wells Fargo Securities, LLC, as joint bookrunners and joint lead arrangers, and the other lenders party thereto. The New Credit Agreement provides the Company with a senior secured revolving credit facility (the "New Credit Facility") in an aggregate principal amount of \$325.0 million. The New Credit Facility includes sublimits for swingline loans, letters of credit and alternative currency loans in amounts of up to \$25.0 million, \$60.0 million and \$75.0 million, respectively. The Company did not draw any amount of the New Credit Facility at closing of the New Credit Agreement. As of September 30, 2022, the Company had \$38.0 million of outstanding

letters of credit under the New Credit Facility. The proceeds of the New Credit Facility may be used (i) to finance working capital needs of the Company and its subsidiaries and (ii) for general corporate purposes of the Company and its subsidiaries (including to finance capital expenditures, permitted acquisitions and investments). The New Credit Facility replaces the Credit Facility under the Credit Agreement, which was terminated concurrently with the Company's entry into the New Credit Agreement.

Under the New Credit Facility, the Company has an option to request an increase in the amount of the New Credit Facility or obtain incremental term loans from time to time (on substantially the same terms as apply to the existing facilities) by an aggregate amount of up to \$175.0 million, plus an unlimited amount so long as the pro forma secured net leverage ratio does not exceed 3.50:1.00, with either additional commitments from lenders under the New Credit Agreement at such time or new commitments from financial institutions approved by the Company and the administrative agent (which approval is not to be unreasonably withheld), so long as, at the time of any such increase, no default or event of default exists, the representations and warranties of the Company set forth in the New Credit Agreement are true and correct in all material respects and the Company is in pro forma compliance with the financial covenants in the New Credit Agreement. The Company may not be able to access additional funds under this increase option as no lender is obligated to participate in any such increase under the New Credit Facility.

The New Credit Facility matures on February 3, 2027. The Company may prepay the New Credit Facility in whole or in part, at any time without premium or penalty, subject to reimbursement of the lenders' breakage and redeployment costs in connection with prepayments of Term Benchmark loans or RFR loans, each as defined in the New Credit Agreement. The unutilized portion of the commitments under the New Credit Facility may be irrevocably reduced or terminated by the Company at any time without penalty.

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

The New Credit Agreement contains customary representations and warranties, affirmative and negative covenants and events of default. The negative covenants include restrictions on the Company's ability to, among other things, incur additional indebtedness, create liens, make investments, give guarantees, pay dividends, sell assets and merge and consolidate. The Company is subject to financial covenants, including total net leverage and interest coverage covenants.

The Company's obligations under the New Credit Facility are guaranteed by all of the Company's present and future material domestic subsidiaries, excluding certain material domestic subsidiaries that are excluded from being guarantors pursuant to the terms of the New Credit Agreement. The Company's obligations under, and each guarantor's obligations under its guaranty of, the New Credit Facility are secured by a first priority lien on substantially all of the Company's or such guarantor's respective assets. If an event of default occurs, the required lenders may cause the administrative agent to declare all unpaid principal and any accrued and unpaid interest and all fees and expenses under the New Credit Facility to be immediately due and payable. All amounts outstanding under the New Credit Facility will automatically become due and payable upon the commencement of any bankruptcy, insolvency or similar proceedings. The New Credit Agreement also contains a cross default to any of the Company's indebtedness having a principal amount in excess of \$40.0 million. The Company was in compliance with all covenants under the Credit Agreement as of September 30, 2022.

## **10. Stock-Based Compensation and Similar Arrangements**

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

*Stock options.* The Company recognized a reversal of previously recognized stock-based compensation expense for non-qualified stock options ("NQs") of \$0.3 million during the three months ended September 30, 2022 due to forfeitures that occurred during the period and the Company recognized stock-based compensation expense for NQs of \$0.5 million for the three months ended September 30, 2021 in general and administrative expense. For the nine months ended September 30, 2022 and 2021, the Company recognized stock-based compensation expense for NQs of \$1.0 million and \$1.5 million, respectively, in general and administrative expense. At September 30, 2022, the Company had 209,075 stock options outstanding with a weighted-average exercise price of \$97.30.

*Restricted stock and restricted stock units.* The Company recognized stock-based compensation expense for restricted stock awards ("RSAs") and restricted stock units ("RSUs") of \$0.7 million and \$1.0 million for the three months ended September 30, 2022 and 2021, respectively, and \$3.5 million and \$2.5 million for the nine months ended September 30, 2022 and 2021, respectively, in general and administrative expense. The Company had 13,137 unvested RSAs and 85,369 unvested RSUs outstanding at September 30, 2022 with a weighted-average grant date fair value of \$94.44 and \$113.19, respectively.

*Performance-based share awards.* These awards include RSUs and were initially issued in the first quarter of 2022. The purpose of these awards is to align management's compensation with the Company's financial performance and other operational objectives and to retain key employees. Awards granted under this category are based on the achievement of various targeted metrics as defined by the Plan. Stock-based compensation expense related to these performance-based share awards ("PRSUs") is recognized over the 3-year vesting period under the straight-line attribution method. Related to the PRSUs, the Company recorded a reversal of \$0.2 million of previously recognized stock-based compensation expense for the three months ended September 30, 2022 due to forfeitures that occurred during the period and recorded \$0.6 million of stock-based compensation expense for the nine months ended September 30, 2022, with the remaining portion expected to be recognized over the remainder of the 3-year requisite service period. The Company had 18,663 unvested PRSUs outstanding at September 30, 2022 with a weighted-average grant date fair value of \$153.17.

In the second quarter of 2022, an Employee Stock Purchase Program ("ESPP") was approved by the Board of Directors and the Company's shareholders, which will allow employees to purchase Company stock at a discounted rate. The first offering period will begin in the fourth quarter of 2022.

## 11. Earnings (Loss) Per Share

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

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
<b>Numerator:</b>				
Net income (loss)	\$ (28,505)	\$ (7,572)	\$ (24,859)	\$ 24,940
<b>Denominator:</b>				
Denominator for basic earnings per share -- weighted-average shares	14,051,794	13,993,438	14,041,224	14,102,371
Effect of dilutive securities:				
Common stock options	—	—	—	130,221
Restricted stock	—	—	—	45,739
Denominator for diluted earnings per share -- adjusted weighted-average shares assumed conversion	14,051,794	13,993,438	14,041,224	14,278,331
<b>Earnings (loss) per share:</b>				
Basic earnings (loss) per share	\$ (2.03)	\$ (0.54)	\$ (1.77)	\$ 1.77
Diluted earnings (loss) per share	\$ (2.03)	\$ (0.54)	\$ (1.77)	\$ 1.75

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



	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Stock options to purchase common stock	115,686	49,158	123,534	53,550

### ***Purchases of Equity Securities***

On March 8, 2021, the Board of Directors authorized a stock repurchase program under which the Company could repurchase up to \$75.0 million in aggregate value of the Company’s Common Stock through December 31, 2021, unless terminated earlier. Through September 30, 2021, 269,407 shares were repurchased under the program for \$39.0 million. The program ended December 31, 2021. No repurchase program was authorized as of September 30, 2022.

### **12. Income Taxes**

The Company’s effective tax rate for the three months ended September 30, 2022 and 2021 was a tax benefit of 33.9% and 42.3%, respectively. The effective tax rate for the nine months ended September 30, 2022 and 2021 was a tax provision of 21.7% and 24.2%, respectively. For the three and nine months ended September 30, 2022 and 2021, the effective tax rates were higher than the U.S. federal statutory rate of 21.0% primarily due to state income taxes and nondeductible expenses.

### **13. Commitments and Contingencies**

#### ***Legal proceedings***

In the ordinary course of business, the Company may from time to time be or become involved in various lawsuits. Unless otherwise expressly stated, management does not expect any ongoing lawsuits involving the Company to have a material impact on the business, liquidity, financial condition, or results of operations of the Company.

On August 6, 2020, LogistiCare Solutions, LLC, the Company’s subsidiary now known as ModivCare Solutions, LLC (“ModivCare Solutions”), was served with a putative class action lawsuit filed against it by Mohamed Farah, the owner of transportation provider Dalmar Transportation, in the Western District of Missouri, seeking to represent all non-employee transportation providers contracted with ModivCare Solutions. The lawsuit alleges claims under the Fair Labor Standards Act of 1938, as amended (the “FLSA”), and the Missouri Minimum Wage Act, and asserts that all transportation providers to ModivCare Solutions in the putative class should be considered ModivCare Solutions’ employees rather than independent contractors. On June 6, 2021, the Court conditionally certified as the putative class all current and former In Network Transportation Providers who, individually or through their companies, were issued 1099 payments from ModivCare Solutions for providing non-emergency medical transportation services for ModivCare Solutions for the previous three years. Notice of the proposed collective class was issued on October 5, 2021, and potential members of the class had until January 3, 2022 to opt-in. Plaintiff moved for class certification on August 15, 2022, and ModivCare Solutions filed an opposition to class certification on September 6, 2022. ModivCare Solutions believes it will be able to successfully oppose class certification of this action after discovery and in any event intends to defend itself vigorously with respect to this matter, believes that it is and has been in compliance in all material respects with the laws and regulations regarding the characterization of the transportation providers as independent contractors, and does not believe that the ultimate outcome of this matter will have a material adverse effect on the Company’s business, liquidity, financial condition or results of operations.

On January 21, 2019, the United States District Court for the Southern District of Ohio unsealed a qui tam complaint, filed in December 2015, against Mobile Care Group, Inc., Mobile Care Group of Ohio, LLC, Mobile Care EMS & Transport, Inc. (collectively, the “Mobile Care Entities”) and ModivCare Solutions by Brandee White, Laura Cunningham, and Jeffery Wisier (the “Relators”) alleging that the Mobile Care Entities and indirectly ModivCare Solutions violated the federal False Claims Act by presenting claims for payment to government healthcare programs knowing that the prerequisites for such claims to be paid had not been met. The Relators sought to recover damages, fees and costs under the federal False Claims Act, including treble damages, civil penalties and attorneys’ fees. None of the Relators were employed by ModivCare Solutions. The federal government declined to intervene against ModivCare Solutions. ModivCare Solutions filed a motion to dismiss the Complaint on April 22, 2019, but such motion was denied on October 26, 2021. ModivCare Solutions filed an interlocutory appeal of this ruling with the Sixth Circuit Court of Appeals which was subsequently denied. The Relators and Modivcare tentatively agreed to settle the Relators’ substantive claims in September 2022 and continue discussions concerning the Relators’ counsel’s attorney fees. The settlement will not have a material adverse effect on the Company’s business, liquidity, financial condition or results of operations.

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

#### **14. Subsequent Events**

The Company has evaluated events and transactions subsequent to the Company's unaudited condensed consolidated balance sheet date and prior to the date of issuance. Based on this evaluation, the Company is not aware of any events or transactions that occurred subsequent to the unaudited condensed consolidated balance sheet date and prior to the date of issuance that would require recognition or disclosure in these financial statements.

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

The following discussion should be read in conjunction with our unaudited condensed consolidated financial statements and accompanying notes for the three and nine months ended September 30, 2022 and 2021 included herein, as well as our audited consolidated financial statements and accompanying notes and management’s discussion and analysis of financial condition and results of operations included in our Form 10-K for the year ended December 31, 2021. For purposes of “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” references to “Q3 2022” and “Q3 2021” mean the three months ended September 30, 2022 and the three months ended September 30, 2021, respectively.

### Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Rule 175 promulgated thereunder, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and Rule 3b-6 promulgated thereunder, including statements related to the Company’s strategies or expectations about revenues, liabilities, results of operations, cash flows, ability to fund operations, profitability, ability to meet financial covenants, contracts or market opportunities. These statements are predictive in nature and are frequently identified by the use of terms such as “may,” “will,” “should,” “expect,” “believe,” “estimate,” “intend,” and similar words indicating possible future expectations, events or actions. In addition, statements that are not historical statements of fact should also be considered forward-looking statements. Such forward-looking statements are based on current expectations, assumptions, estimates and projections about our business and our industry, and are not guarantees of our future performance. These statements are subject to a number of known and unknown risks, uncertainties and other factors, many of which are beyond our ability to control or predict, that may cause actual events to be materially different from those expressed or implied herein. Among such risks, uncertainties and other factors are those summarized under the caption “[Summary Risk Factors](#)” in Part I, and described in further detail under the caption “[Risk Factors](#)” in Part I, Item 1A, of our Annual Report on Form 10-K filed with the Securities and Exchange Commission, or SEC, for the fiscal year ended December 31, 2021. Hyperlinks to such sections of our Annual Report are contained in the text included within the quotation marks.

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

### Overview of Our Business

ModivCare Inc. (“ModivCare” or the “Company”) is a technology-enabled healthcare services company that provides a suite of integrated supportive care solutions for public and private payors and their patients. Its value-based solutions address the social determinants of health, or SDoH, connect members to care, help health plans manage risks, reduce costs, and improve outcomes. ModivCare is a provider of non-emergency medical transportation, or NEMT, personal care, and remote patient monitoring, or RPM, solutions, which serve similar, highly vulnerable patient populations.

The technology-enabled operating model includes NEMT core competencies in risk underwriting, contact center management, network credentialing, claims management and non-emergency medical transportation management. Additionally, its personal care services include placements of non-medical personal care assistants, home health aides and nurses primarily to Medicaid patient populations in need of care monitoring and assistance performing daily living activities in the home setting, including senior citizens and disabled adults. ModivCare’s remote patient monitoring services include personal emergency response systems, vitals monitoring and data-driven patient engagement solutions. ModivCare is further expanding its offerings to include meal delivery and working with communities to provide food-insecure individuals delivery of meals.

ModivCare also holds a 43.6% minority interest in CCHN Group Holdings, Inc. and its subsidiaries, which operates under the Matrix Medical Network brand and which we refer to as “Matrix”. Matrix maintains a national network of community-based clinicians who deliver in-home and on-site services, and a fleet of mobile health clinics that provide community-based care with advanced diagnostic capabilities and enhanced care options.

## Business Outlook and Trends

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

- an aging population, which is expected to increase demand for healthcare services and transportation and, accordingly, in-home personal care services;
- increasing prevalence of chronic illnesses that require active and ongoing monitoring of health data which can be accomplished at a lower cost and result in better health outcomes through remote patient monitoring services;
- a movement towards value-based care versus fee-for-service and cost plus care and budget pressure on governments, both of which may increase the use of private corporations to provide necessary and innovative services;
- increasing demand for in-home care provision, driven by cost pressures on traditional reimbursement models and technological advances enabling remote engagement, including remote monitoring and similar internet-based health related services;
- technological advancements, which may be utilized by us to improve services and lower costs, but may also be utilized by others, which may increase industry competitiveness; and
- State Medicaid programs, Medicaid Managed Care Organizations (“MCOs”) and Medicare Advantage plans increasingly are covering NEMT services for a variety of reasons, including increased access to care, improved patient compliance with treatment plans, social trends, and to promote SDoH, and this trend may be accelerated or reinforced by The Consolidated Appropriations Act of 2021 ("H.R.133"), a component of which mandates that state Medicaid programs ensure that Medicaid beneficiaries have necessary transportation to and from health care providers.

Since March 2020 and primarily as a result of the COVID-19 pandemic, we have observed a material reduction in trip volume in our NEMT segment as a result of state imposed public health orders and other pandemic impacts that have driven structural changes in the industry, predominantly related to an increase in the utilization of telehealth and virtual care. This reduction in trip volume has had a negative financial impact on our transportation providers and may impact the availability of transportation providers in the future given the heightened sanitation requirements imposed on drivers and depressed volume.

Our Personal Care segment has experienced and is expected to continue to experience a material reduction in volume of service hours and visits. Volume has been reduced as members put services on hold due to infection concerns, and/or because they had the alternative of receiving care from family members and other caregivers working remotely. Additionally, the strain on healthcare professionals as a result of the pandemic has led to a shortage of caregivers which will continue to impact the volume of service hours that can be provided. These depressed volumes will continue to result in lower than expected revenue, at least in the near term, in the Personal Care segment.

Our RPM segment has not experienced a direct material impact to operations or financial activity as a result of the COVID-19 pandemic. While this segment of the business has proven resilient given the increase in demand for remote healthcare services in a highly contagious infection environment, potential risks could arise that could have a material impact on the financial results of the segment. Specifically, given the strain on the healthcare professionals that serve the healthcare community, we could experience shortages in qualified medical professionals that support our remote care monitoring business.

Furthermore, the impact of the COVID-19 pandemic is continuously evolving, and the continuation of the pandemic, any additional resurgence, or COVID-19 variants could continue to change trends in the market.

Our business environment is a highly competitive and volatile market and based on current results, may not realize their long-term forecast. The Company continues to monitor the performance of the business versus the long-term forecast, among other relevant considerations, to determine if any impairments exist. Our management has continued to refine their business strategy throughout the year in order to address the highly competitive and volatile business environment but there are no guarantees that such efforts will result in the Company meeting their long-term forecast. Accordingly, the Company believes there is an elevated risk of impairment.

## Critical Accounting Estimates and Policies

There have been no significant changes to our critical accounting policies in our unaudited condensed consolidated financial statements from our Form 10-K for the year ended December 31, 2021. For further discussion of our critical accounting policies, see management’s discussion and analysis of financial condition and results of operations contained in our Form 10-K for the year ended December 31, 2021.

## Change in Accounting Estimate

During the first quarter, the Company completed an assessment of the useful lives of our intangible assets and adjusted the estimated useful life of the Simplura trademarks and trade names intangible asset from 10 years to 3 years and adjusted the estimated useful life of the payor network from 15 years to 10 years effective as of January 1, 2022. This change was driven by strategic shifts in the Company's personal care segment operations, partially contributed to by the acquisition of Care Finders. Based on the intangible asset values as of December 31, 2021, the effect of the change in estimate during the three and nine months ended September 30, 2022 was an increase in amortization expense of \$3.6 million, a decrease in net income of \$2.4 million, and a decrease in earnings per share of \$0.17 per diluted common share outstanding, and an increase in amortization expense of \$10.7 million, a decrease in net income of \$8.4 million, and a decrease in earnings per share of \$0.60 per diluted common share outstanding, respectively.

## **Results of Operations**

The following results of operations include the accounts of ModivCare Inc. and our subsidiaries for the three and nine months ended September 30, 2022.

### **Revenues**

*Service revenue, net.* Service revenue for our NEMT segment includes contracts predominately with state Medicaid agencies and MCOs for the coordination of their members' non-emergency transportation needs. Most contracts are capitated, which means we are paid on a per-member, per-month basis for each eligible member. For most contracts, we arrange for transportation of members through our network of independent transportation providers, whereby we negotiate rates and remit payment to the transportation providers. However, for certain contracts, we assume no risk for the transportation network, credentialing and/or payments to these providers. For these contracts, we only provide administrative management services to support the customers' efforts to serve their clients.

Certain other contracts are structured as fee-for-service ("FFS") in which we bill and collect a specified amount for each service that we provide. FFS revenue is recognized in the period in which the services are rendered and is reduced by the estimated impact of contractual allowances and policy discounts in the case of third-party payors.

Service revenue for our Personal Care segment includes hours incurred by our in-home caregivers that are billed to our customers. Our customers consist of third-party payors including, but not limited to, MCOs, hospitals, Medicaid agencies and programs and other home health care providers who subcontract the services of our caregivers.

Service revenue for our RPM segment includes the sale of monitoring equipment to our third-party distributors as well as hours incurred by our Clinical Team for providing monitoring services that are billed to our customers. Our customers consist of national and regional health plans, government-funded benefit programs, healthcare provider organizations, and individuals.

### **Grant Income**

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

### **Operating Expenses**

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

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

*Depreciation and amortization expense.* Depreciation within this caption includes infrastructure items such as computer hardware and software, office equipment, monitoring and vitals equipment, buildings, and leasehold improvements. Amortization expense is generated primarily from amortization of our intangible assets, including payor networks, trade names, developed technology, a non-compete agreement, an assembled workforce, and a New York LHCSA permit.

#### **Other Expenses**

*Interest expense, net.* Interest expense consists principally of interest payments made during the period ended September 30, 2022 on the Company's borrowings outstanding at September 30, 2022 under the Credit Facility and Senior Unsecured Notes, and amortization of deferred financing fees. Refer to the "Liquidity and Capital Resources" section below for further discussion of these borrowings.

*Equity in net loss (income) of investee, net of tax.* Equity in earnings of equity method investee consists of our proportionate share of equity earnings or losses from our Matrix equity investment, presented net of related taxes.

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

#### **Results of Operations**

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

We operate four reportable business segments: NEMT, Personal Care, RPM, and Corporate and Other. Effective January 1, 2022, the Company completed its segment reorganization which resulted in the addition of a Corporate and Other segment that includes the costs associated with the Company's corporate operations. The operating results of the Corporate and Other segment include activities related to executive, accounting, finance, internal audit, tax, legal and certain strategic and corporate development functions for each segment, as well as the results of the Matrix investment. Prior to the segment reorganization, we reported the investment in Matrix as a separate operating segment, however based on the relative size of the Matrix investment and all related activity to the overall financial statements, the CODM no longer views it as a separate operating segment but reviews results in conjunction with the other corporate results of the business.

The NEMT segment consists of our legacy operations, which provides non-emergency medical transportation services throughout the country. The Personal Care segment provides non-medical personal care and home health services and is composed of the operations from two acquisitions: Simplura on November 18, 2020, and Care Finders on September 14, 2021. The RPM segment provides remote patient monitoring solutions and was developed through our acquisition of VRI on September 22, 2021 and expanded through our acquisition of GMM on May 11, 2022. The operating results of the NEMT, Personal Care and RPM segments include revenue and expenses generated and incurred by the segment.

See Note 4, *Segments*, in our accompanying unaudited condensed consolidated financial statements for further information on our segments.

Q3 2022 compared to Q3 2021

*Consolidated Results.* The following table sets forth results of operations and the percentage of Service revenue, net represented by items in our unaudited condensed consolidated statements of operations for Q3 2022 and Q3 2021 (in thousands):

	Three months ended September 30,			
	2022		2021	
	Amount	% of Revenue	Amount	% of Revenue
Service revenue, net	\$ 647,782	100.0 %	\$ 493,059	100.0 %
Grant income	789	0.1 %	—	— %
Operating expenses:				
Service expense	534,563	82.5 %	399,272	81.0 %
General and administrative expense	75,889	11.7 %	68,205	13.8 %
Depreciation and amortization	25,672	4.0 %	12,608	2.6 %
Total operating expenses	636,124	98.2 %	480,085	97.4 %
Operating income	12,447	1.9 %	12,974	2.6 %
Other expenses:				
Interest expense, net	15,557	2.4 %	17,702	3.6 %
Loss before income taxes and equity method investment	(3,110)	(0.5)%	(4,728)	(1.0)%
Benefit for income taxes	(1,053)	(0.2)%	(2,001)	(0.4)%
Equity in net loss of investee, net of tax	26,448	4.1 %	4,845	1.0 %
Net loss	\$ (28,505)	(4.4)%	\$ (7,572)	(1.5)%

*Service revenue, net.* Consolidated service revenue, net for Q3 2022 increased \$154.7 million, or 31.4%, compared to Q3 2021. Service revenue, net, for our NEMT segment increased by \$86.8 million, primarily due to higher membership and trip volume when compared to Q3 2021. Service revenue, net, further increased by \$50.7 million for our Personal Care segment, of which \$34.5 million was related to the inclusion of the incremental operating results of Care Finders which was acquired in September 2021. Service revenue, net increased due to the inclusion of an incremental \$17.2 million for our RPM segment as a result of the operating results of VRI which was acquired in September 2021 and GMM which was acquired in May 2022. See our *Results of Operations, Segments*, for further discussion.

*Grant income.* The Company recognized grant income of approximately \$0.8 million during the three months ended September 30, 2022 related to grants from the CARES Act PRF and the ARPA SLFRF targeted to provide economic relief and stimulus to combat health and economic impacts of the COVID-19 pandemic. These funds were received by our Personal Care segment and are available to eligible providers who diagnose, test, or care for individuals with possible or actual cases of COVID-19, and have health care related expenses and lost revenues attributable to COVID-19.

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

	Three months ended September 30,			
	2022		2021	
	Amount	% of Revenue	Amount	% of Revenue
Purchased services	\$ 340,138	52.5 %	\$ 256,750	52.1 %
Payroll and related costs	181,563	28.0 %	131,977	26.8 %
Other service expenses	12,862	2.0 %	10,545	2.1 %
Total service expense	\$ 534,563	82.5 %	\$ 399,272	81.0 %

Service expense for Q3 2022 increased \$135.3 million, or 33.9%, compared to Q3 2021 primarily due to higher purchased services costs in the NEMT segment of \$83.4 million driven by higher third-party transportation costs. Transportation and payroll costs increased primarily as a result of higher trip volume across multiple contracts and higher wage rates. This increase was also driven by higher service expense of \$38.6 million in our Personal Care segment, of which \$25.6 million is related to the Care Finders acquisition in September 2021. The remaining increase is primarily related to higher wage rates across all segments.

*General and administrative expense.* General and administrative expense for Q3 2022 increased \$7.7 million, or 11.3%, compared to Q3 2021. The increase was primarily attributable to an increase of \$11.1 million in general and administrative costs related to the operations of Care Finders in the Personal Care segment which was acquired during September 2021, and VRI and GMM in the RPM segment, which were acquired during September 2021 and May 2022, respectively. This was partially offset by a decrease in general and administrative expense for the corporate segment by \$6.1 million. See our *Results of Operations, Segments* for further discussion.

*Depreciation and amortization.* Depreciation and amortization for Q3 2022 increased \$13.1 million or 103.6% compared to Q3 2021 primarily as a result of \$7.7 million of additional amortization in the Personal Care and RPM segments associated with intangible assets purchased in the Care Finders, VRI, and GMM acquisitions, and \$3.6 million of additional amortization in the Personal Care segment related to additional amortization for Simplura intangible assets due to a change in useful life estimate. See Note 2, *Significant Accounting Policies and Recent Accounting Pronouncements*.

*Interest expense, net.* Interest expense, net, for Q3 2022 and Q3 2021 was \$15.6 million and \$17.7 million, respectively. Interest expense decreased as a result of a bridge loan commitment fee of \$6.6 million incurred in Q3 2021 related to the VRI acquisition with no comparable fee in Q3 2022. The decrease was partially offset by an increase in interest expense of \$4.1 million associated with the issuance of \$500.0 million of Senior Unsecured Notes due 2029 ("the 2029 Notes"), issued in August 2021. During Q3 2022, we incurred \$8.0 million of interest expense related to the Notes due 2025 and \$6.6 million related to the Notes due 2029. The remainder of the interest expense in Q3 2022 is related to interest and fees on the credit facility. Interest expense is recorded at our Corporate and Other segment.

*Equity in net loss of investee, net of tax.* Our equity in net loss of investee, net of tax, for Q3 2022 of \$26.4 million and our equity in net loss of investee, net of tax, of \$4.8 million for Q3 2021 was a result of our proportional share of the net income or loss of Matrix and our investment in a captive insurance program. This loss was primarily related to an asset impairment that occurred at Matrix during Q3 2022 of \$82.2 million.

*Benefit for income taxes.* Our effective tax rate from continuing operations for Q3 2022 and Q3 2021 were tax benefits of 33.9% and 42.3%, respectively. For Q3 2022 and Q3 2021, the effective tax rates were higher than the U.S. federal statutory rate of 21.0% primarily due to state income taxes and nondeductible expenses.



Nine months ended September 30, 2022 compared to nine months ended September 30, 2021

The following table sets forth results of operations and the percentage of consolidated total revenues represented by items in our condensed consolidated statements of operations for the nine months ended September 30, 2022, which we refer to as “YTD 2022”, and for the nine months ended September 30, 2021, which we refer to as “YTD 2021” (in thousands):

	Nine months ended September 30,			
	2022		2021	
	Amount	% of Revenue	Amount	% of Revenue
Service revenue, net	\$ 1,850,472	100.0 %	\$ 1,421,117	100.0 %
Grant income	4,587	0.2 %	3,500	0.2 %
Operating expenses:				
Service expense	1,498,108	81.0 %	1,139,170	80.2 %
General and administrative expense	232,108	12.5 %	179,595	12.6 %
Depreciation and amortization	74,376	4.0 %	36,667	2.6 %
Total operating expenses	<u>1,804,592</u>	<u>97.5 %</u>	<u>1,355,432</u>	<u>95.4 %</u>
Operating income	50,467	2.7 %	69,185	4.9 %
Other expenses:				
Interest expense, net	46,429	2.5 %	34,412	2.4 %
Income before income taxes and equity method investment	4,038	0.2 %	34,773	2.4 %
Provision for income taxes	877	— %	8,409	0.6 %
Equity in net loss of investee, net of tax	28,020	1.5 %	1,424	0.1 %
Net income (loss)	<u>\$ (24,859)</u>	<u>(1.3)%</u>	<u>\$ 24,940</u>	<u>1.8 %</u>

*Service revenue, net.* Consolidated service revenue, net, for YTD 2022 increased \$429.4 million, or 30.2%, compared to YTD 2021. Service revenue, net, for the NEMT segment increased by \$228.3 million, primarily due to higher membership and trip volume when compared to YTD 2021, as both membership and trip volume were depressed in the prior year due to the impact of COVID-19. Service revenue, net, further increased by \$153.3 million for our Personal Care segment, of which \$121.2 million was related to the inclusion of the incremental operating results of Care Finders which was acquired in September 2021. Service revenue, net increased due to the inclusion of an incremental \$47.8 million for our RPM segment as a result of the operating results of VRI which was acquired in September 2021 and expanded with the acquisition of GMM in May 2022. See our *Results of Operations, Segments*, for further discussion.

*Grant income.* The Company recognized income of approximately \$4.6 million for YTD 2022 compared to \$3.5 million during YTD 2021 related to grants from the CARES Act PRF and the ARPA SLFRF targeted to providing economic relief and stimulus to combat health and economic impacts of the COVID-19 pandemic. These funds were received by our Personal Care segment and are available to eligible providers who diagnose, test, or care for individuals with possible or actual cases of COVID-19, and have health care related expenses and lost revenues attributable to COVID-19.

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

	Nine months ended September 30,			
	2022		2021	
	Amount	% of Revenue	Amount	% of Revenue
Purchased services	\$ 935,298	50.5 %	\$ 725,059	51.0 %
Payroll and related costs	520,556	28.1 %	379,739	26.7 %
Other operating expenses	42,254	2.3 %	34,372	2.4 %
Total service expense	<u>\$ 1,498,108</u>	<u>81.0 %</u>	<u>\$ 1,139,170</u>	<u>80.2 %</u>

Service expense for YTD 2022 increased \$358.9 million, or 31.5%, compared to YTD 2021 due to higher purchased services of \$210.2 million related to an increase in transportation costs for the NEMT segment. Payroll and related costs increased by \$140.8 million, primarily related to incremental costs of \$98.3 million in the Personal Care and RPM segments due to the acquisitions of Care Finders and VRI in September 2021 and GMM in May 2022, as well as increased labor costs across all segments.

*General and administrative expense.* General and administrative expense for YTD 2022 increased \$52.5 million, or 29.2%, compared to YTD 2021. This increase is primarily attributable to an increase of \$39.9 million in general and administrative costs related to the operations of Care Finders in the Personal Care segment which was acquired during September 2021, and VRI and GMM in the RPM segment which were acquired during September 2021 and May 2022, respectively. See our *Results of Operations, Segments*, for further discussion.

*Depreciation and amortization.* Depreciation and amortization for YTD 2022 increased \$37.7 million or 102.8% compared to YTD 2021 primarily as a result of intangibles brought on under the Care Finders and VRI acquisitions in September 2021 and the GMM acquisition in May 2022. See Note 3, *Acquisitions*.

*Interest expense, net.* Interest expense, net for YTD 2022 increased \$12.0 million compared to YTD 2021 as a result of the incremental interest activity of \$17.4 million from the \$500.0 million Senior Notes due 2029 that were issued in August 2021. The increase in interest was partially offset by the \$6.6 million bridge loan commitment fee incurred in Q3 2021 related to the VRI acquisition with no comparable fee for the nine months ended September 30, 2022. For YTD 2022, we incurred \$24.1 million and \$19.9 million of interest expense related to the Senior Notes due 2025 and the Senior Notes due 2029, respectively. The remainder of the interest expense during YTD 2022 is related to interest and fees on the credit facility. Interest expense is recorded at our Corporate and Other segment.

*Equity in net loss of investee, net of tax.* For YTD 2022, our equity in net loss of investee is \$28.0 million, compared to net loss for YTD 2021 of \$1.4 million, as a result of our proportional share of the net income or loss of Matrix and our investment in a captive insurance program. This loss was primarily related to an asset impairment that occurred at Matrix during Q3 2022 of \$82.2 million.

*Provision for income taxes.* Our effective tax rates from continuing operations for YTD 2022 and YTD 2021 were provisions of 21.7% and 24.2%, respectively. The YTD 2022 and YTD 2021 effective tax rates were higher than the U.S. federal statutory rate of 21.0% primarily due to state income taxes and certain nondeductible expenses.

## Results of Operations - Segments

The following tables set forth certain financial information from continuing operations attributable to the Company's business segments (in thousands):

### NEMT Segment

	Three months ended September 30,				Nine months ended September 30,			
	2022		2021		2022		2021	
	Amount	% of Segment Revenue	Amount	% of Segment Revenue	Amount	% of Segment Revenue	Amount	% of Segment Revenue
Service revenue, net	\$ 459,796	100.0%	\$ 372,992	100.0%	\$ 1,309,449	100.0%	\$ 1,081,168	100.0%
Service expense	394,981	85.9%	304,398	81.6%	1,100,801	84.1%	869,470	80.4%
General and administrative expense	31,815	6.9%	29,875	8.0%	102,736	7.8%	85,961	8.0%
Depreciation and amortization	7,079	1.5%	7,496	2.0%	21,576	1.6%	21,744	2.0%
Operating income	\$ 25,921	5.6%	\$ 31,223	8.4%	\$ 84,336	6.4%	\$ 103,993	9.6%

The non-emergency medical transportation ("NEMT") segment, which operates under the brands ModivCare Solutions and Circulation, is the largest manager of NEMT programs for state governments and MCOs in the U.S.

*Service revenue, net.* Service revenue, net, increased by \$86.8 million and 23.3%, during the three months ended September 30, 2022 as compared to the three months ended September 30, 2021. This increase is primarily attributable to a 16.1% increase in trip volume, a 22.6% increase in average monthly membership and higher rates per member as compared to the three months ended September 30, 2021. Service revenue, net, increased by \$228.3 million and 21.1%, during the nine months ended September 30, 2022, primarily attributable to a 13.8% increase in both trip volume and average monthly membership, and higher rates per member as compared to the nine months ended September 30, 2021. Trip volume increased for the three and nine months ended September 30, 2022 when compared to 2021, as trip volume was depressed in the prior year due to the impact of COVID-19. The increase in average monthly membership drove higher revenue because a majority of our contacts are capitated and we receive monthly payments on a per member/fixed basis in return for full or partial risk of transportation volumes. However, we also have certain capitated contracts that limit profit to within a certain corridor and once we reach the maximum profit level we discontinue recognizing revenue and instead build a liability to return back to the customer upon reconciliation at a later date. The increase in trip volume also increases revenue for our contracts that are structured as fee-for-service as higher trip volumes correlates with a larger number of services performed.

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

	Three months ended September 30,				Nine months ended September 30,			
	2022		2021		2022		2021	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
Purchased services	\$ 340,138	74.0 %	\$ 256,750	68.8 %	\$ 935,298	71.4 %	\$ 725,059	67.1 %
Payroll and related costs	46,160	10.0 %	38,105	10.2 %	136,916	10.5 %	113,843	10.5 %
Other service expenses	8,683	1.9 %	9,543	2.6 %	28,587	2.2 %	30,568	2.8 %
Total service expense	\$ 394,981	85.9 %	\$ 304,398	81.6 %	\$ 1,100,801	84.1 %	\$ 869,470	80.4 %

Service expense for our NEMT segment primarily consists of transportation costs paid to third party service providers, salaries of employees within our contact centers and operations centers, and occupancy costs. Service expense increased by \$90.6 million and 29.8% for the three months ended September 30, 2022, as compared to the three months ended September 30, 2021, primarily related to higher purchased services of \$83.4 million related to an increase in transportation costs due to higher trip volume in the current year. Service expense increased by \$231.3 million and 26.6% for the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021, primarily due to an increase in purchased services of \$210.2 million for the same reason as stated above.

*General and administrative expense.* General and administrative expense primarily consists of salaries for administrative employees that indirectly support the operations, occupancy costs, marketing expenditures, insurance, and professional fees. General and administrative expense increased by \$1.9 million and 6.5% for the three months ended September 30, 2022, as compared to the three months ended September 30, 2021. General and administrative expense increased

by \$16.8 million and 19.5% for the nine months ended September 30, 2022, as compared to the nine months ended September 30, 2021, primarily as a result of higher salary costs and legal expenses.

*Depreciation and amortization expense.* Depreciation and amortization expense decreased by \$0.4 million and 5.6% for the three months ended September 30, 2022, as compared to the three months ended September 30, 2021. Depreciation and amortization expense decreased by \$0.2 million and 0.8% for the nine months ended September 30, 2022, as compared to the nine months ended September 30, 2021. Both changes are primarily the result of certain intangible assets at Circulation being fully amortized during the second half of 2021.

### Personal Care Segment

	Three months ended September 30,				Nine months ended September 30,			
	2022		2021		2022		2021	
	Amount	% of Segment Revenue	Amount	% of Segment Revenue	Amount	% of Segment Revenue	Amount	% of Segment Revenue
Service revenue, net	\$ 169,226	100.0%	\$ 118,503	100.0%	\$ 491,661	100.0%	\$ 338,385	100.0%
Grant income	789	0.5%	—	—%	4,587	0.9%	3,500	1.0%
Service expense	132,746	78.4%	94,107	79.4%	379,423	77.2%	268,933	79.5%
General and administrative expense	22,057	13.0%	15,802	13.3%	68,536	13.9%	45,606	13.5%
Depreciation and amortization	12,919	7.6%	4,912	4.1%	37,976	7.7%	14,723	4.4%
Operating income	\$ 2,293	1.4%	\$ 3,682	3.1%	\$ 10,313	2.1%	\$ 12,623	3.7%

Our Personal Care segment was established in November 2020 with the acquisition of Simplura and expanded in September 2021 with the acquisition of Care Finders. Our Personal Care segment's services include placements of non-medical personal care assistants and home health aides and nurses primarily to Medicaid patient populations in need of care monitoring and assistance performing daily living activities in the home setting, including senior citizens and disabled adults. The quarter over quarter fluctuations include incremental changes from the acquisition of Care Finders, as the acquisition was completed on September 14, 2021 and contributed minimal activity in 2021 compared to a full year of activity in 2022.

*Service revenue, net.* Personal care service contracts are generally structured as fee-for-service contracts, with revenue driven by hours worked by our personal care providers. Service revenue, net increased by \$50.7 million or 42.8% for the three months ended September 30, 2022 as compared to September 30, 2021, primarily due to incremental revenue from the Care Finders acquisition of \$34.5 million. The remainder of the increase in service revenue is attributable to Simplura, due to higher hours worked by personal care providers in Q3 2022 as compared to Q3 2021 as well as the asset acquisition completed in Q2 2022, as disclosed in Note 3, *Acquisitions*, which allowed the Company to service the additional acquired contracts. Service revenue, net increased by \$153.3 million or 45.3% for the nine months ended September 30, 2022 as compared to September 30, 2021, primarily due to incremental revenue from the Care Finders acquisition of \$121.2 million.

*Grant Income.* In the three and nine months ended September 30, 2022, the Company recognized income for distributions of the CARES Act PRF and the ARPA SLFRF targeted to providing economic relief and stimulus to combat health and economic impacts of the COVID-19 pandemic of \$0.8 million and \$4.6 million, respectively. In comparison, the Company did not receive distributions during the three months ended September 30, 2021, and received distributions of \$3.5 million during the nine months ended September 30, 2021.

*Service expense.* Service expense components for the Personal Care segment are shown below (in thousands):

	Three months ended September 30,				Nine months ended September 30,			
	2022		2021		2022		2021	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
Payroll and related costs	\$ 132,482	78.3 %	\$ 93,105	78.6 %	\$ 374,994	76.3 %	\$ 265,129	78.4 %
Other service expenses	264	0.1 %	1,002	0.8 %	4,429	0.9 %	3,804	1.1 %
Total service expense	\$ 132,746	78.4 %	\$ 94,107	79.4 %	\$ 379,423	77.2 %	\$ 268,933	79.5 %

Service expense for our Personal Care segment primarily consists of salaries for the employees providing the personal care services and it typically trends with the number of hours worked. Service expense for the three months ended September 30, 2022 increased by \$38.6 million and 41.1% as compared to the three months ended September 30, 2021, primarily as a

result of incremental expense of \$25.6 million related to the Care Finders acquisition. Service expense for the nine months ended September 30, 2022 increased by \$110.5 million and 41.1% as compared to the nine months ended September 30, 2021, primarily as a result of incremental expense of \$90.9 million related to the Care Finders acquisition. The remainder of the increase is related to increased pay rates for the personal care providers for the Simplura business as well as servicing additional contracts acquired through the asset acquisition completed in Q2 2022, as disclosed in Note 3, *Acquisitions*, .

*General and administrative expense.* General and administrative expense primarily consists of salaries for administrative employees that indirectly support the operations, occupancy costs, marketing expenditures, insurance, and professional fees. General and administrative expense increased by \$6.3 million and 39.6% for the three months ended September 30, 2022 as compared to the three months ended September 30, 2021, primarily related to incremental costs from the acquisition of Care Finders of \$5.5 million. General and administrative expense increased by \$22.9 million and 50.3% for the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021, primarily related to incremental costs from the acquisition of Care Finders of \$22.6 million.

*Depreciation and amortization expense.* Depreciation and amortization expense increased by \$8.0 million and 163.0% for the three months ended September 30, 2022 as compared to 2021, and increased by \$23.3 million and 157.9% for the nine months ended September 30, 2022 as compared to 2021. The increase in this expense for the three and nine months ended September 30, 2022 is primarily due to amortization expense on the intangible assets brought on under the Care Finders acquisition of \$3.7 million and \$11.1 million, respectively. The increase for the three and nine months ended September 30, 2022 is also driven by the additional amortization expense of \$3.6 million and \$10.7 million, respectively, related to the change in useful lives of Simplura intangible assets as discussed in Note 2, *Significant Accounting Policies and Recent Accounting Pronouncements*.

### RPM Segment

	Three months ended September 30,				Nine months ended September 30,			
	2022		2021		2022		2021	
	Amount	% of Segment Revenue	Amount	% of Segment Revenue	Amount	% of Segment Revenue	Amount	% of Segment Revenue
Service revenue, net	\$ 18,760	100.0 %	\$ 1,564	100.0 %	\$ 49,362	100.0 %	\$ 1,564	100.0 %
Service expense	6,836	36.4 %	767	49.0 %	17,884	36.2 %	767	49.0 %
General and administrative expense	5,816	31.0 %	216	13.8 %	17,520	35.5 %	216	13.8 %
Depreciation and amortization	5,467	29.1 %	200	12.8 %	14,201	28.8 %	200	12.8 %
Operating income (loss)	\$ 641	3.4 %	\$ 381	24.4 %	\$ (243)	(0.5)%	\$ 381	24.4 %

Our Remote Patient Monitoring segment was established in September 2021 with the acquisition of VRI and expanded in May 2022 with the acquisition of GMM. The RPM segment is a provider of remote patient monitoring solutions and manages a comprehensive suite of services, including personal emergency response systems, vitals monitoring and data-driven patient engagement solutions. The quarterly and annual fluctuations as of the three and nine months ended September 30, 2022 and 2021, respectively, are not meaningful as the segment only contributed minimal activity in 2021 and a full year of activity in 2022.

*Service revenue, net.* RPM contracts are generally structured as a fee per enrolled member per month, and therefore revenue is generally driven by number of enrolled members. Service revenue, net, from managed Medicare contracts accounted for 19.5% and 21.4% of service revenue, net, for the three and nine months ended September 30, 2022, respectively, while state and managed Medicaid program contracts accounted for 62.7% and 60.6% of service revenue, net for the three and nine months ended September 30, 2022, respectively. The remainder of the RPM segment revenue is derived from private pay and other contracts.

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

	Three months ended September 30,				Nine months ended September 30,			
	2022		2021		2022		2021	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
Payroll and related costs	\$ 3,323	17.7 %	\$ 767	49.0 %	\$ 8,646	17.5 %	\$ 767	49.0 %
Other service expenses	3,513	18.7 %	—	0.0 %	9,238	18.7 %	—	0.0 %
Total service expense	<u>\$ 6,836</u>	<u>36.4 %</u>	<u>\$ 767</u>	<u>49.0 %</u>	<u>\$ 17,884</u>	<u>36.2 %</u>	<u>\$ 767</u>	<u>49.0 %</u>

Service expense for our RPM segment primarily consists of salaries for the employees providing the remote monitoring services and it typically trends with the number of hours worked.

*General and administrative expense.* General and administrative expense primarily consists of salaries for administrative employees that indirectly support the operations, occupancy costs, marketing expenditures, insurance, and professional fees.

*Depreciation and amortization expense.* Depreciation and amortization expense consists primarily of amortization expense on the intangible assets brought on during the acquisition as well as depreciation on the fixed assets acquired.

#### **Corporate and Other Segment**

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
	Amount	Amount	Amount	Amount
General and administrative expense	\$ 16,201	\$ 22,312	\$ 43,316	\$ 47,812
Depreciation and amortization	207	—	623	—
Operating income (loss)	<u>\$ (16,408)</u>	<u>\$ (22,312)</u>	<u>\$ (43,939)</u>	<u>\$ (47,812)</u>

Our Corporate and Other segment was established beginning January 1, 2022 as a result of a segment reorganization completed by the Company. The Company's Corporate and Other segment includes the Company's executive, accounting, finance, internal audit, tax, legal, public reporting, and corporate development functions. This segment also includes the results of our equity investment in Matrix.

Our Corporate and Other segment holds costs incurred related to strategy and stewardship of the other operating segments. These expenses are primarily general and administrative expenses, with a small amount related to depreciation. The general and administrative expense decreased by \$6.1 million and \$4.5 million for the three and nine months ended September 30, 2022, primarily due to a lower bonus accrual in the current year and lower stock based compensation due to executive departure.

#### **Seasonality**

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

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

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

#### **Liquidity and capital resources**

Short-term capital requirements consist primarily of recurring operating expenses, new revenue contract start-up costs and costs associated with our strategic initiatives. We expect to meet our short-term cash requirements through available cash

on hand, cash generated from operations, net of capital expenditures, and borrowing from time to time under our New Credit Facility. For information regarding our long-term capital requirements, see below under the caption “Liquidity”.

Cash flow from operating activities during the nine months ended September 30, 2022 was \$45.5 million. Our balance of cash and cash equivalents, including restricted cash, was \$72.7 million and \$133.4 million at September 30, 2022 and December 31, 2021, respectively. We had restricted cash of \$0.3 million at December 31, 2021 and an immaterial amount at September 30, 2022. Restricted cash amounts are not included in our balance of cash and cash equivalents in the unaudited condensed consolidated balance sheets, although they are included in the cash, cash equivalents and restricted cash balance on the accompanying unaudited condensed consolidated statements of cash flows.

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

#### ***YTD 2022 cash flows compared to YTD 2021***

*Operating activities.* Cash provided by operating activities was \$45.5 million and \$174.7 million for YTD 2022 and YTD 2021, respectively. The decrease of \$129.2 million was primarily a result of a decrease in cash provided by changes in working capital of \$127.7 million. The working capital changes were related to a decrease in the change in accrued contract payables of \$189.7 million primarily related to repayments and lower liability reserves on certain risk corridor, profit rebate and reconciliation contracts due to higher trip volumes during YTD 2022. Also contributing to the decrease in working capital is a decrease in the change in accrued transportation costs of \$25.5 million primarily related to decreased cycle time to pay our transportation providers therefore decreasing the accrued transportation costs in YTD 2022 compared to YTD 2021. These working capital decreases were partially offset by an increase in the accounts payable and accrued expenses balance of \$46.4 million primarily related to timing of vendor payments and an increase in the accounts receivable balance of \$41.1 million, primarily related to receivables recorded on our reconciliation and corridor contracts.

*Investing activities.* Net cash used in investing activities of \$104.4 million in YTD 2022 decreased by \$576.7 million as compared to YTD 2021 primarily as a result of a decrease in cash spent on acquisitions of \$588.4 million. This is due to the Company's acquisitions of WellRyde, Care Finders, and VRI in YTD 2021 compared to only the purchase of GMM and an asset acquisition in 2022.

*Financing activities.* Net cash used in financing activities of \$1.8 million in YTD 2022 decreased by \$451.5 million as compared to net cash provided by financing activities during YTD 2021 of \$449.7 million. The change was primarily due to the Company issuing senior notes during August 2021 for \$500.0 million offset by the Company not participating in a stock repurchase program during YTD 2022 as compared to YTD 2021 during which cash paid to repurchase common stock was \$39.0 million. See Note 11, *Earnings Per Share*, for further information on the stock buyback.

#### ***Obligations and commitments***

*Senior Unsecured Notes.* On November 4, 2020, the Company issued \$500.0 million in aggregate principal amount of 5.875% senior unsecured notes due on November 15, 2025 (the “Senior Notes due 2025”). Subsequently, on August 24, 2021, the Company issued an additional \$500.0 million in aggregate principal amount of 5.000% senior unsecured notes due on October 1, 2029 (the “Senior Notes due 2029” and, together with the Senior Notes due 2025, the “Notes”). The Senior Notes due 2025 and the Senior Notes due 2029 were issued pursuant to two indentures, dated November 4, 2020 and August 24, 2021, respectively, between the Company and The Bank of New York Mellon Trust Company, N.A., as trustee. The proceeds from the Senior Notes due 2025 were used to fund a portion of the Company’s acquisition of Simplura and the proceeds from the Senior Notes due 2029 were used to fund a portion of the Company’s acquisition of VRI.

The Notes are senior unsecured obligations and rank senior in right of payment to all of the Company's future subordinated indebtedness, rank equally in right of payment with all of the Company's existing senior indebtedness, are effectively subordinated to any of the Company's existing and future secured indebtedness, including indebtedness under the New Credit Facility, to the extent of the value of the assets securing such indebtedness, and are structurally subordinated to all of the existing and future liabilities (including trade payables) of each of the Company’s non-guarantor subsidiaries.

The Company will pay interest on the Notes at their applicable annual rates until maturity. Interest on the Senior Notes due 2025 is payable semi-annually in arrears on May 15 and November 15 of each year. Interest on the Senior Notes due 2029 is payable semi-annually in arrears on April 1 and October 1 of each year, with the first interest payment date being April 1,

2022. Principal payments are not required until the maturity date on November 15, 2025 and October 1, 2029 when 100% of the outstanding principal will be required to be repaid on the Senior Notes due 2025 and the Senior Notes due 2029, respectively.

*New Credit Facility.* On February 3, 2022, the Company entered into a new credit agreement (the “New Credit Agreement”) with JPMorgan Chase Bank, N.A., as administrative agent, swing line lender and an issuing bank, Wells Fargo Bank, National Association, as an issuing bank, Truist Bank and Wells Fargo Bank, National Association, as co-syndication agents, Deutsche Bank AG New York Branch, Bank of America, N.A., Regions Bank, Bank of Montreal and Capital One, National Association, as co-documentation agents, and JPMorgan Chase Bank, N.A., Truist Securities, Inc. and Wells Fargo Securities, LLC, as joint bookrunners and joint lead arrangers, and the other lenders party thereto. The New Credit Agreement provides the Company with a senior secured revolving credit facility (the “New Credit Facility”) in an aggregate principal amount of \$325.0 million. The New Credit Facility includes sublimits for swingline loans, letters of credit and alternative currency loans in amounts of up to \$25.0 million, \$60.0 million and \$75.0 million, respectively. The Company did not draw any amount of the New Credit Facility at closing of the New Credit Agreement. At closing of the New Credit Agreement, the Company had \$22.8 million of outstanding letters of credit under the New Credit Facility. The proceeds of the New Credit Facility may be used (i) to finance working capital needs of the Company and its subsidiaries and (ii) for general corporate purposes of the Company and its subsidiaries (including to finance capital expenditures, permitted acquisitions and investments). The New Credit Facility replaces the Credit Facility under the Credit Agreement, which was terminated concurrently with the Company’s entry into the New Credit Agreement.

Under the New Credit Facility the Company has an option to request an increase in the amount of the New Credit Facility or obtain incremental term loans from time to time (on substantially the same terms as apply to the existing facilities) by an aggregate amount of up to \$175.0 million, plus an unlimited amount so long as the pro forma secured net leverage ratio does not exceed 3.50:1.00, with either additional commitments from lenders under the New Credit Agreement at such time or new commitments from financial institutions approved by the Company and the administrative agent (which approval is not to be unreasonably withheld), so long as, at the time of any such increase, no default or event of default exists, the representations and warranties of the Company set forth in the New Credit Agreement are true and correct in all material respects and the Company is in pro forma compliance with the financial covenants in the New Credit Agreement. The Company may not be able to access additional funds under this increase option as no lender is obligated to participate in any such increase under the New Credit Facility.

The New Credit Facility matures on February 3, 2027. The Company may prepay the New Credit Facility in whole or in part, at any time without premium or penalty, subject to reimbursement of the lenders’ breakage and redeployment costs in connection with prepayments of Term Benchmark loans or RFR loans, each as defined in the New Credit Agreement. The unutilized portion of the commitments under the New Credit Facility may be irrevocably reduced or terminated by the Company at any time without penalty.

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

The New Credit Agreement contains customary representations and warranties, affirmative and negative covenants and events of default. The negative covenants include restrictions on the Company’s ability to, among other things, incur additional indebtedness, create liens, make investments, give guarantees, pay dividends, sell assets and merge and consolidate. The Company is subject to financial covenants, including total net leverage and interest coverage covenants.

The Company’s obligations under the New Credit Facility are guaranteed by all of the Company’s present and future material domestic subsidiaries, excluding certain material domestic subsidiaries that are excluded from being guarantors pursuant to the terms of the New Credit Agreement. The Company’s obligations under, and each guarantor’s obligations under its guaranty of, the New Credit Facility are secured by a first priority lien on substantially all of the Company’s or such guarantor’s respective assets. If an event of default occurs, the required lenders may cause the administrative agent to declare all unpaid principal and any accrued and unpaid interest and all fees and expenses under the New Credit Facility to be immediately



due and payable. All amounts outstanding under the New Credit Facility will automatically become due and payable upon the commencement of any bankruptcy, insolvency or similar proceedings. The New Credit Agreement also contains a cross default to any of the Company's indebtedness having a principal amount in excess of \$40.0 million.

We were in compliance with all covenants under the New Credit Agreement as of September 30, 2022.

## Liquidity

Liquidity measures our ability to meet current and future cash flow needs on a timely basis and at a reasonable cost. We manage our liquidity position to meet our daily cash flow needs, while maintaining an appropriate balance between assets and liabilities to meet the return on investment objectives of our shareholders. Our liquidity position is supported by management of liquid assets and liabilities and access to alternative sources of funds. Liquid assets include cash of \$72.7 million and accounts receivable and other receivables of \$272.3 million. Liquid liabilities totaled \$667.0 million at period end as detailed in the table below. Other sources of liquidity include our New Credit Facility of \$325.0 million.

In the ordinary course of business we have entered into contractual obligations and have made other commitments to make future payments. Our short-term and long-term liquidity requirements are primarily to fund on-going operations. These liquidity requirements are met primarily through cash flow from operations of \$45.5 million, debt financing, and our New Credit Facility of \$325.0 million. For additional information regarding our operating, investing and financing cash flows, see "Condensed Consolidated Financial Statements— Condensed Consolidated Statements of Cash Flows," included in Part I, Item I of this report.

The Company has cash requirements of \$667.0 million due in one year or less in addition to \$1,319.3 million due in more than one year as of September 30, 2022. The following is a summary of our future cash requirements for the next twelve months and the period extending beyond twelve months as of September 30, 2022 (in thousands):

	At September 30, 2022		
	Total	Less than 1 Year	Greater than 1 Year
Senior Unsecured Notes <sup>(1)</sup>	\$ 1,000,000	\$ —	\$ 1,000,000
Contracts payable <sup>(2)</sup>	243,800	243,800	—
Interest <sup>(1)</sup>	265,899	54,375	211,524
Transportation costs <sup>(3)</sup>	90,114	90,114	—
Deferred tax liabilities <sup>(4)</sup>	62,666	—	62,666
Operating leases <sup>(5)</sup>	48,153	3,349	44,804
Guarantees <sup>(6)</sup>	48,198	47,923	275
Letters of credit <sup>(6)</sup>	38,002	38,002	—
Other current cash obligations <sup>(7)</sup>	189,459	189,459	—
<b>Total</b>	<b>\$ 1,986,291</b>	<b>\$ 667,022</b>	<b>\$ 1,319,269</b>

- (1) See Note 9 of the Notes to the Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1, "Financial Statements" for further detail of our Senior Unsecured Notes and the timing of expected future payments. Interest payments are typically paid semi-annually in arrears and have been calculated at the rates fixed as of September 30, 2022.
- (2) See Note 5 of the Notes to the Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1, "Financial Statements" for further detail of our contracts payable.
- (3) See Note 1 of the Notes to the Consolidated Financial Statements included in Part II, Item 8, "Financial Statements and Supplementary Data" of our Form 10-K for the year ended December 31, 2021 filed on February 28, 2022 for further detail of our accrued transportation cost.
- (4) See Note 12 of the Notes to the Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1, "Financial Statements" for further detail of our deferred tax liabilities.
- (5) The operating leases are for office space. Certain leases contain periodic rent escalation adjustments and renewal options. See Note 18 of the Notes to the Consolidated Financial Statements included in Part II, Item 8, "Financial Statements and Supplementary Data" of our Form 10-K for the year ended December 31, 2021 filed on February 28, 2022 for further detail of our operating leases.

- (6) Letters of credit (“LOCs”) are guarantees of potential payments to third parties under certain conditions. Guarantees include surety bonds we provide to certain customers to protect against potential non-delivery of our non-emergency transportation services. Our LOCs shown in the table were provided by our Credit Facility and reduced our availability under the related Credit Agreement. The surety bonds and LOC amounts in the above table represent the amount of commitment expiration per period.
- (7) These include other current liabilities reflected in our unaudited condensed consolidated balance sheets as of September 30, 2022, including accounts payable and accrued expenses as detailed at Note 8 to the Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1, “Financial Statements”.

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

#### **Off-Balance Sheet Arrangements**

There have been no material changes to the Off-Balance Sheet Arrangements discussion previously disclosed in our audited consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2021.

#### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

We have exposure to interest rate risk mainly related to our New Credit Facility, which has variable interest rates that may increase. We had \$38.0 million of outstanding letters of credit under the New Credit Facility at September 30, 2022.

#### **Item 4. Controls and Procedures.**

##### *(a) Evaluation of disclosure controls and procedures*

The Company, under the supervision and with the participation of its management (including its principal executive officer and principal financial officer), evaluated the effectiveness of the design and operation of the Company’s disclosure controls and procedures, as defined in Rule 13a-15(e) of the Exchange Act as of September 30, 2022. Based upon this evaluation, the Company’s principal executive and financial officer has concluded that such disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and accumulated and communicated to the Company’s management, including its principal executive and financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

##### *(b) Changes in internal control over financial reporting*

The principal executive and financial officer also conducted an evaluation of whether any changes in the Company’s internal control over financial reporting occurred during the quarter ended September 30, 2022 that have materially affected or which are reasonably likely to materially affect such control. Such officer has concluded that no such changes have occurred, other than those efforts related to the remediation of the material weaknesses identified at December 31, 2021.

During the nine months ended September 30, 2022, our management continued updating certain internal controls and supporting processes to address the material weakness in our internal control over financial reporting described in our Annual Report on Form 10-K for the year ended December 31, 2021. The remediation plan put into place by management includes the hiring of a third party to lead the remediation efforts as well as the addition of resources within the organization to improve structure and help mitigate risks previously identified. Key focus areas have been identified as general information technology control (GITC) deficiencies, payroll controls, revenue process controls and risk assessment related controls.

To date, management has provided enhanced control training for control owners, and has designed and is in process of implementing our improved processes and related controls in the areas stated above. Management has also enhanced the organizational structure of the personal care segment to ensure accountability and control compliance. Management will continue to monitor the progress of these efforts to ensure timely remediation.

*(c) Limitations on the effectiveness of controls*

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

## **PART II—OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

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

### **Item 1A. Risk Factors.**

The risks described under the caption “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2021 (the “Annual Report”) could materially and adversely affect our business, financial condition, and results of operations, and could cause the trading price of our common stock to decline. The discussion of the risks included under that caption in our Annual Report remains current in all material respects, and there have been no material changes from the risk factors disclosed in the Annual Report. The risk factors that we have discussed do not identify all risks that we face; our operations could also be affected by factors that are not presently known to us or that we currently consider to be immaterial to our operations. Due to risks and uncertainties, known and unknown, our past financial results may not be a reliable indicator of future performance and historical trends should not be used to anticipate results or trends in future periods.

**Item 6. Exhibits.**

**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description</b>
10.1*	<a href="#">Offer letter, dated August 22, 2022, by and among the registrant, ModivCare Solutions, LLC and Rebecca Orcutt</a>
31.1*	<a href="#">Certification pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 of the Chief Executive Officer.</a>
31.2*	<a href="#">Certification pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 of the Chief Financial Officer.</a>
32.1**	<a href="#">Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer.</a>
32.2**	<a href="#">Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer.</a>
101.INS*	Inline XBR Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH*	Inline XBRL Schema Document
101.CAL*	Inline XBRL Calculation Linkbase Document
101.LAB*	Inline XBRL Label Linkbase Document
101.PRE*	Inline XBRL Presentation Linkbase Document
101.DEF*	Inline XBRL Definition Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)
*	Filed herewith.
**	Furnished herewith.
+	Management contract or compensatory plan or arrangement.

**SIGNATURES**

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

ModivCare Inc.

Date: November 7, 2022

By: \_\_\_\_\_  
**L. Heath Sampson**  
**Chief Executive Officer**  
*(Duly Authorized Officer)*

Date: November 7, 2022

By: \_\_\_\_\_  
**L. Heath Sampson**  
**Chief Financial Officer**  
*(Principal Financial Officer)*

August 22, 2022

Rebecca Orcutt  
435 S Gaylord Street  
Denver, CO 80209

Dear Rebecca,

Based on your performance to date and commitment to Modivcare, we are pleased to offer you the position of Sr. Vice President and Chief Accounting Officer. In addition to confirming our offer, this letter will detail the terms and conditions of your employment.

**Assumption of Duties:** Your start date will be August 22<sup>nd</sup>, 2022, for you to assume the position of Sr. Vice President and Chief Accounting Officer. You will report to Heath Sampson and your work location will be 6900 Layton Avenue, Suite 1200, Denver, CO 80237.

**Base Salary:** Your new base salary will be \$305,000.00 payable in bi-weekly installments, less applicable taxes and deductions. Compensation reviews are conducted April of each year based on prior year performance and results.

Short-Term Cash Incentive Bonus

You are eligible to participate in a short-term incentive bonus program in the calendar year 2022. Your target bonus will be 40% of your base salary. Your short-term cash incentive bonus will be payable, less applicable taxes and deductions, at such time as cash incentive bonuses are paid to employees, generally and unless otherwise specified, at the end of the first quarter of the year following the year to which the bonus relates. The performance targets for the short-term cash incentive bonus are set by the Compensation Committee of the Board of Directors and will be based on individual and organizational performance. The actual amount of any short-term cash incentive bonus will be determined in the discretion of the Compensation Committee based on its assessment of the actual performance against the goals and conditions established for the year and, based on that assessment, no bonus may be paid at all.

Long-Term Cash Incentive Bonus

Beginning in the calendar year 2022, you will be eligible to receive equity grants under the company's long-term equity incentive program, with the actual amount, form and terms and conditions of any such awards determined by the Compensation Committee in its sole discretion, and at a grant date by the Compensation Committee. For calendar year 2022, you will be eligible to receive an equity award with a target grant date value equal to 40% of your base salary, comprised of 75% restricted stock units (RSUs) and 25% options.

"At will" Employment and Termination of Employment

This letter reflects the entire agreement regarding the terms and conditions of your employment. Accordingly, it supersedes and completely replaces any prior oral or written communication on

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this subject. This letter is not an employment contract and should not be construed or interpreted as containing any guarantee of continued employment. The employment relationship at Modivcare is by mutual consent ("Employment-At-Will"). This means that employees have the right to terminate their employment at any time and for any reason. Likewise, Modivcare reserves the right to discontinue your employment with or without cause at any time and for any reason.

As a Vice President you will be eligible in certain circumstances to receive severance payments for a six-month period following termination of your employment with Modivcare as detailed in the severance policy adopted by the Board of Directors (the "Severance Policy"), subject to the terms and conditions of the Severance Policy, including, without limitation, that your termination of employment be without Cause (as defined in the Severance Policy) and that you sign a release of claims against Modivcare.

#### Professional Requirements

You will continue to be subject to (and hereby acknowledge) our Corporate Ethics program and will be required to maintain a standard of legal and ethical conduct consistent with such program. Other terms and guidelines for your employment are set forth in our employee handbook, which you will have access to through our employee portal.

You also represent and warrant that you continue to be legally available to work for Modivcare, that you have the full legal right and authority to negotiate and accept this revised offer letter of employment and to render the services as required under this revised offer letter, and that by negotiating, accepting and signing such revised offer letter and rendering such services, you will not have breached or violated and will not breach or otherwise violate any contract or legal obligation that you may owe to any third party. You further represent and warrant that you have not and will not breach or violate any contract or legal obligation owed to any third party, e.g., a fiduciary obligation owed to any prior employer. If for any reason whatsoever, any of the foregoing representations or warranties are untrue or inaccurate, or become untrue or inaccurate after the date hereof, in any respect, then Modivcare shall have the right to terminate your employment for Cause.

#### Restrictive Covenants Agreement

Modivcare intends to honor your ongoing confidentiality obligations and you agree to abide by Modivcare's strict company policy that prohibits any new employee from using or bringing with them from any prior employer any proprietary information, trade secrets, proprietary materials or processes of such former employers.

Concurrent with this offer letter, you will be required to sign Modivcare's Restricted Covenants Agreement ("RCA"), a copy of which is provided herewith. At the termination of your employment, you will be reminded of your continuing duties under the RCA. Please read the RCA carefully.

#### Severability

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

#### Section 409A Compliance

Notwithstanding any inconsistent provision herein, to the extent Modivcare determines in good faith that (a) one or more of the payments or benefits received or to be received by you pursuant hereunder in connection with your termination of employment would constitute deferred compensation subject to the rules of Internal Revenue Code Section 409A (“Section 409A”) and not exempt from Section 409A, and (b) that you are a “specified employee” under Section 409A, then only to the extent required to avoid your incurrence of any additional tax or interest under Section 409A, such payment or benefit will be delayed until the earlier of your death or the date which is six (6) months after your “separation from service” within the meaning of Section 409A. For purposes of Section 409A of the Code, each right to receive payment hereunder shall be treated as a right to receive a series of separate payments and, accordingly, any installment payment shall at all times be considered a separate and distinct payment. Anything herein to the contrary notwithstanding, the terms of this letter shall be interpreted and applied in a manner consistent with the requirements of Section 409A the regulations promulgated thereunder so as not to subject you to the payment of any tax penalty or interest which may be imposed by Section 409A of the Code and Modivcare shall have no right to accelerate or make any payment hereunder except to the extent such action would not subject you to the payment of any tax penalty or interest under Section 409A. If, under the terms of this Agreement, it is possible for a payment that is subject to Section 409A to be made in two separate taxable years, payment shall be made in the later taxable year.

To the extent that any reimbursements pursuant to this Agreement or otherwise are taxable to you, any reimbursement payment due to you shall be paid to you on or before the last calendar day of your taxable year following the taxable year in which the related expense was incurred; provided, that, you have provided Modivcare written documentation of such expenses in a timely fashion and such expenses otherwise satisfy Modivcare’s expense reimbursement policies. Reimbursements pursuant to this Agreement or otherwise are not subject to liquidation or exchange for another benefit and the amount of such reimbursements that you receive in one taxable year shall not affect the amount of such reimbursements that you receive in any other taxable year.

#### Withholding

All amounts payable to you hereunder will be subject to customary tax and other withholdings.

#### Entire Agreement

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

This letter reflects the entire agreement regarding the terms and conditions of your employment. Accordingly, it supersedes and completely replaces any prior oral or written communication on this subject. This letter is not an employment contract and should not be construed or interpreted as containing any guarantee of continued employment. The employment relationship at Modivcare is by mutual consent ("Employment-At-Will"). This means that employees have the right to terminate their employment at any time and for any reason. Likewise, Modivcare reserves the right to discontinue your employment with or without cause at any time and for any reason.

Rebecca, Modivcare is committed to your professional development. We have been and continue to be a fast-growing company. Your ability to move forward in the organization is limited only by your drive, initiative, teamwork abilities, and the quality of your overall performance.

We hope that you are as excited as we are about this opportunity, and we look forward to hearing your positive response to this letter by 8/24/2022. If you agree with the terms of this offer of employment, please electronically sign this letter using the link in the email that sent this letter.

Sincerely,

/s/ L. Heath Sampson

Heath Sampson

Chief Executive Officer, Modivcare

Accepted By:

/s/ Rebecca Orcutt August 22, 2022

Rebecca Orcutt

Date

CERTIFICATIONS

I, L. Heath Sampson, certify that:

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

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

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

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

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

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

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

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2022

/s/ L. Heath Sampson

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

CERTIFICATIONS

I, L. Heath Sampson, certify that:

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

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

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

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

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

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

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

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2022

/s/ L. Heath Sampson

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

**MODIVCARE INC.**

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

Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of ModivCare Inc. ("ModivCare" or the "Company") does hereby certify with respect to the Quarterly Report of the Company on Form 10-Q for the quarter ended September 30, 2022 (the "Report") that, to the best of such officer's knowledge:

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

Date: November 7, 2022

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

**MODIVCARE INC.**

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

Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of ModivCare Inc. ("ModivCare" or the "Company") does hereby certify with respect to the Quarterly Report of the Company on Form 10-Q for the quarter ended September 30, 2022 (the "Report") that, to the best of such officer's knowledge:

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

Date: November 7, 2022

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