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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2021

OR

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

For the transition period from ______ to ______

Commission File Number 001-34221

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

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

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

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☒ Yes ☐ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes ☒ No

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 (§223.405 of this chapter) during the preceding 12-months (or for such shorter period that the registrant was required to submit such files). ☒ Yes ☐ No

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

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

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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

The aggregate market value of the voting and non-voting common equity of the registrant held by non-affiliates computed by reference to the price at which the common equity was last sold on The NASDAQ Global Select Market as of the last business day of the registrant’s most recently completed second fiscal quarter was $2,359.3 million.

As of February 21, 2022, there were 19,444,356 shares outstanding (excluding treasury shares of 5,424,663) of the registrant’s common stock, $0.001 par value per share.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated by reference into Part III of this Annual Report on Form 10-K: the registrant’s definitive proxy statement to be filed with the Securities and Exchange Commission under cover of Schedule 14A with respect to the registrant’s 2022 Annual Meeting of Stockholders; provided, however, that if such proxy statement is not filed on or before April 30, 2022, such information will be included in an amendment to this Annual Report on Form 10-K filed on or before such date.

TABLE OF CONTENTS

Part I

In this Annual Report on Form 10-K, the words the “Company”, the “registrant”, “we”, “our”, “us”, “ModivCare” and similar terms refer to ModivCare Inc. and, except as otherwise specified herein, its consolidated subsidiaries. When such terms are used in reference to the Company’s common stock, $0.001 par value per share, or our “Common Stock”, we are referring specifically and only to the capital stock of ModivCare Inc.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains statements that may be deemed “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), 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. The Company may also make forward-looking statements in other reports and statements filed with the Securities and Exchange Commission (the “SEC”), in materials delivered to stockholders and in press releases. In addition, the Company’s representatives may from time to time make oral forward-looking statements. In many cases, you may identify forward looking-statements by words such as “may”, “will”, “should”, “could”, “expect”, “plan”, “project”, “intend”, “anticipate”, “believe”, “seek”, “estimate”, “predict”, “potential”, “target”, “forecast”, “likely”, the negative of such terms or comparable terminology. In addition, statements that are not historical statements of fact should also be considered forward-looking statements. These forward-looking statements are based on the Company’s current expectations, assumptions, estimates and projections about its business and industry, and involve risks, uncertainties and other factors that may cause actual events to be materially different from those expressed or implied by such forward-looking statements. The factors included below under the caption “Summary Risk Factors” and described in further detail below under Item 1A. *Risk Factors* in Part I of this Annual Report on Form 10-K are included among such risks and uncertainties.

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. The Company is under no obligation to (and expressly disclaims any such obligation to) update any of the information in any forward-looking statement if such forward-looking statement later turns out to be inaccurate, whether as a result of new information, future events or otherwise, except to the extent otherwise required by applicable law. If we update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements.

SUMMARY OF RISK FACTORS

An investment in shares of our common stock involves a high degree of risk. If any of the factors listed below and described in more detail with the other identified risk factors included in the section entitled “Risk Factors” under Item 1A of this Annual Report on Form 10-K occurs, our business, financial condition, liquidity, results of operations and prospects could be materially adversely affected. In that case, the market price of our common stock could decline, and you could lose some or all of your investment. Some of the most material risks relating to an investment in our common stock include the impact or effect on our Company and its operating results, or its investors, of:

Risks Related to Our Industry

- government or private insurance program funding reductions or limitations;
- alternative payment models or the transition of Medicaid and Medicare beneficiaries to Managed Care Organizations;
- our inability to control reimbursement rates received for our services;
- cost containment initiatives undertaken by private third-party payors;
- the effects of a public health emergency; and
- inadequacies in, or security breaches of, our information technology systems, including the systems intended to protect our clients’ privacy and confidential information;

Risks Related to Our Business

- any changes in the funding, financial viability or our relationships with our payors;
- pandemics, and other infectious diseases, including the COVID-19 pandemic;
- disruptions to our contact center operations caused by health epidemics or pandemics like COVID-19;
- delays in collection, or non-collection, of our accounts receivable, particularly during any business integration;
- an impairment of our long-lived assets;
- any failure to maintain or to develop further reliable, efficient and secure information technology systems;
- an inability to attract and retain qualified employees;
- any acquisition or acquisition integration efforts; and
- estimated income taxes being different from income taxes that we ultimately pay;

Risks Related to Our NEMT Segment

- our contracts not surviving until the end of their stated terms, or not being renewed or extended;
- our failure to compete effectively in the marketplace;
- our not being awarded contracts through the government’s requests for proposals process, or our awarded contracts not being profitable;
- any failure to satisfy our contractual obligations or to maintain existing pledged performance and payment bonds;
- a failure to estimate accurately the cost of performing our contracts;
- any misclassification of the drivers we engage as independent contractors rather than as employees; and
- significant interruptions in our communication and data services;

Risks Related to Our Personal Care Segment

- not successfully executing on our strategies in the face of our competition;
- any inability to maintain relationships with existing patient referral sources;
- certificates of need, or CON, laws or other regulatory and licensure obligations that may adversely affect our personal care integration efforts and expansion into new markets;
- any failure to obtain the consent of the New York Department of Health to manage the day to day operations of our licensed in-home personal care services agency business;
- acquired unknown liabilities in connection with the acquisition of Care Finders Total Care, LLC;
- changes in the case-mix of our personal care patients, or changes in payor mix or payment methodologies;
- our loss of existing favorable managed care contracts;
- our experiencing labor shortages in qualified employees and management;
- labor disputes or disruptions, in particular in New York; and
- becoming subject to malpractice or other similar claims;

Risks Related to Our Remote Patient Monitoring Segment

- operating in the competitive remote patient monitoring industry, and failing to develop and enhance related technology applications;
- any failure to innovate and provide services that are useful to customers and to achieve and maintain market acceptance; and
- acquired unknown liabilities in connection with the acquisition of VRI Intermediate Holdings, LLC;

Risks Related to Our Matrix Investment Segment

- our lack of sole decision-making authority with respect to our minority investment in Matrix and any failure by Matrix to achieve positive financial position and results of operations;

Risks Related to Governmental Regulations

- the cost of our compliance or non-compliance with existing laws;
- changes to the regulatory landscape applicable to our businesses;
- changes in budgetary priorities of the government entities or private insurance programs that fund our services;
- regulations relating to privacy and security of patient and service user information;
- actions for false claims or recoupment of funds;
- civil penalties or loss of business for failing to comply with bribery, corruption and other regulations governing business with public organizations;
- changes to, or violations of, licensing regulations, including regulations governing surveys and audits;
- our contracts being subject to audit and modification by the payors with whom we contract, at their sole discretion; and
- a loss of Medicaid coverage by a significant number of Medicaid beneficiaries following the expiration of the COVID-19 public health emergency under the Families First Coronavirus Response Act (2020);

Risks Related to Our Indebtedness

- our existing debt agreements containing restrictions that limit our flexibility in operating our business;
- our substantial indebtedness and lease obligations;
- any expiration of our New Credit Agreement (as defined below) or loss of available financing alternatives; and
- our ability to incur substantial additional indebtedness;

Risks Related to Our Common Stock

- the results of the remediation of our identified material weaknesses in internal control over financial reporting;
- future sales of shares of our common stock by existing stockholders;
- our stock price volatility;
- our dependence on our subsidiaries to fund our operations and expenses;
- securities analysts failing to publish research or publishing misleading or unfavorable research about us; and
- anti-takeover provisions could discourage a change of control of our company and affect the trading price of our stock.

The foregoing risk factors are not necessarily all of the factors that could cause our actual results, performance or achievements to differ materially from expectations. Other unknown or unpredictable factors also could harm our results. Investors and other interested parties are encouraged to read the information included under the section captioned “Risk Factors” below, which describes other risk factors not summarized above, in its entirety before making an investment decision about our securities.

Item 1. ***Business.***

Overview

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, enable greater access to care, 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. 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's solutions help health plans manage risks, close care gaps, reduce costs, and connect members to care. Through the combination of its historical NEMT business, its in-home personal care business that consists of OEP AM, Inc. and its subsidiaries (which do business as, and we collectively refer to as, "Simplura Health Group") and Care Finders Total Care LLC, and its recent addition of the remote patient monitoring business through its acquisition of VRI Intermediate Holdings, LLC, ModivCare has united four complementary healthcare businesses that serve similar, highly vulnerable patient populations.

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. Matrix's clinical care business ("Clinical Care") provides risk adjustment solutions that improve health outcomes for individuals and financial performance for health plans. Matrix's clinical solutions business ("Clinical Solutions") provides employee health and wellness services focused on improving employee health with worksite certification solutions that reinforce business resilience and safe return-to-work outcomes. Its Clinical Solutions offerings also provide clinical trial services which support the delivery of safe and effective decentralized clinical trial operations to patients and eligible volunteers. Matrix also provides lab services, including services related to COVID-19 such as screening, testing, and vaccinations.

Our Development

ModivCare Inc. is a Delaware corporation that was formed in 1996. The Company completed its initial public offering, or IPO, of its common stock in August 2003 and its shares have been listed for trading on the Nasdaq Stock Market, or NASDAQ, since its IPO. ModivCare's shares of common stock currently trade on the NASDAQ Global Select Market under the ticker symbol "MODV".

ModivCare has grown its business since its IPO into the company it is today through organic growth as well as a series of acquisitions and divestitures of companies operating primarily in related, or tangentially related, industries, as follows with respect to its continuing operations:

- In December 2007, we acquired all of the outstanding equity of Charter LCI Corporation, the parent company of LogistiCare, Inc. (now ModivCare Solutions, LLC), which formed the foundation of our NEMT business and NEMT segment operations, for cash and 418,952 shares of our common stock totaling approximately $220.0 million;
- In October 2014, we acquired all of the outstanding equity of Matrix for cash and common stock totaling approximately $390.7 million, and subsequently in October 2016, affiliates of Frazier Healthcare Partners (Frazier) obtained a 53.2% majority interest in Matrix through a stock subscription, and we received a distribution from Matrix totaling approximately $381.2 million;
- In September 2018, we acquired all of the outstanding equity not already owned by us of Circulation, Inc., which extended our business to include an NEMT technology platform that allows for real time notifications to members on their mobile devices, integration with a wide variety of advanced traffic management systems, or ATMS, and transportation network companies, real time ride tracking, network management and analytics, for cash totaling approximately $45.1 million;
- In May 2020, we acquired all of the outstanding equity of National MedTrans, LLC, or NMT, which expanded our NEMT business to include more than five million trips to its approximately two million members on behalf of state Medicaid agencies and Managed Care Organizations (MCOs) across 12 states, for cash totaling approximately $80.0 million;

- In November 2020, we acquired all of the outstanding equity of OEP AM, Inc., a Delaware corporation doing business as Simplura Health Group, or Simplura, which formed the foundation of our personal care business and Personal Care segment operations, for cash totaling approximately $575.0 million subject to customary adjustments;
- In May 2021, we acquired the transportation management software WellRyde from nuVizz which increased the Company's technology platform for the NEMT network, for cash totaling approximately $12.0 million;
- In September 2021, we acquired all of the outstanding equity of Care Finders Total Care, or Care Finders, which adds to our existing Personal Care segment operations, for cash totaling approximately $340.0 million subject to customary adjustments;
- In September 2021, we acquired all of the outstanding equity of VRI Intermediate Holdings, LLC, or VRI, which formed the foundation of our remote patient monitoring business and RPM segment operations, for cash totaling approximately $315.0 million subject to customary adjustments; and

as follows with respect to our discontinued operations:

- In November 2015, we sold to Molina Healthcare, Inc. our operations comprising our former human services segment, which provided counselors, social workers and behavioral health professionals to work with clients, primarily in the clients' homes or communities, who were eligible for government assistance due to income level, disabilities or court order, for cash totaling approximately $200.0 million; and
- In three separate transactions effected in October 2017, July 2018 and December 2018, we ultimately sold to three separate and unaffiliated entities substantially all of our operations comprising our former workforce development services, or WD Services, segment, which provided workforce development services to long-term unemployed, disabled, and unskilled individuals, as well as individuals coping with medical illnesses and those that had been released from incarceration, for cash totaling approximately $15.8 million, a de minimus amount, and $46.5 million, respectively (any operations remaining after these acquisitions have been assumed by other parties or have been discontinued and are being wound down).

In addition to the acquisition and divestiture activities described above, the Company:

- In January 2019, completed an organizational consolidation in which it closed its corporate offices in Stamford, Connecticut and Tucson, Arizona, and consolidated all activities and functions performed at the corporate holding company level into its NEMT segment, which we refer to as our Organizational Consolidation;
- In June and September 2020, effected a series of transactions pursuant to an agreement with Coliseum Capital Partners, L.P. and/or funds and accounts managed by Coliseum Capital Management, LLC (collectively, the "Coliseum Stockholders") in which (1) the Company repurchased approximately half of the shares of Series A Convertible Preferred Stock owned by the Coliseum Stockholders, and (2) the Coliseum Stockholders converted the remaining portion of their holdings of Series A Convertible Preferred Stock into Common Stock for aggregate consideration of $88.7 million; following the September repurchase of the Coliseum Stockholders' remaining shares of Series A Convertible Preferred Stock, the Company elected to convert all shares of Series A Convertible Preferred Stock held by holders other than the Coliseum Stockholders into Common Stock, thereby eliminating all outstanding shares of our preferred stock;
- In November 2020, issued $500.0 million in aggregate principal amount of its 5.875% Senior Unsecured Notes due in November 2025, which we refer to as our Notes due 2025, the net proceeds from which were used to finance a portion of the purchase price paid in the Simplura acquisition;
- In December 2020, formed with an industry counterpart a protected series (90% of which is owned by us and which we refer to herein as our insurance captive) of a captive insurance company, NEMT Insurance DE LLC, a Delaware limited liability company that has been organized subject to the Delaware Revised Captive Insurance Company Act, which has been established to provide an insurance coverage alternative for transportation providers who are finding it increasingly difficult to obtain required automobile insurance in connection with their NEMT services on terms acceptable to them, or at all;
- In August 2021, issued $500.0 million in aggregate principal amount of its 5.000% Senior Unsecured Notes due in October 2029, which we refer to as our Notes due 2029, the net proceeds from which were used to finance a portion of the purchase price paid in the VRI Intermediate Holdings, LLC acquisition; and
- In May and October 2020 and September 2021, further amended its amended and restated credit and guaranty agreement dated as of August 2, 2013 (as amended, the "Credit Agreement"), to, among other things, increase to $225.0 million the revolving credit limit under the Credit Agreement, permit the issuance of our Notes described above, extend the maturity date of the Credit Agreement to August 2, 2023, permit the incurrence of additional debt to finance our recent acquisitions, and revise financial covenants to permit the consummation of the acquisitions.

Our Strategies

Six pillars fuel and align the six key strategies for our business. Our pillars support our foundation and the strategies that we have established to build stockholder value and guide our operations, product and service delivery model, and ultimate success with our customers and members.

- *Right People in the Right Seats* – ensuring that each person is in the role that best fits the person's skills and capabilities
- *Voice of the Customer* – creating a best-in-class experience for our customers and members
- *Transformational Growth* – building a one-of-a-kind integrated supportive care platform addressing the social determinants of health (SDoH)
- *Single Repeatable Model* – standardizing and automating to enable an efficient and durable operating model delivering consistent customer-centric experiences
- *Enhanced Technology Platform* – rollout of an on-demand product that brings the best capabilities of our technology platform
- *Rebranding* – defining our company's mission, vision, and values and tying them to our external and internal brand

Utilizing these six pillars as guiding principles, our mission is to provide effective and quality services and logistics and to create stockholder value by pursuing and implementing the following key strategies.

Centers of Excellence – Operations and Local Focus

Our operational structure includes six centers of excellence, or COEs, that are designed to enhance the visibility, flexibility and control we have over our operations. These COEs are:

- *Transportation Network*, which is focused on increases to capacity and improvements to quality designed to reduce cost and enhance the member experience;
- *Contact Center Operations*, which is aimed at improving employee productivity through activities such as contact center workflow standardization, cross training and intensive operations management;
- *Client Services*, which is focused on local operations and holistic approaches to our customers and client retention;
- *Technology*, which is focused on the support of operations and development of proprietary technology to elevate the member experience and differentiate our product;
- *Growth*, which is focused on sales, marketing and business development; and
- *Process Improvement*, which is designed to support all of our other COEs in the pursuit of effective and efficient operations.

In addition to the COE oversight structure, we have implemented controls and procedures at the local level to better manage costs and our transportation network. We believe this structure positions us for effective scalability of our business model while also ensuring that the nuances of local activity are taken into account in controlling costs, which when combined, provides us with a competitive advantage.

Technology Transformation

In May 2021, we augmented our existing technology platform with the acquisition of WellRyde. With the addition of WellRyde's industry-leading Advanced Transportation Management System (ATMS) software, we are able to enhance our member experience by providing real-time visibility into trip status, optimized routing, and automated billing and trip assignments. We expect that this technology platform and continued enhancements will reduce inbound calls from members looking for assistance on the location of the transportation provider, improve on-time percentages, enhance member satisfaction, and reduce costs while increasing efficiency. Specifically, we believe this enhanced platform and future improvements to our technology will provide revenue growth and also the following additional benefits:

- member communications through texting, email and automated calls, including the ability for the member to see the location of the transportation provider in real time on a mobile device;
- optimized routing from industry-leading ATMS software;
- automated trip assignments allowing for proactive management for rejected, canceled and late rides;
- automated billing allowing for more precise and timely mileage logs and service outcomes;
- increased service opportunities including meal delivery; and
- driver application enhancements for transportation providers.

Customer and Member Satisfaction

Transportation related to care is one of the most impactful experiences contributing to our clients' and members' satisfaction during their care encounter. At the core of our operational and technology strategies is a focus on driving client and member satisfaction. With respect to our Personal Care segment, process improvements, augmented by technology, are expected to help reduce costs while maintaining quality and compliant patient care. In addition, we strive to become the employer of choice in each of our Personal Care segment markets. We provide our caregivers with ample training and development opportunities. Our scale and density in these markets allow us to provide the number of weekly work hours our caregivers desire, which gives us a competitive advantage in recruitment and retention of caregivers that might otherwise need to work for several agencies to obtain the desired number of work hours. With respect to the RPM segment, the suite of technology-enabled in-home solutions provides improved patient outcomes with peace-of-mind support and reduced costs to payers which drives value and deepens our engagement with customers. More generally, our COE operational structure allows us to develop locally tailored network solutions with a higher level of visibility. Greater access to real time information, enabled through our technology, provides us the ability to shorten cycle times to help identify and resolve client and member issues.

Organic Growth

- *NEMT Segment*. Across the healthcare market, we see an increasing understanding of the benefit of removing transportation as a barrier to care and a way to improve other determinants of health, such as access to food, shelter, socialization, and pharmacy. We believe that our scale, deep experience, operational strategy, and technology tools uniquely position us to address customer needs related to access to transportation for vulnerable populations. We approach sales, marketing and business development in a manner that is focused on driving market share in our core Medicaid market, including states and MCOs, Medicare Advantage plans, health systems and providers. Simultaneously, we target business development efforts with partners to enter new transportation markets, including the movement of home health providers, pharmacy delivery and beneficiaries of workers compensation. We expect there will be network effects as we serve more and more healthcare constituencies within a geography.

- *Personal Care Segment*. We intend to continue to grow in our existing markets for personal care services by:

    - increasing recruiting and expanding our caregiver workforce;
    - developing and retaining our caregivers;
    - delivering consistent and reliable quality of care;
    - leveraging and expanding existing payor and referral source relationships; and
    - strategic de novo sites to increase density and scale.

  Our business development activities in this area include community outreach in each of our markets, where we educate referral sources about the benefits of personal care services and the programs available to patients. We believe that demographic trends such as an aging population and longer life expectancies will increase the size of our addressable market, and that the demand for in-home personal care will further increase because it is the lowest cost setting and therefore preferred by payors and also by patients, who also tend to prefer their own homes over institutional settings. We also believe that the carve-in of personal care into Medicare Advantage plans provides further opportunity for organic growth. As one of the largest platforms providing in-home personal care, we differentiate our services by providing broad geographic coverage in both urban and rural areas and the capability to offer a broad suite of services and manage complex cases involving high-needs patients. In addition, we are working with MCOs and other payors to lower overall cost of care and improve outcomes by managing risk factors, such as falls, and using technology solutions to provide early indicators of change in condition to avoid hospitalization. With these capabilities, we strive to be the provider of choice for in-home personal care services and intend to continue differentiating our services from the competition and winning market share by relying on strong regional leadership, clinical capabilities, qualified and well-trained caregivers and investment in technology.

- *RPM Segment*. We see the opportunity for remote patient monitoring services, which include personal emergency response systems, vitals monitoring, medication adherence solutions, and integrated data reporting and analytics, to provide an alternative to costly existing healthcare solutions, which can be obtained in the safety and comfort of our members' homes. We believe that there is a natural untapped market with considerable growth opportunities that we can reach by cross-selling into our existing relationships with Medicaid and Medicare Advantage plans and marketing the reduced cost of providing coverage for remote monitoring solutions while also resulting in improved patient outcomes and enhanced patient engagement and experience. Further, we believe that demographic trends such as the aging population and increasing prevalence of chronic illness increases the addressable market to support patients that demand in-home solutions where they are able to maintain their independence and avoid long-term care facilities, preventable emergency room use, hospitalization, and hospital readmission. By addressing this sizable market that is expected to increase with the shift in the demographic trends and trend toward value-based solutions, we also see opportunity to address additional payors in order to provide awareness of the benefits of remote monitoring solutions in order to expand the number of payors that offer coverage for this solution and expand our geographic span as we strive to be the provider of choice for remote patient monitoring services.

Inorganic Growth

- NEMT Segment. We closely follow our core NEMT market and expansion markets mentioned above. We believe our experience, relationships in the industry, scale and executive team strongly position us to be a consolidator in healthcare transportation. Our acquisition strategy may include an evaluation of new entrants, which may not be able to otherwise compete without the benefits of scale and experience, and closely-held businesses that may seek a new capital structure or sale to achieve liquidity for founders. With our balance sheet, strong team and track record, we believe we are a natural consolidator.

- Personal Care Segment. We believe there is a significant opportunity for continued growth through acquisition in both new and existing personal care services markets. The personal care services industry is highly fragmented, and smaller competitors are finding it increasingly difficult to compete as payors look to narrow their provider networks and contract with providers of scale that can offer a wide breadth of services and capabilities across a broad geographic area. Moreover, smaller competitors may not have the capital to invest in technology and lack the market density to attract caregivers. We will continue to explore opportunities to acquire regional providers to enter into new markets, and tuck-in acquisitions to grow our presence in existing markets, as well as to branch out into adjacent businesses.

- RPM Segment. We believe there are select opportunities for growth through acquisitions in the remote patient monitoring market. The remote patient monitoring industry is highly fragmented, and we believe that our scale and healthcare-centric platform provide us with the ability to acquire companies in new markets and regions. Technological innovation is also a critical component of the industry’s growth. We believe that our technology agnostic platform allows us to efficiently acquire companies that offer newer technologies and service offerings. We will continue to evaluate acquisition opportunities in the RPM segment to supplement our growth going forward.

Smart Capital Allocation

We seek to manage and allocate capital in a way that creates value and supports the execution of our business strategy. The operations of our respective business segments contribute the primary source of capital to the Company supplemented by any issuances by the Company in the capital markets. Our NEMT segment has continued to generate positive cash flows for the Company. Further, our Personal Care segment has shown consistent revenue growth, a strong free cash flow profile, and maintains an asset-light model similar to our NEMT segment. With the acquisition of VRI in the current year, our RPM segment has also contributed to our continued growth with positive cash flows and strong profit margin. With all of our segments operating collectively, our combined balance sheet provides us with optionality with respect to capital allocation and how we can best deliver stockholder value. We will continue to focus on operational efficiencies, invest in our operations, and seek to enhance our technical capabilities through technological initiatives in an effort to enhance our client and member experience. In respect of our Personal Care segment, we are committed to maintaining and improving the quality of our patient care by dedicating appropriate resources at each site and continuing to refine our clinical and non-clinical initiatives and objectives. We are implementing technology enhancements and service protocols intended to promote best practices, enhance the patient experience, and improve the operating effectiveness and efficiency of our case management, training, staffing, scheduling and labor management. We will also continue to assess the opportunities for capital deployment in order to create value for stockholders, which may include dividends, share repurchases and acquisitions.

Our Operations

We are a technology-enabled, healthcare services company that is the nation’s largest manager of NEMT programs for state governments and MCOs, a leading in-home personal care services provider in the seven eastern states where we provide those services, and a leading provider of remote patient monitoring and medication management solutions. Our core competencies in NEMT include contact center management, network credentialing, claims management and non-emergency medical transport management. Our in-home personal care services include placements of non-medical personal care assistants, home health aides and skilled nurses primarily to Medicaid patient populations in need of care monitoring and assistance performing daily living activities, including senior citizens and disabled adults. Our RPM services include personal emergency response systems, vitals monitoring, medication management, and data-driven patient engagement solutions.

By offering our suite of integrated supportive care solutions for our payor customers and members, we are focused on becoming among the nation’s preeminent SDoH companies and delivering better care in the home, enhancing patient lives, and reducing healthcare costs. We report our operations as described above under four separate business segments: NEMT;

Personal Care; RPM; and Matrix, each of which is described below in greater detail following the next subsection captioned “Business Trends”.

Business 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;
- a movement towards value-based versus fee-for-service 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;
- 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
- MCO, Medicaid and Medicare 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 social determinants of health, and this trend may be accelerated or reinforced by the adoption of 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.

We estimate the overall size of the U.S. NEMT Medicaid and NEMT Medicare Advantage market, in terms of annual spend, to be approximately $5.8 billion. Each year, approximately 6 million Medicaid members are estimated to miss out on medical care due to lack of transportation. NEMT solutions enable access to care that not only improves the quality of life and health of the patients receiving services, but also enable many of the individuals to pursue independent living in their homes rather than in more expensive institutional care settings. In addition, studies have shown that missed medical appointments lessen patient compliance with clinical guidelines and lead to increased complications and expensive medical services. Moreover, preventive care has proven to lower the cost of overall care by avoiding potentially more serious, costly emergent services later. NEMT providers also cater to individuals with specialized transportation requirements.

We estimate the overall size of the U.S. personal care services market, in terms of annual spend, to be approximately $55.0 billion, and it is expected to grow annually by 9% to 14% to $100.0 billion by 2026. The U.S. personal care services market also benefits from the strong underlying trends of aging demographics and a shift toward value-based care, which is moving care away from more expensive institutional settings and into the home. Many consumers in this segment need services on a long-term basis to address chronic conditions. Payors establish their own eligibility standards, determine the type, amount, duration and scope of services, and establish the applicable reimbursement rate in accordance with applicable law, regulations or contracts. By providing services in the home to the elderly and others who require long-term care and support with the activities of daily living, personal care service providers lower the cost of treatment by delaying or eliminating the need for care in more expensive settings, such as nursing homes that we believe can cost greater than two times more than equivalent personal care services. In addition, caregivers observe and report changes in the condition of patients for the purpose of facilitating early intervention in the disease process, which often reduces the cost of medical services by preventing unnecessary emergency room visits and/or hospital admissions and re-admissions. By providing care in the preferred setting of the home and by providing opportunities to improve the patient’s conditions and allow early intervention as indicated, personal care also is designed to improve patient outcomes and satisfaction.

Personal care services are a significant component of home and community-based services, which have grown in significance and demand in recent years. Demand for personal care services is expected to continue to grow due to the aging of the U.S. population, increased life expectancy and improved opportunities for individuals to receive home-based care as an alternative to institutional care. The population of those aged 65 years and older nationally has been consistently growing and the U.S. Census Bureau estimates that starting in 2030, when all baby boomers will be older than 65 years, Americans 65 years and older will make up 21% of the population, up from 17% based on current statistics.

The personal care services industry developed in a highly fragmented manner, with few large participants and many small ones. Few companies have a significant market share across multiple regions or states. We expect ongoing consolidation within the industry, driven by the desire of payors to narrow their networks of service providers, and as a result of the industry’s increasingly complex regulatory, operating and technology requirements. We believe we are well positioned to capitalize on a consolidating industry given our reputation in the market, strong payor relationships and integration of technology into our business model.

We estimate the overall size of the U.S. remote patient monitoring market, in terms of annual spend, to be approximately $1.1 billion, and it is expected to grow annually by a compounded annual growth rate ("CAGR") of 10% to $1.8 billion by 2025. Similar to personal care services, remote patient monitoring services support the shift toward value-based care as they provide patient self-management and care management operations which support and enable seniors, the chronically ill, and persons with disabilities to maintain their independence and avoid long-term care facilities, preventable emergency room use, hospitalization, and hospital readmission. With the increasing population of Americans 65 and older and the significant increase in the occurrence of chronic diseases, for which elderly patients are more prone to contracting, demand for at-home care solutions in lieu of costly doctor visits and institutional care will continue to grow. As remote patient monitoring has continued to grow in popularity, this has supported the underlying trend showing increased desire of seniors and individuals to "age-in-place" while also receiving a comparable standard of care.

Remote patient monitoring also provides the ability to leverage the data analytics obtained in order to produce actionable insights to drive proactive patient interventions which is especially valuable given the growing occurrence of chronic illness. Currently, 60% of adults in the U.S. have one reported chronic health condition with 40% of adults in the U.S. reporting two or more. Chronic disease is a disease that is persistent or long-lasting and includes heart disease, cancer, and diabetes which are the leading causes of death and disability in the United States. These conditions require ongoing and active management and the use of RPM can work to manage symptoms and keep costs for individuals lower in the long-term. RPM services allow patients to monitor symptoms from home which decreases the strain on hospitals that have capacity constraints and ensures continued care and interaction with patients. This tech-enabled healthcare solution is covered by Medicare, Medicaid, and many private insurers that set eligibility criteria and establish reimbursement rates in accordance with applicable law, regulations or contracts and has gained significant traction during the COVID-19 pandemic where patients and providers were able to experience the value of remote health solutions while increasing patient experience and retention. This solution has many facets and we believe we are well positioned as the preeminent leader in providing solutions to address the social determinants of health that will work in tandem to increase payor and member value across our holistic suite of solutions.

NEMT Segment

We provide NEMT solutions to our clients, including state governments, MCOs and health systems, in 50 states and the District of Columbia. As of December 31, 2021, approximately 30 million eligible members received our transportation services, and in 2021, we managed approximately 49 million gross trips.

We primarily contract with state Medicaid programs and MCOs, including Medicare Advantage plans, for the coordination of their members', who are our "end-users", NEMT needs. Our end-users are typically Medicaid or Medicare eligible members, whose limited mobility or financial resources hinder their ability to access necessary healthcare and social services. We believe our transportation services enable access to care, as well as access to meals, shelter, socialization, and pharmacy, that not only improves the quality of life and health of the populations we serve, but also enables many of the individuals we serve to pursue independent living in their homes rather than in more expensive institutional care settings. We provide access to NEMT on a more cost-effective basis than self-administered state Medicaid or MCO transportation programs while improving the lives and health outcomes of the populations we serve.

To fulfill the transportation needs of our end-users, we apply our proprietary technology platform to an extensive network of approximately 5,450 transportation resources. This includes our in-network roster of fully contracted third-party transportation providers who operate sedans, wheelchair equipped vehicles, multi-passenger vans and ambulances. Our system also utilizes relationships with on-demand transportation network companies, mass transit entities, mileage reimbursement programs, taxis and county-based emergency medical service providers. To promote safety, quality and compliance, our in-network transportation providers undergo an in-depth credentialing and education process.

Our transportation management services also include fraud, waste, and abuse prevention and identification through utilization review programs designed to monitor that our transportation services are provided in compliance with Medicaid and Medicare program rules and regulations as well as to remediate issues that are identified. Compliance controls include ongoing monitoring, auditing and remediation efforts, such as validating end-user eligibility for the requested date of service and employing a series of gatekeeping questions to verify that the treatment type is covered and the appropriate mode of transportation is assigned. We also conduct post-trip confirmations of attendance directly with the healthcare providers for certain repetitive trips, and we employ field monitors to inspect transportation provider vehicles and to observe transports in real time. Our claims validation process generally limits payment to trips that are properly documented, have been authorized in advance, and are billed at the pre-trip estimated amount. Our claims process is increasingly digital, which provides more protection to member protected health information and reduces the impact on the environment. Transportation providers are able to submit their bills and supporting documentation directly to us through a secured web portal.

Contracts with state Medicaid agencies are typically for three to five years with multiple renewal options. Contracts with MCOs continue until terminated by either party upon reasonable notice in accordance with the terms of the contract and allow for regular price adjustments based upon utilization and transportation cost. As of December 31, 2021, 9.0% of NEMT segment revenue was generated under state Medicaid contracts that are subject to renewal within the next 12 months. While we typically expect to renew these contracts on an annual basis, we may receive notice from customers that they are terminating or not renewing their contracts upon expiration. For the year ended December 31, 2021, we recorded revenue of approximately $10.5 million for these contracts.

The NEMT segment generated 84.7% of its revenue in 2021 under capitated contracts. Under capitated contracts, payors pay a fixed amount per eligible member. 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 customer'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 customer, or additional payments due from the customer. 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 customer. 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.

The remaining 15.3% of NEMT segment revenue was generated under other types of fee arrangements, including administrative services only and fee-for-service ("FFS"), under which fees are generated based upon billing rates for specific services or defined membership populations. Revenue under FFS contracts 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.

- *Customers*. In 2021, contracts with state Medicaid agencies and MCOs represented approximately 44.9% and 55.1%, respectively, of NEMT segment revenue. The NEMT segment derived approximately 9.7%, 9.5% and 12.7% of its revenue from a single state Medicaid agency for the years ended December 31, 2021, 2020 and 2019, respectively. The next four largest NEMT segment customers by revenue comprised in the aggregate approximately 17.7%, 21.6% and 19.7% of NEMT segment revenue for the years ended December 31, 2021, 2020 and 2019, respectively.

- *Development Efforts and New Product Offerings*. The delivery of our NEMT program is dependent upon a highly integrated platform of technology and business processes as well as the management of a multifaceted network of third-party transportation providers. Our technology platform is purpose-built for the unique needs of our industry and is highly scalable: capable of supporting substantial growth in our clients' current and future membership base. In addition, our technology platform efficiently provides a broad interconnectivity among end-users, customers, and our network of transportation providers. We believe this technological capability and our industry experience position us well as a focal point in the evolving healthcare industry to introduce valuable population insights. We also believe that it will enable us to deliver to our customers and end-users a single repeatable model that standardizes our offerings and is more customer-centric across each contact center. We provide service offerings and technological features for end-users to improve service levels, lower costs and build the foundation for additional data analytics capabilities. We are continuing to implement a modern, cloud based, interactive, voice responsive automated call distribution and work force management system across all contact centers. Our technology also allows for real time notifications to members on their mobile devices, integration with a wide variety of ATMS and transportation network companies, real time ride tracking, network management and analytics.

- *Competition*. We compete with a variety of national organizations that provide similar healthcare and social services related transportation, such as Medical Transportation Management, Southeastrans, Veyo, and Access2Care, as well as local and regional providers. Most local competitors seek to win contracts for specific counties or small geographic territories, whereas we and other larger competitors seek to win contracts for an entire state or large regional area. We compete based upon a number of factors, including our nationwide network, technical expertise, experience, service capability, service quality, and price.

- *Seasonality*. Our quarterly operating income and cash flows normally fluctuate as a result of seasonal variations in the business, principally due to lower transportation demand during the winter season and higher demand during the summer season.

Personal Care Segment

We provide in-home personal care services to our customers with agency branches across various states, including in several of the nation's largest home care markets: New York, New Jersey, Florida, Pennsylvania, Massachusetts, West Virginia and Connecticut. We place non-medical personal care assistants, home health aides and skilled nurses primarily to Medicaid patient populations in need of care monitoring and assistance performing daily living activities in the home setting, including persons who are at increased risk of hospitalization or institutionalization, such as the elderly, chronically ill or disabled senior citizens and disabled adults. Our personal care services include bathing, personal hygiene, grooming, oral care, dressing, medication reminders, meal planning, preparation and feeding, housekeeping, transportation services, prescription reminders, and assistance with dressing and ambulation, all of which enable aging-in-place and support overall wellness. As of December 31, 2021, we had approximately 16,000 trained caregivers throughout all of our branch locations serving, on average, approximately 20,000 patients and providing approximately 28 million hours of patient care annually.

Our Personal Care segment payor clients include federal, state and local governmental agencies, MCOs, commercial insurers and private individuals. The federal, state and local programs under which these organizations operate are subject to legislative, budgetary and other risks that can influence reimbursement rates. MCOs that operate as an extension of our government payors are subject to similar economic pressures. Our commercial insurance payor clients are continuously seeking opportunities to control costs.

Most of our personal care services are provided pursuant to agreements with state and local governmental aging services agencies, Medicaid waiver programs, and home and community based long-term living programs. These agreements generally have an initial term of one to two years and may be terminated with 60 days' notice. They are typically renewed in our experience for one to five-year terms, provided that we have complied with licensing, certification and program standards, and other regulatory requirements.

Reimbursement rates and methods vary by state and type of service, but are typically fee-for-service based on hourly or other unit-of-service bases. MCOs are becoming an increasing portion of our Personal Care segment payor mix as states shift from administering FFS programs to utilizing managed care models.

- *Customers.* In 2021, contracts with state Medicaid agencies and MCOs represented approximately 33.0% and 60.3%, respectively, of Personal Care segment revenue. The Personal Care segment derived approximately 22.3% and 24.7% of its revenue from a single state Medicaid agency for the years ended December 31, 2021 and 2020, respectively. The next four largest Personal Care segment customers by revenue comprised in the aggregate approximately 20.8% of segment revenue for the year ended December 31, 2021.

- *Development Efforts and New Product Offerings*. We do not deploy proprietary technology in our Personal Care segment, but we have invested in the implementation of the enterprise technology solution Homecare Software Solutions, LLC, which operates under the HHAeXchange brand and which we refer to as "HHAeXchange", to manage compliance, scheduling, electronic visit verification (EVV), payroll and revenue cycle. HHAeXchange has been implemented for the majority of our Personal Care segment business, and additional functionality is being implemented, including "Stop & Watch" monitoring of change in patient condition, care plan reporting via EVV, mobile application self-service and others. The three MCOs in Pennsylvania selected HHAeXchange to collect confirmed homecare visits, create claims to MCOs and provide workflow efficiency tools, enabling interoperability between our Personal Care segment operations and the three Pennsylvania MCOs. Additionally, we have implemented the Relias e-learning solutions in select operations, and we continue to roll out the application throughout the segment. Relias e-learning solutions enables required training to be delivered remotely and helps improve utilization by reducing time lost for training.

- *Competition*. The personal care services industry in which we operate is highly competitive and fragmented. Providers range from facility-based agencies (e.g., day health centers, live-in facilities, government agencies) to independent home care companies. They can be not-for-profit organizations or for-profit organizations. There are relatively few barriers to entry in some of the home healthcare services markets in which we operate. We believe, however, that we have a favorable competitive position, attributable mainly to:

    - the consistently high quality and targeted services we have provided over the years to our patients;
    - our ability to serve complex, high-needs patient populations;
    - our scale and density in the markets we serve;
    - our strong relationships with payors and referral sources; and
    - our investments in technology.

- *Seasonality*. Our quarterly operating income and cash flows 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 payroll expense in the Personal Care segment is also generally higher during the earlier quarters of the year prior to employees reaching the applicable thresholds for certain payroll taxes, and during periods with major holidays resulting from holiday pay rates.

Remote Patient Monitoring Segment

We provide remote patient monitoring services to support patient self-management and care management operations that enable seniors, the chronically ill, and persons with disabilities to maintain their independence and avoid long-term care facilities, preventable emergency room use, hospitalization, and hospital readmission. Services include personal emergency response systems, vitals monitoring, medication adherence solutions, and integrated data reporting and analytics. With high-touch engagement, the RPM segment has 2.5 million annual person-to-person interactions over a population of approximately 174 thousand actively monitored health plan members.

We market our RPM services to national and regional health plans, government funded benefit programs, healthcare provider organizations, and individuals. Our commercial insurance payor clients are continuously seeking opportunities to control costs.

- *Customers*. The Company serves approximately 174,000 national and regional health plans, government-funded benefit programs, and healthcare provider organizations members, and individuals across the country. They have a diverse base of customers across multiple end markets including Medicare Advantage, State and Managed Medicaid, and Health Systems or Distributors.

- *Development Efforts and New Product Offerings*. VRI's device-agnostic technology platform allows it to rapidly adopt and seamlessly integrate new products as hardware innovation continues across the industry. Currently, the Company is contracted with 30+ manufacturers and integrated across 250+ devices. VRI continuously evaluates new products, integrating 10+ devices annually and with rapid onboarding, the Company averages only 30 days to integrate a new product or technology and deploy it in the field.

- *Competition*. We compete with a variety of RPM solution providers that include both new entrants to the healthcare industry and legacy healthcare providers. Top providers include Medtronic, Philips Healthcare, Dexcom, and Honeywell Life Sciences. Given the rapidly changing technology that supports the health-tech industry, any Company that is able to innovate and provide a more efficient and effective solution could enter the RPM market, however there are significant barriers to entry, including long contracting and licensing timeframes, multiple compliance audits necessitating numerous internal tracking systems and complicated reimbursement processes and rules.

Matrix Investment Segment

We own a 43.6% non-controlling equity interest in Matrix. We and Frazier, which holds the controlling equity interest in Matrix, are party to a Second Amended and Restated Limited Liability Company Agreement, or Operating Agreement, of Mercury Parent, LLC, the company through which the parties hold their equity interests in Matrix. The Operating Agreement sets forth the terms and conditions regarding our ownership, including our indirect ownership of common stock of Matrix, and provides for, among other things, liquidity and governance rights and other obligations and rights, in each case, on the terms and conditions contained in the Operating Agreement. We account for our interest in Matrix under the equity method whereby the Company's proportionate share of Matrix's net assets is recorded as equity investment in our consolidated balance sheets and our proportionate share of its financial results are recorded as equity net gain (loss) on investee within our consolidated statements of operations.

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. Matrix's clinical care business ("Clinical Care") provides risk adjustment solutions that improve health outcomes for individuals and financial performance for health plans. Matrix's clinical solutions business ("Clinical Solutions") provides employee health and wellness services focused on improving employee health with worksite certification solutions that reinforce business resilience and safe return-to-work outcomes. Its Clinical Solutions offerings also provide clinical trial services which support the delivery of safe and effective decentralized clinical trial operations to patients and eligible volunteers. Matrix also provides lab services, including services related to COVID-19 such as screening, testing, and vaccinations. As of December 31, 2021, Matrix utilized a national network of approximately 3,750 clinical providers, including approximately 2,500 nurse practitioners, located across 50 states, to provide its services primarily to members of Medicare

Advantage health plans. Matrix primarily generates revenue through the performance of CHAs, which seek to confirm a health plan member's information related to health status, and social, environmental and medical risks, to assist Medicare Advantage health plans in improving the accuracy of such information. Matrix also operates a care management offering which provides additional data analytics, chronic care management services and employee wellness programs.

- *Customers*. As of December 31, 2021, Matrix's customers included 47 health plans related to the Clinical Care business as well as 39 other entities related to the Clinical Solutions business. For the year ended December 31, 2021, Matrix's top five customers accounted for 51.8% of its revenue, with its largest customer comprising 19.1% of its revenue and its second largest customer comprising 16.3% of its revenue. Matrix enters into annual or multi-annual contracts under which it is paid on a per assessment basis. Volumes are not guaranteed under contracts, however, and customers may choose to utilize other third-party providers or in-source capabilities.

- *Development Efforts and New Product Offerings*. Matrix's services are dependent upon its technology platform which integrates the clinical provider network, operations infrastructure, contact centers and clients. Matrix's platform is designed for the unique needs of its industry, is highly scalable and can support substantial growth. We believe Matrix's network and platform position Matrix as a focal point in the evolving healthcare industry in the introduction of both additional population insights and care management services. With data provided by its health plan clients, Matrix utilizes analytics to determine which members it can most effectively lower costs and improve outcomes through face-to-face engagements with clinicians. Each program is customized and is served by a comprehensive team of case managers, nurse practitioners, registered nurses, and trained contact center colleagues.

- *Competition*. We believe that Matrix and Signify Health are the largest independent providers of CHAs to the health plan market. There are many smaller competitors, such as EMSI Healthcare Services, MedXM, which is a Quest Diagnostics company, and Inovalon. In addition, some health plans in-source CHA services. Matrix's chronic care management competitors include Landmark Healthcare, PopHealthCare, which is a GuideWell company, and Optum.

Governmental Regulations

Overview

Our business is subject to numerous U.S. federal, state and local laws, regulations and agency guidance. These laws significantly affect the way in which we operate various aspects of our business. We must also comply with state and local licensing requirements, state and federal requirements for participation in Medicare and Medicaid, requirements for contracting with Medicare Advantage plans, and contractual requirements imposed upon us by the federal, state and local agencies and third-party commercial customers to which we provide services. Failure to follow the rules and requirements of these programs can significantly affect our ability to be paid for the services we provide and be authorized to provide on an ongoing basis.

The Medicare and Medicaid programs are governed by significant and complex laws. Both Medicare and Medicaid are financed, at least in part, with federal funds. Therefore, any direct or indirect recipients of those funds are subject to federal fraud, waste and abuse laws. In addition, there are federal privacy and data security laws that govern the healthcare industry. State laws primarily pertain to the licensure of certain categories of healthcare professionals and providers and the state's interest in regulating the quality of healthcare in the state, regardless of the source of payment, but may also include state laws pertaining to fraud, waste and abuse, privacy and data security laws, and the state's regulation of its Medicaid program. Federal and state regulatory laws that may affect our business, include, but are not limited to the following:

- false and other improper claims or false statements laws pertaining to reimbursement;
- the Health Insurance Portability and Accountability Act of 1996, or HIPAA, and its privacy, security, breach notification and enforcement and code set regulations and guidance, along with evolving state laws protecting patient privacy and requiring notifications of unauthorized access to, or use of, patient medical information;
- civil monetary penalties law;
- anti-kickback laws;
- Section 1877 of the Social Security Act, also known as the "Stark Law", and other self-referral, financial inducement, fee splitting, and patient brokering laws;
- The Centers for Medicare & Medicaid Services, or CMS, regulations pertaining to Medicare and Medicaid as well as CMS releases applicable to the operation of Medicare Advantage plans, such as reimbursement rates, risk adjustment and data collection methodologies, adjustments to quality management measurements and other relevant factors;
- State Medicaid laws, rules and regulations that govern program participation, operations, the provision of care to Medicaid beneficiaries and the reimbursement for such services; and
- state licensure laws.

A violation of certain of these laws could result in civil and criminal damages and penalties, the refund of monies paid by government or private payors, our exclusion from participation in federal healthcare payor programs, or the loss of our license to conduct some or all of our business within a particular state's boundaries. While we believe that our programs are in compliance with these laws, allegations that we failed to comply with these requirements could have a material adverse impact on our business.

Federal Law and State Laws

Federal healthcare laws apply in any case in which we provide an item or service that is reimbursable or provide information to our customers that results in reimbursement by a federal healthcare payor program. The principal federal laws that affect our business include those that prohibit the filing of false or improper claims or other data with federal healthcare payor programs, require confidentiality of patient health information, prohibit unlawful inducements for the referral of business reimbursable under federal healthcare payor programs and those that prohibit physicians from referring to certain entities if the physician has a financial relationship with that entity.

State healthcare laws apply in any case in which we provide an item or service that is reimbursable or provide information to our customers that results in reimbursement by a state Medicaid program. The principal state Medicaid laws that affect our business include those that prohibit the filing of false or improper claims or other data with state Medicaid programs, prohibit unlawful inducements for the referral of business reimbursable by a state Medicaid program and those that prohibit physicians from referring patients to certain entities if the physician has a financial relationship with that entity. Because we receive Medicaid reimbursement, we are subject to applicable participation conditions including a variety of operational, conflict of interest, and structural obligations. For example, in states that have elected to obtain authority to provide NEMT as a medical service through a broker using the regulatory process permitted by the Deficit Reduction Act of 2005, or DRA, we are prohibited from contracting with any transportation provider with which we have a financial relationship. In addition to Medicaid laws, many states have health care or professional licensure requirements that potentially apply to parts of our business.

False and Other Improper Claims

Under the federal False Claims Act and similar state laws, the government may impose civil liability on us if we knowingly submit a false claim to the government or cause another to submit a false claim to the government, or knowingly make a false record or statement intended to get a false claim paid by the government. The False Claims Act defines a claim as a demand for money or property made directly to the government or to a contractor, grantee, or other recipient if the money is to be spent on the government's behalf or if the government will reimburse the contractor or grantee. Liability can be incurred for submitting (or causing another to submit) false claims with actual knowledge or for submitting false claims with reckless disregard or deliberate ignorance. Liability can also be incurred for knowingly making or using a false record or statement to receive payment from the federal government; for knowingly and improperly avoiding or decreasing an obligation to pay or transmit money or property to the government; or for knowingly noncomplying with a law or regulation that is material to the government's decision to pay Medicare or Medicaid claims. Consequently, a provider need not take an affirmative action to conceal or avoid an obligation to the government, but the mere retention of an overpayment from the government could lead to potential liability under the False Claims Act.

Many states also have similar false claims statutes. In addition, healthcare fraud is a priority of the U.S. Department of Justice, the U.S. Department of Health and Human Services, or DHHS, its program integrity contractors and its Office of Inspector General, the Federal Bureau of Investigation and state Attorneys General. These agencies have devoted a significant amount of resources to investigating healthcare fraud.

If we are ever found to have violated the False Claims Act, we could be required to make significant payments to the government (including damages and penalties in addition to the return of reimbursements previously collected) and could be excluded from participating in federal healthcare programs or providing services to entities which contract with those programs. Although we monitor our billing practices for compliance with applicable laws, such laws are very complex, and we might not be able to detect all errors or interpret such laws in a manner consistent with a court or an agency's interpretation. While the criminal statutes generally are reserved for instances evidencing fraudulent intent, the civil and administrative penalty statutes are being applied by the federal government in an increasingly broad range of circumstances. Examples of the types of activities giving rise to liability for filing false claims include billing for services not rendered, misrepresenting services rendered (i.e., miscoding), applications for duplicate reimbursement and providing false information that results in reimbursement or impacts reimbursement amounts. Additionally, the federal government takes the position that a pattern of claiming reimbursement for unnecessary services violates these statutes if the claimant should have known that the services were unnecessary. The federal government also takes the position that claiming reimbursement for services that are substandard is a violation of these statutes if the claimant should have known that the care was substandard. Criminal penalties also are available even in the case of claims filed with private insurers if the federal government shows that the claims constitute mail fraud or wire fraud or violate any of the federal criminal healthcare fraud statutes.

State Medicaid agencies and state Attorneys General also have authority to seek criminal or civil sanctions for fraud and abuse violations. In addition, private insurers may bring actions under state false claim laws. In certain circumstances, federal and state laws authorize private whistleblowers to bring false claim or "qui tam" suits on behalf of the government against providers and reward the whistleblower with a portion of any final recovery. In addition, the federal government has engaged a number of private audit organizations to assist it in tracking and recovering claims for healthcare services that may have been improperly submitted.

Governmental investigations and whistleblower qui tam suits against healthcare companies have increased significantly in recent years, and have resulted in substantial penalties and fines and exclusions of persons and entities from participating in government healthcare programs. While we believe that our programs are in compliance with these laws, allegations that we failed to comply with these requirements could have a material adverse impact on our business.

Health Information, Privacy and Data Protection Practices

Under HIPAA, DHHS issued rules to define and implement standards for the electronic transactions and code sets for the submission of transactions such as claims, and privacy and security of individually identifiable health information in whatever manner it is maintained.

The Final Rule on Enforcement of the HIPAA Administrative Simplification provisions, including the transaction standards, the security standards and the privacy rule, published by DHHS addresses, among other issues, DHHS's policies for determining violations and calculating civil monetary penalties, how DHHS will address the statutory limitations on the imposition of civil monetary penalties, and various procedural issues. The rule extends enforcement provisions currently applicable to the healthcare privacy regulations to other HIPAA standards, including security, transactions and the appropriate use of service code sets.

The Health Information Technology for Economic and Clinical Health Act, or HITECH, enacted as part of the American Recovery and Reinvestment Act of 2009, extends certain of HIPAA's obligations to parties providing services to healthcare entities covered by HIPAA known as "business associates," imposes new notice of privacy breach reporting obligations, extends enforcement powers to state Attorneys General and amends the HIPAA privacy and security laws to strengthen the civil and criminal enforcement of HIPAA. HITECH establishes four categories of violations that reflect increasing levels of culpability, four corresponding tiers of penalty amounts that significantly increase the minimum penalty amount for each violation, and a maximum penalty amount of $1.5 million for all violations of an identical provision. With the additional HIPAA enforcement power under HITECH, the Office for Civil Rights of DHHS and states are increasing their investigations and enforcement of HIPAA compliance. We have taken steps to ensure compliance with HIPAA and are monitoring compliance on an ongoing basis.

Additionally, the HITECH Final Rule imposes various requirements on covered entities and business associates, and expands the definition of "business associates" to cover contractors of business associates. Even when we are not operating as covered entities, they may be deemed to be "business associates" for HIPAA rule purposes of such covered entities. We monitor compliance obligations under HIPAA as modified by HITECH, and implement operational and systems changes, associate training and education, conduct risk assessments and allocate resources as needed. Any noncompliance with HIPAA requirements could expose us to criminal and increased civil penalties provided under HITECH and require significant costs in order to comply with its requirements or to remediate potential issues that may arise.

Other state privacy laws may also apply to us, including the California Consumer Privacy Act, or CCPA, which came into force in January 2020. The CCPA affords California residents with specified rights relating to the collection and use of their personal information. Violation of the CCPA may lead to monetary fines, and data breaches may give rise in certain circumstances to private rights of action by impacted individuals. While we believe that our practices are in compliance with these laws, allegations that we failed to comply with these requirements could have a material adverse impact on our business.

Federal and State Anti-Kickback Laws

Federal law commonly known as the "Anti-Kickback Statute" prohibits the knowing and willful offer, solicitation, payment or receipt of anything of value (direct or indirect, overt or covert, in cash or in kind) which is intended to induce:

- the referral of an individual for a service for which payment may be made by Medicare, Medicaid or certain other federal healthcare programs; or
- the ordering, purchasing, leasing, or arranging for, or recommending the purchase, lease or order of, any service or item for which payment may be made by Medicare, Medicaid or certain other federal healthcare programs.

Interpretations of the Anti-Kickback Statute have been very broad and under current law, courts and federal regulatory authorities have stated that the Anti-Kickback Statute is violated if even one purpose (as opposed to the sole or primary purpose) of the arrangement is to induce referrals. Even bona fide investment interests in a healthcare provider may be questioned under the Anti-Kickback Statute if the government concludes that the opportunity to invest was offered as an inducement for referrals.

This act is subject to numerous statutory and regulatory “safe harbors.” Compliance with the requirements of a safe harbor offers defenses against Anti-Kickback Statute allegations. Failure of an arrangement to satisfy all of the requirements of a particular safe harbor does not mean that the arrangement is unlawful. It may mean, however, that such an arrangement will be subject to scrutiny by the regulatory authorities.

Many states, including some where we do business, have adopted anti-kickback laws that are similar to the federal Anti-Kickback Statute. Some of these state laws are very closely patterned on the federal Anti-Kickback Statute; others, however, are broader and reach reimbursement by private payors. If our activities were deemed to be inconsistent with state anti-kickback or illegal remuneration laws, we could face civil and criminal penalties or be barred from such activities, any of which could harm us.

If our arrangements are found to violate the Anti-Kickback Statute or applicable state laws, we, along with our clients, would be subject to civil and criminal penalties. In addition, implicated contracts may not be legally enforceable, which could materially and adversely affect our business. While we believe that our programs are in compliance with these laws, allegations that we failed to comply with these requirements could have a material adverse impact on our business.

Federal and State Self-Referral Prohibitions

We may be subject to federal and state statutes banning payments for referrals of patients and referrals by physicians to healthcare providers with whom the physicians have a financial relationship. Section 1877 of the Social Security Act, also known as the “Stark Law”, prohibits physicians from making a “referral” for “designated health services” for Medicare (and in many cases Medicaid) patients from entities or facilities in which such physicians directly or indirectly hold a “financial relationship”.

A financial relationship can take the form of a direct or indirect ownership, investment or compensation arrangement. A referral includes the request by a physician for, or ordering of, or the certifying or recertifying the need for, any designated health services.

Certain services that we provide may be identified as “designated health services” for purposes of the Stark Law. Such segments cannot provide assurance that future regulatory changes will not result in other services they provide becoming subject to the Stark Law’s ownership, investment or compensation prohibitions in the future.

Many states, including some states where we do business, have adopted similar or broader prohibitions against payments that are intended to induce referrals of clients. Moreover, many states where such segments operate have laws similar to the Stark Law prohibiting physician self-referrals. While we believe that our programs are in compliance with these laws, allegations that we failed to comply with these requirements could have a material adverse impact on our business.

Surveys and Audits

Our business is subject to periodic surveys by government authorities or their contractors and our payors to ensure compliance with various requirements. Regulators conducting periodic surveys often provide reports containing statements of deficiencies for alleged failures to comply with various regulatory requirements. In most cases, if a deficiency finding is made by a reviewing agency, we will work with the reviewing agency to agree upon the steps to be taken to bring our program into compliance with applicable regulatory requirements. In some cases, however, an agency may take a number of adverse actions against a program, including:

- the imposition of fines or penalties or the recoupment of amounts paid;
- temporary suspension of admission of new clients to our program’s service;

- in extreme circumstances, exclusion from participation in Medicaid, Medicare or other programs;
- revocation of our license; or
- contract termination.

While we believe that our programs are in compliance with Medicare, Medicaid and other program certification requirements and state licensure requirements, the rules and regulations governing Medicare, Medicaid participation and state licensure are lengthy and complex. Allegations that we failed to comply with these laws could have a material adverse impact on our business and our ability to enter into contracts with other agencies to provide services.

Billing/Claims Reviews and Audits

Agencies and other third-party commercial payors periodically conduct pre-payment or post-payment medical reviews or other audits of our claims or other audits in conjunction with obligations to comply with the requirements of Medicare or Medicaid. In order to conduct these reviews, payors request documentation from us and then review that documentation to determine compliance with applicable rules and regulations, including the eligibility of clients to receive benefits, the appropriateness of the care provided to those clients, and the documentation of that care. Any determination that such segments have not complied with applicable rules and regulations could result in adjustment of payments or the incurrence of fines and penalties, or in situations of significant compliance failures review or non-renewal of related contracts.

Corporate Practice of Medicine and Fee Splitting

The corporate practice of medicine doctrine prohibits corporations from practicing medicine or employing a physician to provide professional medical services. This doctrine arises from state medical practice acts and is based on a number of public policy concerns, including:

- allowing corporations to practice medicine or employ physicians will result in the commercialization of the practice of medicine;
- a corporation’s obligation to its stockholders may not align with a physician’s obligation to the physician’s patients; and
- employment of a physician by a corporation may interfere with the physician’s independent medical judgment.

Most states in which Matrix operates and in which we provide personal care services prohibit the corporate practice of medicine. Every state provides an exception for physician ownership of a professional corporation. Many states provide an exception for employment of physicians by certain entities. The scope of these exceptions varies from state to state. Corporate practice of medicine doctrine issues can also overlap with kickback and fee-splitting concerns. Some states use the corporate practice of medicine doctrine to limit the services that a manager can furnish to a physician or medical practice because the state is concerned that a manager might interfere with the physician’s independent medical judgment and/or impose an unacceptable intrusion into the relationship between the physician and the patient.

Among other activities, Matrix currently contracts with and employs nurse practitioners to perform CHAs and our Personal Care segment currently:

- employs registered nurses and licensed practical nurses to render skilled nursing care directly and to provide overall clinical supervision to patients; and
- has medical professionals provide guidance to its Quality Improvement Committees.

We believe that Matrix and our Personal Care segment have structured operations appropriately. Either or both, however, could be alleged or found to be in violation of some or all of these laws. If a state determines that some portion of the business violates these laws, or that a payment induced a physician to refer a patient, it may seek to have an entity discontinue or restructure those portions of operations or subject the entity to increased costs, penalties, fines, certain license requirements or other measures. Any determination that Matrix or we acted improperly in this regard may result in liability. In addition, agreements between Matrix and the particular professional may be considered void and unenforceable.

Professional Licensure and Other Requirements

Many of Matrix’s employees are subject to federal and state laws and regulations governing the ethics and practice of their professions. For example, mid-level practitioners (e.g., Nurse Practitioners) are subject to state laws requiring physician supervision and state laws governing mid-level scope of practice. As physicians’ use of mid-level practitioners increases, state governing boards are implementing more robust regulations governing mid-levels and their scope of practice under physician supervision. The ability of Matrix to provide mid-level practitioner services may be restricted by the enactment of new state laws governing mid-level scope of practice and by state agency interpretations and enforcement of such existing laws. In addition, services rendered by mid-level practitioners may not be reimbursed by payors at the same rates as payors may reimburse physicians for the same services. Lastly, professionals who are eligible to participate in Medicare and Medicaid as individual providers must not have been excluded from participation in government programs at any time. The ability of Matrix to provide services depends upon the ability of personnel to meet individual licensure and other requirements and maintain such licensure in good standing.

COVID-19 Public Health Emergency Orders

Emergency, public health and executive orders, issued or extended, declared by the U.S. federal and state governments in response to the COVID-19 pandemic have waived numerous legal requirements while also imposing new legal restrictions. Many public health and executive orders are issued, rescinded or modified with little advance notice. These emergency, public health and executive orders have created significant uncertainty in the legal and operational duties of health care providers. While we believe that our programs are in compliance with emergency, public health and executive orders, allegations that we failed to comply with these requirements could have a material adverse impact on our business.

CARES Act Provider Relief Fund

The Coronavirus Aid, Relief, and Economic Security Act, which was signed into law on March 27, 2020 (the "CARES Act"), established the Provider Relief Fund that made relief payments to certain health care providers. The purpose of the Provider Relief Fund was to provide funding to health care providers so they could prevent, prepare for, and respond to the coronavirus. Providers who received relief payments are subject to eligibility criteria and specific terms and conditions on the use of relief payments. To receive relief payments, many providers were required to attest to numerous statements regarding accuracy of their application and their compliance with the eligibility criteria and the terms and conditions. Providers' use of relief payments is limited to health care related expenses or lost revenues that are attributable to coronavirus. Providers are required to have documentation that relief payments were used for those purposes. There is limited guidance concerning what the government might consider a health care related expense or lost revenue that was attributable to coronavirus or what type of documentation is adequate.

Simplura and Care Finders have received relief payments from the CARES Act Provider Relief Fund. While we believe that the receipt and use of relief payments was in compliance with Provider Relief Fund requirements, allegations of a failure to comply with these requirements could have a material adverse impact on our business.

Human Capital Management

Attracting, developing and retaining talented people who embrace our culture, execute our strategy, and enable us to compete effectively in our industry is critical to our success. To that end, ensuring that we have the right people in the right seats is one of our six pillars guiding our business strategy.

We believe a critical component of our success is our company culture. Our vision statement, "We drive positive health outcomes by transforming the way we connect to care" gets to the core of everything we do. We aim to attract and retain great people – representing a diverse array of perspectives and skills – who work together as a cohesive team by embodying the following values:

Because we care….

- We treat everyone with dignity and RESPECT;
- We earn the TRUST of our members and each other;
- We provide RELIABLE services that open doors;
- We serve with courtesy and COMPASSION;
- We prioritize SAFETY; and
- We communicate with purpose and TRANSPARENCY……… always.

Our ability to recruit and retain our employees depends on a number of factors, including providing competitive compensation and benefits, development and career advancement opportunities, and a collegial work environment. We invest in those areas in an effort to ensure that we continue to be the employer of choice for our employees.

Compensation and Benefits

Our benefits are designed to help employees and their families stay healthy, meet their financial goals, protect their income and help them have harmony between their work and personal lives. These benefits include health and wellness, paid time off, employee assistance, competitive pay, broad-based bonus programs, pension and retirement savings plans, career growth opportunities, and a culture of recognition.

Employee Development and Advancement

We invest significant resources to develop employees with the right capabilities to deliver the growth and innovation needed to support our strategy. We seek to ensure that we are building the organizational capabilities required for success in the years to come. We offer employees and their managers a number of tools to help in their personal and professional development, including career development plans, mentoring programs and in-house learning opportunities, including an in-house continuing education program. We also have a practice of investing in our next generation of leaders and offer employees a number of leadership development programs. We believe in and encourage our employees and managers to maintain a growth mindset, a belief that qualities and talents can be developed through dedication and hard work, and have aligned our performance management programs to support our culture transformation with increased focus on continuous learning and development.

As of December 31, 2021, we had approximately 20,200 employees, of which approximately 3,750 were dedicated to our NEMT segment, 16,100 were dedicated to our Personal Care segment, and 350 were dedicated to our RPM segment. Approximately 2,500 of our Personal Care segment caregivers were unionized in New York at the end of 2021, and we believe that we have good relationships with all of our employees.

Employee Safety and Wellbeing

In response to the COVID-19 pandemic, the Company has implemented the following measures to protect our employees' health and safety:

- Increase frequency of deep-cleaning at our offices;
- Make hand sanitizer readily available to our employees;
- Provide employees with personal protective equipment; and
- Implement alternate work schedules and other measures aimed at minimizing the transmission of COVID-19 while sustaining productivity on behalf of our customers and their patients.

Further, in response to state and federal government mandates, the Company has made the following requirement of team members:

- Full vaccination is required for our employees, unless an approved medical exemption or religious accommodation applies, or a separate appropriate exception is in place;
- Masks and social distancing are required for any of our team members that are not fully vaccinated or for members working in a location with a state or local ordinance.

Demographics and Diversity

Our employees reflect the communities in which we live and work, and the customers we serve, and they possess a broad range of thought and experiences that have helped us achieve our successes to date. A key component of our growth and success is our focus on inclusion and diversity. We believe this commitment allows us to better our understanding of patient and customer needs, and develop technologies and solutions to meet those needs. Although we have made progress in our workforce diversity representation, we continue to seek to improve in this important area. We have established goals to continue improving our hiring, development, and retention of diverse employees and our overall diversity representation, including within our executive management team, in an effort to be a socially responsible community member.

Additional Information

The Company makes available to the public on its website at www.modivcare.com its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after it electronically files such material with, or furnishes such material to, the SEC. Copies are also available, without charge, upon request to ModivCare Inc., 6900 Layton Avenue, 12th Floor, Denver, Colorado 80237, (303) 728-7043, Attention: Corporate Secretary. The information contained on our website is not part of, and is not incorporated by reference in, this Annual Report on Form 10-K or any other report or document we file with or furnish to the SEC.

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

You should consider and read carefully all of the risks and uncertainties described below, as well as the other information included in this Annual Report on Form 10-K, including our consolidated financial statements and related notes. The risks described below have been organized under headings that are provided for convenience and intended to organize the risks and uncertainties into related categories to improve readability for investors; no inference should be drawn, however, that the placement of a risk factor under a particular category means that it is not applicable to another category of risks or that it may be more or less material than another risk factor. Regardless, they are also not the only risks and uncertainties facing us. The occurrence of any of the following risks or additional risks and uncertainties not presently known to us or that we currently believe to be immaterial could materially and adversely affect our business, financial condition and results of operations. This Annual Report on Form 10-K also contains forward-looking statements and estimates that involve risks and uncertainties, as discussed above in this Part I under the caption "Disclosure Regarding Forward-Looking Statements". Our actual results could differ materially from those anticipated in any forward-looking statements as a result of many factors, including the risk factors and uncertainties described below.

Risks Related to Our Industry

The cost of healthcare is funded substantially by government and private insurance programs, and if such funding is reduced or limited or no longer available, our business may be adversely impacted.

Third-party payors, including Medicaid, Medicare and private health insurance providers, provide substantial funding for our services. Other payors, including MCOs, are also dependent upon Medicaid funding. These payors are increasingly seeking to reduce the cost of healthcare, which drives pressure on the reimbursement rates for healthcare services, which include our services. We cannot assure you that our services will be considered cost-effective by third-party payors, that reimbursement will continue to be available or that payor reimbursement policies will not have a material adverse effect on our ability to sell our services on a profitable basis, if at all. We cannot control reimbursement rates, including Medicare market basket or other rate adjustments. Reimbursement for services that we provide is primarily through Medicaid and MCOs and rates can vary state by state and payor by payor. There are currently various legislative efforts under way to increase minimum wages in markets in which we operate, and that could impact significantly the wage rates for personal care attendants we utilize to provide our personal care services. Further, the continued increase in inflation has the potential to continue to drive up costs related to employee wages. The current payors may be unable or unwilling to increase reimbursement rates sufficiently to offset the impact on us of such cost increases or, in cases where payors do increase reimbursement rates, such increases may not occur concurrently with the increase in wage rates or fully offset such increases. These changes could have a material adverse effect on our business, financial position, results of operations and liquidity.

The implementation of alternative payment models and the transition of Medicaid and Medicare beneficiaries to MCOs may limit our market share and could adversely affect our revenues.

Many government and commercial payors are transitioning providers to alternative payment models that are designed to promote cost-efficiency, quality and coordination of care. For example, accountable care organizations, or ACOs, seek to motivate hospitals, physician groups, and other providers to organize and coordinate patient care while reducing unnecessary costs. Several states have implemented, or have announced that they plan to implement, accountable care models for their Medicaid populations. If we are not included in these programs, or if ACOs establish programs that overlap with the services provided by us, we are at risk for losing market share and of experiencing a loss of business.

We may be similarly impacted by increased enrollment of Medicare and Medicaid beneficiaries in managed care plans, shifting away from traditional fee-for-service models. Under the Medicare managed care program, also known as Medicare Advantage or MA, the federal government contracts with private health insurers to provide Medicare benefits. Insurers may choose to offer supplemental benefits and impose higher plan costs on beneficiaries. Enrollment in managed Medicaid plans is also growing, as states are increasingly relying on MCOs to deliver Medicaid program services as a strategy to control costs and manage resources. We may experience increased competition for managed care contracts due to state regulation and limitations. For instance, in October 2018, New York began imposing limits on the number of home healthcare providers with which a managed Medicaid plan can contract. We cannot assure you that we will be successful in our efforts to be included in plan networks, that we will be able to secure favorable contracts with all or some of the MCOs, that our reimbursement under these programs will remain at current levels, that the authorizations for services will remain at current levels or that our profitability will remain at levels consistent with past performance, and if we are not successful in these areas our business could be materially harmed and our financial condition materially adversely affected.

In addition, operational processes may not be well defined as a state transitions beneficiaries to managed care. For example, membership, new referrals and the related authorization for services to be provided may be delayed, which may result in delays in service delivery to consumers or in payment for services rendered. Difficulties with operational processes may negatively affect our revenue growth rates, cash flow and profitability for services provided. Other alternative payment models, such as value-based billing, capitated rates and per member per month pricing, may be required by the government, MCOs and other commercial payors to control their costs while shifting financial risk to us, which could also materially affect our operations and financial condition.

We are limited in our ability to control reimbursement rates received for our services, and if we are not able to maintain or reduce our costs to provide such services, our business could be materially adversely affected.

Medicare and Medicaid are among our most significant payors, and their rates are established through federal and state statutes and regulations. Additionally, reimbursement rates with MCOs and other payors are difficult for us to negotiate as such payors are themselves limited in their ability to control rates and funding received from Medicaid and Medicare and are under pressure to reduce their own costs. We therefore manage our costs to achieve a desired level of profitability, including centralizing various back office processes, using technology and practicing efficient management of our workforce. If we are not able to continue to streamline our processes and reduce our costs, our business and consolidated financial condition, results of operations and cash flows could be materially adversely affected.

Future cost containment initiatives undertaken by private third-party payors may limit our future revenue and profitability.

Our commercial payor and managed Medicaid revenue and profitability are affected by continuing efforts of third-party payors to maintain or reduce costs of healthcare by lowering payment rates, narrowing the scope and utilization of covered services, increasing case management review of services and negotiating pricing. There can be no assurance that third-party payors will make timely payments for our services, and there is no assurance that we will continue to maintain our current payor or revenue mix. We will continue our efforts to develop our commercial payor and managed Medicaid sources of revenue and any changes in payment levels from current or future third-party payors could have a material adverse effect on our business and consolidated financial condition, results of operations and cash flows.

We may be more vulnerable to the effects of a public health emergency than other businesses due to the nature of our end-users and the physical proximity required by our operations, which could harm our business disproportionately to other businesses.

The majority of our end-users are older individuals with complex medical challenges or multiple ongoing diseases, many of whom may be more vulnerable than the general public during a pandemic or in a public health emergency. Our employees are also at greater risk of contracting contagious diseases due to their increased exposure to vulnerable end-users. Our employees could also have difficulty attending to our end-users if a program of social distancing or quarantine is instituted in response to a public health emergency, or if “stay at home” orders are perpetuated or reinitiated. In addition, we may expand existing internal policies in a manner that may have a similar effect. If the COVID-19 virus and its potentially more contagious variants cause an additional resurgence of infections of COVID-19, or if new variants continue to develop that are resistant to government approved COVID-19 vaccinations, or if an influenza or other pandemic were to occur, we could suffer significant losses to our consumer population or a willingness by our end-users to utilize our services, in particular in our Personal Care segment, or a reduction in the availability of our employees and, at an inflated cost, we could be required to hire replacements for affected workers. Accordingly, public health emergencies could have a disproportionate material adverse effect on our financial condition and results of operations.

We may be adversely affected by inadequacies in, or security breaches of, our information technology systems, including the systems intended to protect our clients’ privacy and confidential information, which could lead to legal liability, adversely affect our reputation and have a material adverse effect on our business, financial condition and results of operations.

Our information technology, or IT, systems are critically important to our operations and we must implement and maintain appropriate and sufficient infrastructure and IT systems to support growth and our existing business processes. We provide services to individuals and others that require us to collect, process, maintain and retain sensitive and personal client confidential information in our computer systems, including patient identifiable health information, financial information and other personal information about our end-users, such as names, addresses, phone numbers, email addresses, identification numbers, sensitive health data, and payment account information. As a result, we are subject to complex and evolving United States privacy laws and regulations, including those pertaining to the handling of personal data, such as HIPAA, CCPA, and others. Most states have enacted laws, which vary significantly from jurisdiction to jurisdiction, to safeguard the privacy and security of personal information. An increasing number of states require that impacted individuals and regulatory authorities be notified if a security breach results in the unauthorized access to, or use or disclosure of, personal information. Notifications are also required under HIPAA to the extent there is unauthorized access to, or use or disclosure of, personal health information. California residents and households in particular are afforded significantly expanded privacy protections under the CCPA. The enacted laws often provide for civil penalties for violations, as well as a private right of action for data breaches that may increase data breach litigation. Further, while we are using internal and external resources to monitor compliance with and to continue to modify our data processing practices and policies in order to comply with evolving privacy laws, relevant regulatory authorities could determine that our data handling practices fail to address all the requirements of certain new laws, which could subject us to penalties and/or litigation. In addition, there is no assurance that our security controls over personal data, the training of employees and vendors on data privacy and data security, and the policies, procedures and practices we implemented or may implement in the future will prevent the improper disclosure of personal data. Improper disclosure of personal data in violation of the CCPA and/or of other personal data protection laws could harm our reputation, cause loss of consumer confidence, subject us to government enforcement actions (including fines), or result in private litigation against us, which could result in loss of revenue, increased costs, liability for monetary damages, fines and/or criminal prosecution, all of which could adversely affect our business, consolidated results of operations, financial condition and cash flows.

We also rely on our IT systems (some of which are outsourced to third parties) to manage the data, communications and business processes for other business functions, including our marketing, sales, logistics, customer service, accounting and administrative functions. Furthermore, our systems include interfaces to third-party stakeholders, often connected via the internet. In addition, some of our services or information related to our services are carried out or hosted within our customers' IT systems, and any failure or weaknesses in their IT systems may negatively impact our ability to deliver the services, for which we may not receive relief from contractual performance obligations or compensation for services provided. In addition, security incidents impacting other companies, such as our vendors, may allow cybercriminals to obtain personal information about our customers and employees. Cybercriminals may then use this information to, among other things, attempt to gain unauthorized access to our customers' accounts, which could have a material adverse effect on our reputation, business and results of operations or financial condition. As a result of the data we maintain and third-party access, we are subject to increasing cybersecurity risks associated with malicious cyber-attacks intended to gain access to protected personal information. The nature of our business, where services are often performed outside of locations where network security can be assured, adds additional risk. If we do not allocate and effectively manage the resources necessary to build, sustain and protect an appropriate technology infrastructure, our business or financial results could be negatively impacted.

Furthermore, computer hackers and data thieves are increasingly sophisticated and operate large scale and complex automated attacks, and our information technology systems may be vulnerable to material security breaches (including the access to or acquisition of customer, employee or other confidential data), cyber-attacks or other material system failures arising out of malware or ransomware attacks, denial of services, or other attacks or security incidents, any of which could adversely impact our operations and financial results, our relationships with business partners and customers, and our reputation. Because the techniques used to obtain unauthorized access or sabotage systems change frequently and may be difficult to detect for long periods of time, we may be unable to implement adequate preventative measures sufficient to prevent a breach of our systems and protect sensitive data, including confidential personal information. Any breach of our data security could result in an unauthorized release or transfer of customer or employee information, or the loss of valuable business data or cause a disruption in our business. A failure to prevent, detect and respond in a timely manner to a major breach of our data security or to other cybersecurity threats could result in system disruption, business continuity issues or compromised data integrity. These events or any other failure to safeguard personal data could give rise to unwanted media attention, damage our reputation, damage our customer relationships and result in lost sales, fines or lawsuits. We may also be required to expend significant capital and other resources to protect against or respond to or alleviate problems caused by a security breach. If we are unable to prevent material failures, our operations may be impacted, and we may suffer other negative consequences such as reputational damage, litigation, remediation costs, a requirement not to operate our business until defects are remedied, or penalties under various data privacy laws and regulations, any of which could detrimentally affect our business, financial condition and results of operations.

Risks Related to Our Business

We derive a significant amount of our revenues from a limited number of payors, and any changes in the funding, financial viability or our relationships with these payors could have a material adverse impact on our financial condition and results of operations.

We generate a significant amount of our revenue from a limited number of payors under a relatively small number of contracts. For example, for the year ended December 31, 2021, approximately 27.4% of our NEMT segment revenue was derived from only five payors, and one of which, a single state Medicaid agency, contributed 9.7% to our aggregate NEMT segment revenue during that period. As it relates to our other segments, for the year ended December 31, 2021, approximately 22.3% of our Personal Care segment revenue was derived from one U.S. state Medicaid program, and approximately 27.0% of our RPM segment revenue was derived from one health plan. The loss of, reduction in amounts generated by, or changes in methods or regulations governing payments for our services under these contracts could have a material adverse impact on our revenue and results of operations. In addition, any consolidation of any of our private payors could increase the impact that any such risks would have on our revenue, financial position, and results of operations.

Our business, results of operations and financial condition may be adversely affected by pandemic infectious diseases, including the COVID-19 pandemic.

The widespread outbreak of an illness or any other communicable disease, or any other public health crisis that results in economic disruptions such as the COVID-19 pandemic, could materially adversely affect our business and results of operations. COVID-19 and its potentially more contagious variants specifically, as well as measures taken by governmental authorities and private actors to limit the spread of the virus, have interfered with, and may continue to interfere with, the ability of our employees, suppliers, transportation providers and other business providers to carry out their assigned tasks at ordinary levels of performance relative to the conduct of our business, which may cause us to materially curtail portions of our business operations. The ultimate impact of the COVID-19 pandemic on our business will depend on a number of evolving factors that we may not be able to predict, including:

- the duration and scope of the pandemic;
- governmental, business and individuals' actions that have been and continue to be taken in response to the pandemic;
- the impact of the pandemic on economic activity and actions taken in response;
- the effect on our customers and members and customer and member demand for our services, in particular with respect to our Personal Care segment services;
- our ability to provide our services as a result of, among other things, travel restrictions, disruptions in our contact centers related to COVID-19, people working from home and taking the opportunity to provide personal care services that we might otherwise provide through our Personal Care segment, and the willingness of our employees to return to work due to health concerns, childcare issues or enhanced unemployment benefits, including after "shelter in place" and other related "stay at home restrictions" are lifted or modified;
- issues with respect to our employees' health, working hours and/or ability to perform their duties;
- increased costs to us in response to these changing conditions and to protect the health and safety of our employees, including increased spending for hazard pay and personal protective equipment; and
- the ability of our payors to pay for our services.

Furthermore, any failure to appropriately respond, or the perception of an inadequate response, could cause reputational harm and/or subject us to claims and litigation, either of which could result in a material adverse effect on our business and results of operations.

Since March 2020, we have observed a material reduction in trip volume in our NEMT segment as a result of state imposed "stay at home" orders, many of which reduced medical services to life-sustaining programs only (for example, dialysis and chemotherapy). This reduction in trip volume has had a negative financial impact on our transportation providers and we believe that some of our transportation providers may not survive this period of reduced volume. While there has been some increase in trip volume as states have lifted or modified these restrictions and allowed businesses to reopen, we have not seen trip volumes return to pre-pandemic levels. It is currently expected that trip volumes will remain depressed relative to pre-pandemic levels as states attempt to mitigate the resurgence of the virus or to tamp down the impact of new strains of the virus that have been recently identified in the United States. If trip volumes remain depressed, we will continue to see pressure on our transportation providers and lower revenue. If, on the other hand, trip volumes increase as a result of state reopening measures, depending on the period of time over which this increase in volume occurs, we may face difficulty meeting volume demands due to the capacity constraints within our network of transportation providers. Additionally, there may be an increase in the required level of service for those utilizing NEMT services during the pandemic as a result of a sicker population or in an effort to reduce the potential transmission of COVID-19 or any of its variants. As trip volumes increase, we may face staffing difficulties in our contact centers as the recruitment of potential employees may be challenging amid health concerns and other factors related to the pandemic, which could negatively impact the customer and member experience while interfacing with our contact centers and materially adversely affect our reputation and results of operations.

Our Personal Care segment business also experienced a material reduction in historical volume of service hours and visits beginning in March 2020. While our caregivers are generally considered essential workers and not constrained by "stay at home" orders, volume was reduced as patients put services on hold due to infection concerns, and/or because they had the alternative of receiving care from family members and others working remotely or furloughed from their jobs. Cases were also lost due to patient deaths, and new case referrals slowed as referral sources faced disruption from the various restrictions and "stay at home" orders. Similar to our experience in the NEMT segment, while personal care service volumes have improved, they have not recovered to pre-pandemic levels and may not until vaccines are more universally applied in the markets where we provide our services. If volume remains depressed, we will continue to experience lower revenue. If volume increases, depending on the period of time over which this increase in volume occurs, we may face difficulty meeting volume demands due to staffing difficulties, as the recruitment of potential employees may be challenging amid health concerns and other factors related to the pandemic. Any of these circumstances and factors could have a material adverse effect on our business.

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. Further, as this segment relies on patients receiving health monitoring devices for use in-home, any impact to the supply chain that ensures these critical devices arrive for active and continued vitals monitoring and data analytic solutions could have a negative impact on our business. Any of these factors could have a material adverse effect on our reputation and business.

The uncertainty and volatility of NEMT trip volume and personal care services volume due to COVID-19 and its potentially more contagious variants can affect the assumptions on which we rely to develop our expense estimates relative to these business lines. If we do not accurately estimate costs incurred in providing these services, these segments may be impacted by out of period adjustments to actual results. Any or all of these factors could have an adverse effect on our business, financial condition and results of operations.

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 precipitate or aggravate the other risk factors included in this report, which in turn could further materially adversely affect our business, financial condition, liquidity, results of operations, and profitability, including in ways that are not currently known to us or that we do not currently consider to present significant risks.

Our contact center employees may be disproportionately impacted by health epidemics or pandemics like COVID-19, which could disrupt our business and adversely affect our financial results.

Our contact centers typically seat a significant number of employees in one location. Accordingly, an outbreak or resurgence of a contagious infection or virus, such as COVID-19 or its potentially more contagious and/or vaccine resistant variants, in one or more of the locations in which we do business may result in significant worker absenteeism, lower capacity utilization rates, voluntary or mandatory closure of our contact centers, transportation restrictions that could make it difficult for our employees to commute to work, travel restrictions on our employees, and other disruptions to our business. Any prolonged or widespread health epidemic could severely disrupt our business operations and have a material adverse effect on our business, financial condition and results of operations.

Delays in collection, or non-collection, of our accounts receivable, particularly during any business integration process, could adversely affect our business, financial position, results of operations and liquidity.

Prompt billing and collection are important factors in our liquidity. Billing and collection of our accounts receivable are subject to the complex regulations that govern Medicare and Medicaid reimbursement and rules imposed by nongovernment payors. Our inability to bill and collect on a timely basis pursuant to these regulations and rules could subject us to payment delays that could have a material adverse effect on our business, financial position, results of operations and liquidity. It is possible that documentation support, system problems, Medicare, Medicaid or other payor issues, particularly in markets transitioning to managed care for the first time, or industry trends may extend our collection period, which may materially adversely affect our working capital, and our working capital management procedures may not successfully mitigate this risk.

The timing of payments made under the Medicare and Medicaid programs is subject to governmental budgetary constraints, resulting in an increased period of time between submission of claims and subsequent payment under specific programs, most notably under the Medicaid and Medicaid managed programs, which typically pay claims approximately 30 to 60 days slower than the average hospital claim. In addition, we may experience delays in reimbursement as a result of the failure to receive prompt approvals related to change of ownership applications for acquired or other facilities or from delays caused by our or other third parties' information system failures. We may also experience delayed payment of reimbursement rate increases that are subject to the approval of the CMS and/or various state agencies before claims can be submitted or paid at the new rates. Any delays experienced for the foregoing or other reasons could have a material adverse effect on our business, results of operations and financial condition.

Further, a delay in collecting our accounts receivable, or the non-collection of accounts receivable in connection with our transition and integration of acquired companies, including Care Finders and VRI, and the attendant movement of underlying billing and collection operations from legacy systems to our systems could have a material negative impact on our results of operations and liquidity.

Our reported financial results could suffer if there is an impairment of long-lived assets, which could have a material adverse effect on our results of operations and financial condition.

We are required under accounting principles generally accepted in the United States, or GAAP, to review the carrying value of long-lived assets to be used in operations whenever events or changes in circumstances indicate that the carrying amount of the assets may be impaired. Factors that may necessitate an impairment assessment include, among others, significant adverse changes in the extent or manner in which an asset is used, significant adverse changes in legal factors or the business climate that could affect the value of an asset or significant declines in the observable market value of an asset. Where the presence or occurrence of those events indicates that an asset may be impaired, we assess its recoverability by determining whether the carrying value of the asset exceeds the sum of the projected undiscounted cash flows expected to result from the use and eventual disposition of the asset over the remaining economic life of the asset. If such testing indicates the carrying value of the asset is not recoverable, we estimate the fair value of the asset using appropriate valuation methodologies, which would typically include an estimate of discounted cash flows. If the fair value of those assets is less than carrying value, we record an impairment loss equal to the excess of the carrying value over the estimated fair value. The use of different estimates or assumptions in determining the fair value of our intangible assets may result in different values for those assets, which could result in an impairment or, in the period in which an impairment is recognized, could result in a materially different impairment charge.

In addition, goodwill may be impaired if the estimated fair value of our reporting units is less than the carrying value of the respective reporting unit. As a result of our growth, in part through acquisitions, goodwill and other intangible assets represent a significant portion of our assets. From our recent acquisitions, goodwill generated in relation to the acquisition of Simplura in 2020 was $320.4 million, goodwill generated in relation to the acquisition of Care Finders in 2021 was $232.2 million, and goodwill generated in relation to the acquisition of VRI in 2021 was $236.7 million. We perform an analysis on our goodwill balances to test for impairment on an annual basis. Interim impairment tests may also be required in advance of our annual impairment test if events occur or circumstances change that would more likely than not reduce the fair value, including goodwill, of our reporting unit below the reporting unit's carrying value. Such circumstances could include: (1) loss of significant contracts; (2) a significant adverse change in legal factors or in the climate of our business; (3) unanticipated competition; (4) an adverse action or assessment by a regulator; or (5) a significant decline in our stock price.

As of December 31, 2021, the carrying value of goodwill, intangibles, equity method investments, and property and equipment, net was $924.8 million, $490.2 million, $83.1 million and $53.5 million, respectively. We continue to monitor the carrying value of these long-lived assets. If future conditions are different from management's estimates at the time of an acquisition or market conditions change subsequently, we may incur future charges for impairment of our goodwill, intangible assets, equity method investments or property and equipment, which could have a material adverse impact on our results of operations and financial position.

Failure to maintain or to develop further reliable, efficient and secure IT systems would be disruptive to our operations and diminish our ability to compete and successfully grow our business.

We are highly dependent on efficient and uninterrupted performance of our IT and business systems. These systems quote, process and service our business, and perform financial functions necessary for pricing and service delivery. These systems must also be able to undergo periodic modifications and improvements without interruptions or untimely delays in service. Additionally, our ability to integrate our systems with those of our clients is critical to our success. Our information systems rely on the commitment of significant financial and managerial resources to maintain and enhance existing systems as well as develop and create new systems to keep pace with continuing changes in information processing technology or evolving industry and regulatory requirements. Nevertheless, we still rely on manual processes and procedures, including accounting, reporting and consolidation processes that may result in errors and may not scale proportionately with our business growth, which could have an adverse effect on our business, financial condition and results of operations.

A failure or delay to achieve improvements in our IT platforms could interrupt certain processes or degrade business operations and could place us at a competitive disadvantage. If we are unable to implement appropriate systems, procedures and controls, we may not be able to successfully offer our services and grow our business and account for transactions in an appropriate and timely manner, which could have an adverse effect on our business, financial condition and results of operations.

We face risks related to attracting and retaining qualified employees, which could harm our business and have a material adverse effect on our results of operations.

Our business success depends, to a significant degree, on our ability to identify, attract, develop, motivate and retain highly qualified and experienced employees who possess the skills and experience necessary to deliver high-quality services to our clients, with the continued contributions of our senior management being especially critical to our success. Our objective of providing the highest quality of service to our clients is a significant consideration when we evaluate the education, experience and qualifications of potential candidates for employment as direct care and administrative staff. A portion of our staff is professionals with requisite educational backgrounds and professional certifications. These employees are in great demand and are likely to remain a limited resource for the foreseeable future, exacerbated by continued labor shortages in the current economy.

Our ability to attract and retain employees with the requisite experience and skills depends on several factors, including our ability to offer competitive wages, benefits and professional growth opportunities. While we have established programs to attract new employees and provide incentives to retain existing employees, particularly our senior management, we cannot assure you that we will be able to attract new employees or retain the services of our senior management or any other key employees in the future. Some of the companies with which we compete for experienced personnel may have greater financial, technical, political and marketing resources, name recognition and a larger number of clients and payors than we do, which may prove more attractive to employment candidates. The inability to attract and retain experienced personnel could have a material adverse effect on our business.

The performance of our business also depends on the talents and efforts of our highly skilled IT professionals. Our success depends on our ability to recruit, retain and motivate these individuals. Effective succession planning is also important to our future success. If we fail to ensure the effective transfer of senior management knowledge and smooth transitions involving senior management, our ability to execute short and long-term strategic, financial and operating goals, as well as our business, financial condition and results of operations generally, could be materially adversely affected.

Any acquisition or acquisition integration efforts that we undertake could disrupt our business, not generate anticipated results, dilute stockholder value and have a material adverse impact on our operating results.

Our growth strategy involves the evaluation of potential entry into complementary markets and service lines through acquisition, particularly with opportunities that may leverage the advantages inherent in our large-scale technology-enabled operations and networks. We have made acquisitions and anticipate that we will continue to consider and pursue strategic acquisition opportunities, the success of which depends in part on our ability to integrate an acquired company into our business operations. Integration of any acquired company will place significant demands on our management, systems, internal controls and financial and physical resources. This could require us to incur significant expense for, among other things, hiring additional qualified personnel, retaining professionals to assist in developing the appropriate control systems and expanding our IT infrastructure. The nature of our business is such that qualified management personnel can be difficult to find. Our inability to manage growth effectively could have a material adverse effect on our financial results.

For example, the successful integration of Care Finders into our Personal Care segment and the remote patient monitoring business acquired in the VRI transaction and our ability to realize the expected benefits of the acquisition are subject to a number of risks and uncertainties, many of which are outside of our control, including:

- the challenges and unanticipated costs associated with integrating complex organizations, systems, operating procedures, compliance programs, technology, networks and other assets;
- the difficulties harmonizing differences in the business cultures;

- the inability to successfully combine our respective businesses in a manner that permits us to achieve the cost savings and other anticipated benefits from the acquisitions;
- the challenges associated with known and unknown legal or financial liabilities associated with the acquisitions;
- the risk of entering markets in which we have little or no experience;
- the challenges associated with the incurrence of indebtedness and the assumption of new contracts associated with the acquisitions;
- the inability to minimize the diversion of management attention from ongoing business concerns during the process of integrating our businesses;
- the inability to resolve potential conflicts that may arise relating to customer, supplier and other important relationships;
- the difficulties in retaining key management and other key employees; and
- the challenge of managing the expanded operations of a larger and more complex company and coordinating geographically separate organizations.

We incurred substantial expenses to complete the acquisitions, but we may not realize the anticipated cost benefits and other benefits to the extent expected, on the timeline expected, or at all. Moreover, competition in this industry may also cause us not to fully realize the anticipated benefits of the acquisitions.

There can also be no assurance that the companies we acquire, will generate income or incur expenses at the historical or projected levels on which we based our acquisition decisions, that we will be able to maintain or renew the acquired companies' contracts, that we will be able to realize operating and economic efficiencies upon integration of acquired companies or that the acquisitions will not adversely affect our results of operations or financial condition.

In addition, as we expand our markets or otherwise take advantage of prospects for growth, in connection with our acquisition strategy, we could issue stock that could dilute existing stockholders' percentage ownership, or we could incur or assume substantial debt or contingent liabilities. There can be no assurance that we will be successful in overcoming problems encountered in connection with any acquisition or integration and our inability to do so could disrupt our operations and adversely affect our business. Our failure to address these risks or other problems encountered in connection with past or future acquisitions and investments could cause us to fail to realize the anticipated benefits of such acquisitions or investments, incur unanticipated liabilities and harm our business generally.

Our estimated income taxes could be materially different from income taxes that we ultimately pay, which could have a material adverse effect on our results of operations and financial condition.

Our total income tax provision is based on our taxable income and the tax laws in the various jurisdictions in which we operate or operated. Significant judgment and estimation is required in determining our annual income tax expense and in evaluating our tax positions and related matters. In the ordinary course of our business, there are many transactions and calculations for which the ultimate tax determinations are uncertain or otherwise subject to interpretation. In addition, we make or were required to make judgments regarding the applicability of tax treaties and the appropriate application of transfer pricing regulations with respect to the operations of our former workforce development services segment. In the event one taxing jurisdiction disagrees with another taxing jurisdiction with respect to the amount or applicability of a particular type of tax, or the amount or availability of a particular type of tax refund or credit, we could experience temporary or permanent double taxation and increased professional fees to resolve such taxation matters.

Our determination of our income tax liability is subject to review by applicable tax authorities, and we have been audited by various jurisdictions in prior years. We were examined by the Internal Revenue Service as a result of the large refunds received from the loss on the sale or our former workforce development services segment. This examination was completed in the third quarter of 2021 with no material adjustments being made. In addition, we are being examined by various states and by the Saudi Arabian tax authorities with respect to these matters. Although we believe our income tax estimates and related determinations are reasonable and appropriate, relevant taxing authorities may disagree. The ultimate outcome of any such audits and reviews could be materially different from the estimates and determinations reflected in our historical income tax provisions and accruals. Any adverse outcome of any such audit or review could have a material adverse effect on our financial condition and the results of our operations.

Risks Related to Our NEMT Segment

There can be no assurance that our contracts will survive as contemplated until the end of their stated terms, or that upon their expiration will be renewed or extended on satisfactory terms, if at all, and disruptions to, the early expiration or renegotiation of, or the failure to renew our contracts could have a material adverse impact on our financial condition and results of operations.

Our NEMT segment contracts are subject to frequent renewal and, from time to time, requests for renegotiation during a contract term. For example, many of our state Medicaid contracts, which represented 44.9% of our NEMT segment revenue for the year ended December 31, 2021, have terms ranging from three to five years and are typically subject to a competitive procurement process near the end of the term. We also contract with MCOs, which represented 55.1% of our NEMT segment revenue for the year ended December 31, 2021. Our MCO contracts for NEMT segment services typically continue until terminated by either party upon reasonable notice in accordance with the terms of the contract, and sometimes a contractual counterparty will seek to renegotiate the pricing and other terms of a contract to our detriment prior to the stated termination date of a contract. We cannot anticipate if, when or to what extent we will be successful in renewing our state Medicaid contracts or retaining our MCO contracts through their contractual duration on terms originally negotiated or at all. For the year ended December 31, 2021, 9.0% of our NEMT segment revenue was generated under state Medicaid contracts that are subject to renewal during 2022.

In addition, with respect to many of our state contracts, the payor may terminate the contract without cause, or for convenience, at will and without penalty to the payor, either immediately or upon the expiration of a short notice period in the event that, among other reasons, government appropriations supporting the programs serviced by the contract are reduced or eliminated. We cannot anticipate if, when or to what extent a payor might terminate a contract with us prior to its expiration, or fail to renew or extend a contract with us. If we are unable to retain or renew our contracts, or replace lost contracts, on satisfactory terms, our financial condition and results of operations could be materially adversely affected. While we pursue new contract awards and also undertake efficiency measures, there can be no assurance that such measures will fully offset the negative impact of contracts that are not renewed or are canceled on our financial condition and results of operations.

Our success depends on our ability to compete effectively in the marketplace, and our results of operations could be materially adversely affected if we are unable to compete effectively in the markets for our services.

We compete for clients and for contracts with a variety of organizations that offer similar services. Many organizations of varying sizes compete with us, including local not-for-profit organizations and community-based organizations, larger companies, organizations that currently provide or may begin to provide similar NEMT services (including transportation network companies such as Uber and Lyft) and CHA providers. Some of these companies may have greater financial, technical, political, marketing, name recognition and other resources and a larger number of clients or payors than we do. In addition, some of these companies offer more services than we do. To remain competitive, we must provide superior services and performance on a cost-effective basis to our customers.

The market in which we operate is influenced by technological developments that affect cost-efficiency and quality of services, and the needs of our customers change and evolve regularly. Accordingly, our success depends on our ability to develop services that address these changing needs and to provide technology needed to deliver these services on a cost-effective basis. Our competitors may better utilize technology to change the way services in our industry are designed and delivered and they may be able to provide our customers with different or greater capabilities than we can provide, including better contract terms, technical qualifications, price and availability of qualified professional personnel. In addition, new or disruptive technologies and methodologies by our competitors may make our services noncompetitive. For example, advances in telehealth may reduce the number of in-person visits an end-user may be required to make to healthcare providers in order to receive care, which could reduce the utilization of our NEMT services.

We have experienced, and expect to continue to experience, competition from new entrants into the markets in which we operate. Increased competition may result in pricing pressures, loss of or failure to gain market share or loss of or failure to gain clients or payors, any of which could have a material adverse effect on our operating results. Our business may also be adversely affected by the consolidation of competitors, which may result in increased pricing pressure or negotiating leverage with payors, or by the provision of our services by payors or clients directly, including through the acquisition of competitors.

We obtain a significant portion of our business through responses to government requests for proposals and we may not be awarded contracts through this process in the future, or contracts we are awarded may not be profitable.

We obtain, and will continue to seek to obtain, a significant portion of our business from state government entities, which generally entails responding to a government request for proposal, or RFP. To propose effectively, we must accurately estimate our cost structure for servicing a proposed contract, the time required to establish operations and submit the most attractive proposal with respect to both technical and price specifications. We must also assemble and submit a large volume of information within rigid and often short timetables. Our ability to respond successfully to an RFP will greatly affect our business. If we misinterpret bid requirements as to performance criteria or do not accurately estimate performance costs in a binding bid for an RFP, there can be no assurance that we will be able to modify the proposed contract and we may be required to perform under a contract that is not profitable, which could materially adversely affect our results of operations.

If we fail to satisfy our contractual obligations, we could be liable for damages and financial penalties, which may place existing pledged performance and payment bonds at risk as well as harm our ability to keep our existing contracts or obtain new contracts and future bonds, any of which could harm our business and results of operations.

Our failure to comply with our contractual obligations could, in addition to providing grounds for immediate termination of the contract for cause, negatively impact our financial performance and damage our reputation, which, in turn, could have a material adverse effect on our ability to maintain current contracts or obtain new contracts. The termination of a contract for cause could, for instance, subject us to liabilities for excess costs incurred by a payor in obtaining similar services from another source. In addition, our contracts require us to indemnify payors for our failure to meet standards of care, and some of them contain liquidated damages provisions and financial penalties if we breach these contracts, which amounts could be material. For example, we have a minimum volume commitment under one of our transportation-related contracts. To the extent our actual use is less than the minimum commitment for a specified period, we may be subject to significant expense, without the benefit of corresponding revenue. Our failure to meet contractual obligations could also result in substantial actual and consequential financial damages, the impact of which could be materially adverse to our business and reputation

If we fail to estimate accurately the cost of performing certain contracts, we may experience reduced or negative margins and our results of operations could be materially adversely affected.

During 2021, 2020, and 2019, 84.7%, 86.2%, and 84.6% of our NEMT segment revenue, respectively, was generated under capitated contracts with the remainder generated through fee for service contracts. Under most of our capitated contracts, we assume the responsibility of managing the needs of a specific geographic population by contracting out transportation services to local transportation companies on a per ride or per mile basis. We use “pricing models” to determine applicable contract rates, which take into account factors such as estimated utilization, state specific data, previous experience in the state or with similar services, the medically covered programs outlined in the contract, identified populations to be serviced, estimated volume, estimated transportation provider rates and availability of mass transit. The amount of the fixed per-member, monthly fee is determined in the bidding process, but is predicated on actual historical transportation data for the subject geographic region as provided by the payor, actuarial work performed in-house as well as by third party actuarial firms and actuarial analysis provided by the payor. If the utilization of our services is more than we estimated, the contract may be less profitable than anticipated, or may not be profitable at all. Under our FFS contracts, we receive fees based on our interactions with government-sponsored clients. To earn a profit on these contracts, we must accurately estimate costs incurred in providing services. If the client population relating to these contracts is not large enough to cover our fixed costs, such as rent and overhead, our operating results could be materially adversely affected and our profitability impaired. Our FFS contracts are not reimbursed on a cost basis; therefore, if we fail to estimate our costs accurately, we may experience reduced margins or losses on these contracts. Revenue under certain contracts may be adjusted prospectively if client volumes are below expectations. If we are unable to adjust our costs accordingly, our profitability may be negatively affected. In addition, certain contracts with state Medicaid agencies are renewable or extended at the state’s option without an adjustment to pricing terms. If such renewed contracts require us to incur higher costs, including inflation or regulatory changes, than originally anticipated, our results of operations and financial condition may be adversely affected.

The NEMT segment may be adversely impacted if the drivers we engage as independent contractors were instead classified as employees.

We believe that the drivers we engage to provide rider benefits are properly classified as independent contractors and that these drivers are not our employees. Changes to federal, state or local laws governing the definition or classification of independent contractors, or judicial or administrative challenges to our classification of these drivers as independent contractors, could affect the status of these drivers as independent contractors. A change in the classification of these drivers from independent contractors to employees could increase materially our expenses associated with the delivery of our services, which could materially adversely affect our business, results of operations and financial condition.

Significant interruptions in communication and data services could adversely affect our business.

Our contact centers are significantly dependent on telephone, internet and data service provided by various communication companies. Any disruption of these services could adversely affect our business. We have taken steps to mitigate our exposure to service disruptions by investing in complex and multi-layered redundancies, and we can transition services among our different call centers. Despite these efforts, there can be no assurance that the redundancies we have in place would be sufficient to maintain the call centers' operations without disruption. Any disruption could harm our customer relationships and have a material adverse effect on our results of operations.

Risks Related to Our Personal Care Segment

Competition among in-home personal care, or home healthcare, services companies is intense, and if we are not successful executing on our strategies in the face of this competition, our business could be materially adversely affected.

The in-home personal care services industry, which is sometimes referred to as the home healthcare services industry, is highly competitive. Our Personal Care segment competes with a variety of other companies in providing personal care services, some of which may have greater financial and other resources and may be more established in their respective communities. Competing companies may offer newer or different services from those offered by us, which may attract customers who are presently receiving our in-home personal care services to those other companies. Competing companies may also offer services across a greater continuum of care and therefore may be able to obtain new cases or retain patients that might otherwise choose us. In the areas in which our in-home personal care programs are provided, we also compete with a large number of organizations, including:

- community-based home healthcare providers;
- hospital-based home healthcare agencies;
- rehabilitation centers, including those providing home healthcare services;
- adult day care centers;
- assisted living centers;
- skilled nursing facilities; and
- fiscal intermediaries that process payroll and undertake other administrative responsibilities related to the provision of care by a patient’s family members or other directly-hired personal assistants.

Some of our current and potential competitors have or may obtain significantly greater marketing and financial resources to promote their programs than we have or may obtain. We compete based on the availability of personnel, the quality of services, the expertise of staff and, in some instances, the price of the services. Relatively few barriers to entry exist in our local markets. Accordingly, other companies, including hospitals and other healthcare organizations that are not currently providing in-home personal care services, may expand their services to include those services or similar services. We may encounter increased competition in the future that could negatively impact patient referrals to us, and limit our ability to maintain or increase our market position, the effect of any of which could have a material adverse effect on our business, financial position, results of operations and liquidity.

If any large, national healthcare entities that do not currently directly compete with us move into the in-home personal care market, competition could significantly increase. Larger, national healthcare entities have significant financial resources and extensive technology infrastructure. In addition, companies that currently compete with respect to some of our personal care services could begin competing with additional services through the acquisition of an existing company or de novo expansion into these services. Additionally, consolidation, especially by way of the acquisition of any of our competitors by any large, national healthcare entity, could also lead to increased competition.

State certificates of need, or CON, laws, which often limit the ability of competitors to enter into a given market, are not uniform throughout the United States and are frequently the subject of efforts to limit or repeal such laws. If states remove existing CON laws, we could face increased competition in these states. Further, we cannot assure you that we will be able to compete successfully against current or future competitors, which could have a material adverse effect on our business, results of operations and financial condition.

If we are unable to maintain relationships with existing patient referral sources, our business and consolidated financial condition, results of operations and cash flows could be materially adversely affected.

Our success in entering the markets we serve depends on referrals from physicians, hospitals, nursing homes, service coordination agencies, MCOs, health plans and other sources in the communities we serve and on our ability to maintain good relationships with existing referral sources. Our referral sources are not contractually obligated to refer patients to us and may refer their patients to other providers. Our growth and profitability depends, in part, on our ability to establish and maintain close working relationships with these patient referral sources and to increase awareness and acceptance of the benefits of personal care services by our referral sources and their patients. Our loss of, or failure to maintain, existing relationships or our failure to develop new referral relationships could have a material adverse effect on our business.

Many states have CON laws or other regulatory and licensure obligations that may adversely affect the successful integration of our personal care service lines and that may adversely affect our ability to expand into new markets and thereby limit our ability to grow and increase net patient service revenue.

Many states have enacted CON laws that require prior state approval to open new healthcare facilities or expand services at existing facilities. In such states, expansion by existing providers or entry into the market by new providers is permitted only where a given amount of unmet need exists, resulting either from population increases or a reduction in competing providers. These states ration the entry of new providers or services and the expansion of existing providers or services in their markets through a CON process, which is periodically evaluated and updated as required by applicable state law. The process is intended to promote comprehensive healthcare planning, assist in providing high-quality healthcare at the lowest possible cost and avoid unnecessary duplication by ensuring that only those healthcare facilities and operations that are needed will be built and opened. New York, New Jersey, and West Virginia have CON laws applicable to the in-home personal care services we provide.

In every state where required, our home healthcare offices and personal care centers possess a license and/or CON issued by the state health authority that determines the local service areas for the home healthcare office or personal care center. In general, the process for opening a home healthcare office or personal care center begins by a provider submitting an application for licensure and certification to the state and federal regulatory bodies, which is followed by a testing period of transmitting data from the applicant to the CMS. Once this process is complete, the care center receives a provider agreement and corresponding number and can begin billing for services that it provides unless a CON is required. For those states that require a CON, the provider must also complete a separate application process before billing can commence and receive required approvals for capital expenditures exceeding amounts above prescribed thresholds. Our failure or inability to obtain any necessary approvals could adversely affect our ability to expand into new markets and to expand our Personal Care segment services and facilities in existing markets.

If a state with CON laws finds that there is an over-abundance of one type of Medicaid provider within the state, it may, for a period of time, impose a moratorium against the issuance of new Medicaid licenses for that type of service. While a moratorium would not prohibit us from continuing to provide services for which we are already licensed in that state, it may prevent us from entering a new state de novo, which could limit our expansion opportunities, affect our ability to execute on our business strategies and materially harm our business and operations.

We may not, absent the consent of the New York Department of Health, be able to manage the day to day operations of the licensed in-home personal care services agency business in the State of New York, which would have an adverse impact on our expected results from that acquisition and could result in a material adverse effect on our business and operations.

Our operation of our licensed in-home personal care services agency business in the State of New York is subject to a “no control” affidavit process. We submitted our relevant information associated with this process concurrently with the closing of the Simplura acquisition, but while we wait for necessary approvals, we will be limited in our ability to exercise control over the personal care business there for operational matters until such time that our ownership of that business is approved by the New York Department of Health. We can provide no assurance regarding the timing of the approval of this change of ownership by the New York Department of Health, or that such approval will be obtained at all. During this time, we cannot exercise day to day management of these entities, and the pre-acquisition management of Simplura or individuals hired by the pre-acquisition management of Simplura will continue to operate the business. There is no prohibition on these entities making cash distributions to us during this interim period, but there can be no assurance that we will obtain the necessary authorization from the New York Department of Health to remove the “no control” affidavit and operate this business ourselves. If we are not able to ultimately take over control of these operations, or if we are only able to do so on a more limited basis than anticipated, we may not achieve the synergies and operational benefits expected from the Simplura acquisition as contemplated and our business and results of operations could be materially adversely affected.

We may have acquired liabilities that are not known to us in connection with the acquisition of Care Finders, the inadvertent acquisition of which could harm our business and have a material adverse effect on the results of our operations.

We may have acquired Care Finders with liabilities that we failed, or were unable, to discover in the course of performing our due diligence investigations associated with the transaction. We cannot assure you that the indemnification available to us under the purchase agreement associated with the acquisition will be sufficient in amount, scope or duration to fully offset the possible liabilities associated with the acquisition. We may learn additional information about this business that materially adversely affects us, such as unknown or contingent liabilities and liabilities related to compliance with applicable laws. Any such liabilities, individually or in the aggregate, could have a material adverse effect on our business, financial condition and results of operations.

Changes in the case-mix of our personal care patients, as well as payor mix and payment methodologies, may have a material adverse effect on our profitability.

The sources and amounts of our patient revenues are determined by a number of factors, including the mix of patients and the rates of reimbursement among payors. Changes in the case-mix of the patients as well as payor mix among private pay, Medicare and Medicaid, as well as specialty programs, including waiver programs within Medicaid, may significantly affect our profitability. In particular, any significant increase in our Medicaid population or decrease in Medicaid payments could have a material adverse effect on our financial position, results of operations and cash flow, particularly if states operating these programs continue to limit, or more aggressively seek limits on, reimbursement rates or service levels.

Our loss of existing favorable managed care contracts could have a material adverse effect on our business and consolidated financial condition, results of operations and cash flows.

There is a risk that our existing favorable managed care contracts could be terminated. Managed care contracts typically permit us or the payor to terminate the contract without cause, typically within 90 days, which can provide payors leverage to reduce volume or obtain favorable pricing. Our failure to negotiate and put in place favorable managed care contracts, or our failure to maintain in place favorable managed care contracts, could have a material adverse effect on our business.

The personal care industry has historically experienced shortages in qualified employees and management, which could harm our business.

Our personal care services compete with other healthcare providers for both professional and management level employees. Our ability to attract and retain qualified personnel depends on several factors, including our ability to provide these personnel with attractive assignments for the desired number of hours per week and competitive compensation and benefits. There can be no assurance that we will succeed in any of these areas. As the demand for personal care services continues to exceed the supply of available and qualified personnel, our competitors may be forced to offer more attractive wage and benefit packages to these professionals. Furthermore, the competitive market for this labor force has created turnover as many seek to take advantage of the supply of available positions, each offering new and more attractive wage and benefit packages. In addition to the wage pressures inherent in this environment, including any changes to minimum wage, the cost of training new employees amid the turnover rates may cause added pressure on our operating results and harm our business.

Our personal care business may be adversely impacted by labor relations.

Approximately 2,500 of our hourly caregivers are unionized in regions of New York. Certain collective bargaining agreements with the 1199 SEIU United Healthcare Workers East are currently being negotiated, and others will require renegotiation upon expiration. We may not be able to negotiate terms that are satisfactory to the labor unions, and ultimate agreement may be on terms unfavorable to us. In addition, a unionized work force poses the risk of work stoppages, which if initiated could materially harm our results of operations as well as our commercial relationships with our customers if we are unable to perform under our contracts with them during any such stoppage.

If additional regions in which we operate become unionized, or if we expand our personal care operations into geographic areas where healthcare workers historically have been unionized, being subject to additional collective bargaining agreements may have a negative impact on our ability to timely and successfully recruit qualified personnel and may increase our operating costs. Generally, if we are unable to attract and retain qualified personnel, the quality of our services may decline and we could lose patients and referral sources, which could have a material adverse effect on our business and consolidated financial condition, results of operations and cash flows.

Our Personal Care segment may be subject to malpractice or other similar claims.

The services our Personal Care segment offers involve an inherent risk of professional liability and related substantial damage awards. Due to the nature of our personal care business, we, through our employees and caregivers who provide services on our behalf, may be the subject of medical malpractice claims. A court could find these individuals should be considered our agents, and, as a result, we could be held liable for their acts or omissions. Claims of this nature, regardless of their ultimate outcome, could have a material adverse effect on our business or reputation or on our ability to attract and retain patients and employees. While we maintain malpractice liability coverage that we believe is appropriate given the nature and breadth of our operations, any claims against us in excess of insurance limits, or multiple claims requiring us to pay deductibles, could have a material adverse effect on our business and consolidated financial condition, results of operations and cash flows.

Risks Related to Our Remote Patient Monitoring Segment

We operate in a competitive industry, and any failure to develop and enhance technology applications could harm our business, financial condition and results of operations.

While RPM solutions are in an early stage of development, it is competitive and we expect it to attract increased competition, which could make it difficult for us to succeed. We currently face competition in the RPM industry from a range of companies, including specialized software and solution providers that offer similar solutions, often at substantially lower prices, and that are continuing to develop additional products and becoming more sophisticated and effective. In addition, large, well-financed health plans have in some cases developed their own telehealth, expert medical service or chronic condition management tools and may provide these solutions to their customers at discounted prices. Competition from specialized software and solution providers, health plans and other parties will result in continued pricing pressures, which is likely to lead to price declines in certain product segments, which could negatively impact our sales, profitability and market share.

Some of our competitors may have, or new competitors or alliances may emerge that have, greater name recognition, a larger customer base, longer operating histories, more widely-adopted proprietary technologies, greater marketing expertise, larger sales forces and significantly greater resources than we do. Further, our current or potential competitors may be acquired by third parties with greater available resources. As a result, our competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards or customer requirements and may have the ability to initiate or withstand substantial price competition. In addition, current and potential competitors have established, and may in the future establish, cooperative relationships with vendors of complementary products, technologies or services to increase the availability of their solutions in the marketplace. Our competitors could also be better positioned to serve certain segments of our markets, which could create additional price pressure. In light of these factors, even if our solutions are more effective than those of our competitors, current or potential customers may accept competitive solutions in lieu of purchasing our solutions. If we are unable to successfully compete, our business, financial condition and results of operations could be materially adversely affected.

If we do not continue to innovate and provide services that are useful to customers and achieve and maintain market acceptance, we may not remain competitive, and our revenue and results of operations could suffer.

Our success depends on our ability to keep pace with technological developments, satisfy increasingly sophisticated customer requirements, and achieve and maintain market acceptance on our existing and future services in the rapidly evolving market for the management and administration of healthcare services. In addition, market acceptance and adoption of our existing and future services depends on the acceptance by health plans and provider partners as to the distinct features, cost savings and other perceived benefits of our existing and future offerings as compared to competitive alternative services. Our competitors are constantly developing products and services that may become more efficient or appealing to our customers. As a result, we must continue to invest significant resources in research and development in order to enhance our existing services and introduce new services that our customers will want, while offering our existing and future services at competitive prices. If we are unable to predict customer preferences or industry changes, or if we are unable to modify our existing and future services on a timely or cost-effective basis, we may lose customers and our business, financial condition and results of operations may be harmed.

If we are not successful in demonstrating to existing and potential customers the benefits of our existing and future services, or if we are not able to achieve the support of health plans and provider partners for our existing and future services, our revenue may decline or we may fail to increase our revenue in line with our forecasts. Our results of operations would also suffer if our technology and other innovations are not responsive to the needs of our customers, are not timed to match the corresponding market opportunity, or are not effectively brought to market.

We may have acquired liabilities that are not known to us in connection with the acquisition of VRI, the inadvertent acquisition of which could harm our business and have a material adverse effect on the results of our operations.

We may have acquired VRI with liabilities that we failed, or were unable, to discover in the course of performing our due diligence investigations associated with the transaction. We cannot assure you that the indemnification available to us under the purchase agreement associated with the acquisition will be sufficient in amount, scope or duration to fully offset the possible liabilities associated with the acquisition. We may learn additional information about this business that materially adversely affects us, such as unknown or contingent liabilities and liabilities related to compliance with applicable laws. Any such liabilities, individually or in the aggregate, could have a material adverse effect on our business, financial condition and results of operations.

Risks Related to Our Matrix Investment Segment

Our investment in Matrix could be adversely affected by our lack of sole decision-making authority, our reliance on our equity investment's financial condition, any disputes that may arise between us and Matrix and our exposure to potential losses from the actions of Matrix, and could materially and adversely affect the value of our consolidated assets.

We hold a non-controlling interest in Matrix, which, as of December 31, 2021, constituted 4.1% of our consolidated assets. We do not have unilateral power to direct the activities that most significantly impact Matrix's economic performance. The arrangement with Matrix involves risks not present with respect to our wholly-owned subsidiaries and that may negatively impact our financial condition and results of operations or make the arrangement less successful than anticipated. Factors that may negatively impact the success of our Matrix investment include the following:

- we may be unable to take actions that we believe are appropriate but are opposed by Matrix under arrangements that require us to cede or share decision-making authority over major decisions affecting the ownership or operation of the company and any property owned by the company, such as the sale or financing of the business or the making of additional capital contributions for the benefit of the business;
- Matrix management may take actions that we oppose;
- we may be unable to sell or transfer our investment to a third party if we fail to obtain the prior consent of our investment partner;
- Matrix may become bankrupt or the majority member may fail to fund its share of required capital contributions, which could adversely impact the investment or increase our financial commitment to the investment;
- Matrix may have business interests or goals with respect to a business that conflict with our business interests and goals, including with respect to the timing, terms and strategies for investment, which could increase the likelihood of disputes regarding the ownership, management or disposition of the business;
- disagreements with Matrix could result in litigation or arbitration that increases our expenses, distracts our management, and disrupts the day-to-day operations of the business, including the delay of important decisions until the dispute is resolved; and
- we may suffer losses as a result of actions taken by Matrix with respect to our investment.

If any of the foregoing events were to transpire, our results of operations and liquidity position could be materially adversely affected and our business could be materially harmed.

Risks Related to Governmental Regulations

Healthcare is a heavily regulated industry, and compliance with existing laws is costly, and non-compliance has the potential to be even costlier considering that violations of laws may result in corrective action or sanctions that could reduce our revenue and profitability.

The United States healthcare industry is subject to extensive federal and state oversight relating to, among other things:

- professional licensure;
- conduct of operations;
- addition of facilities, equipment and services, including certificates of need, or CON;
- coding and billing related to our services; and
- payment for services.

Both federal and state government agencies have increased coordinated civil and criminal enforcement efforts related to the healthcare industry. Regulations related to the healthcare industry are extremely complex and, in many instances, the industry does not have the benefit of significant regulatory or judicial interpretation of those laws.

Medicare and Medicaid anti-fraud and abuse laws prohibit certain business practices and relationships related to items and services reimbursable under Medicare, Medicaid and other governmental healthcare programs, including the payment or receipt of remuneration to induce or arrange for referral of patients or recommendation for the provision of items or services covered by Medicare or Medicaid or any other federal or state healthcare program, often referred to as the Anti-Kickback Statute. Federal and state laws also prohibit the submission of false or fraudulent claims, including claims to obtain reimbursement under Medicare and Medicaid, under what is commonly referred to as the False Claims Act. We have implemented policies to help assure our compliance with these regulations as they become effective, but interpretations different from our interpretations or enforcement of these laws and regulations in the future could subject our practices to allegations of impropriety, illegality, or overpayment, or could require us to make changes in our facilities, equipment, personnel, services or the manner in which we conduct our business, any of which could increase costs and could materially adversely affect our business and results of operations.

Changes to the regulatory landscape applicable to our businesses could have a material adverse effect on our results of operations and financial condition.

Our Personal Care segment locations that maintain a Medicare certified home healthcare line of business (for example, in Pennsylvania and Massachusetts) must comply with ever changing federal conditions or participation, where compliance is difficult to achieve and hard to monitor. Recently implemented requirements for which adherence is particularly challenging include the need to:

- provide transfer summary to facility within two days of a planned transfer or within two business days of becoming aware of an unplanned transfer if the patient is still receiving care in the facility;
- provide written notice of patient’s rights and responsibilities, and transfer and discharge policies to a patient-selected representative within four business days of the initial evaluation visit;
- communicate revisions to the plan of care due to change in health status to the patient, representative (if any), caregiver and physicians issuing orders for plan of care; and
- communicate discharge plan revisions to the patient, representative (if any), caregiver, all physicians issuing orders for the plan of care and to the provider expected to care for the patient after discharge (if any).

CMS could adopt new requirements or guidelines that may further increase the costs associated with the provision of certified services, which could harm our business and have a material adverse effect on our results of operations.

In New York, we provide Service Coordination, or SC, and/or Home and Community Support Services, or HCSS, to 731 Traumatic Brain Injury, or TBI, and Nursing Home Transition and Diversion, or NHTD, Medicaid waiver participants. These waiver programs were developed based on the philosophy that individuals with disabilities, individuals with traumatic brain injury, and seniors, may be successfully served and included in their surrounding communities so long as the individual is the primary decision maker and works in cooperation with care providers to develop a plan of services that promotes personal independence, greater community inclusion, self-reliance and participation in meaningful activities and services. Examples of activities that are at various stages of implementation that may implicate or materially adversely affect our waiver line of business profitability follow.

- **Conflict Free Case Management** – The NYS DOH, in collaboration with CMS, is implementing mandatory conflict-free case management policies. Conflict-free case management requires the separation of clinical eligibility determinations and care planning assessments (for example, SC) from the direct provision of services (for example, HCSS). Providers in the personal care industry are expected to implement additional conflict of interest standards that may or may not ultimately require the creation of legally separate entities with distinct protocols.

- **Managed Long-Term Care Carve-In** – Managed Long-Term Care, or MLTC, is a system believed to streamline the delivery of long-term care services to people who are chronically ill or disabled and who wish to reside, or continue to reside, safely in their homes and communities. The entire array of services to which an enrolled member is entitled can be received through the MLTC plan a particular member has chosen. As New York transforms its long-term care system to one that ensures care management for all, enrollment in a MLTC plan may be mandatory or voluntary, depending on individual circumstances. While TBI and NHTD participants are currently excluded from having to enroll in a MLTC plan (for example, SC and HCSS claims are billed and paid on a Medicaid fee-for-service basis), the NYS DOH submitted a transition plan to CMS for consideration that eliminates the exclusion, meaning that TBI and NHTD waiver participants who wish to continue receiving services must enroll in a plan. While the primary goal stated was to improve access to all services across the state, the result may also require our navigation of network participation requirements and typical managed care cost control measures (for example, authorizations, utilization review, rate negotiation).

Regarding in-home personal care generally (including certified or non-certified and waiver or non-waiver), compliance with responsibilities under the Fair Labor Standards Act, or FLSA, remains key. The United States Department of Labor, or DOL, continues its focus on the industry to ensure that personal care workers earn a minimum wage and are afforded various overtime pay protections. We may be sued individually or by a class of workers claiming that a violation has occurred, or a complaint may be filed with the DOL to investigate. If it is ultimately found that we neglected to pay the full amount of wages owed under the FLSA (for meals, breaks, travel, or otherwise), payment for the missing amount and possibly double that amount may be mandated, which could materially increase our costs and harm our results of operations.

With respect to our Matrix Investment segment, the CHA services industry is primarily regulated by federal and state healthcare laws and the requirements of participation and reimbursement of the Medicare Advantage program established by CMS. From time to time, CMS considers changes to regulatory guidelines with respect to prospective CHAs or the risk adjusted payment system applicable to Matrix's Medicare Advantage plan customers. CMS could adopt new requirements or guidelines that may, for example, increase the costs associated with CHAs, limit the opportunities and settings available to administer CHAs, or otherwise change the risk adjusted payment system in a way that would adversely impact our business. Further, changes in or adoption of new state laws governing the scope of practice of mid-level practitioners, or more restrictive interpretations of such laws, may restrict Matrix's ability to provide services using nurse practitioners. Any such implementation of additional regulations on the CHA industry by CMS or other regulatory bodies or further regulation of mid-level practitioners could have a material adverse impact on Matrix's revenues and margins, which could have a material adverse impact on our balance sheet and financial position.

The cost of our services is funded substantially by government and private insurance programs, and changes in budgetary priorities of the government entities or private insurance programs that fund these services could result in the loss of contracts, a reduction in reimbursement rates, or a decrease in amounts payable to us under our contracts.

Payments for our services are largely derived from contracts that are directly or indirectly paid by government agencies with public funds and private insurance companies. All of these contracts are subject to legislative appropriations and state and/or national budget approval, as well as changes to potential eligibility for services. The availability of funding under our contracts with state governments is dependent in part upon federal funding to states. Changes in Medicaid provider reimbursement and federal matching funds methodologies may further reduce the availability of federal funds to states in which we provide services.

Currently, many of the states in which we operate are facing budgetary shortfalls or changes in budgetary priorities. While many of these states are dealing with budgetary concerns by shifting costs from institutional care to home and community-based care such as we provide, there is no assurance that this trend will continue or be implemented as it has been historically. For example, in New York (one of several states where our Personal Care segment provides services under the name "All Metro Health Care"), there are Medicaid Redesign Team initiatives taking place aimed at reducing Medicaid expense through provider consolidation and other measures. Our continued ability to provide core services, though expected, is now dependent upon various competitive bid processes, including the following:

- **CDPAP Request for Offers (Pending Award)** – The Consumer Directed Personal Assistance Program, or CDPAP, is a Medicaid program that operates pursuant to section 365-f of the New York State Social Services Law, or SSL, and implementing regulations in section 505.28 of title 18 of the NY Codes Rules and Regulations, or NYCRR. CDPAP is designed and intended to permit eligible chronically ill and/or physically disabled individuals (referred to as consumers) that are eligible to receive home care services greater flexibility and freedom of choice in obtaining those services by self-directing their care. Under CDPAP, consumers may receive assistance with personal care services (authorized under SSL § 365-f), home health aide services, and skilled nursing tasks (authorized under Article 36 of the Public Health Law) performed by a consumer directed personal assistant, or PA, under the instruction, supervision, and direction of the consumer or the consumer's designated representative. The role of the Fiscal Intermediary, or FI, as set forth in SSL § 365-f, is to assist the consumer in carrying out his or her responsibilities by performing administrative services required in statute and regulation (SSL § 365-f(4-a)(a)(ii) and 18 NYCRR § 505.28 (i), respectively) including wage and benefit processing, processing all income tax and other required wage withholdings, and maintaining various types of records. Our Personal Care segment currently serves as FI for 1,156 consumers. Following a transition period to be determined by the New York State Department Health, or NYS DOH, only those entities that have successfully entered into a contract under the terms of this request for offer may continue to provide FI services either directly or through contract with a Medicaid MCO.

- **LHCSA Request for Proposal (Anticipated)** – The recently enacted FY 2021 New York State Budget created a new Public Health Law, or PHL, Section 3605-c which, if implemented, would prohibit Licensed Home Care Service

Agencies, or LHCSAs, such as our Personal Care segment's individually-licensed branches, from providing or claiming for services provided to Medicaid recipients without being authorized to do so by contract with the NYS DOH. This restriction would apply to the provision of such services under the state Medicaid plan, a plan waiver, or through an MCO (for example, managed long-term care plan). If implemented, the statute would require the NYS DOH to contract with only enough LHCSAs to ensure that Medicaid recipients have access to care. The NYS DOH is expected to post an RFP that includes demonstrated cultural and language competencies specific to the population of recipients and the available workforce, experience serving individuals with disabilities, and demonstrated compliance with all applicable federal and state laws and regulations among the selection criteria. After contracts are awarded, the NYS DOH could terminate a LHCSA's contract, or suspend or limit a LHCSA's rights and privileges under a contract, upon thirty-days' written notice if the Commissioner of Health finds that a LHCSA has failed to comply with the provisions of Section 3605-c or any regulations promulgated under the statute. Also, authorization received by LHCSAs under PHL Section 3605-c would not substitute for satisfying existing licensure requirements or the screening and enrollment process required for participation in the Medicaid program.

Consequently, a significant decline in government or private insurance company expenditures or the number of program beneficiaries, a shift of expenditures or funding away from programs that call for the types of services that we provide, or change in government contracting or funding policies could cause payors to terminate their contracts with us or reduce their expenditures or reimbursement rates under those contracts, either of which could have a negative impact on our financial position and operating results.

We are subject to regulations relating to privacy and security of patient and service user information, and our failure to comply with such regulations could result in a material adverse impact on our operating results.

There are numerous federal and state regulations addressing patient information privacy and security concerns. In particular, the federal regulations issued under HIPAA contain provisions that:

- protect individual privacy by limiting the uses and disclosures of patient information;
- require the implementation of security safeguards to ensure the confidentiality, integrity and availability of individually identifiable health information in electronic form; and
- prescribe specific transaction formats and data code sets for certain electronic healthcare transactions.

Compliance with state and federal privacy laws and regulations requires considerable resources. These costs and investments could negatively impact our financial position and results of operations. Further, the HIPAA regulations and state privacy laws expose us to increased regulatory risk, as the penalties associated with a failure to comply or with information security breaches, even if unintentional, could be substantial and have a material adverse effect on our financial position and results of operations.

We could be subject to actions for false claims or recoupment of funds pursuant to certain audits for non-compliance with government coding and billing rules, which could have a material adverse impact on our operating results.

If we fail to comply with federal and state documentation, coding and billing rules, we could be subject to criminal or civil penalties, loss of licenses and exclusion from the Medicare and Medicaid programs, which could have a material adverse impact on our financial position and operating results. In billing for our services to third-party clients, we must follow complex documentation, coding and billing rules. These rules are based on federal and state laws, rules and regulations, various government pronouncements, including guidance and notices, and industry practice. Failure to follow these rules could result in potential criminal or civil liability under the federal False Claims Act, under which extensive financial penalties can be imposed, or under various state statutes which prohibit the submission of false claims for services covered. Compliance failure could further result in criminal liability under various federal and state criminal or civil statutes. We may be subject to audits conducted by our clients or their proxies, including the Office of Inspector General, or OIG, for the Department of Health and Human Services, or DHHS, state Medicaid regulatory agencies, state Medicaid fraud enforcement agencies, health departments, CMS, the Unified Program Integrity Contractors and regional federal program integrity contractors for the Medicare and Medicaid programs that may result in recoupment of funds. In addition, our clients may be subject to certain audits that may result in recoupment of funds from our clients that may, in turn, implicate us. We could be adversely affected in the event such an audit results in negative findings and recoupment from or penalties to our customers.

Our contracts are subject to stringent claims and invoice processing regimes which vary depending on the customer and nature of the payment mechanism. Government entities may take the position that if a transport cannot be matched to a medically necessary healthcare event, or is conducted inconsistently with contractual, regulatory or even policy requirements, payment for such transport may be recouped by such customer. Likewise, a government surveyor may determine that a personal care visit was not sufficiently supported by a time and attendance record and/or that the aide was not qualified on a particular date of service and seek a refund as a result.

While we carefully and regularly review documentation, and coding and billing practices, the rules are frequently vague and confusing and they cannot ensure that governmental investigators, private insurers or private whistleblowers will not challenge our practices. Such a challenge could result in a material adverse effect on our financial position and results of operations.

We could be subject to civil penalties and loss of business if we fail to comply with applicable bribery, corruption and other regulations governing business with public organizations.

We are subject to the federal Anti-Kickback Statute, which prohibits the offer, payment, solicitation or receipt of any form of remuneration in return for referring, ordering, leasing, purchasing or arranging for or recommending the ordering, purchasing or leasing of items or services payable by a federally funded healthcare program. Any of our financial relationships with healthcare providers will be potentially implicated by this statute to the extent Medicare or Medicaid referrals are implicated. Violations of the Anti-Kickback Statute could result in substantial civil or criminal penalties, including criminal fines of up to $100,000 per violation, imprisonment of up to ten years, civil penalties under the Civil Monetary Penalties Law of up to $100,000 per violation, plus three times the remuneration involved, civil penalties under the False Claims Act of up to $22,363 for each claim submitted, plus three times the amounts paid for such claims and exclusion from participation in the Medicaid and Medicare programs. Any such penalties could have a significant negative effect on our operations. Furthermore, the exclusion could result in significant reductions in our revenues, which could materially and adversely affect our business, financial position and results of operations.

Our business is subject to licensing regulations and other regulatory provisions, including provisions governing surveys and audits, and changes to, or violations of, these regulations could negatively impact us.

In many of the locations where we operate, we are required by local laws to obtain and maintain licenses. The applicable state and local licensing requirements govern the services we provide, the credentials of staff, record keeping, treatment planning, client monitoring and supervision of staff. The failure to maintain these licenses or the loss of a license could have a material adverse impact on us and could prevent us from providing services to clients in a given jurisdiction. Our contracts are subject to surveys or audit by our payors or clients. We are also subject to regulations that restrict our ability to contract directly with a government agency in certain situations. Such restrictions could affect our ability to contract with certain payors and clients, and could have a material adverse impact on our financial condition and results of operations.

Our contracts are subject to audit and modification by the payors with whom we contract, at their sole discretion, and any such audits and modifications could materially and adversely affect our results of operations.

Our businesses depend on our ability to perform successfully under various government funded contracts. Under the terms of these contracts, payors, government agencies or their proxy contractors can review our compliance or performance, as well as our records and general business practices, at any time, and may in their discretion:

- suspend or prevent us from receiving new contracts or extending existing contracts because of violations or suspected violations of procurement laws or regulations;
- terminate or modify our existing contracts;
- seek to recoup the amount we were paid and/or reduce the amount we are paid under our existing contracts; or
- audit and object to our contract related fees.

Any increase in the number or scope of audits could increase our expenses, and the audit process may disrupt the day-to-day operations of our business and distract management. If payors have significant audit findings, or if they make material modifications to our contracts, it could have a material adverse impact on our financial position and results of operations.

State revalidation and potential reduction of eligible Medicaid beneficiaries following the expiration of the COVID-19 public health emergency under the Families First Coronavirus Response Act (2020) could diminish the demand for our services, affect the profitability of our capitated contracts with our customers, and have a material adverse effect on our results of operations and financial condition.

The Families First Coronavirus Response Act (2020) requires states to maintain Medicaid beneficiary eligibility for all Medicaid participants through the last day of the month in which the COVID-19 public health emergency ends. Prior to the enactment of the Act, states regularly reviewed on an on-going basis whether Medicaid participants qualified for the program, based on factors such as income, age or disability status. While states have been prohibited from removing ineligible participants from their Medicaid rolls, new enrollment has also steadily increased, resulting in record high levels of Medicaid participation. Once the federal government determines under the Act that the public health emergency has ended, which could occur any time after April 16, 2022, states must revalidate the eligibility of each Medicaid beneficiary once every 12 months. During this process, a significant number of Medicaid beneficiaries could lose Medicaid coverage, not only because of changed circumstances such as regained employment, but also as a result of clerical and other errors that may leave otherwise eligible beneficiaries off the rolls due to the administrative burden to be placed on short-staffed state and local offices. A drop in Medicaid enrollment could affect adversely our ability to be reimbursed by our customers for the services we provide to our end-users, our NEMT per-member per-month fee generation under our capitated contracts, and our FFS payments and the demand for our services generally, the occurrence of any of which could harm our business and have a material adverse effect on our results of operations and financial condition.

Risks Related to Our Indebtedness

Our existing debt agreements contain restrictions that limit our flexibility in operating our business and could have a material adverse effect on our business and results of operations.

Our agreements covering our outstanding indebtedness, including the New Credit Agreement and the indentures governing our Notes due 2025 and 2029, contain various covenants that limit or will limit our ability to engage in specified types of transactions. These agreements may, among other things, limit our ability to:

- incur additional debt;
- provide guarantees in respect of obligations of other persons;
- issue redeemable stock and preferred stock;
- pay dividends or distributions or redeem or repurchase capital stock;
- make loans, investments and acquisitions;
- enter into transactions with affiliates;
- create or incur liens;
- make distributions from our subsidiaries;
- permit contractual obligations that burden our ability to make distributions from our subsidiaries;
- sell assets and capital stock of our subsidiaries;
- make prepayments on subordinated debt; and
- consolidate or merge with or into, or sell substantially all of our assets to, another person.

A breach of any of these covenants or restrictions could result in a default under the applicable agreements that govern our indebtedness, including as a result of cross default provisions, and, in the case of our New Credit Facility (as defined below), permit the lenders to cease making loans to us. Upon the occurrence of an event of default under our New Credit Facility, the lenders could elect to declare all amounts outstanding under our New Credit Facility to be immediately due and payable and terminate all commitments to extend further credit. Such actions by those lenders could cause cross defaults under our other indebtedness. In the event of acceleration of our outstanding indebtedness, we cannot assure you that we would be able to repay the debt or obtain new financing to refinance the debt. Even if new financing is made available to us, it may not be on terms acceptable to us. If we were unable to repay these amounts, certain debt holders could proceed against the collateral granted to them to secure the indebtedness, including the equity of subsidiary guarantors that we have pledged as collateral, pursuant to our New Credit Agreement. If any of the foregoing were to occur, our business and results of operations could be materially adversely affected and the value of our equity could be materially diminished.

We have substantial indebtedness and lease obligations that could affect our ability to meet our obligations under our indebtedness and lease obligations and may otherwise restrict our activities and harm our operations and business.

Our substantial indebtedness and lease obligations could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry, expose us to interest rate risk to the extent of our variable rate indebtedness, and prevent us from meeting our obligations under the New Credit Facility and our Notes due 2025 and 2029. Our substantial indebtedness and lease obligations could have important consequences, including:

- increasing our vulnerability to adverse economic, industry or competitive developments;
- requiring a substantial portion of cash flow from operations to be dedicated to the payment of principal and interest on our indebtedness and lease payments under our leases, therefore reducing our ability to use our cash flow to fund our operations, capital expenditures and future business opportunities;
- exposing us to the risk of increased interest rates because certain of our borrowings, including borrowings under the New Credit Facility, are at variable rates of interest;

- making it more difficult for us to satisfy our obligations with respect to our indebtedness and any failure to comply with the obligations of any of our debt instruments, including restrictive covenants and borrowing conditions, could result in an event of default under the agreements governing such indebtedness, including the New Credit Facility and the Notes due 2025 and 2029;
- restricting us from making strategic acquisitions or causing us to make non-strategic divestitures;
- imposing restrictions on the operation of our business that may hinder our ability to take advantage of strategic opportunities or to grow our business;
- limiting our ability to obtain additional financing for working capital, capital expenditures (including real estate acquisitions), debt service requirements and general corporate or other purposes, which could be exacerbated by volatility in the credit markets; and
- limiting our flexibility in planning for, or reacting to, changes in our business or market conditions and placing us at a competitive disadvantage compared to any of our competitors who are less leveraged and who therefore may be able to take advantage of opportunities that our leverage prevents us from exploiting.

Our ability to make scheduled payments on and to refinance our indebtedness depends on and is subject to our financial and operating performance, which in turn is affected by general and regional economic, financial, competitive, business and other factors, all of which are beyond our control, including the availability of financing in the international banking and capital markets and the effects of the COVID-19 pandemic. We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available to us in an amount sufficient to enable us to service our debt, to refinance our debt or to fund our other liquidity needs. Any refinancing or restructuring of our indebtedness could be at higher interest rates and may require us to comply with more onerous covenants that could further restrict our business operations. Further, in the event of a default, the holders of our indebtedness could elect to declare such indebtedness be due and payable, which could materially adversely affect our results of operations and financial condition.

Expiration of existing New Credit Agreement, loss of available financing or an inability to renew or refinance our debt could have an adverse effect on our financial condition and results of operations.

The indebtedness subject to our Notes matures in 2025 and 2029 and subject to our New Credit Agreement matures in 2027 and there can be no assurance that we will be able to payoff timely or refinance our Notes or extend our indebtedness under our Credit Agreement or enter into a new one on terms that are acceptable to us, or at all. If our cash on hand is insufficient, or we are unable to generate sufficient cash flows in the future to cover our cash flow and liquidity needs and service our debt, we may be required to seek additional sources of funds, including extending or replacing our indebtedness, refinancing all or a portion of our existing or future indebtedness, incurring additional indebtedness to maintain sufficient cash flow to fund our ongoing operating needs and fund anticipated expenditures. There can be no assurance that any new financing or refinancing will be possible or obtained on terms acceptable to us, or at all. If we are unable to obtain needed financing, we may (i) be unable to satisfy our ongoing obligations, (ii) be unable to pursue future business opportunities or fund acquisitions, (iii) find it more difficult to fund future operating costs, tax payments or general corporate expenditures, and (iv) become vulnerable to adverse general economic, capital markets and industry conditions. Any of these circumstances could have a material adverse effect on our financial position, liquidity and results of operations.

We may incur substantial additional indebtedness, which could impair our financial condition.

We may incur substantial additional indebtedness to fund our activities, including to fund share repurchases, acquisitions, cash dividends and business expansion. While our New Credit Agreement contains restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of significant qualifications and exceptions, and under certain circumstances, the amount of indebtedness that could be incurred in compliance with these restrictions could be substantial. Any additional indebtedness would increase the risk that we may be unable to generate cash sufficient to pay amounts due in respect of such indebtedness, and the risks that we already face as a result of our leverage would intensify. Future substantial indebtedness could also have other important consequences on our business. For example, it could:

- make it more difficult for us to satisfy our existing obligations;
- make it more difficult to renew or enter into new contracts with existing and potential future clients;
- limit our ability to borrow additional amounts to fund, among other things, working capital, capital expenditures, debt service requirements, the execution of our business strategy or acquisitions;
- require us to dedicate a substantial portion of our cash flow from operations to pay principal and interest on our debt, which would reduce the funds available to us for other purposes;
- restrict our ability to dispose of assets and use the proceeds from any such dispositions;
- restrict our ability to raise debt or equity capital to be used to repay other indebtedness when it becomes due;

- make us more vulnerable to adverse changes in general economic, industry and competitive conditions, as well as in government regulation and to our business; and
- expose us to risks inherent in interest rate fluctuations because some of our borrowings are at variable rates of interest, which could result in higher interest expense in the event of increases in interest rates.

Our ability to satisfy and manage our debt obligations depends on our ability to generate cash flow and on overall financial market conditions. To some extent, this is subject to prevailing economic and competitive conditions and to certain financial, business and other factors, many of which are beyond our control. Our business may not generate sufficient cash flow from operations to permit us to pay principal, premium, if any, or interest on our debt obligations. If we are unable to generate sufficient cash flow from operations to service our debt obligations and meet our other cash needs, we may be forced to reduce or delay capital expenditures, sell or curtail assets or operations, seek additional capital, or seek to restructure or refinance our indebtedness. If we must sell or curtail our assets or operations, it may negatively affect our ability to generate revenue.

Risks Related to Our Common Stock

If we are unable to remediate recently identified material weaknesses in our internal control over financial reporting, or if we experience additional material weaknesses or other deficiencies or otherwise fail to maintain an effective system of internal controls, we may not be able to accurately and timely report our financial results, in which case our business may be harmed, investors may lose confidence in the accuracy and completeness of our financial reports, and the price of our common stock may decline.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting and for evaluating and reporting on the effectiveness of our system of internal control. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). We are required to furnish annually a report by management of its assessment of the effectiveness of our internal control over financial reporting as of the end of our most recent fiscal year. In addition, our independent registered public accounting firm is required to provide a related attestation report on our internal control over financial reporting.

In connection with our 2021 year-end assessment of internal control over financial reporting, we determined that, as of December 31, 2021, we did not effectively structure reporting lines, appropriate authorities, responsibilities and mechanisms to enforce accountability within our subsidiary Simplura Heath Group, in the pursuit of objectives to establish and operate effective internal controls over financial reporting. For further discussion of the material weaknesses identified and our remedial efforts, see Item 9A, *Controls and Procedures*.

Remediation efforts place a significant burden on management and add increased pressure to our financial resources and processes. As a result, we may not be successful in making the improvements necessary to remediate the material weaknesses identified by management, or do so in a timely manner, or identify and remediate additional control deficiencies, including material weaknesses, in the future.

If we are unable to remediate successfully our existing or any future material weaknesses or other deficiencies in our internal control over financial reporting: the accuracy and timing of our financial reporting may be adversely affected; our liquidity, our access to capital markets, the perceptions of our creditworthiness, and our ability to complete acquisitions may be adversely affected; we may be unable to maintain compliance with applicable securities laws, The Nasdaq Stock Market LLC ("Nasdaq") listing requirements, and the covenants under our debt instruments or derivative arrangements regarding the timely filing of periodic reports; we may be subject to regulatory investigations and penalties; investors may lose confidence in our financial reporting; and we may suffer defaults, accelerations, or cross-accelerations under our debt instruments or derivative arrangements to the extent we are unable to obtain waivers from the required creditors or counterparties or are unable to cure any breaches. If any such event or circumstance were to occur, our stock price could decline and our business, financial condition and results of operations could be materially adversely affected.

Future sales of shares of our common stock by existing stockholders could cause our stock price to decline.

Sales of substantial amounts of our common stock in the public market, or the perception that these sales could occur, could cause the market price of our common stock to decline. As of December 31, 2021, we had 19,589,422 shares of common stock outstanding that were freely transferable without restriction or further registration under the Securities Act, unless held by or purchased by our "affiliates" as that term is defined in Rule 144 under the Securities Act. Shares of our common stock held by or purchased by our affiliates are restricted or "covered" securities within the meaning of Rule 144 under the Securities Act, but will be eligible for resale subject to applicable volume, means of sale, holding period and other limitations of Rule 144 under the Securities Act.

With respect to our stockholders Coliseum Capital Partners, L.P., Coliseum Capital Partners II, L.P. and Blackwell Partners, LLC - Series A, as well as our former stockholder Coliseum Capital Co-Invest, L.P, which we sometimes refer to collectively as the Coliseum Stockholders, any or all of which may continue to be considered an affiliate or affiliates of ours, we have filed a registration statement that has been declared effective under the Securities Act covering the resale by the Coliseum Stockholders of an aggregate of 1,282,055 shares of our common stock that continue to be held by the Coliseum Stockholders. As a result, such shares may be sold pursuant to the registration statement without regard to the volume and other limitations of Rule 144 under the Securities Act that would otherwise be applicable to such sales.

We also filed a registration statement under the Securities Act to register additional shares of common stock to be issued under our Amended and Restated 2006 Long-Term Incentive Plan, or Incentive Plan, and, as a result, all shares of common stock acquired upon exercise of stock options or vesting of shares of restricted stock or restricted stock units granted under our Incentive Plan will also be freely tradable under the Securities Act, unless purchased or acquired by our affiliates under the plan. As of December 31, 2021, there were vested stock options outstanding and exercisable to purchase a total of 82,981 shares of our common stock and there were 73,879 shares of our common stock subject to restricted stock awards under the plan. In addition, 1,230,202 shares of our common stock are reserved for future issuances under the Incentive Plan.

Our annual operating results and stock price may be volatile or may decline significantly regardless of our operating performance.

Our annual operating results and the market price for our common stock may fluctuate significantly in response to a number of factors, many of which we cannot control, including:

- changes in rates or coverage for services by payors;
- changes in Medicaid, Medicare or other United States federal or state rules, regulations or policies;
- market conditions or trends in our industry or the economy as a whole, including increases in the minimum wage requirements in various jurisdictions in which we operate, and fluctuations in the size of the Medicare member population as well as overall health of its members;
- increased competition, including through insourcing of services by our clients and new entrants to the market;
- negative effects from war, incidents of terrorism, natural disasters, pandemics, or responses to these events;
- changes in tax laws; and
- changes in accounting principles.

If any of these events or circumstances were to impact our results or stock price, our common stock price could decrease and the value of an investment in our common stock would experience a corresponding decrease.

In addition, the stock markets, and in particular NASDAQ, have experienced considerable price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. In the past, stockholders have instituted securities class action litigation following periods of market volatility. If we become involved in securities litigation, we could incur substantial costs, and our resources and the attention of management could be diverted from our business.

The Company depends on its subsidiaries for cash to fund all of its operations and expenses, including to make future dividend payments or to fund stock repurchases, if any, and there can be no assurance that our subsidiaries will make available to us the funds necessary for us to fund our operations and capital needs.

Our operations are conducted entirely through our subsidiaries. Our ability to generate cash to fund all of our operations and expenses, to pay dividends or complete stock repurchase programs, or to meet any debt service obligations is highly dependent on our subsidiaries' earnings and the receipt of funds from our subsidiaries by way of dividends or intercompany loans. We have not paid any cash dividends on our common stock and do not expect to pay any dividends on our common stock in the foreseeable future. We currently intend to invest our and our subsidiaries' future earnings, if any, to fund our growth, to develop our business, invest in our technology, for working capital needs and for general corporate purposes. To the extent that we determine in the future to pay dividends on our common stock, however, none of our subsidiaries will be obligated to make funds available to us for the payment of dividends. Similarly, our subsidiaries are not obligated to make funds available to us to fund stock repurchases. Further, our New Credit Agreement significantly restricts the ability of our subsidiaries to pay dividends, make loans or otherwise transfer assets to us. In addition, Delaware law imposes solvency restrictions on our ability to pay dividends to holders of our common stock. Therefore, you are not likely to receive any dividends on our common stock for the foreseeable future and the success of an investment in shares of our common stock will depend upon any future appreciation in their value. There is no guarantee that shares of our common stock will appreciate in value or even maintain the price at which stockholders have purchased their shares. Furthermore, if the subsidiaries are unable or unwilling to fund our cash needs when needed or desired, our results of operations and business and financial condition could be materially adversely affected.

If securities or industry analysts do not publish research or publish misleading or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock depends in part on the research and reports that securities or industry analysts publish about us or our business. If one or more analysts downgrade our stock or publish misleading or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of our company or fails to publish reports on us regularly, demand for our common stock could decrease, which could cause our common stock price or trading volume to decline.

Anti-takeover provisions in our second amended and restated certificate of incorporation, as amended, and amended and restated bylaws could discourage, delay or prevent a change of control of our company and may affect the trading price of our common stock.

Our second amended and restated certificate of incorporation, as amended, and amended and restated bylaws include a number of provisions that may be deemed to have anti-takeover effects, including provisions governing when and by whom special meetings of our stockholders may be called, and provisions that may discourage, delay or prevent a change in our management or control over us that stockholders may consider favorable. As a result of these provisions, holders of our common stock may not receive the full benefit of any premium to the market price of our common stock offered by a bidder in a takeover context.

Even in the absence of a takeover attempt, the existence of these provisions may adversely affect the prevailing market price of our common stock if the provisions are viewed as discouraging takeover attempts in the future. Our second amended and restated certificate of incorporation, as amended, and amended and restated bylaws may also make it difficult for stockholders to replace or remove our management, including provisions providing for staggered terms for our Board, no cumulative voting for the election of directors, and provisions governing director vacancies, which are filled only by remaining directors (including vacancies resulting from removal or other cause). These provisions may facilitate management entrenchment that may delay, deter, render more difficult or prevent a change in our control, which may not be in the best interests of our stockholders.

Item 1B. ***Unresolved Staff Comments.***

None.

Item 2. ***Properties.***

Our principal executive offices are located in Denver, Colorado, where we have leased approximately 73,000 square feet of corporate office and operations space in an 11½ year operating lease.

We continue to lease our former principal executive offices located in Atlanta, Georgia, where we have leased through June 30, 2024 approximately 30,000 square feet of corporate office and operations space. The offices in Atlanta, Georgia, as well as 35 other leased facilities covering an aggregate of approximately 425,000 square feet of office and operational space are utilized substantially in our NEMT segment.

We maintain offices for our Personal Care segment in Valley Stream, New York, where we have leased through November 30, 2025 approximately 14,000 square feet of corporate office and operations space and in Hasbrouck Heights, New Jersey, where we have leased through September 30, 2025 approximately 11,000 square feet of corporate office and operations space. In addition, we have additional leased space for our Personal Care segment in 68 locations covering an aggregate of approximately 205,000 square feet of office and operational space.

We maintain offices for our RPM segment in Franklin, Ohio, where we own the real estate for approximately 24,000 square feet of corporate office and operations space. In addition, we own real estate for our RPM segment in Sullivan, Illinois covering 23,000 square feet and we rent coworking space in various other locations as needed to support our operations.

The lease terms vary for all of our leased facilities, but we believe that they are all generally at market rates. We further believe that our properties are adequate for our current business needs and in any event we believe that we can obtain adequate additional or alternative space at market rates, if needed, to meet our foreseeable business needs.

Item 3. *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 our company 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. Refer to Note 20, *Commitments and Contingencies*, for information concerning other potential contingent liabilities matters that do not rise to the level of materiality for purposes of disclosure hereunder.

Item 4. *Mine Safety Disclosures.*

Not applicable.

PART II

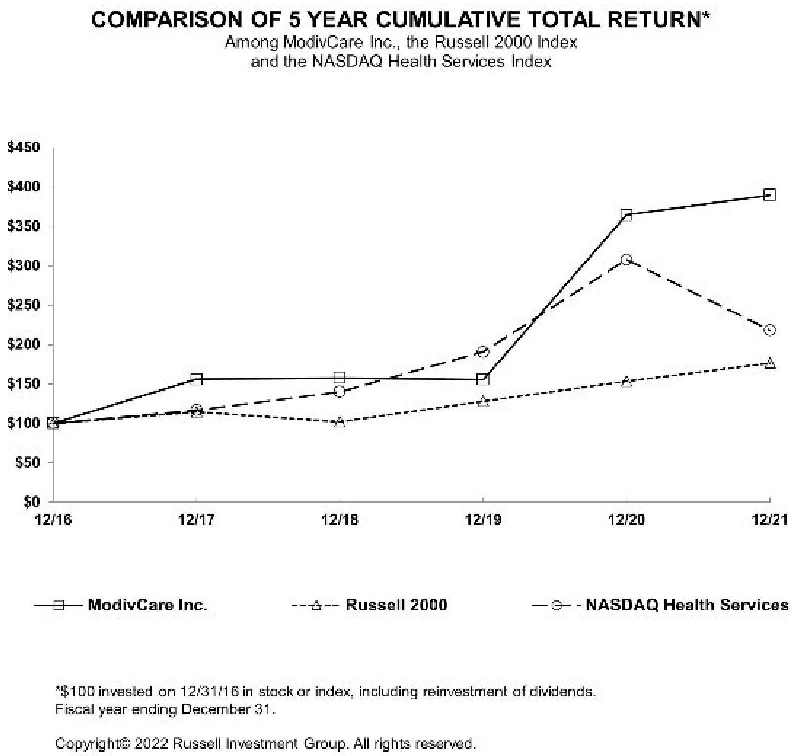
Item 5. ***Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.***

Market for our Common Stock

Our Common Stock, our only class of common equity, has been quoted on NASDAQ under the symbol "PRSC" since August 19, 2003. Effective January 7, 2021 in conjunction with our name change and rebranding effort, the symbol has been changed to "MODV". As of February 21, 2022, there were 12 holders of record of our Common Stock.

Stock Performance Graph

The following graph shows a comparison of the cumulative total return for our Common Stock, Russell 2000 Index, and NASDAQ Health Services Index and assuming an investment of $100 in each on December 31, 2016.



Dividends

We have not paid any cash dividends on our Common Stock and currently do not expect to pay dividends on our Common Stock. In addition, our ability to pay dividends on our Common Stock is limited by the terms of our Credit Agreement. The payment of future cash dividends, if any, will be reviewed periodically by the Board of Directors and will depend upon, among other things, our financial condition, funds from operations, the level of our capital and development expenditures, any restrictions imposed by present or future debt or equity instruments, and changes in federal tax policies, if any.

Issuer Sales of Unregistered Securities

There were no sales, including exchanges or conversions, of equity securities by us during the period covered by this report that were either not registered under the Securities Act or not previously disclosed in a quarterly report on Form 10-Q or current report on Form 8-K previously filed by us with the Securities and Exchange Commission.

Issuer Purchases of Equity Securities

The following table provides information with respect to purchases made by or on behalf of us or any "affiliated purchasers" (as defined in Rule 10b-18(a)(3) of the Exchange Act) of our common stock during the three months ended December 31, 2021.

Period	**Total Number of Shares (or Units) Purchased**		**Average Price Paid per Share (or Unit)**	**Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Program**	**Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (000's) (1)**
October 1, 2021 to October 31, 2021	120	(2)	$ 161.48	—	$ 35,960
November 1, 2021 to November 30, 2021	2,825	(1)	$ 138.68	2,825	$ 35,568
December 1, 2021 to December 31, 2021	4,212	(1) (2)	$ 139.69	4,036	$ 35,006
Total	7,157			6,861	

(1) On March 8, 2021, the Board of Directors authorized a stock repurchase program under which the Company was authorized to repurchase up to $75.0 million in aggregate value of the Company's Common Stock through December 31, 2021.

(2) Redeemed shares of Common Stock issuable in respect of vested restricted stock tendered in lieu of cash for payment of income tax withholding amounts by participants in the Company's 2006 Plan (as defined below).

Item 6. *[Reserved]*

Item 7. ***Management’s Discussion and Analysis of Financial Condition and Results of Operations.***

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes included in Item 8. “Financial Statements and Supplementary Data” of this report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and other factors that may cause actual results to differ materially from those projected in any forward-looking statements, as discussed in “Disclosure Regarding Forward-Looking Statements”. These risks and uncertainties include but are not limited to those set forth in Item 1A. “Risk Factors”.

Overview of Our Business

Please refer to *Item 1. “Business”* of this Annual Report on Form 10-K for a discussion of our services and corporate strategy.

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, enable greater access to care, 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. 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’s solutions help health plans manage risks, close care gaps, reduce costs, and connect members to care. Through the combination of its historical NEMT business, its in-home personal care business that consists of Simplura Health Group and Care Finders Total Care LLC, and its recent addition of the remote patient monitoring business through its acquisition of VRI Intermediate Holdings, LLC, ModivCare has united four complementary healthcare businesses that serve similar, highly vulnerable patient populations.

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. Matrix’s clinical care business ("Clinical Care") provides risk adjustment solutions that improve health outcomes for individuals and financial performance for health plans. Matrix’s clinical solutions business ("Clinical Solutions") provides employee health and wellness services focused on improving employee health with worksite certification solutions that reinforce business resilience and safe return-to-work outcomes. Its Clinical Solutions offerings also provide clinical trial services which support the delivery of safe and effective decentralized clinical trial operations to patients and eligible volunteers. Matrix also provides lab services, including services related to COVID-19 such as screening, testing, and vaccinations.

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

- MCO, Medicaid and Medicare 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, many of which reduced medical services to life-sustaining programs only (for example, dialysis and chemotherapy). 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 business 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 or furloughed from their jobs. Cases have also been lost due to patient deaths, and new case referrals slowed as referral sources faced disruption from the various restrictions and public health orders. Our personal care service volumes are not expected to recover to pre-pandemic levels until the vaccination status of members in the markets where we provide services is at a higher rate where individuals feel comfortable receiving care and any current or future COVID-19 variants do not jeopardize the safety of vaccinated members. 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.

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements and accompanying notes in accordance with accounting principles generally accepted in the United States of America. Preparation of the consolidated financial statements and accompanying notes requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the consolidated financial statements as well as revenue and expenses during the periods reported. We base our estimates on historical experience, where applicable, and other assumptions that we believe are reasonable under the circumstances. Actual results may differ from our estimates under different assumptions or conditions.

There are certain critical estimates that require significant judgment in the preparation of our consolidated financial statements. We consider an accounting estimate to be critical if:

- it requires us to make an assumption because information was not available at the time or it included matters that were highly uncertain at the time the estimate is made; and
- changes in the estimate or different estimates that could have been selected may have had a material impact on our financial condition or results of operations.

Accrued Transportation Costs

Description. We generally pay our transportation providers for completed trips based on documentation submitted after services have been provided. The transportation service is initiated at the time a member submits a request for transportation services from our providers. At this time, we calculate an estimated transportation cost for each trip based on historical experience and contractual terms. This portion of the accrued transportation cost is based on requests for services we have received and the amount we expect to be billed by our transportation providers. All completed trips (both unbilled and billed) for which we have not yet issued payment reconcile to our total accrued transportation cost, however the critical accounting estimate that requires significant judgment is the portion of the accrual that is estimated at initiation of the member request.

Judgments and Uncertainties. The transportation cost accrual requires significant judgment as it is calculated using contractual rates and mileage estimates, as well as an estimated rate for unknown cancellations given that members may have requested transportation without yet notifying the Company of cancellation. Based upon historical trip experience and contractual terms, we estimate the amount of transportation cost incurred for invoices which have not yet been submitted. The estimates are routinely monitored and compared to actual invoiced costs. Actual cost could be greater or less than the amounts estimated due to facts and circumstances that differ from historical trends.

Sensitivity of Estimate to Change. The estimates for the transportation accrual are developed using assumptions based on the best information available to the Company at the time, but which are inherently uncertain and unpredictable and as a result, actual results may differ significantly from estimates. In determining our estimate each period, we use data around historical trip experience, current contractual rates, and mileage estimates and use a third party consultant to assist in development of the expected accrual. Our December 31, 2021 estimated portion of the accrued transportation costs was $3.5 million greater than our estimated portion in 2020 and $2.2 million less than our estimated portion in 2019. The decrease from 2019 to 2021 was a result of the overall decrease in trip volume during the COVID 19 pandemic. The assumptions used in the estimate inputs include estimated trip costs and estimated trip volume. If we were to assume that our estimate of future transportation costs was changed to the upper end or lower end of the range we developed in the course of formulating our estimate, the estimate for future transportation costs as of December 31, 2021 would range from $19.6 million to $23.9 million.

Business Combinations

Description. We account for our business combinations using the acquisition method of accounting which requires the Company to make significant estimates and assumptions at the date of acquisition as we allocate the value of the consideration assigned to the tangible assets and identifiable intangible assets acquired and liabilities assumed. Any excess purchase price paid over the estimated fair value of the net tangible and intangible assets acquired is allocated to goodwill. Additionally, the economic lives assigned to the identifiable intangible assets requires significant judgments from management.

Judgments and Uncertainties. When determining the fair value of the purchase price to be allocated to the assets acquired and liabilities assumed, valuation techniques such as the income, cost, or market approach are used and third-party valuation experts are often consulted to assist in the calculation of fair value. Measurement of the fair value of identifiable intangible assets is based on available historical information and expectations and assumptions about future performance. Critical assumptions that require estimates in valuing certain intangible assets include, but are not limited to, estimates and assumptions used in determining net future cash flows and the selection of respective discount rates.

Sensitivity of Estimate to Change. Estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and as a result, actual results may differ significantly from estimates.

On November 18, 2020, the Company acquired Simplura for $569.8 million. The significant intangible assets identified include the payor network and the trade name. The payor network was determined to have a fair value of $221.0 million and was calculated using the multi-period excess earnings method which includes assumptions on the customer attrition rate, revenue growth rates, and discount rate. The trade name was determined to have a fair value of $43.0 million and was calculated using the relief-from-royalty method which includes assumptions on the revenue projections, royalty rates, and discount rates. Management used a third-party valuation specialist to assist in the allocation of fair value and believes the estimates applied are based upon reasonable assumptions, but understands that estimates of significant assumptions could change resulting in potential impairment losses in the future.

On September 14, 2021, the Company acquired Care Finders for $344.8 million. The significant intangible asset identified was the payor network. The payor network was determined to have a fair value of $97.2 million and was calculated using the multi-period excess earnings method which includes assumptions on customer attrition rate, revenue growth rates, and discount rate. Management used a third-party valuation specialist to assist in the allocation of fair value and believes the estimates applied are based upon reasonable assumptions, but understands that estimates of significant assumptions could change resulting in potential impairment losses in the future.

On September 22, 2021, the Company acquired VRI for $317.5 million. The significant intangible asset identified was the payor network. The payor network was determined to have a fair value of $72.2 million and was calculated using the multi-period excess earnings method which includes assumptions on customer attrition rate, revenue growth rates, and discount rate. Management used a third-party valuation specialist to assist in the allocation of fair value and believes the estimates applied are based upon reasonable assumptions, but understands that estimates around significant assumptions could change resulting in potential impairment losses in the future.

Recoverability of Goodwill

Description. In accordance with ASC 350, *Intangibles-Goodwill and Other*, we review goodwill for impairment annually, or more frequently if events and circumstances indicate that an asset may be impaired. Such circumstances could include, but are not limited to: (1) the loss or modification of significant contracts, (2) a significant adverse change in legal factors or in business climate, (3) unanticipated competition, (4) an adverse action or assessment by a regulator, or (5) a significant decline in our stock price. We perform our annual goodwill impairment test as of October 1. Goodwill is allocated across the Company's reporting units: NEMT, Simplura, Care Finders, and VRI. We first perform qualitative assessments for each reporting unit to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the qualitative assessment suggests that it is more likely than not that the fair value of a reporting unit is less than its carrying value amount, we then perform a quantitative assessment and compare the fair value of the reporting unit to its carrying value. If the carrying value is determined to exceed the estimated fair value, the asset is considered impaired.

Judgments and Uncertainties. When performing a quantitative assessment to estimate the fair value of the Company's goodwill, the Company applies the discounted cash flow method which includes assumptions on the projected future cash flows, earnings, discount rates, working capital adjustments, long-term growth rates, and others.

Sensitivity of Estimate to Change. The use of different estimates or assumptions in determining the fair value of our goodwill may result in a different value recorded, which could result in an impairment charge that has the potential to have a material impact to the consolidated statement of operations. As of the date of our annual goodwill analysis, no goodwill impairment charges were recorded.

Income Taxes

Description. We account for income taxes under the asset and liability method. Under this method, we record income tax expense for the amount of taxes payable or refundable in the current period and deferred tax assets and liabilities to reflect our estimation of the future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and income tax reporting purposes. We determine the deferred tax asset or liability for each temporary difference based on the enacted tax rates expected to be in effect when we realize the underlying items of income and expense. We record a valuation allowance to reduce our deferred tax assets when we estimate that it is more likely than not that a portion of the deferred tax assets will not be realized, and we record liabilities to address uncertain tax positions we have taken in previously filed tax returns or that we expect to take in our current tax returns.

Judgments and Uncertainties. Significant assumptions, judgments, and estimates are made by management when determining the income tax provision (benefit) for the current year, the amount of deferred tax assets and liabilities to be recorded, and the necessary valuation allowance to be recorded against the deferred tax asset. These judgements include interpretations of income tax regulations, estimates of future taxable income, tax-planning strategies, and the likelihood of recovery of deferred tax assets or that a tax position will be sustained upon audit.

We consider many factors when assessing the likelihood of future realization of our deferred tax assets, including our recent earnings experience by jurisdiction, expectations of future taxable income, and the carryforward periods available to us for tax reporting purposes. We may establish a valuation allowance to reduce deferred tax assets to the amount we believe is more likely than not to be realized. Due to inherent complexities arising from the nature of our businesses, future changes in income tax law, tax sharing agreements or variances between our actual and anticipated operating results, we make certain judgments and estimates. Therefore, actual income taxes could materially vary from these estimates.

We record liabilities to address uncertain tax positions we have taken in previously filed tax returns or that we expect to take in our current tax returns. The determination for required liabilities is based upon an analysis of each individual tax position, taking into consideration whether it is more likely than not that our tax position, based on technical merits, will be sustained upon examination. For those positions for which we conclude it is more likely than not the position will be sustained, we recognize the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with the taxing authority. The difference between the amount recognized and the total tax position is recorded as a liability. While the Company believes all of its tax positions are fully supportable, the ultimate resolution of these tax positions may be greater or less than the liabilities recorded.

Sensitivity of Estimate to Change. If there are any changes in the underlying estimates and assumptions to calculate the current period income tax provision or deferred tax assets and liabilities, or if the settlement of tax issues from a current period audit results in a tax position that is no longer supported, the financial statements could be materially impacted. During the period ended December 31, 2021, the Company had recorded $0.6 million of unrecognized tax benefits, including interest and penalties, in other long-term liabilities.

Results of Operations

The following results of operations include the accounts of ModivCare and our subsidiaries for the years ended December 31, 2021 and 2020. The results of Care Finders Total Care and VRI Intermediate Holdings, LLC, have been included since the November 14, 2021 and November 22, 2021 acquisition dates, respectively. For our results of operations at December 31, 2019 see “Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Form 10-K for the fiscal year ended December 31, 2020, filed with the SEC on February 26, 2021.

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. For the year ended December 31, 2021, the Company received distributions of the CARES Act Provider Relief Fund targeted to offset lost revenue and expenditures incurred in connection with 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 (Income)

Interest expense, net. Interest expense consists principally of interest payments on the Company's borrowings outstanding at December 31, 2021 under the Credit Facility and Senior Unsecured Notes, and amortization of deferred financing fees. Refer to the "Liquidity and Capital Resources" section below for further discussion of these borrowings.

Equity in net income (loss) of investee. Equity in earnings of equity method investee consists of our proportionate share of equity earnings or losses from our Matrix equity investment.

Income tax expense (benefit). 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

Discontinued operations. During the periods presented, we completed the following disposition transactions, which resulted in the presentation of the related operations as Discontinued Operations.

- On November 1, 2015, we completed the sale of our former Human Services segment and since the completion of the sale, we have recorded additional expenses related to legal proceedings for an indemnified legal matter.

- On December 21, 2018, we completed the sale of substantially all of the operating subsidiaries of our former WD Services segment to APM and APM UK Holdings Limited, an affiliate of APM, except for the segment's employment services operations in Saudi Arabia. Our contractual counterparties in Saudi Arabia, including an entity owned by the Saudi Arabian government, assumed these operations beginning January 1, 2019. Wind down activities of our Saudi Arabian entity are included in our discontinued operations. Additionally, on June 11, 2018, we entered into a Share Purchase Agreement to sell Ingeus France for a de minimis amount. The sale was effective on July 17, 2018.

See Note 22, *Discontinued Operations*, in our accompanying consolidated financial statements for further information.

Segment reporting. Our segments reflect the manner in which our operations are organized and reviewed by management.

We operate in four reportable business segments: NEMT, Personal Care, RPM and the Matrix Investment. Prior to November 17, 2020, our primary operating segment was NEMT, which provides non-emergency medical transportation services. Our Personal Care segment is composed of the operations from two acquisitions: Simplura on November 18, 2020, which operates in the non-medical personal care service industry; and Care Finders on September 14, 2021, a personal care service provider with operations concentrated in the Northeast, with a scaled presence in New Jersey, Pennsylvania, and Connecticut. On September 22, 2021, we acquired VRI, resulting in the establishment of our RPM segment. VRI is a provider of remote patient monitoring solutions. Our investment in Matrix is also a reportable segment referred to as the "Matrix Investment". Segment results are based on how our chief operating decision maker manages our business, makes operating decisions and evaluates operating performance. The operating results of our NEMT, Personal Care and RPM segments include revenue and expenses incurred by the segment, and the operating results of our NEMT segment also include our activities related to executive, accounting, finance, internal audit, tax, legal and certain strategic and corporate development functions for each segment. See Note 4, *Segments*, in our accompanying consolidated financial statements for further information on our segments.

Year ended December 31, 2021 compared to year ended December 31, 2020

The following table sets forth results of operations and the percentage of consolidated total revenues represented by items in our consolidated statements of operations for 2021 and 2020 (in thousands):

	Year ended December 31,			
	2021		2020	
	Amount	Percentage of Revenue	Amount	Percentage of Revenue
Service revenue, net	$ 1,996,892	99.7%	$ 1,368,675	100.0%
Grant income	5,441	0.3%	—	—%
Operating expenses:				
Service expense	1,584,298	79.1%	1,078,795	78.8%
General and administrative expense	271,266	13.5%	140,539	10.3%
Depreciation and amortization	56,998	2.9%	26,183	1.9%
Total operating expenses	1,912,562	95.5%	1,245,517	91.0%
Operating income	89,771	4.5%	123,158	9.0%
Non-operating expense:				
Interest expense, net	49,081	2.5%	17,599	1.3%
Income from continuing operations before income taxes and equity method investment	40,690	2.0%	105,559	7.7%
Provision for income taxes	8,729	0.4%	22,356	1.6%
Equity in net (income) loss of investee, net of tax	38,250	1.9%	(6,411)	(0.5)%
Income (loss) from continuing operations	(6,289)	(0.3)%	89,614	6.5%
Loss from discontinued operations, net of tax	(296)	—%	(778)	(0.1)%
Net income (loss)	$ (6,585)	(0.3)%	$ 88,836	6.5%

Service revenue, net. Consolidated service revenue, net, for 2021 increased $628.2 million, or 45.9%, compared to 2020. Service revenue, net, for our NEMT segment increased by $169.0 million, primarily due to higher trip volume when compared to 2020, as trip volume was depressed in the prior year due to the impact of COVID-19. Service revenue, net, further increased incrementally by $441.6 million for our Personal Care segment due to the inclusion of the entire year of operating results of Simplura as compared to the small portion of operating results recognized in 2020 due to the acquisition in November 2020, as well as the inclusion of the operating results of Care Finders acquired in September 2021. The acquisition of VRI contributed $17.6 million to the service revenue, net. See our *results of operations, segments*, for further discussion.

Grant income. Grant income for 2021 of $5.4 million is related to the receipt of payments from the COVID-19 Provider Relief Fund which was received for our Personal Care segment and is 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):

	Year Ended December 31,			
	2021		2020	
	Amount	Percentage of Expense	Amount	Percentage of Expense
Purchased services	$ 991,502	62.6%	$ 845,697	78.4%
Payroll and related costs	545,074	34.4%	188,107	17.4%
Other operating expenses	47,722	3.0%	44,991	4.2%
Total service expense	$ 1,584,298	100.0%	$ 1,078,795	100.0%

Service expense for 2021 increased $505.5 million, or 46.9%, compared to 2020 due to higher purchased services of $145.8 million related to an increase in transportation costs and associated payroll costs in our contact centers for our NEMT segment to support higher trip volumes in 2021. Payroll and related costs increased further by $357.0 million, primarily related to incremental costs of $344.9 million in the Personal Care segment due to the acquisitions of Simplura and Care Finders.

General and administrative expense. General and administrative expense for 2021 increased $130.7 million, or 93.0%, compared to 2020, related to an increase of $62.1 million in our NEMT segment, primarily related to transaction costs for the acquisitions of Care Finders and VRI, as well as value enhancement projects. The increase was further attributable to $62.8 million of incremental costs related to the addition of the Personal Care segment. See our *results of operations, segments*, for further discussion.

Depreciation and amortization. Depreciation and amortization for 2021 increased $30.8 million, or 117.7%, compared to 2020 primarily as a result of intangible assets brought on under the WellRyde acquisition in the second quarter of 2021 and under the Care Finders and VRI acquisitions in the third quarter of 2021. Additionally, this figure includes depreciation and amortization for Simplura for the entire year as compared to the prior year when Simplura was acquired in the fourth quarter of 2020. See Note 3, *Acquisitions*.

Interest expense, net. Consolidated interest expense for 2021 increased $31.5 million, or 178.9%, compared to 2020. Interest expense increased as a result of the activity related to the $500.0 million Senior Notes due 2025 and the $500.0 million Senior Notes due 2029, that were issued on November 4, 2020 and August 24, 2021, respectively. We incurred $31.7 million and $9.1 million of interest expense related to the Senior Notes due 2025 and the Senior Notes due 2029 during the year ended December 31, 2021, respectively.

Equity in net income (loss) of investee, net of tax. Our equity in net income (loss) of investee for 2021 and 2020 represents our proportional share of the results of Matrix, of which we own 43.6%. See further discussion at the Matrix segment in our *results of operations - segments* section.

Provision for income taxes. Our effective tax rates from continuing operations for 2021 and 2020 were a provision of 21.5% and 21.2%, respectively. The 2021 effective tax rate was slightly higher than the U.S. federal statutory rate of 21.0% primarily due to state income taxes and certain non-deductible expenses, offset by tax credits and stock-based compensation windfalls. For 2020, the effective tax rate was slightly higher than the U.S. federal statutory rate of 21.0% primarily due to state income taxes and certain non-deductible expenses offset by the favorable impact of the CARES Act on the Company's 2018 U.S. net operating losses (NOLs).

Loss from discontinued operations, net of tax. Loss from discontinued operations includes the activity related to our former WD Services segment. See Note 22, *Discontinued Operations*, to our accompanying consolidated financial statements for additional information.

Year Ended December 31, 2020 compared to year ended December 31, 2019

For a comparison of our results of operations see “Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Form 10-K for the fiscal year ended December 31, 2020, filed with the SEC on February 26, 2021.

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

	December 31,			
	2021		2020	
	Amount	% of Segment Revenue	Amount	% of Segment Revenue
Service revenue, net	$ 1,483,696	100.0%	$ 1,314,705	100.0%
Service expense	1,186,185	79.9%	1,036,288	78.8%
General and administrative expense	195,332	13.2%	133,212	10.1%
Depreciation and amortization	29,058	2.0%	24,516	1.9%
Operating income	$ 73,121	4.9%	$ 120,689	9.2%

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 managed care organizations ("MCOs") in the U.S; and includes the Company's activities for executive, accounting, finance, internal audit, tax, legal and certain strategic and development functions.

Service revenue, net. Service revenue, net, increased by $169.0 million and 12.9%, from 2020 to 2021. This increase is primarily attributable to $59.0 million of revenue related to higher membership and increased trip volume in addition to $110.0 million of revenue related to contracts from the NMT acquisition that took place in the second quarter of 2020. Trip volume increased for the year ended December 31, 2021 when compared to 2020, as trip volume was depressed in the prior year due to the impact of COVID-19. While 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, we have certain 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. Other contracts that are structured as fee-for-service also experienced positive impacts to revenue due to higher trip volumes.

Service expense. 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 $149.9 million and 14.5% for the year ended December 31, 2021, as compared to the year ended December 31, 2020, primarily related to higher purchased services of $145.8 million related to an increase in transportation costs and associated payroll costs in our contact centers due to higher trip volume in the current year.

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 $62.1 million and 46.6% for the year ended December 31, 2021, as compared to the year ended December 31, 2020, primarily as a result of $26.3 million related to personnel expense, $21.4 million related to the acquisitions of WellRyde, Care Finders and VRI, $7.6 million in legal expense, and $2.5 million related to occupancy expense.

Depreciation and amortization expense. Depreciation and amortization expense increased by $4.5 million and 18.5% for the year ended December 31, 2021, as compared to the year ended December 31, 2020, as a result of a full year of amortization on the NMT intangibles in 2021, as compared to only five months of amortization in 2020, and the addition of acquired intangibles during 2021 related to the acquisition of WellRyde.

Personal Care Segment

	December 31,					
	2021			2020		
	Amount		% of Segment Revenue	Amount		% of Segment Revenue
Service revenue, net	$	495,579	98.9%	$	53,970	100.0%
Grant income		5,441	1.1%		—	—%
Service expense		392,508	78.3%		42,507	78.8%
General and administrative expense		70,163	14.0%		7,327	13.6%
Depreciation and amortization		23,759	4.7%		1,667	3.1%
Operating income	$	14,590	2.9%	$	2,469	4.6%

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 year over year fluctuations are not comparable, as there was only two months of activity in 2020 and a full year in 2021.

Service revenue, net. Personal care service contracts are generally structured as fee-for-service contracts, with revenue being driven by hours worked by the personal care providers. Service revenue, net, from MCO contracts accounted for 60.3% of service revenue, net, for the year ended December 31, 2021, while U.S. State Medicaid program contracts accounted for 33.0% of service revenue, net for the year ended December 31, 2021. The remainder of the Personal Care segment revenue is derived from private pay and other contracts.

Grant Income. In the year ended December 31, 2021, the Company received distributions of the CARES Act Provider Relief Fund of approximately $5.4 million targeted to offset lost revenue and unreimbursed expenditures incurred in connection with the COVID-19 pandemic.

Service expense. 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. For the year ended December 31, 2021, service expense for the Personal Care segment includes $43.2 million related to the Care Finders acquisition, with the remainder related to Simplura.

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 for the Personal Care segment includes $12.8 million related to the Care Finders acquisition, with the remainder being related to Simplura.

Depreciation and amortization expense. Depreciation and amortization expense consists primarily of amortization expense on the intangible assets brought on under the Simplura acquisition of $19.6 million for the year ended December 31, 2021 as compared to only a portion of the year in 2020.

RPM Segment

	December 31,		
	2021		
	Amount		% of Segment Revenue
Service revenue, net	$	17,617	100.0%
Service expense		5,605	31.8%
General and administrative expense		5,771	32.8%
Depreciation and amortization		4,181	23.7%
Operating income	$	2,060	11.7%

Our Remote Patient Monitoring segment was established in September 2021 with the acquisition of VRI. VRI is a provider of remote patient monitoring solutions and manages a comprehensive suite of services, including personal emergency response systems, vitals monitoring and data-driven patient engagement solutions.

Service revenue, net. RPM contracts are generally structured as a fee per enrolled member per month, and therefore revenue is generally driven by number of enrolled members. Service revenue, net, from MCO contracts accounted for 53.7% of service revenue, net, for the year ended December 31, 2021, while U.S. State Medicaid program contracts accounted for 28.4% of service revenue, net for the year ended December 31, 2021. The remainder of the RPM segment revenue is derived from private pay and other contracts.

Service expense. 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.

Matrix Segment

	December 31,	
	2021	2020
Equity in net income (loss) of investee, net of tax	$ (38,250)	$ 6,411
Equity investment	$ 83,069	$ 137,466

The company 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.

Equity in net income (loss) of investee changed from income of $6.4 million for the year ended 2020 to a loss of $38.3 million for the year ended 2021. Revenue over this period decreased by $16.4 million, operating expenses increased by $21.7 million and a $111.4 million impairment was taken in 2021. The decrease in revenue is due to the decline in COVID-19 testing and screening in the Clinical Solutions business, which is offset by an increase in year over year volume by 122 thousand visits in the Clinical Care business. Operating expenses increased due to an increase in visits, investments in Clinical Solutions, Lab, and Clinical Trials, and consulting fees to move the IT platform to the cloud, re-engineer Clinical Care, and stand up Clinical Solutions infrastructure.

Matrix reported that its net loss for 2021 was negatively impacted by its Clinical Solutions business, which had a decrease in revenue due to a faster than expected vaccination rollout and winding down of COVID testing, which was offset by the launch of its clinical trials business in the third quarter of 2020. Additionally, Matrix reported increased revenue and income related to a clinical solutions product offering following the October 2020 acquisition of Biocerna LLC, a diagnostic company that, among other tests, provides rapid COVID-19 test kits.

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 cash requirements through available cash on hand, cash generated from operations, net of capital expenditures, and borrowing capacity under our senior secured credit facilities entered into from time to time.

Cash flow from operating activities was $186.8 million in 2021. Our balance of cash, cash equivalents and restricted cash was $133.4 million and $183.4 million at December 31, 2021 and 2020, respectively. We had restricted cash of $0.3 million and $0.1 million at December 31, 2021 and 2020, respectively. Restricted cash amounts are not included in our balance of cash and cash equivalents in the condensed consolidated balance sheets, although they are included in the cash, cash equivalents and restricted cash balance on the accompanying 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 and possible refinancing activity. We may also raise debt financing to fund future repurchases of our common stock and possible debt 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.

2021 cash flows compared to 2020

Operating activities. Cash provided by operating activities was $186.8 million for 2021 compared to $348.4 million in 2020. The decrease of $161.6 million was primarily a result of a $95.4 million decrease in net income, primarily attributable to the loss in our Matrix investment of $38.3 million net of tax, along with a $56.8 million decrease in cash used for accounts payable and accrued expenses, and a $67.3 million decrease in cash related to accounts receivable, partially offset by an increase in cash of $31.0 million related to higher accrued transportation costs and an increase in cash of $27.6 million related to higher amortization expense.

Investing activities. Net cash used in investing activities was $685.6 million in 2021 compared to $635.0 million in 2020. The change in cash used in investing was driven by increased cash used for acquisitions of $41.4 million, primarily attributable to net cash outflows of $12.5 million related to the asset purchase of WellRyde in May 2021, $333.4 million related to the acquisition of Care Finders in September 2021, and $314.6 million related to the acquisition of VRI in September 2021, which were in excess of cash outflows for our acquisitions of Simplura and NMT that occurred in 2020.

Financing activities. Net cash provided by financing activities was $448.9 million in 2021 compared to net cash provided by financing activities of $408.3 million in 2020. The increase of $40.6 million in 2021 was primarily attributable to an increase of $88.8 million of cash that was not used for redemptions of preferred stock, partially offset by a decrease of $29.8 million of cash used in the repurchase of company common stock in 2021.

We also had increased borrowings on our Credit Facility throughout 2021 that allowed us the temporary liquidity needed during the year to execute our acquisitions and stock buyback program. As of December 31, 2021 we had no borrowings on our Credit Facility or our New Credit Facility.

2020 cash flows compared to 2019

For a comparison of our cash flows for the 2020 period to the 2019 period, see “Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Form 10-K for the fiscal year ended December 31, 2020, filed with the SEC on February 26, 2021.

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.

Credit Facility. At December 31, 2021, the Company was a party to the amended and restated credit and guaranty agreement, dated as of August 2, 2013 (as amended, the "Credit Agreement"), with Bank of America, N.A., as administrative agent, swing line lender and letter of credit issuer, and the other lenders party thereto. Among the other amendments to the Credit Agreement since its execution in 2013, on May 6, 2020, the Company amended the Credit Agreement to, among other things, extend the then stated maturity date to August 1, 2021, expand the amount available under the related revolving credit facility (the "Credit Facility") from $200.0 million to $225.0 million, and increased the sub-facility for letters of credit from $25.0 million to $40.0 million.

Subsequently, on October 16, 2020, the Company further amended the Credit Agreement to, among other things, permit the incurrence of additional debt to finance the acquisition of Simplura, permit borrowing under the Credit Facility to partially fund the Simplura Acquisition with limited conditions to such borrowing, increase the top interest rate margin that may have applied to loans thereunder, revise the permitted ratio of EBITDA to indebtedness, and extend the maturity date to August 2, 2023. See Note 3, *Acquisitions*, for further information on the Simplura acquisition. Thereafter, on September 13, 2021, the Company again amended the Credit Agreement to, among other things, permit the incurrence of additional debt to finance the acquisition of VRI and revise certain financial covenants to permit the consummation of the VRI acquisition. See Note 3, *Acquisitions*, for further information on the VRI acquisition.

Following the amendment associated with the VRI acquisition, interest on the outstanding principal amount of loans under the Credit Facility accrued, at the Company's election, at a per annum rate equal to the greater of either LIBOR or 1.00%, plus an applicable margin, or the Base Rate as defined in the Credit Agreement plus an applicable margin. The applicable margin ranged from 2.25% to 3.50% in the case of LIBOR loans and 1.25% to 2.50% in the case of the Base Rate loans, in each case, based on the Company's consolidated leverage ratio as defined in the Credit Agreement that governed the Credit Facility. The commitment fee and letter of credit fee ranged from 0.35% to 0.50% and 2.25% to 3.50%, respectively, in each case based on the Company's consolidated leverage ratio as defined in the Credit Agreement that governed the Credit Facility.

As of December 31, 2021, the Company had no borrowings outstanding under the Credit Facility and it was in compliance with all covenants under the Credit Agreement as of December 31, 2021.

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. There is an option to increase the amount of the New Credit Facility or obtain incremental term loans 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, as described below. 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, each as defined in the Credit Agreement, 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 ranges 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 million.

Preferred Stock. On June 8, 2020, the Company entered into a Preferred Stock Conversion Agreement (the "Conversion Agreement") with the Coliseum Stockholders. Pursuant to the Conversion Agreement, the Company purchased 369,120 shares of Series A Convertible Preferred Stock, par value $0.001 per share, in exchange for $209.88 in cash per share of Series A Preferred Stock, plus a cash amount equal to accrued but unpaid dividends on such shares of Series A Preferred Stock through the day prior to June 11, 2020. Further, the Coliseum Stockholders converted 369,120 shares of Series A Preferred Stock into 925,567 shares of common stock, a cash payment equal to accrued but unpaid dividends on such shares of Series A Preferred Stock through June 11, 2020, and a cash payment of $8.82 per share of Series A Preferred Stock. The amount of accrued dividends paid pursuant to the Conversion Agreement was equal to $0.8 million.

Further, on September 3, 2020, the Company elected to effect the conversion (the "Conversion") of all of the outstanding Series A Convertible Preferred Stock. In accordance with the Conversion Agreement, as amended, immediately prior to the Conversion, the Company repurchased 27,509 shares of Series A Preferred Stock from the Coliseum Shareholders for a cash amount equal to $209.88 per share of Series A Preferred Stock and a cash amount equal to accrued but unpaid dividends on such shares through the day prior to the Conversion.

Cash dividends on the Series A Convertible Preferred Stock were payable quarterly in arrears to the Preferred Shareholders on January 1, April 1, July 1 and October 1 of each year, and, if declared, began to accrue on the first day of the applicable dividend period. The Company had the option to pay dividends in kind, but never exercised such option while the shares of Series A Convertible Preferred Stock were outstanding. Convertible preferred stock dividends earned by the Coliseum Stockholders during the year ended December 31, 2020 were $2.0 million, including accrued dividends paid pursuant to the Conversion Agreement. For the year ended December 31, 2021, no convertible preferred stock dividends were issued.

Insurance Programs

With respect to the Company's historical wholly-owned captive insurance company subsidiary, Social Services Providers Captive Insurance Company, or SPCIC, the operations with respect to which have been discontinued since 2017, the Company utilizes a report prepared by an independent actuary to estimate the gross expected losses related to historical automobile, general and professional and workers' compensation liability reinsurance policies, including the estimated losses in excess of SPCIC's insurance limits, which would be reimbursed to SPCIC to the extent such losses were incurred. As of December 31, 2021 and 2020, the Company had reserves of $8.3 million and $6.3 million, respectively, for the automobile, general and professional liability and workers' compensation reinsurance policies. The gross reserve as of December 31, 2021 and 2020 of $22.3 million and $15.1 million, respectively, is classified as other long-term liabilities in the consolidated balance sheets. The estimated amount to be reimbursed to the Company as of December 31, 2021 and 2020 was $14.0 million and $8.8 million, respectively, and is classified as other long-term assets in the consolidated balance sheets. The increase in these amounts from 2020 to 2021 is largely attributable to the coverage of the Simplura business under our insurance programs.

Further, we had restricted cash of $0.3 million and $0.1 million at December 31, 2021 and December 31, 2020, respectively, which was primarily restricted to secure the reinsured claims losses under the historical automobile, general and professional liability and workers' compensation reinsurance programs.

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 $133.1 million and accounts receivable and other receivables of $237.9 million. Liquid liabilities totaled $638.7 million at year 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 $186.8 million, debt financing, and our New Credit Facility of $325.0 million. For additional information regarding our operating, investing and financing cash flows, see "Consolidated Financial Statements—Consolidated Statements of Cash Flows," included in Part II, Item 8 of this report.

The Company has cash requirements of $638.7 million due in one year or less in addition to $1,398.9 million due in more than one year as of December 31, 2021. The following is a summary of our future cash requirements for the next twelve months and the period extending beyond twelve months as of December 31, 2021 (in thousands):

	At December 31, 2021		
	Total	Less than 1 Year	Greater than 1 Year
Senior Unsecured Notes (1)	$ 1,000,000	$ —	$ 1,000,000
Interest (1)	306,681	54,375	252,306
Guarantees (2)	47,066	37,187	9,879
Operating leases (3)	53,376	11,256	42,120
Letters of credit (2)	22,779	22,779	—
Contracts payable (4)	281,586	281,586	—
Transportation costs (5)	103,294	103,294	—
Other current cash obligations (6)	128,253	128,253	—
Deferred tax liabilities (7)	94,611	—	94,611
Total	$ 2,037,646	$ 638,730	$ 1,398,916

(1) See Note 13 of the Notes to the Consolidated Financial Statements included in Part II, Item 8, "Financial Statements and Supplementary Data" 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 December 31, 2021.

(2) 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.

(3) 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" for further detail of our operating leases.

(4) See Note 5 of the Notes to the Consolidated Financial Statements included in Part II, Item 8, "Financial Statements and Supplementary Data" for further detail of our contracts payable.

(5) See Note 1 of the Notes to the Consolidated Financial Statements included in Part II, Item 8, "Financial Statements and Supplementary Data" for further detail of our accrued transportation cost.

(6) These include other current liabilities reflected in our Consolidated Balance Sheets as of December 31, 2021, including accounts payable and accrued expenses as detailed at Note 11 to the Consolidated Financial Statements included in Part II, Item 8, "Financial Statements and Supplementary Data".

(7) See Note 19 of the Notes to the Consolidated Financial Statements included in Part II, Item 8, "Financial Statements and Supplementary Data" for further detail of our deferred tax liabilities.

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.

Stock repurchase programs

On August 6, 2019, the Board of Directors authorized a stock repurchase program under which the Company could repurchase up to $100.0 million in aggregate value of the Company's Common Stock, subject to the consent of the holders of a majority of the Company's Series A convertible preferred stock, through December 31, 2019, at which time it expired. A total of 105,421 shares were repurchased under this program for approximately $6.0 million, during the year ended December 31, 2019.

On March 11, 2020, the Board of Directors authorized a new stock repurchase program under which the Company could repurchase up to $75.0 million in aggregate value of the Company's Common Stock, subject to the consent of the holders of a majority of the Company's Series A convertible preferred stock, through December 31, 2020. A total of 195,677 shares were repurchased under this program for approximately $10.2 million during the year ended December 31, 2020.

On March 8, 2021, the Board of Directors authorized a new stock repurchase program under which the Company may repurchase up to $75.0 million in aggregate value of the Company's Common Stock through December 31, 2021, unless terminated earlier. A total of 276,268 shares were repurchased under the program for $40.0 million during the year ended December 31, 2021.

Off-balance sheet arrangements

As of December 31, 2021 and 2020, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities referred to as structured finance or special purpose entities, which were established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Item 7A. ***Quantitative and Qualitative Disclosures About Market Risk.***

Interest rate risk

We have exposure to interest rate risk mainly related to our Credit Facility, which has variable interest rates that may increase. We did not have any amounts outstanding under our Credit Facility at December 31, 2021.

Item 8. ***Financial Statements and Supplementary Data.***

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
ModivCare Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of ModivCare Inc. and subsidiaries (the Company) as of December 31, 2021 and 2020, the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2021, and the related notes, and financial statement schedule II (collectively, the consolidated financial statements). In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2021, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 28, 2022 expressed an adverse opinion on the effectiveness of the Company's internal control over financial reporting.

We did not audit the financial statements of Mercury Parent, LLC (a 43.6 percent owned investee company). The Company's investment in Mercury Parent, LLC was $83.1, and $137.5 million as of December 31, 2021 and 2020, respectively, and its equity in earnings (loss) of Mercury Parent, LLC was $(53.1), $8.9, and $(29.7) million for the years 2021, 2020, and 2019, respectively. The financial statements of Mercury Parent, LLC were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Mercury Parent, LLC, is based solely on the report of the other auditors.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Evaluation of accrued transportation costs

As discussed in Note 2 to the consolidated financial statements, the Company estimates an accrual for transportation costs that have been incurred but not invoiced by the transportation providers. This accrual is included within accrued transportation costs of $103.3 million as of December 31, 2021.

We identified the evaluation of estimated accrued transportation costs as a critical audit matter. There was especially subjective auditor judgment due to the inherent estimation uncertainty in transportation costs that were incurred but had yet to be invoiced by the transportation provider. Specifically, trip cancellations and actual trip mileage could differ from the amounts estimated.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the Company’s accrued transportation cost estimate, including controls related to estimated trip cancellations and mileage. In addition, we compared the Company’s historical accrued transportation costs estimates to actual amounts paid to assess the Company’s ability to estimate accrued transportation costs. We compared a listing of amounts invoiced by transportation providers subsequent to year-end to the Company’s year-end estimate of amounts expected to be invoiced by transportation providers.

Fair value of payor network acquired in a business combination

As discussed in Notes 2 and 3 to the consolidated financial statements, the Company acquired Care Finders Total Care LLC (Care Finders) and VRI Intermediate Holdings, LLC (VRI) in 2021 for consideration of $344.8 million and $317.5 million, respectively. The Company preliminarily recognized $97.2 million and $72.2 million as the fair value of the acquired payor network intangible assets of Care Finders and VRI, respectively, utilizing the multi-period excess earnings method, a form of the income approach.

We identified the evaluation of the fair value of the payor network intangible assets in the Care Finders and VRI acquisitions as a critical audit matter. The evaluation of the estimated fair value of the payor networks required a high level of auditor judgment. Specifically, assessing the revenue growth rate, attrition rate, and discount rate assumptions required challenging auditor judgment as minor changes to those assumptions could have had a significant effect on the Company’s estimates of fair value.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the Company’s business combination process, including controls related to the revenue growth rate, attrition rate, and discount rate assumptions used to determine the estimated fair value of the payor network intangible assets. We evaluated the forecasted revenue growth rates by comparing them to forecasted growth rates in industry reports and peer companies’ analyst reports, along with historical results of Care Finders and VRI. We assessed the attrition rates and the discount rates by comparing them to industry data and the projected internal rate of return for the transactions, respectively. In addition, we involved valuation professionals with specialized skill and knowledge, who evaluated the discount rates by comparing them against discount rate ranges that were independently developed using publicly available market data for comparable entities.

/s/ KPMG LLP

We have served as the Company’s auditor since 2008.

Atlanta, Georgia
February 28, 2022

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
ModivCare Inc:

Opinion on Internal Control Over Financial Reporting

We have audited ModivCare Inc and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, because of the effect of the material weaknesses, described below, on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2021 and 2020, the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2021, and the related notes and financial statement schedule II (collectively, the consolidated financial statements), and our report dated February 28, 2022 expressed an unqualified opinion on those consolidated financial statements.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The material weaknesses described below related to the Company's Simplura Health Group subsidiary have been identified and included in management's assessment:

The Company did not (i) effectively structure reporting lines, appropriate authorities, and responsibilities, or (ii) establish mechanisms to enforce accountability in the pursuit of objectives to establish and operate effective internal control over financial reporting.

As a consequence, within Simplura Health Group, the Company did not effectively design, implement and operate process-level control activities related to its revenue processes (including service revenue and accounts receivable) and payroll processes (including payroll expenses recorded within service expense and general and administrative expense, and accrued payroll recorded within accrued expenses and other current liabilities). Also, as a consequence, the Company did not establish effective general information technology controls (GITCs), specifically program change controls and access controls, that support the consistent operation of certain of the Company's information technology (IT) systems. Therefore, automated process-level controls and manual controls dependent upon the accuracy and completeness of information derived from those IT systems were also ineffective because they also could have been adversely impacted.

The material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2021 consolidated financial statements, and this report does not affect our report on those consolidated financial statements.

The Company acquired Care Finders Total Care LLC and VRI Intermediate Holdings, LLC during 2021, and management excluded from its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2021, Care Finders Total Care LLC and VRI Intermediate Holdings, LLC's internal control over financial reporting associated with total assets of $57.7 million (excluding intangibles and goodwill brought on through the transaction) and total revenues of $74.1 million included in the consolidated financial statements of the Company as of and for the year ended December 31, 2021. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of Care Finders Total Care LLC and VRI Intermediate Holdings, LLC.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. 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.

/s/ KPMG LLP

Atlanta, Georgia
February 28, 2022

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

	December 31, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 133,139	$ 183,281
Accounts receivable, net of allowance of $2,296 and $2,403, respectively	233,121	197,943
Other receivables	4,740	5,586
Prepaid expenses and other current assets	38,551	32,643
Restricted cash	283	75
Total current assets	409,834	419,528
Property and equipment, net	53,549	27,544
Goodwill	924,787	444,927
Payor network, net	425,516	292,762
Other intangible assets, net	64,697	52,890
Equity investment	83,069	137,466
Operating lease right-of-use assets	43,750	30,928
Other assets	22,223	19,868
Total assets	$ 2,027,425	$ 1,425,913
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 8,690	$ 8,464
Accrued contract payables	281,586	101,705
Accrued transportation costs	103,294	79,674
Accrued expenses and other current liabilities	119,563	116,620
Current portion of operating lease liabilities	9,873	8,277
Deferred revenue	4,228	2,923
Total current liabilities	527,234	317,663
Long-term debt, net of deferred financing costs of $24,775 and $14,020, respectively	975,225	485,980
Deferred tax liabilities	94,611	92,195
Long-term contract payables	—	72,183
Operating lease liabilities, less current portion	34,524	23,437
Other long-term liabilities	22,564	22,844
Total liabilities	1,654,158	1,014,302
Commitments and contingencies (Note 20)		
Stockholders' equity		
Common stock: Authorized 40,000,000 shares; $0.001 par value; 19,589,422 and 19,570,598, respectively, issued and outstanding (including treasury shares)	20	20
Additional paid-in capital	430,449	421,318
Retained earnings	211,829	218,414
Treasury shares, at cost, 5,568,983 and 5,287,283 shares, respectively	(269,031)	(228,141)
Total stockholders' equity	373,267	411,611
Total liabilities and stockholders' equity	$ 2,027,425	$ 1,425,913

See accompanying notes to the consolidated financial statements

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

	Year ended December 31,		
	2021	2020	2019
Service revenue, net	$ 1,996,892	$ 1,368,675	$ 1,509,944
Grant income (Note 2)	5,441	—	—
Operating expenses:			
Service expense	1,584,298	1,078,795	1,401,152
General and administrative expense	271,266	140,539	67,244
Depreciation and amortization	56,998	26,183	16,816
Total operating expenses	1,912,562	1,245,517	1,485,212
Operating income	89,771	123,158	24,732
Other expenses (income):			
Interest expense, net	49,081	17,599	850
Other income	—	—	(277)
Income from continuing operations before income taxes and equity method investment	40,690	105,559	24,159
Provision for income taxes	8,729	22,356	6,861
Equity in net (income) loss of investee, net of tax	38,250	(6,411)	22,251
Income (loss) from continuing operations, net of tax	(6,289)	89,614	(4,953)
Income (loss) from discontinued operations, net of tax	(296)	(778)	5,919
Net income (loss)	$ (6,585)	$ 88,836	$ 966
Net income (loss) available to common stockholders (Note 17)	$ (6,585)	$ 32,471	$ (3,437)
Basic earnings (loss) per common share:			
Continuing operations	$ (0.45)	$ 2.45	$ (0.72)
Discontinued operations	(0.02)	(0.06)	0.46
Basic earnings (loss) per common share	$ (0.47)	$ 2.39	$ (0.26)
Diluted earnings (loss) per common share:			
Continuing operations	$ (0.45)	$ 2.43	$ (0.72)
Discontinued operations	(0.02)	(0.06)	0.46
Diluted earnings (loss) per common share	$ (0.47)	$ 2.37	$ (0.26)
Weighted-average number of common shares outstanding:			
Basic	14,054,060	13,567,323	12,958,713
Diluted	14,054,060	13,683,308	12,958,713

See accompanying notes to the consolidated financial statements

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

	Year ended December 31,		
	2021	2020	2019
Operating activities			
Net income (loss)	$ (6,585)	$ 88,836	$ 966
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	12,747	9,488	10,582
Amortization	44,251	16,694	6,234
Provision for doubtful accounts	(2,296)	(3,530)	4,078
Stock-based compensation	5,904	3,930	5,414
Deferred income taxes	(17,691)	11,919	71
Amortization of deferred financing costs and debt discount	2,730	921	293
Equity in net (income) loss of investee	53,092	(8,860)	29,685
Reduction of right-of-use assets	11,330	9,238	10,133
Changes in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable and other receivables	(11,453)	55,885	(29,928)
Prepaid expenses and other assets	(7,587)	(12,609)	(9,502)
Income tax refunds on sale of business	—	(10,273)	30,822
Insurance programs	5,426	2,056	809
Accrued contract payables	107,698	158,182	5,950
Accounts payable and accrued expenses	(23,460)	33,328	(10,094)
Accrued transportation costs	23,620	(7,389)	2,175
Deferred revenue	1,239	(176)	(1,298)
Other long-term liabilities	(12,125)	795	4,550
Net cash provided by operating activities	186,840	348,435	60,940
Investing activities			
Purchase of property and equipment	(21,316)	(12,150)	(10,858)
Acquisitions, net of cash acquired	(664,309)	(622,862)	—
Net cash used in investing activities	(685,625)	(635,012)	(10,858)
Financing activities			
Proceeds from debt	625,000	737,000	12,000
Repayment of debt	(125,000)	(237,000)	(12,000)
Repurchase of common stock, for treasury	(39,994)	(10,186)	(6,797)
Payment of debt issuance costs	(13,486)	(15,633)	—
Proceeds from common stock issued pursuant to stock option exercise	3,227	25,413	11,142
Restricted stock surrendered for employee tax payment	(896)	(267)	—
Preferred stock redemption payment	—	(88,771)	—
Preferred stock dividends	—	(1,987)	(4,403)
Other financing activities	—	(309)	(718)
Net cash provided by (used in) financing activities	448,851	408,260	(776)
Net change in cash, cash equivalents and restricted cash	(49,934)	121,683	49,306
Cash, cash equivalents and restricted cash at beginning of period	183,356	61,673	12,367
Cash, cash equivalents and restricted cash at end of period	$ 133,422	$ 183,356	$ 61,673

See accompanying notes to the consolidated financial statements

ModivCare Inc.
Supplemental Cash Flow Information
(in thousands)

Supplemental cash flow information	**Year ended December 31,** 2021	2020	2019
Cash paid for interest	$ 32,178	$ 2,192	$ 1,261
Cash paid (received) for income taxes	$ 13,021	$ 21,766	$ (30,037)
Assets acquired under operating leases	$ 24,152	$ 19,992	$ 6,787
Acquisitions:			
Purchase price	$ 678,655	$ 644,044	$ —
Less:			
Cash acquired	(14,346)	(21,182)	—
Acquisitions, net of cash acquired	$ 664,309	$ 622,862	$ —

See accompanying notes to the consolidated financial statements

ModivCare Inc.
Consolidated Statements of Stockholders' Equity
(in thousands except share data)

	Common Stock		Additional Paid-In	Retained	Treasury Stock		
	Shares	Amount	Capital	Earnings	Shares	Amount	Total
Balance at December 31, 2018	17,784,769	$ 18	$ 334,744	$ 187,127	4,970,093	$ (210,891)	$ 310,998
Net income attributable to ModivCare	—	—	—	966	—	—	966
Stock-based compensation	—	—	5,260	—	—	—	5,260
Deferred stock units (DSUs)	4,803	—	156	—	—	—	156
Exercise of employee stock options	219,054	—	10,986	—	—	—	10,986
Restricted stock issued	55,530	—	(43)	—	13,268	(809)	(852)
Shares issued for bonus settlement and director stipends	2,542	—	154	—	—	—	154
Stock repurchase plan	—	—	—	—	105,421	(5,988)	(5,988)
Conversion of convertible preferred stock to common stock	7,065	—	272	43	—	—	315
Convertible preferred stock dividends	—	—	—	(4,403)	—	—	(4,403)
Balance at December 31, 2019	18,073,763	18	351,529	183,733	5,088,782	(217,688)	317,592
Net income attributable to ModivCare	—	—	—	88,836	—	—	88,836
Stock-based compensation	—	—	3,776	—	—	—	3,776
Exercise of employee stock options	372,478	1	25,413	—	—	—	25,414
Restricted stock issued	108,907	—	—	—	—	—	—
Restricted stock surrendered for employee tax payment	—	—	—	—	2,824	(267)	(267)
Shares issued for bonus settlement and director stipends	7,044	—	154	—	—	—	154
Stock repurchase plan	—	—	—	—	195,677	(10,186)	(10,186)
Conversion of convertible preferred stock to common stock	82,839	—	3,191	(5,995)	—	—	(2,804)
Conversion of convertible preferred stock pursuant to Conversion Agreement	925,567	1	37,255	(46,172)	—	—	(8,916)
Convertible preferred stock dividends	—	—	—	(1,988)	—	—	(1,988)
Balance at December 31, 2020	19,570,598	20	421,318	218,414	5,287,283	(228,141)	411,611
Net loss attributable to ModivCare	—	—	—	(6,585)	—	—	(6,585)
Stock-based compensation	—	—	5,663	—	—	—	5,663
Exercise of employee stock options	51,798	—	3,227	—	—	—	3,227
Restricted stock forfeited	(34,472)	—	—	—	—	—	—
Restricted stock surrendered for employee tax payment	—	—	—	—	5,432	(896)	(896)
Shares issued for bonus settlement and director stipends	1,498	—	241	—	—	—	241
Stock repurchase plan	—	—	—	—	276,268	(39,994)	(39,994)
Balance at December 31, 2021	19,589,422	$ 20	$ 430,449	$ 211,829	5,568,983	$ (269,031)	$ 373,267

See accompanying notes to the consolidated financial statements

ModivCare Inc.
Notes to the Consolidated Financial Statements
December 31, 2021

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, enable greater access to care, 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. 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's solutions help health plans manage risks, close care gaps, reduce costs, and connect members to care. Through the combination of its historical NEMT business, its in-home personal care business that consists of Simplura Health Group and Care Finders Total Care LLC, and its recent addition of the remote patient monitoring business through its acquisition of VRI Intermediate Holdings, LLC, ModivCare has united four complementary healthcare businesses that serve similar, highly vulnerable patient populations.

On May 6, 2020, ModivCare acquired all of the outstanding equity of National MedTrans, LLC, or NMT, a New York limited liability company and provider of non-emergency medical transportation services under contractual relationships.

On November 18, 2020, ModivCare acquired all of the outstanding equity of OEP AM, Inc., a Delaware corporation doing business as Simplura Health Group, or Simplura, which formed the foundation of our personal care business and Personal Care segment.

On May 6, 2021, ModivCare acquired the WellRyde software from nuVizz, Inc., or nuVizz, a Georgia corporation and technology provider of Advanced Transportation Management Systems software enabling routing, automated trip assignments and real-time network monitoring.

On September 14, 2021, ModivCare acquired Care Finders Total Care LLC, or Care Finders, a personal care provider in the Northeast, with a scaled presence in New Jersey, Pennsylvania, and Connecticut, as an addition to the Personal Care segment.

On September 22, 2021, ModivCare acquired VRI Intermediate Holdings, LLC, or VRI, a provider of remote patient monitoring and data-driven patient engagement solutions.

See Note 3, *Acquisitions,* for further information regarding the above acquisitions.

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. Matrix's clinical care business ("Clinical Care") provides risk adjustment solutions that improve health outcomes for individuals and financial performance for health plans. Matrix's clinical solutions business ("Clinical Solutions") provides employee health and wellness services focused on improving employee health with worksite certification solutions that reinforce business resilience and safe return-to-work outcomes. Its Clinical Solutions offerings also provide clinical trial services which support the delivery of safe and effective decentralized clinical trial operations to patients and eligible volunteers. Matrix also provides lab services, including services related to COVID-19 such as screening, testing, and vaccinations.

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 Company accounts for its investment in Matrix using the equity method, as the Company does not control the decision-making process or business management practices of Matrix. While the Company has access to certain information and performs certain procedures to review the reasonableness of information, the Company relies on the management of Matrix to provide accurate financial information prepared in accordance with GAAP. The Company receives audit reports relating to such financial information from Matrix’s independent auditors on an annual basis. The Company is not aware of any errors in or possible misstatements of the financial information provided by Matrix that would have a material effect on the Company’s consolidated financial statements. See Note 7, *Equity Investment*, for further information.

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 contain 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, especially when considering current mutations of COVID-19, including the Delta and Omicron variants, which may increase reported rates of COVID-19 cases and may give rise to future mutations that are more resistant to the two Federal Drug Administration ("FDA") approved vaccines, 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. 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").

2. Significant Accounting Policies and Recent Accounting Pronouncements

Principles of Consolidation

The accompanying consolidated financial statements include ModivCare Inc., its wholly-owned subsidiaries, and entities it controls, or in which it has a variable interest and is the primary beneficiary of expected cash profits or losses. The Company records its investments in entities that it does not control, but over which it has the ability to exercise significant influence, using the equity method. The Company has eliminated significant intercompany transactions and accounts.

Accounting Estimates

The Company uses estimates and assumptions in the preparation of the consolidated financial statements in accordance with GAAP. Those estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the Company's consolidated financial statements. These estimates and assumptions also affect the reported amount of net income or loss during any period. The Company's actual financial results could differ significantly from these estimates. The significant estimates underlying the Company's consolidated financial statements include revenue recognition; allowance for doubtful accounts; accrued transportation costs; income taxes; recoverability of current and long-lived assets, including equity method investments; intangible assets and goodwill; loss contingencies; accounting for business combinations, including amounts assigned to definite and indefinite lived intangibles and contingent consideration; and loss reserves for reinsurance and self-funded insurance programs.

Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and highly liquid investments with an initial maturity of three months or less. Investments in cash equivalents are carried at cost, which approximates fair value. The Company places its temporary cash investments with high credit quality financial institutions. At times, such investments may be in excess of the federally insured limits.

Accounts Receivable and Allowance for Doubtful Accounts

The Company records accounts receivable amounts at the contractual amount, less an allowance for doubtful accounts. The Company maintains an allowance for doubtful accounts at an amount it estimates to be sufficient to cover the risk that an account will not be collected due to credit risk. In order to establish the amount of the allowance related to the credit risk of accounts receivable, the Company considers information related to receivables that are past due, past loss experience, current and forecasted economic conditions, and other relevant factors. In circumstances where the Company is aware of a customer's inability to meet its financial obligation, the Company records a specific allowance for doubtful accounts to reduce its net recognized receivable to an amount the Company reasonably expects to collect.

The Company's bad debt expense from continuing operations for the years ended December 31, 2021, 2020 and 2019 was $1.7 million, $0.6 million and $3.2 million, respectively.

Business Combinations

The Company accounts for business acquisitions in accordance with ASC Topic 805, *Business Combinations,* with assets and liabilities being recorded at their acquisition date fair value and goodwill being calculated as the purchase price in excess of the net identifiable assets. See Note 3, *Acquisitions*, for further discussion of the Company's acquisitions.

Property and Equipment

Property and equipment are stated at historical cost, net of accumulated depreciation, or at fair value if the assets were initially recorded as the result of a business combination or if the asset was remeasured due to an impairment. Depreciation is calculated using the straight-line method over the estimated useful life of the asset to the Company. Maintenance and repairs are expensed as incurred. Gains and losses resulting from the disposition of an asset are reflected in operating expense.

Recoverability of Goodwill

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

First, we perform qualitative assessments for each reporting unit to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the qualitative assessment suggests that it is more likely than not that the fair value of a reporting unit is less than its carrying value amount, then we perform a quantitative assessment and compare the fair value of the reporting unit to its carrying value.

The fair value of the Company's reporting units is estimated using either an income approach, a market valuation approach, a transaction valuation approach or a blended approach. The income approach produces an estimated fair value of a reporting unit based on the present value of the cash flows the Company expects the reporting unit to generate in the future. Estimates included in the discounted cash flow model include the discount rate, which the Company determines based on adjusting an industry-wide weighted-average cost of capital for size, geography, and company specific risk factors, long-term rates of growth and profitability of the Company's business, working capital effects and planned capital expenditures. The market approach produces an estimated fair value of a reporting unit based on a comparison of the reporting unit to comparable publicly traded entities in similar lines of business. The transaction valuation approach produces an estimated fair value of a reporting unit based on a comparison of the reporting unit to publicly available transactional data involving both publicly traded and private entities in similar lines of business. The Company's significant estimates in both the market and transaction approach include the selected similar companies with comparable business factors such as size, growth, profitability, risk and return on investment and the multiples the Company applies to revenue and earnings before interest, taxes, depreciation and amortization ("EBITDA") to estimate the fair value of the reporting unit.

Recoverability of Intangible Assets Subject to Amortization and Other Long-Lived Assets

Intangible assets subject to amortization and other long-lived assets are carried at cost and are amortized or depreciated on a straight-line basis over their estimated useful lives of 2 to 15 years. In accordance with ASC 360, *Property, Plant, and Equipment*, the Company reviews the carrying value of long-lived assets or groups of assets to be used in operations whenever events or changes in circumstances indicate that the carrying amount of the assets may be impaired. Factors that may necessitate an impairment assessment include, among others, significant adverse changes in the extent or manner in which an asset or group of assets is used, significant adverse changes in legal factors or the business climate that could affect the value of an asset or group of assets or significant declines in the observable market value of an asset or group of assets. The presence or occurrence of those events indicates that an asset or group of assets may be impaired. In those cases, the Company assesses the recoverability of an asset or group of assets by determining whether the carrying value of the asset or group of assets exceeds the sum of the projected undiscounted cash flows expected to result from the use and eventual disposition of the assets over the remaining economic life of the asset or the primary asset in the group of assets. If such testing indicates the carrying value of the asset or group of assets is not recoverable, the Company estimates the fair value of the asset or group of assets using appropriate valuation methodologies, which would typically include an estimate of discounted cash flows. If the fair value of those assets or groups of assets is less than carrying value, the Company records an impairment loss equal to the excess of the carrying value over the estimated fair value.

Accrued Transportation Costs

The Company generally contracts with third-party providers to provide transportation. The cost of transportation is recorded in the month the services are rendered, based upon contractual rates and mileage estimates. Transportation providers provide invoices once the trip is completed. Any trips that have not been invoiced require an accrual, based upon the expected cost as well as an estimate for cancellations, as the Company is generally only obligated to pay the transportation provider for completed trips. These estimates are based upon the historical trend associated with each contract's population and the transportation provider network servicing the program. There may be differences between actual invoiced amounts and estimated costs, and any resulting adjustments are included in expense. Accrued transportation costs were $103.3 million and $79.7 million at December 31, 2021 and 2020, respectively.

Deferred Financing Costs and Debt Discounts

The Company capitalizes costs incurred in connection with its credit facilities and other borrowings, referred to as deferred financing costs, and amortizes such costs over the life of the respective credit facility or other borrowings. Costs associated with the revolving facility are capitalized as deferred financing costs and included in "Prepaid expenses and other current assets" on the consolidated balance sheets. Costs associated with term loans are capitalized and included as a reduction to the debt balance on the consolidated balance sheets. Deferred financing costs for the revolving loan, net of amortization, totaled $1.4 million and $1.5 million as of December 31, 2021 and 2020, respectively. Debt discounts for the $500.0 million senior unsecured notes due 2025 of $11.6 million and $14.0 million are netted against the carrying balance of the long-term debt on the consolidated balance sheets as of December 31, 2021 and 2020, respectively. Debt discounts for the $500.0 million senior unsecured notes due 2029 of $13.1 million are netted against the carrying balance of the long-term debt on the consolidated balance sheet as of December 31, 2021.

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.

The Company holds different contract types under its different segments of business. In the NEMT segment, there are both capitated contracts, under which payors pay a fixed amount monthly per eligible member, and fee-for-service ("FFS"), under which the Company bills and collects a specified amount for each service that is provided. Personal Care contracts are also FFS, and service revenue is reported at the estimated net realizable amount from clients, patients and third-party payors for services rendered. RPM service 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. See further information in Note 5, *Revenue Recognition*.

Grant Income

The Company received distributions from the CARES Act PRF of approximately $5.4 million during the year ended December 31, 2021, targeted to offset lost revenue and expenditures incurred in connection with the COVID-19 pandemic. The PRF payments are subject to certain restrictions and are subject to recoupment if not used for designated purposes. As a condition to receiving distributions, providers must agree to certain terms and conditions, including, among other things, that the funds are being used for lost revenues and unreimbursed COVID-19 related expenses 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 recognizes grant payments as grant income when there is reasonable assurance that it has complied with the conditions associated with the grant. Grant income recognized by the Company is presented in grant income in the accompanying condensed consolidated statements of operations. HHS guidance related to PRF grant funds is still evolving and subject to change. The Company is continuing to monitor the reporting requirements as they evolve.

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 December 31, 2021, which is recorded in accrued expenses on our consolidated balance sheet. The Company deferred payment of approximately $20.8 million related to the deferral of employer payroll taxes as of December 31, 2020, of which $10.4 million is included in accrued expenses and $10.4 million is included as other long-term liabilities on our consolidated balance sheet.

Stock-Based Compensation

The Company follows the fair value recognition provisions of ASC Topic 718 – *Compensation – Stock Compensation* (“ASC 718”), which requires companies to measure and recognize compensation expense for all share-based payments at fair value.

- The Company calculates the fair value of stock options using the Black-Scholes option-pricing formula. The fair value of restricted stock awards or units is determined based on the closing market price of the Company’s Common Stock on the date of grant. Forfeitures are recorded as they occur. The expense for stock-based compensation awards is amortized on a straight-line basis over the requisite service period, which is typically the vesting period.
- The Company records restricted stock units (“RSUs”) that may be settled by the holder in cash, rather than shares, as a liability and remeasures these liabilities at fair value at the end of each reporting period. Upon settlement of these awards, the cumulative compensation expense recorded over the vesting period of the awards will equal the settlement amount, which is based on the Company’s stock price on the settlement date.

- The Company also is authorized under its Incentive Plan to issue performance-based RSUs. Such awards, when issued, vest upon achievement of pre-established company specific performance conditions and a service period. The fair value of the performance-based RSU awards is determined based on the closing market price of the Company's Common Stock on the grant date and an assessment of the probability the performance targets will be achieved. The expense for such awards would be recognized over the requisite service period.

Income Taxes

Deferred income taxes are determined by the asset and liability method in accordance with ASC Topic 740 - *Income Taxes*. Under this method, deferred tax assets and liabilities are determined based on differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. The Company considers many factors when assessing the likelihood of future realization of deferred tax assets, including recent earnings experience by jurisdiction, expectations of future taxable income, and the carryforward periods available for tax reporting purposes, as well as other relevant factors. The Company establishes a valuation allowance to reduce deferred tax assets to the amount that is more likely than not to be realized. The net amount of deferred tax liabilities and assets, net of the valuation allowance, is presented as noncurrent in the Company's consolidated balance sheets.

Due to inherent complexities arising from the nature of the Company's businesses, future changes in income tax law or variances between the Company's actual and anticipated operating results, the Company makes certain judgments and estimates. Therefore, actual income taxes could materially vary from these estimates.

The Company has recorded a valuation allowance which includes amounts for certain carryforwards and deferred tax assets, as more fully described in Note 19, *Income Taxes,* for which the Company has concluded that it is more likely than not that these carryforwards and deferred tax assets will not be realized in the ordinary course of operations.

The Company recognizes interest and penalties related to income taxes as a component of income tax expense.

The Company accounts for uncertain tax positions based on a two-step process of evaluating recognition and measurement criteria. The first step assesses whether the tax position is more likely than not to be sustained upon examination by the tax authority, including resolution of any appeals or litigation, based on the technical merits of the position. If the tax position meets the more likely than not criteria, the portion of the tax benefit greater than 50% likely to be realized upon settlement with the tax authority is recognized in the consolidated financial statements.

On December 22, 2017, the U.S. bill commonly referred to as the Tax Cuts and Jobs Act ("Tax Reform Act") was enacted. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted. See Note 19, *Income Taxes*, for a discussion of the impact on the Company from these acts.

Loss Reserves for Certain Reinsurance Programs

The Company historically reinsured a substantial portion of its automobile, general and professional liability and workers' compensation costs under certain reinsurance programs. The Company utilizes a report prepared by an independent actuary to estimate the gross expected losses related to these reinsurance policies, including the estimated losses in excess of insured limits, which would be reimbursed to the Company to the extent such losses were incurred. As of December 31, 2021 and 2020, the Company had reserves of $8.3 million and $6.3 million, respectively, for the automobile, general and professional liability and workers' compensation reinsurance policies. The gross reserve as of December 31, 2021 and 2020 of $22.3 million and $15.1 million, respectively, is classified as other long-term liabilities in the consolidated balance sheets. The estimated amount to be reimbursed to the Company as of December 31, 2021 and 2020 was $14.0 million and $8.8 million, respectively, and is classified as other long-term assets in the consolidated balance sheets. The increase in these amounts from 2020 to 2021 is largely attributable to the coverage of the Simplura business under our insurance programs.

The Company regularly analyzes its reserves for incurred but not reported claims, and for reported but not paid claims related to its reinsurance and self-funded insurance programs. The Company believes its reserves are adequate. However, significant judgment is involved in assessing these reserves, such as assessing historical paid claims, average lag times between the claims' incurred date, reported dates and paid dates, and the frequency and severity of claims. There may be differences between actual settlement amounts and recorded reserves and any resulting adjustments are included in expense once a probable amount is known.

Self-Funded Insurance Programs

The Company also maintains a self-funded health insurance program with a stop-loss umbrella policy with a third-party insurer to limit the maximum potential liability for individual claims generally to \$0.3 million per person, subject to an aggregating stop-loss limit of \$0.4 million. In addition, the program has a total stop-loss limit for total claims, in order to limit the Company's exposure to catastrophic claims. With respect to this program, the Company considers historical and projected medical utilization data when estimating its health insurance program liability and related expense. As of December 31, 2021 and 2020, the Company had \$1.9 million and \$2.0 million, respectively, in reserves for its self-funded health insurance programs. The reserves are classified as "accrued expenses and other current liabilities" in the consolidated balance sheets.

Discontinued Operations

In determining whether a group of assets disposed (or to be disposed) of should be presented as a discontinued operation, the Company makes a determination of whether the criteria for held-for-sale classification is met and whether the disposition represents a strategic shift that has (or will have) a major effect on the entity's operations and financial results. If these determinations can be made affirmatively, the results of operations of the group of assets being disposed of (as well as any gain or loss on the disposal transaction) are aggregated for separate presentation apart from continuing operating results of the Company in the consolidated financial statements. Discontinued operations currently consists of minimal activity related to our former WD services segment, disposed of in 2018, as well as our Human Services segment, disposed of in 2015. See Note 22, *Discontinued Operations,* for a summary of discontinued operations related to prior years.

Earnings (Loss) Per Share

The Company computes basic earnings (loss) per share by taking net income (loss) attributable to the Company available to common stockholders divided by the weighted average number of common shares outstanding during the period, including restricted stock and stock held in escrow if such shares are participating securities. Diluted earnings per share includes the potential dilution that may occur from stock-based awards and other stock-based commitments using the treasury stock or the as-if converted methods, as applicable. For additional information on how the Company computes earnings per share, see Note 17, *Earnings Per Share*.

Recent Accounting Pronouncements

The Company adopted the following accounting pronouncements during the year ended December 31, 2021:

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* ("ASU 2019-12"). The ASU removes certain exceptions to the general principles in ASC 740, Income Taxes ("ASC 740"), and also clarifies and amends existing guidance to reduce complexity in accounting for income taxes. The ASU is effective for fiscal years beginning after December 15, 2020, including interim periods within that fiscal year, with early adoption permitted. There was no material impact to the financial statements from the adoption of this ASU.

In January 2020, the FASB issued ASU 2020-01, *Clarifying the Interactions Between Topic 321, Topic 323, and Topic 815* ("ASU 2020-01"), to clarify the interaction among the accounting standards for equity securities, equity method investments and certain derivatives. ASU 2020-01 is effective for public business entities for fiscal years beginning after December 15, 2020, including interim periods therein. There was no material impact to the financial statements from the adoption of this ASU.

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 August 2020, the FASB issued ASU 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging— Contracts in Entity's Own Equity (Subtopic 815-40)* ("ASU 2020-06") which addresses the complexity associated with applying GAAP for certain financial instruments with characteristics of liabilities and equity. The update limits the accounting models for convertible instruments resulting in fewer embedded conversion features being separately recognized from the host contract. Specifically, ASU 2020-06 removes from GAAP the separation models for convertible debt with a cash conversion feature and convertible instruments with a beneficial conversion feature. As a result, after adopting the ASU's guidance, entities will not separately present in equity an embedded conversion feature in such debt. ASU 2020-06 is effective for public business entities for fiscal years beginning after December 15, 2021, including interim periods therein, however as this ASU permits early adoption, we have adopted it for the fiscal year ended Decembers 31, 2021. This guidance did not have an impact on the consolidated financial statements or disclosures nor is it expected to have a material impact in the future.

Recent accounting pronouncements that the Company has yet to adopt are as follows:

In October 2021, the FASB issued ASU 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. 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. Early adoption is permitted. 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.

3. Acquisitions

Business Combinations

Simplura Health Group

On November 18, 2020 the Company acquired OEP AM, Inc. (together with its subsidiaries doing business as "Simplura Health Group"). OEP AM, Inc. was a nonpublic entity that specializes in home care services offering placements of personal care assistants, home health aides, and skilled nurses for senior citizens, disabled adults and other high-needs patients. Simplura Health Group operates from its headquarters in Valley Stream, New York, with 57 agency branches across seven states, including in several of the nation's largest home care markets. The acquisition of Simplura adds a strategic pillar in our mission to address the SDoH by introducing a business in non-medical personal care—a large, rapidly growing sector of healthcare that compliments the NEMT segment.

The stock transaction was accounted for in accordance with ASC 805, *Business Combinations* where a wholly-owned subsidiary of ModivCare Inc. acquired 100% of the voting stock of OEP AM Inc. for $548.6 million (a purchase price of $569.8 million less $21.2 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 November 18, 2020 (in thousands):

Cash	$	21,182
Accounts receivable (1)		65,297
Prepaid expenses and other (2)		10,975
Property and equipment (3)		1,640
Intangible assets (4)		264,770
Operating right of use asset (5)		10,285
Goodwill (6)		320,383
Other assets (7)		628
Accounts payable and accrued liabilities (7)		(46,073)
Accrued expense (7)		(2,564)
Deferred revenue (7)		(2,871)
Deferred acquisition payments (8)		(4,046)
Deferred acquisition note payable (7)		(1,050)
Operating lease liabilities (5)		(10,285)
Deferred tax liabilities (9)		(58,452)
Total of assets acquired less liabilities assumed	$	569,819

The acquisition method of accounting incorporates fair value measurements that can be highly subjective, and it is possible the application of reasonable judgment could develop different assumptions resulting in a range of alternative estimates using the same facts and circumstances.

(1) Management has valued accounts receivable based on the estimated future collectability of the receivables portfolio. Through this valuation, it was determined that $4.6 million of the initial accounts receivable was uncollectible, and therefore, the initial balance of $69.9 million was decreased to $65.3 million.
(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 leasehold improvements, furniture and fixtures, and vehicles. The fair value of the property and equipment was determined based upon the best and highest use of the property with final values determined using cost and comparable sales methods.
(4) The allocation of consideration exchanged to intangible assets acquired is as follows (in thousands):

	Type	**Useful Life**		**Value**
Payor network	Amortizable	15 years	$	221,000
Trademarks and trade names	Amortizable	3 years		43,000
Licenses	Not Amortizable	Indefinite		770
			$	264,770

The Company valued trademarks and trade names utilizing the relief of royalty method and payor network utilizing the multi-period excess earnings method, a form of the income approach. The useful life of the trademarks and trade names intangible was decreased from 10 years to 3 years as of December 31, 2021 due to strategic shifts in the Company's personal care segment operations, partially contributed to by the acquisition of Care Finders, as discussed below. This is a prospective change to amortization expense.

(5) The fair value of the operating lease liability and corresponding right-of-use asset (current and long-term) were recorded at $11.7 million based on market rates available to the Company during our preliminary purchase price allocation. This assessment has since been updated through the implementation of ASC 842 as of September 30, 2021, and the related balances have been updated to $10.3 million.
(6) The acquisition preliminarily resulted in $309.7 million of goodwill as a result of expected synergies due to value-based care and solutions being provided to similar patient populations that partner with many of the same payor groups. In the second quarter of 2021, a closing cash adjustment of $3.5 million was paid to OEP AM, in the third quarter of 2021 other assets acquired were adjusted down by $3.9 million and in the fourth quarter of 2021, accounts receivable was adjusted down by $4.6 million due to certain receivables deemed uncollectible which caused a

corresponding increase to goodwill of $3.3 million, net of tax impacts. These changes increased the goodwill related to this transaction to $320.4 million. None of the acquired goodwill is deductible for tax purposes.

(7) Accounts payable as well as certain other current and non-current assets and liabilities are stated at fair value as of the acquisition date.
(8) Deferred acquisition payments are associated with historical acquisitions by Simplura.
(9) Net deferred tax liabilities represented the expected future tax consequences of temporary differences between the fair values of the assets acquired and liabilities assumed and their tax bases. See Note 19, *Income Taxes*, for additional discussion of the Company's combined income tax position subsequent to the acquisition.

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 on its personal care platform.

The equity transaction was accounted for in accordance with ASC 805, *Business Combinations* in which a wholly-owned subsidiary of ModivCare Inc. acquired 100% of the equity securities of Care Finders for $333.4 million (a preliminary purchase price of $344.8 million less $11.4 million of cash that was acquired).

The following is a preliminary estimate, based on certain preliminary items noted in the table below, of 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 (1)		14,708
Prepaid expenses and other (2)		2,625
Property and equipment (3)		2,527
Inventories (4)		231
Operating right of use asset (5)		1,939
Intangibles (6)		100,750
Goodwill (7)		232,161
Other assets (8)		226
Accounts payable (9)		(2,487)
Accrued expenses and other accrued liabilities (9)		(14,344)
Operating lease liability (5)		(1,939)
Deferred tax liabilities (10)		(2,618)
Other liabilities (9)		(378)
Total of assets acquired less liabilities assumed	$	344,825

The acquisition method of accounting incorporates fair value measurements that can be highly subjective, and it is possible the application of reasonable judgment could develop different assumptions resulting in a range of alternative estimates using the same facts and circumstances. Upon finalization of the preliminary items noted below there may be related adjustments to certain of such items and to goodwill and income taxes. All items are expected to be finalized by the third quarter of 2022.

(1) Management has valued accounts receivable based on the estimated future collectability of the receivables portfolio. 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, the carrying value represents the fair value.
(3) The acquired property and equipment consists primarily of capitalized software, computer equipment, and automobiles.
(4) Inventories are stated at fair value as of the acquisition date.
(5) The fair value of the operating lease liability and corresponding right-of-use asset (current and long-term) were recorded at $1.9 million based on market rates available to the Company during our preliminary purchase price allocation.

(6) The allocation of consideration exchanged to 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
			$ 100,750

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

(7) The acquisition preliminarily 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. All of the acquired goodwill is deductible for tax purposes. Goodwill allocation to reporting units is not completed as of the date of the financial statements.
(8) Included in other assets are security deposits with a value of $0.2 million.
(9) Accounts payable as well as certain other current and non-current liabilities are stated at fair value as of the acquisition date.
(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 bases. See Note 19, *Income Taxes*, for additional discussion of the Company's combined income tax position subsequent to the acquisition.

Since the date of the acquisition, Care Finders revenue of $56.5 million and a net loss of $2.8 million are included in the Company's consolidated results of operations.

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 strategic pillar 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 ModivCare Inc. acquired 100% of the equity securities of VRI for $314.6 million (a preliminary purchase price of $317.5 million less $2.9 million of cash that was acquired).

The following is a preliminary estimate, based on certain preliminary items noted in the table below, of 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 (1)	6,800
Inventory (2)	1,684
Prepaid expenses and other (3)	805
Property and equipment (4)	14,908
Intangible assets (5)	75,590
Goodwill (6)	236,738
Accounts payable and accrued liabilities (7)	(1,884)
Accrued expense (7)	(2,487)
Deferred revenue (7)	(67)
Deferred tax liabilities (8)	(17,491)
Total of assets acquired less liabilities assumed	$ 317,518

The acquisition method of accounting incorporates fair value measurements that can be highly subjective, and it is possible the application of reasonable judgment could develop different assumptions resulting in a range of alternative estimates using the same facts and circumstances. Upon finalization of the preliminary items noted below there may be related adjustments to certain of such items and to goodwill and income taxes. All items are expected to be finalized by the third quarter of 2022.

(1) Management has valued accounts receivable based on the estimated future collectability of the receivables portfolio. This estimate is preliminary as the Company's evaluation of the collectability of receivables is ongoing.
(2) Inventory is stated at fair value as of the acquisition date.
(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, computer equipment, buildings, and equipment. Management notes the carrying value of buildings, land, leasehold improvements, and building improvements represent the fair value. The Company valued remaining property, plant, and equipment utilizing the cost approach.
(5) The allocation of consideration exchanged to 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
			$ 75,590

The Company valued 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 preliminarily 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. The amount of goodwill deductible for tax purposes has yet to be determined. Goodwill allocation to reporting units is not completed as of the date of the financial statements.
(7) Accounts payable as well as certain other current and non-current liabilities are stated at fair value 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 bases. See Note 19, *Income Taxes*, for additional discussion of the Company's combined income tax position subsequent to the acquisition.

Since the date of the acquisition, VRI revenue of $17.6 million and net income of $2.0 million are included in the Company's consolidated results of operations.

Pro Forma Financial Information (unaudited)

Assuming Simplura had been acquired as of January 1, 2019, and Care Finders and VRI had been acquired as of January 1, 2020, and the results of each had been included in operations beginning on January 1, 2020, the following table provides estimated unaudited pro forma results of operations for the years ended December 31, 2021, 2020, and 2019 (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.

	Year Ended December 31,		
	2021	2020	2019
Pro forma:			
Revenue	$ 2,181,943	$ 1,989,519	$ 1,977,156
Income (loss) from continuing operations, net	(23,280)	(21,255)	(16,946)
Diluted earnings (loss) per share	$ (1.66)	$ (1.57)	$ (1.65)

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 $3.7 million and

$3.2 million, respectively, for 2021, Simplura, Care Finders and VRI of $23.5 million, $4.8 million and $4.9 million, respectively, for 2020, and Simplura of $28.0 million for 2019, respectively.

Acquisition-related costs of approximately $6.6 million and $4.7 million for Care Finders and VRI, respectively, were expensed as incurred, recorded in selling, general and administrative expenses during the year ended December 31, 2021, 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 acquisitions.

Asset Acquisitions

National MedTrans

On May 6, 2020, ModivCare entered into an equity purchase agreement with the Seller and National MedTrans, LLC ("NMT"), acquiring all of the outstanding capital stock. NMT was acquired for total consideration of $80.0 million less certain adjustments, in an all cash transaction.

The transaction was accounted for as an asset acquisition in accordance with ASC 805, *Business Combinations*. The Company incurred transaction costs for the acquisition of $0.8 million during the year ended December 31, 2020. These costs were capitalized as a component of the purchase price.

The consideration paid for the acquisition is as follows (in thousands):

	Value
Consideration paid	$ 80,000
Transaction costs	774
Restricted cash received	(3,109)
Net consideration	$ 77,665

Restricted cash acquired was related to a security reserve for a contract and is presented in other current assets in our consolidated balance sheets as of December 31, 2021 and 2020. No liabilities were assumed.

The fair value allocation of the net consideration is as follows (in thousands, except useful lives):

	Type	Useful Life	Value
Payor network	Amortizable	6 years	$ 75,514
Trade names and trademarks	Amortizable	3 years	2,151
			$ 77,665

WellRyde

On May 6, 2021, the Company entered into an asset purchase agreement with nuVizz to purchase the software, WellRyde. Pursuant to the purchase agreement, the WellRyde software was acquired for total consideration of $12.0 million in cash, subject to certain adjustments.

The transaction was accounted for as an asset acquisition in accordance with ASC 805, *Business Combinations*. The Company incurred transaction costs for the acquisition of $0.5 million during the period ended December 31, 2021. These costs were capitalized as a component of the purchase price.

The consideration paid for the acquisition is as follows (in thousands):

	Value
Consideration paid	$ 12,000
Transaction costs	463
Net consideration	$ 12,463

The fair value allocation of the net consideration is as follows (in thousands, except useful lives):

	Type	Useful Life		Value
Transportation management software	Amortizable	10 years	$	12,328
Assembled workforce	Amortizable	10 years		135
			$	12,463

4. Segments

The Company’s reportable segments are identified based on a number of factors related to how its chief operating decision maker determines the allocation of resources and assesses the performance of the Company’s operations. The Company's chief operating decision maker 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 and includes the Company’s activities for executive, accounting, finance, internal audit, tax, legal and certain strategic and development functions;
- **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 Medicaid patient populations, including seniors and disabled adults, 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. 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; and
- **Matrix Investment -** The Company's minority investment in Matrix's Clinical Care and Clinical Solutions businesses is the final segment and is reported by the Company under the equity method of accounting. Matrix’s Clinical Care business provides risk adjustment solutions that improve health outcomes for individuals and financial performance for health plans. Matrix’s Clinical Solutions business provides employee health and wellness services, decentralized clinical trial services, and lab services to its customers.

The following table sets forth certain financial information from continuing operations attributable to the Company’s business segments for the years ended December 31, 2021, 2020 and 2019 (in thousands):

	Year Ended December 31, 2021				
	NEMT	Personal Care	RPM	Matrix Investment	Total
Service revenue, net	$ 1,483,696	$ 495,579	$ 17,617	$ —	$ 1,996,892
Grant income	—	5,441	—	—	5,441
Service expense	1,186,185	392,508	5,605	—	1,584,298
General and administrative expense	195,332	70,163	5,771	—	271,266
Depreciation and amortization	29,058	23,759	4,181	—	56,998
Operating income	$ 73,121	$ 14,590	$ 2,060	$ —	$ 89,771
Equity in net loss of investee	$ —	$ —	$ —	$ 53,092	$ 53,092
Equity investment	$ —	$ —	$ —	$ 83,069	$ 83,069
Goodwill	$ 135,216	$ 552,833	$ 236,738	$ —	$ 924,787
Total assets	$ 583,429	$ 1,020,014	$ 340,913	$ 83,069	$ 2,027,425

	Year Ended December 31, 2020			
	NEMT	Personal Care	Matrix Investment	Total
Service revenue, net	$ 1,314,705	$ 53,970	$ —	$ 1,368,675
Service expense	1,036,288	42,507	—	1,078,795
General and administrative expense	133,212	7,327	—	140,539
Depreciation and amortization	24,516	1,667	—	26,183
Operating income	$ 120,689	$ 2,469	$ —	$ 123,158
Equity in net income of investee	$ —	$ —	$ (8,860)	$ (8,860)
Equity investment	$ —	$ —	$ 137,466	$ 137,466
Goodwill	$ 135,216	$ 309,711	$ —	$ 444,927
Total assets	$ 594,952	$ 693,495	$ 137,466	$ 1,425,913

	Year Ended December 31, 2019		
	NEMT	Matrix Investment	Total
Service revenue, net	$ 1,509,944	$ —	$ 1,509,944
Service expense	1,401,152	—	1,401,152
General and administrative expense	67,244	—	67,244
Depreciation and amortization	16,816	—	16,816
Operating income	$ 24,732	$ —	$ 24,732
Equity in net loss of investee	$ —	$ 29,685	$ 29,685
Equity investment	$ —	$ 130,869	$ 130,869
Goodwill	$ 135,216	$ —	$ 135,216
Total assets	$ 466,357	$ 130,869	$ 597,226

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

Under capitated contracts, payors pay a fixed amount per eligible member. 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 customer'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 customer, or additional payments due from the customer. 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 customer. 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.

Capitation rates are generally based on expected costs and volume of services. Because Medicare pays capitation using a "risk adjustment model," which compensates payors based on the health status (acuity) of each individual enrollee, payors with higher acuity enrollees receive more, and those with lower acuity enrollees receive less of the capitation that can be allocated to service providers. Under the risk adjustment model, capitation is paid on an interim basis based on enrollee data submitted for the preceding year and is adjusted in subsequent periods after the final data is compiled.

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. 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 Service Contracts

RPM service 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 for the years ended December 31, 2021, 2020, and 2019 by contract type (in thousands):

	Year Ended December 31,		
	2021	2020	2019
NEMT capitated contracts	$ 1,257,390	$ 1,132,929	$ 1,277,241
NEMT FFS contracts	226,306	181,776	232,703
Total NEMT segment revenue	1,483,696	1,314,705	1,509,944
Personal Care FFS contracts	495,579	53,970	—
RPM service contracts	17,617	—	—
Total service revenue, net	$ 1,996,892	$ 1,368,675	$ 1,509,944

Payor Information

Service revenue, net, is derived from state Medicaid contracts, managed Medicaid and Medicare contracts (also known as MCOs), as well as a small amount from private pay and other contracts. Of the NEMT segment's revenue, 9.7%, 9.5% and 12.7% were derived from one U.S. State Medicaid program for the years ended December 31, 2021, 2020 and 2019, respectively. Of the Personal Care segment's revenue, 22.3% and 24.7% was derived from one U.S. State Medicaid program for the years ended December 31, 2021 and 2020, respectively. Of the RPM segment's revenue, 27.0% was derived from one U.S. State Medicare program for the year ended December 31, 2021.

The following table summarizes disaggregated revenue from contracts with customers by payor type (in thousands):

	Year Ended December 31, 2021	Year Ended December 31, 2020	Year Ended December 31, 2019
State Medicaid contracts	$ 835,113	$ 668,430	$ 737,251
Managed Medicaid contracts	953,174	592,252	581,999
Managed Medicare contracts	172,014	104,700	150,736
Private pay and other contracts	36,591	3,293	39,958
Total service revenue, net	$ 1,996,892	$ 1,368,675	$ 1,509,944

During the years ended December 31, 2021, 2020, and 2019 the Company recognized an increase of $11.4 million, a reduction of $2.1 million, and an increase of $10.8 million in service revenue, respectively, from contractual adjustments relating to performance obligations satisfied in previous periods to which the customer agreed.

Related Balance Sheet Accounts

The following table provides information about accounts receivable, net as of December 31, 2021 and 2020 (in thousands):

	December 31, 2021	December 31, 2020
Accounts receivable	$ 210,937	$ 164,622
Reconciliation contracts receivable (1)	24,480	35,724
Allowance for doubtful accounts	(2,296)	(2,403)
Accounts receivable, net	$ 233,121	$ 197,943

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

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

	December 31, 2021	December 31, 2020
Accrued contract payables [1]	$ 281,586	$ 101,705
Long-term contract payables [2]	$ —	$ 72,183
Deferred revenue, current	$ 4,228	$ 2,923

(1) Accrued contract payables primarily represent overpayments and liability reserves on certain risk corridor, profit rebate and reconciliation contracts due to lower activity as a result of COVID-19.

(2) Long-term contract payables primarily represent liability reserves on certain risk corridor, profit rebate and reconciliation contracts due to lower activity as a result of COVID-19 that may be repaid in greater than 12 months.

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

	December 31, 2020	Additional Amounts Recorded	Amounts Paid or Settled	December 31, 2021
Reconciliation contract payables	$ 33,330	$ 16,943	$ (28,238)	$ 22,035
Profit rebate/corridor contract payables	123,239	149,880	(26,695)	246,424
Overpayments and other cash items	17,319	14,891	(19,083)	13,127
Total contract payables	$ 173,888	$ 181,714	$ (74,016)	$ 281,586
Reconciliation contract receivables	$ 35,580	$ 17,669	$ (28,846)	$ 24,403
Corridor contract receivables	144	(67)	—	77
Total contract receivables	$ 35,724	$ 17,602	$ (28,846)	$ 24,480

6. Cash, Cash Equivalents and Restricted Cash

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated balance sheets to the amounts shown in the consolidated statements of cash flows (in thousands):

	December 31, 2021	December 31, 2020
Cash and cash equivalents	$ 133,139	$ 183,281
Restricted cash, current	283	75
Cash, cash equivalents and restricted cash	$ 133,422	$ 183,356

Restricted cash primarily relates to amounts held in trusts for reinsurance claims losses under the Company's insurance operation for historical workers' compensation, general and professional liability and auto liability reinsurance programs, as well as amounts restricted for withdrawal under our self-insured medical and benefits plans.

7. Equity Investment

Matrix

As of December 31, 2021 and 2020, the Company owned a 43.6% noncontrolling 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 this 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 consolidated statements of operations. During the year ended December 31, 2021 and 2019, Matrix recorded asset impairment charges of $111.4 million and $55.1 million. Matrix recorded no asset impairment charges for the year ended December 31, 2020.

The carrying amount of the assets included in the Company's consolidated balance sheets and the maximum loss exposure related to the Company's interest in Matrix as of December 31, 2021 and 2020 totaled $83.1 million and $137.5 million, respectively.

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

	December 31, 2021	December 31, 2020
Current assets	$ 124,081	$ 143,110
Long-term assets	$ 482,063	$ 619,642
Current liabilities	$ 57,048	$ 81,920
Long-term liabilities	$ 340,448	$ 351,036

	Year ended December 31, 2021	Year ended December 31, 2020	Year ended December 31, 2019
Revenue	$ 398,260	$ 414,622	$ 275,391
Operating income (loss)	$ 1,316	$ 39,412	$ (61,000)
Net income (loss)	$ (122,898)	$ 15,137	$ (69,353)

8. Prepaid Expenses and Other

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

	December 31, 2021	December 31, 2020
Prepaid income taxes	$ 13,848	$ 14,633
Prepaid insurance	9,487	7,577
Deferred financing costs on credit facility	1,480	—
Inventory	1,458	—
Prepaid rent	265	1,196
Other prepaid expenses	12,013	9,237
Total prepaid expenses and other current assets	$ 38,551	$ 32,643

9. Property and Equipment

Property and equipment consisted of the following (in thousands, except useful lives):

	Estimated Useful Life (years)	December 31, 2021	December 31, 2020
Software	3 — 10	$ 35,323	$ 31,830
Computer and telecommunications equipment	3 — 5	31,417	28,446
Monitoring equipment	3	12,950	—
Leasehold improvements	Shorter of 7 years or lease term	7,524	8,419
Construction and development in progress	N/A	6,598	4,721
Furniture and fixtures	5 — 10	3,906	2,330
Automobiles	5	3,998	4,846
Buildings	30 — 40	1,886	—
Land	N/A	292	—
Total property and equipment		103,894	80,592
Less accumulated depreciation		(50,345)	(53,048)
Total property and equipment, net		$ 53,549	$ 27,544

Depreciation expense from continuing operations was $12.7 million, $9.5 million and $10.6 million for the years ended December 31, 2021, 2020 and 2019, respectively.

10. Goodwill and Intangibles

Goodwill

Changes in the carrying amount of goodwill are presented in the following table (in thousands):

	ModivCare
Balances at December 31, 2020	
Goodwill	$ 540,927
Accumulated impairment losses	(96,000)
	444,927
Simplura Adjustment	10,961
Acquisition of Care Finders	232,161
Acquisition of VRI	236,738
Balances at December 31, 2021	
Goodwill	1,020,787
Accumulated impairment losses	(96,000)
	$ 924,787

The total amount of goodwill from continuing operations that was deductible for income tax purposes related to acquisitions as of December 31, 2021 and 2020 was $255.5 million and $52.2 million, respectively.

Intangible Assets

Intangible assets are comprised of acquired payor networks, trademarks and trade names, developed technology, non-compete agreements, licenses, and an assembled workforce. Intangible assets consisted of the following (in thousands, except estimated useful lives):

		December 31,			
		2021		2020	
	Estimated Useful Life (Yrs)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Payor networks	3 - 15	$ 511,064	$ (85,548)	$ 341,714	$ (48,952)
Trademarks and trade names	3	48,191	(6,290)	45,351	(986)
Developed technology	3 - 10	28,978	(8,605)	14,100	(6,345)
Non-compete agreement	2 - 5	1,610	(83)	—	—
New York LHCSA Permit	Indefinite	770	—	770	—
Assembled workforce	10	135	(9)	—	—
Total		$ 590,748	$ (100,535)	$ 401,935	$ (56,283)

The weighted-average amortization period at December 31, 2021 for intangibles was 10.7 years. No significant residual value is estimated for these intangible assets. Amortization expense from continuing operations was $44.3 million, $16.7 million and $6.2 million for the years ended December 31, 2021, 2020 and 2019, respectively.

The total amortization expense is estimated to be as follows for the next five years as of December 31, 2021 (in thousands):

Year	Amount
2022	$ 63,503
2023	60,345
2024	59,656
2025	58,308
2026	49,838
Total	$ 291,650

Impairment

The Company did not record any goodwill or intangible asset impairment charges for the years ended December 31, 2021, 2020 and 2019.

11. Accrued Expenses and Other Current Liabilities

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

	December 31,	
	2021	2020
Accrued compensation and related liabilities (1)	$ 54,564	$ [illegible]
Accrued operating expenses	14,457	
Accrued interest	12,826	
Insurance reserves	10,152	
Deferred acquisition payments	3,578	
Accrued legal fees	5,081	
Accrued cash settled stock-based compensation	183	[illegible]
Union pension obligation	6,629	
Other	12,093	[illegible]
Total accrued expenses and other current liabilities	$ 119,563	$ [illegible]

(1) Accrued compensation and related liabilities include deferred payroll taxes, which are deferred as a result of the CARES Act (discussed in Note 19, *Income Taxes*). The CARES Act 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 December 31, 2021, which is recorded in accrued expenses on our consolidated balance sheet. The Company deferred payment of approximately $20.8 million related to the deferral of employer payroll taxes as of December 31, 2020, of which $10.4 million is included in accrued expenses and $10.4 million is included as other long-term liabilities on our consolidated balance sheet.

12. Restructuring and Related Reorganization Costs

Corporate and Other

On April 11, 2018, the Company announced the Organizational Consolidation to transfer all job responsibilities previously performed by employees of the holding company to ModivCare Solutions, LLC and to close the corporate offices in Stamford, Connecticut and Tucson, Arizona. The Company adopted an employee retention plan designed to retain the holding company level employees during the transition. The employee retention plan became effective on April 9, 2018 and provided for certain payments and benefits to those employees if they remained employed with the Company through a retention date established for each individual, subject to a fully executed retention letter. The Organizational Consolidation was completed during the second quarter of 2019.

A total of $4.3 million in restructuring and related costs was incurred during the year ended December 31, 2019, related to the Organizational Consolidation. These costs include $2.4 million of retention and personnel costs, $0.3 million of stock-based compensation expense, $0.2 million of depreciation expense and $1.3 million of other costs, primarily related to recruiting and legal costs. These costs are recorded as “General and administrative expense” and “Depreciation and amortization” in the accompanying consolidated statements of operations.

A total of $13.1 million in restructuring and related costs was incurred on a cumulative basis through December 31, 2019 related to the Organizational Consolidation. These costs include $7.5 million of retention and personnel costs, $2.0 million of stock-based compensation expense, $0.7 million of depreciation expense and $2.8 million of other costs, primarily related to recruiting and legal costs. No restructuring or related costs were incurred related to the Organizational Consolidation for the years ended December 31, 2021 and 2020. There was no related restructuring liability as of December 31, 2021 or December 31, 2020.

During the year ended December 31, 2020, the Company incurred approximately $0.7 million of restructuring expense for the closure of its Las Vegas contact center. The majority of these costs were recorded to “Service expense” and the remainder were recorded to "General and administrative expense". The Company recorded no restructuring expense for the year ended December 31, 2021.

13. Debt

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”). Additionally on August 24, 2021, the Company issued $500.0 million in aggregate principal amount of 5.000% senior unsecured notes due on October 1, 2029 (the “Senior Notes due 2029”). 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 Senior Notes due 2025 relate to the Company’s acquisition of Simplura and the Senior Notes due 2029 relate to the Company’s acquisition of VRI.

The Senior Notes due 2025 and the Senior Notes due 2029 (collectively, 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 and future senior indebtedness, are effectively subordinated to any of the Company's existing and future secured indebtedness, including indebtedness under the Credit Facility (as defined below), 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 indentures for the Notes contain covenants that, among other things, restrict the Company’s ability and the ability of its restricted subsidiaries to, among other things: incur additional indebtedness or issue disqualified capital stock; make certain investments; create or incur certain liens; enter into certain transactions with affiliates; merge, consolidate, amalgamate or transfer substantially all of its assets; agree to dividend or other payment restrictions affecting its restricted subsidiaries; and transfer or sell assets, including capital stock of its restricted subsidiaries. These covenants, however, are subject to a number of important exceptions and qualifications, and certain covenants may be suspended in the event the Notes are assigned an investment grade rating from two of three rating agencies. The indentures for both the Senior Notes due 2025 and the Senior Notes due 2029 provide that the notes may become subject to redemption under certain circumstances.

In connection with the Senior Notes due 2025, the Company may redeem the notes, in whole or in part, at any time prior to November 15, 2022, at a price equal to 100% of the principal amount of the notes redeemed, plus accrued and unpaid interest, if any, to, but excluding, the date of redemption plus a “make-whole” premium set forth in the Indenture. In addition, the Company may redeem up to 40% of the notes prior to November 15, 2022, at a redemption price of 105.875% of the principal amount, plus accrued and unpaid interest, if any, to, but excluding, the date of redemption, with the proceeds of certain equity offerings, subject to certain conditions as specified in the Indenture Agreement. At any time prior to November 15, 2022, during each calendar year, the Company may redeem up to 10% of the aggregate principal amount of the notes at a purchase price equal to 103% of the aggregate principal amount of the Senior Notes due 2025 to be redeemed, plus accrued and unpaid interest, if any, to, but excluding, the date of redemption.

On or after November 15, 2022, the Company may redeem all or a part of the Senior Notes due 2025 upon not less than ten days’ nor more than 60 days’ notice, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest, if any, on the Notes redeemed, to, but excluding, the applicable redemption date, if redeemed during the 12-month period beginning on November 15 of the years indicated below:

Year	Percentage
2022	102.938%
2023	101.469%
2024 and thereafter	100.000%

The Company may also redeem the Senior Notes due 2029, in whole or in part, at any time prior to October 1, 2024, at a price equal to 100% of the principal amount of the notes redeemed, plus accrued and unpaid interest, if any, to, but excluding, the date of redemption plus a "make-whole" premium set forth in the Indenture. In addition, the Company may redeem up to 40% of the Senior Notes due 2029 prior to October 1, 2024, at a redemption price of 105.000% of the principal amount, plus accrued and unpaid interest, if any, to, but excluding, the date of redemption, with the proceeds of certain equity offerings, subject to certain conditions as specified in the Indenture Agreement.

On or after October 1, 2024, the Company may redeem all or a part of the Senior Notes due 2029 upon not less than ten nor more than 60 days' notice, at the redemption prices (expressed as percentages of principal amount) set forth below *plus* accrued and unpaid interest, if any, on the Notes redeemed, to, but excluding, the applicable redemption date, if redeemed during the 12-month period beginning on October 1 of the years indicated below:

Year	Percentage
2024	102.500%
2025	101.250%
2026 and thereafter	100.000%

The Company will pay interest on the Senior Notes due 2025 at 5.875% per annum until maturity. Interest is payable semi-annually in arrears on May 15 and November 15 of each year, with the first interest payment date being May 15, 2021. Principal payments are not required until the maturity date on November 15, 2025 when 100% of the outstanding principal will be required to be repaid. As a part of the bond issuance process, we incurred a $9.0 million bridge commitment fee that provided a potential funding backstop in the event that the Notes did not meet the desired subscription level to be used to acquire Simplura. That commitment expired unused upon closing of the Notes and the fee was expensed in the fourth quarter of 2020.

Pursuant to the Senior Notes due 2029, the Company will pay interest on the notes at 5.000% per annum until maturity. Interest 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 October 1, 2029 when 100% of the outstanding principal will be required to be repaid. As a part of the bond issuance process, we incurred a $6.6 million bridge commitment fee that provided a potential funding backstop in the event that the Notes did not meet the desired subscription level to be used to acquire VRI. That commitment expired unused upon closing of the Notes and the fee was expensed in the third quarter of 2021.

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 December 31, 2021, $24.8 million of unamortized deferred issuance costs was netted against the long-term debt balance on the consolidated balance sheet.

Credit Facility

The Company is a party to the amended and restated credit and guaranty agreement, dated as of August 2, 2013 (as amended, the "Credit Agreement"), with Bank of America, N.A., as administrative agent, swing line lender and letter of credit issuer, and the other lenders party thereto. On May 6, 2020, the Company entered into the Seventh Amendment to the Amended and Restated Credit and Guaranty Agreement (the "Seventh Amendment") which, among other things, extended the maturity date to August 1, 2021, expanded the amount available under the revolving credit facility (the "Credit Facility") from $200.0 million to $225.0 million, and increased the sub-facility for letters of credit from $25.0 million to $40.0 million. Interest on the loans is payable quarterly in arrears. In addition, the Company is obligated to pay a quarterly commitment fee based on a percentage of the unused portion of each lender's commitment under the 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.

On October 16, 2020, the Company entered into the Eighth Amendment to the Amended and Restated Credit and Guaranty Agreement (the "Eighth Amendment"), which among other things, amended the Credit Facility to permit the incurrence of additional debt to finance the acquisition of Simplura (the "Simplura Acquisition"), permit borrowing under the Credit Facility to partially fund the Simplura Acquisition with limited conditions to such borrowing, increase the top interest rate margin that may apply to loans thereunder, and revise our permitted ratio of EBITDA to indebtedness. In addition, the Eighth Amendment extended the maturity date to August 2, 2023.

On September 13, 2021, the Company entered into the Ninth Amendment to the Amended and Restated Credit and Guaranty Agreement (the "Ninth Amendment"), which among other things, amended the Credit Facility to permit the incurrence of additional debt to finance the acquisition of VRI and revise certain financial covenants therein to permit the consummation of the VRI acquisition.

Effective as of the Ninth Amendment, interest on the outstanding principal amount of loans under the Credit Facility accrues, at the Company's election, at a per annum rate equal to the greater of either LIBOR or 1.00%, plus an applicable margin, or the Base Rate as defined in the agreement plus an applicable margin respectively. The applicable margin ranges from 2.25% to 3.50% in the case of LIBOR loans and 1.25% to 2.50% in the case of the Base Rate loans, in each case, based on the Company's consolidated leverage ratio as defined in the Credit Agreement that governs our Credit Facility. The commitment fee and letter of credit fee range from 0.35% to 0.50% and 2.25% to 3.50%, respectively, in each case based on the Company's consolidated leverage ratio as defined in the credit agreement that governs our Credit Facility.

As of December 31, 2021, the Company had no borrowings outstanding on the Credit Facility; however, there were letters of credit outstanding in the amount of $22.8 million. The Company's available borrowing capacity under the Credit Facility was $202.2 million as of December 31, 2021. Under the Credit Agreement, the Company has an option to request an increase in the amount of the revolving credit facility from time to time (on substantially the same terms as apply to the existing facilities) in an aggregate amount of up to $75.0 million, with either additional commitments from lenders under the Credit Agreements at such time or new commitments from financial institutions acceptable to the administrative agent in its reasonable discretion, so long as no default or event of default exists at the time of any such increases. The Company may not be able to access additional funds under these increase options as no lender is obligated to participate in any such increases under the Credit Facility.

The Company's obligations under the Credit Facility are guaranteed by all of the Company's present and future domestic subsidiaries, excluding certain domestic subsidiaries which include the Company's insurance captive and the Company's investment in Matrix. The Company's obligations under, and each guarantor's obligations under its guaranty of, the Credit Facility are secured by a first priority lien on substantially all of the Company's respective assets, including a pledge of 100% of the issued and outstanding stock of the Company's domestic subsidiaries, excluding the Company's insurance captive.

The Credit Agreement contains customary 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 consolidated net leverage and consolidated interest coverage covenants. The Company was in compliance with all covenants under the Credit Agreement as of December 31, 2021.

14. Convertible Preferred Stock

Following (i) the completion of a rights offering in February 2015, under which certain holders of our Common Stock exercised subscription rights to purchase Preferred Stock, and (ii) the purchase of Preferred Stock by Coliseum Capital Partners, L.P., Coliseum Capital Partners II, L.P., Blackwell Partners, LLC - Series A and Coliseum Capital Co-Invest, L.P. (collectively, the "Coliseum Stockholders"), pursuant to the Standby Purchase Agreement between the Coliseum Stockholders and us, we issued 805,000 shares of Preferred Stock, which were eligible for a cash dividend on each share of Preferred Stock, when, as and if declared by a committee of our Board, at the rate of 5.5% per annum on the liquidation preference then in effect.

Cash dividends were payable quarterly in arrears on January 1, April 1, July 1 and October 1 of each year, and, if declared, began to accrue on the first day of the applicable dividend period. Cash dividends on redeemable convertible preferred stock totaling $2.0 million, and $4.4 million, were distributed to convertible preferred stockholders for the years ended December 31, 2020 and 2019, respectively. No cash dividends were distributed to convertible preferred stockholders for the year ended December 31, 2021.

Preferred Stock Conversion

On June 8, 2020, the Company entered into a Preferred Stock Conversion Agreement (the "Conversion Agreement") with Coliseum Capital Partners, L.P. and certain funds and accounts managed by Coliseum Capital Management, LLC (collectively, the "Holders"), pursuant to which, among other things, (a) the Company agreed to purchase 369,120 shares of Series A Convertible Preferred Stock, par value $0.001 per share, held by the Holders in the aggregate, in exchange for (i) $209.88 in cash per share of Series A Preferred Stock, plus (ii) a cash amount equal to accrued but unpaid dividends on such shares of Series A Preferred Stock through the day prior to June 11, 2020, and (b) the Holders converted 369,120 shares of Series A Preferred Stock into (i) 2.5075 shares of Common Stock of the Company for each share of Series A Preferred Stock, plus (ii) a cash payment equal to accrued but unpaid dividends on such shares of Series A Preferred Stock through the day prior to June 11, 2020, plus (iii) a cash payment of $8.82 per share of Series A Preferred Stock. The Conversion Agreement was considered to be an induced conversion in which a premium consideration was provided by the Company to Holders of the Series A Preferred Stock.

On September 3, 2020, the Company elected to effect the conversion (the "Conversion") of all of the outstanding Series A Convertible Preferred Stock. In accordance with the Preferred Stock Conversion Agreement dated June 8, 2020, the Company repurchased 27,509 shares of Series A Preferred Stock from the Holders for (i) a cash amount equal to $209.88 per share of Series A Preferred Stock, plus (ii) a cash amount equal to accrued but unpaid dividends on such shares through the day prior to the Conversion. In connection with the Conversion, all remaining outstanding shares of Series A Preferred Stock were converted into Common Stock at the conversion rate of 2.5075 shares of Common Stock for each share of Series A Preferred Stock and cash-in-lieu of fractional shares.

In accordance with ASC 260, *Earnings Per Share,* retained earnings was reduced by the excess of the fair value of the consideration transferred over the carrying amount of the shares surrendered. The impact to retained earnings of the excess consideration transferred, including the direct costs incurred, and write-off of any unamortized issuance costs was $52.1 million as of December 31, 2020.

The Preferred Stock was accounted for outside of stockholders' equity as it could be redeemed upon certain change in control events that were not solely in the control of the Company. Dividends were recorded in stockholders' equity and consist of the 5.5% dividend.

The following table summarizes the Preferred Stock activity for the years ended December 31, 2021 and 2020 (in thousands, except share count):

	Dollar Value	Share Count
Balance at December 31, 2019	$ 77,120	798,788
Conversion to common stock	(3,335)	(33,039
Conversion to common stock pursuant to Conversion Agreement	(37,256)	(369,120
Preferred stock redemption pursuant to Conversion Agreement	(40,033)	(396,629
Allocation of issuance costs	3,504	—
Balance at December 31, 2020 and 2021	$ —	—

As of December 31, 2019, the outstanding shares of Preferred Stock were convertible into 2,002,979 shares of Common Stock. As of December 31, 2021, and 2020, there were no shares of convertible preferred stock outstanding.

15. Stockholders' Equity

At December 31, 2021 and 2020 there were 19,589,422 and 19,570,598 shares of the Company's Common Stock issued, respectively, including 5,568,983 and 5,287,283 treasury shares at December 31, 2021 and 2020, respectively.

Subject to the rights specifically granted to holders of any then outstanding shares of the Company's Preferred Stock, the Company's common stockholders are entitled to vote together as a class on all matters submitted to a vote of the Company's common stockholders, and are entitled to any dividends that may be declared by the Board. The Company's common stockholders do not have cumulative voting rights. Upon the Company's dissolution, liquidation or winding up, holders of the Company's Common Stock are entitled to share ratably in the Company's net assets after payment or provision for all liabilities and any preferential liquidation rights of the Company's Preferred Stock then outstanding. The Company's common stockholders do not have preemptive rights to purchase shares of the Company's stock. The issued and outstanding shares of the Company's Common Stock are not subject to any redemption provisions and are not convertible into any other shares of the Company's capital stock. The rights, preferences and privileges of holders of the Company's Common Stock will be subject to those of the holders of any shares of the Company's Preferred Stock the Company may issue in the future.

As of December 31, 2021, 344,118 shares of the Company's common stock, were reserved for future issuances related to the exercise of stock options and restricted stock awards.

Purchases of Equity Securities

On August 6, 2019, the Board of Directors authorized a stock repurchase program under which the Company could repurchase up to $100.0 million in aggregate value of the Company's Common Stock, subject to the consent of the holders of a majority of the Company's then outstanding Series A convertible preferred stock, through December 31, 2019, at which time it expired. A total of 105,421 shares were repurchased under this program for approximately $6.0 million, during the year ended December 31, 2019.

On March 11, 2020, the Board of Directors authorized a new stock repurchase program under which the Company could repurchase up to $75.0 million in aggregate value of the Company's Common Stock, subject to the consent of the holders of a majority of the Company's then outstanding Series A convertible preferred stock, through December 31, 2020. A total of 195,677 shares were repurchased under this program for approximately $10.2 million during the year ended December 31, 2020.

On March 8, 2021, the Board of Directors authorized a new 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. A total of 276,268 shares were repurchased under the program for $40.0 million during the year ended December 31, 2021.

Equity Award Withholding

During the years ended December 31, 2021, 2020 and 2019, the Company withheld 5,432, 2,824 and 13,268 shares, respectively, from employees to cover the settlement of income tax and related benefit withholding obligations arising from vesting of restricted stock awards and units. In addition, during the years ended December 31, 2021 and 2020, the Company withheld 31,901 and 322,034 shares, respectively, from employees to cover the settlement of income tax and related benefit withholding obligations and the exercise price upon the exercise of stock options. There were no shares withheld for the year ended December 31, 2019 related to the exercise of stock options.

16. 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.

The following table summarizes the activity under the 2006 Plan as of December 31, 2021:

	Number of shares of the Company's Common Stock authorized for issuance	Number of shares of the Company's Common Stock remaining for future grants	Number of shares of the Company's Common Stock subject to	
			Stock Options	Stock Grants
2006 Plan	5,400,000	1,230,202	270,239	73,879

The following table reflects the amount of stock-based compensation for continuing operations, for share settled awards, recorded in each financial statement line item for the years ended December 31, 2021, 2020 and 2019 (in thousands):

	Year Ended December 31,		
	2021	2020	2019
Service expense	$ —	$ 222	$ 572
General and administrative expense	5,904	3,708	4,842
Total stock-based compensation	$ 5,904	$ 3,930	$ 5,414

Stock-based compensation included in general and administrative expense is related to the NEMT segment and the Personal Care segment, except for a select group of employees that were included within service expense in 2020 and 2019, which have since been phased out.

The amounts above exclude tax benefits of $1.6 million, $1.1 million and $1.4 million for the years ended December 31, 2021, 2020 and 2019, respectively.

Stock Options

The fair value of each stock option awarded to employees is estimated on the date of grant using the Black-Scholes option-pricing formula based on the following assumptions for the years ended December 31, 2021, 2020, and 2019:

	Year Ended December 31,								
	2021			2020			2019		
Expected dividend yield		0.0%			0.0%			0.0%	
Expected stock price volatility	36.6%	-	41.6%	28.3%	-	38.1%	27.5%	-	33.0%
Risk-free interest rate	0.3%	-	0.9%	0.2%	-	1.4%	1.6%	-	2.5%
Expected life of options (years)	3.5	-	4.4	3.5	-	4.4	1.8	-	5.3

The risk-free interest rate was based on the U.S. Treasury security rate in effect as of the date of grant which corresponds to the expected life of the award. The expected stock price volatility and expected lives of the stock options were based on the Company’s historical data. Stock options granted under the 2006 Plan vest ratably in equal annual installments over 3 to 4 years, or, for certain grants, over periods designated in the respective employee’s agreements, and expire after 5 to 7 years.

During the year ended December 31, 2021, the Company issued 51,798 shares of its Common Stock in connection with the exercise of employee stock options under the Company’s 2006 Plan.

The following table summarizes the stock option activity for the year ended December 31, 2021:

	Year ended December 31, 2021			
	Number of Shares Under Option	Weighted-average Exercise Price	Weighted-average Remaining Contractual Term	Aggregate Intrinsic Value
Balance at beginning of period, January 1	297,379	$ 64.32		
Granted	70,558	170.26		
Exercised	(51,798)	62.31		
Forfeited/Canceled	(45,409)	86.71		
Expired	(491)	3.88		
Outstanding at end of period, December 31	270,239	$ 88.72	4.56	$ 17,577
Vested or expected to vest at end of period, December 31	270,239	$ 88.72	4.56	$ 17,577
Exercisable at end of period, December 31	82,981	$ 64.09	4.72	$ 6,991

The weighted-average grant date fair value for options granted, total intrinsic value and cash received by the Company related to options exercised during the years ended December 31, 2021, 2020 and 2019 were as follows (in thousands, except for share price):

	Year ended December 31,		
	2021	2020	2019
Weighted-average grant date fair value per share	$ 170.26	$ 71.56	$ 16.30
Options exercised:			
Total intrinsic value	$ 4,454	$ 26,228	$ 3,204
Cash received	$ 3,227	$ 25,413	$ 11,142

Restricted Stock Awards

Restricted stock awards (RSAs) granted under the 2006 Plan vest ratably in equal annual installments over 3 to 4 years, or, for certain grants, over periods designated in the respective employee's agreements or as determined by the Compensation Committee.

During the year ended December 31, 2021, the Company issued 41,365 shares of its Common Stock to non-employee directors, executive officers and key employees upon the vesting of certain RSAs granted in 2020, 2019 and 2018 under the Company's 2006 Plan.

The following table summarizes the activity of the shares and weighted-average grant date fair value of the Company's unvested restricted Common Stock during the year ended December 31, 2021:

	Shares	Weighted-average grant date fair value
Non-vested at beginning of period, January 1	92,802	$ 64.83
Granted	38,562	$ 170.13
Vested	(41,365)	$ 63.89
Forfeited or cancelled	(16,120)	$ 85.19
Non-vested at end of period, December 31	73,879	$ 112.61

As of December 31, 2021, there was approximately $15.1 million of unrecognized compensation cost related to unvested share settled stock options and RSAs granted under the 2006 Plan. The cost is expected to be recognized over a weighted-average period of 4.26 years. The total fair value of vested stock options and RSAs was $3.3 million, $5.2 million and $6.9 million for the years ended December 31, 2021, 2020 and 2019, respectively.

17. 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):

	Year ended December 31,		
	2021	2020	2019
Numerator:			
Net income (loss) attributable to ModivCare	$ (6,585)	$ 88,836	$ 966
Dividends on convertible preferred stock outstanding	—	(1,171)	(4,403)
Dividends paid pursuant to the Conversion Agreement	—	(816)	—
Consideration paid in excess of preferred cost basis pursuant to the Conversion Agreement	—	(52,139)	—
Income allocated to participating securities	—	(2,239)	—
Net income (loss) available to common stockholders	$ (6,585)	$ 32,471	$ (3,437)
Continuing operations	$ (6,289)	$ 33,249	$ (9,356)
Discontinued operations	(296)	(778)	5,919
Net income (loss) available to common stockholders	$ (6,585)	$ 32,471	$ (3,437)
Denominator:			
Denominator for basic earnings per share -- weighted-average shares	14,054,060	13,567,323	12,958,713
Effect of dilutive securities:			
Common stock options	—	71,651	—
Restricted stock units	—	44,334	—
Denominator for diluted earnings per share -- adjusted weighted-average shares assumed conversion	14,054,060	13,683,308	12,958,713
Basic earnings (loss) per share:			
Continuing operations	$ (0.45)	$ 2.45	$ (0.72)
Discontinued operations	(0.02)	(0.06)	0.46
Basic earnings (loss) per share	$ (0.47)	$ 2.39	$ (0.26)
Diluted earnings (loss) per share:			
Continuing operations	$ (0.45)	$ 2.43	$ (0.72)
Discontinued operations	(0.02)	(0.06)	0.46
Diluted earnings (loss) per share	$ (0.47)	$ 2.37	$ (0.26)

Income allocated to participating securities is calculated by allocating a portion of net income attributable to ModivCare, less dividends on convertible stock, to the convertible preferred stockholders on a pro-rata as converted basis; however, the convertible preferred stockholders are not allocated losses.

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:

	Year ended December 31,		
	2021	2020	2019
Stock options to purchase common stock	56,291	43,061	583,469
Convertible preferred stock	—	—	800,460

18. Leases

Effective January 1, 2019, the Company adopted ASC 842, *Leases*, and recognized lease obligations and associated right-of-use ("ROU") assets for its existing non-cancelable operating leases. The Company has non-cancelable operating leases primarily associated with office space and other facilities. The leases expire in various years and generally provide for renewal options. In the normal course of business, management expects that these leases will be renewed or replaced by leases on other properties.

Certain operating leases provide for increases in future minimum annual rental payments based on defined increases in the Consumer Price Index, subject to certain minimum increases. Several of these lease agreements contain provisions for periods in which rent payments are reduced. The total amount of rental payments due over the lease term is recorded as rent expense on a straight-line basis over the term of the lease.

To determine whether a contract contains a lease, the Company evaluates its contracts and verifies that there is an identified asset and that the Company, or the tenant, has the right to obtain substantially all the economic benefits from the use of the asset throughout the contract term and has the right to direct the use of the identified asset. If a contract is determined to contain a lease and the Company is a lessee, the lease is evaluated to determine whether it is an operating or financing lease.

The discount rate used for each lease is determined by estimating an appropriate incremental borrowing rate. In estimating an incremental borrowing rate, the Company considers the debt information, credit rating, and interest rate on the revolving credit facility, which is collateralized by the Company's assets. Accordingly, the Company continues discounting its remaining operating lease payments for calculating its lease liability using a rate of 5.25%. The Company applies this rate to its entire portfolio of leases on the basis that any adjustments to the rate for lease term or asset classification would not affect the interest rate charged under the debt or have a material effect on the discounted lease liability.

A summary of all lease classifications in our consolidated balance sheets is as follows (in thousands):

Leases	**Classification**	**December 31, 2021**	**December 31, 2020**
Assets			
Operating lease assets	Operating lease ROU assets	$ 43,750	$ 30,928
Finance lease assets	Property and equipment, net	—	367
Total leased assets		$ 43,750	$ 31,295
Liabilities			
Current:			
Operating	Current portion of operating lease liabilities	$ 9,873	$ 8,277
Finance	Current portion of long-term obligations	—	45
Long-term:			
Operating	Operating lease liabilities, less current portion	34,524	23,437
Finance	Finance lease liabilities, less current portion	—	—
Total lease liabilities		$ 44,397	$ 31,759

As of December 31, 2021, maturities of lease liabilities are as follows (in thousands):

		Operating Leases
2022	$	11,256
2023		9,777
2024		7,137
2025		4,937
2026		3,742
Thereafter		16,527
Total lease payments	$	53,376
Less: interest and accretion		(8,979)
Present value of minimum lease payments	$	44,397
Less: current portion		(9,873)
Long-term portion	$	34,524

As of December 31, 2020, maturities of lease liabilities were as follows (in thousands):

		Operating Leases		Finance Leases		Total
2021	$	10,323	$	45	$	10,368
2022		8,756		—		8,756
2023		6,140		—		6,140
2024		4,145		—		4,145
2025		2,833		—		2,833
Thereafter		4,737		—		4,737
Total lease payments	$	36,934	$	45	$	36,979
Less: interest and accretion		(5,220)		—		(5,220)
Present value of minimum lease payments	$	31,714	$	45	$	31,759
Less: current portion		(8,277)		(45)		(8,322)
Long-term portion	$	23,437	$	—	$	23,437

Lease terms and discount rates are as follows:

	December 31, 2021	December 31, 2020
Weighted-average remaining lease term (years):		
Operating lease costs	6.61	4.89
Finance lease cost	N/A	0.80
Weighted-average discount rate:		
Operating lease costs	5.25 %	5.25 %
Finance lease cost	N/A	3.28 %

For the years ended December 31, 2021 and December 31, 2020, our operating lease cost was $13.6 million and $10.4 million, respectively, and is primarily included in "Service expense" on our accompanying consolidated statements of operations. A summary of other lease information is as follows (in thousands):

		Year Ended December 31, 2021		Year Ended December 31, 2020
Financing cash flows from finance leases	$	—	$	(336)
Operating cash flows from operating leases	$	(5,701)	$	(10,771)
Amortization of operating lease ROU assets	$	11,330	$	9,238
ROU assets obtained through operating lease liabilities	$	24,152	$	19,992

19. Income Taxes

The federal and state tax provision is summarized as follows (in thousands):

	Year Ended December 31, 2021	2020	2019
Federal income tax (benefit) expense:			
Current	$ 6,721	$ 2,248	$ (560)
Deferred	(820)	8,183	4,938
Total federal income tax (benefit) expense	5,901	10,431	4,378
State income tax expense (benefit):			
Current	5,081	10,032	2,513
Deferred	(2,253)	1,893	(30)
Total state income tax expense	2,828	11,925	2,483
Total provision for income taxes	$ 8,729	$ 22,356	$ 6,861

A reconciliation of the provision for income taxes with amounts determined by applying the statutory U.S. federal income tax rate to income from continuing operations before income taxes is as follows (in thousands):

	Year Ended December 31, 2021	2020	2019
Federal statutory rates	21.0 %	21.0 %	21.0 %
Federal income tax at statutory rates	$ 8,545	$ 22,167	$ 5,073
Change in valuation allowance	385	(505)	10
Change in uncertain tax positions	(929)	116	181
State income taxes, net of federal benefit	1,743	10,519	1,921
Non-taxable income	(74)	(124)	(93)
Compensation expense	1,204	1,036	606
Stock-based compensation	(1,004)	(650)	(101)
Meals and entertainment	30	51	81
Transaction costs	89	1,289	—
Tax credits	(1,095)	(650)	(858)
CARES Act Benefit	—	(10,984)	—
Other	(165)	91	41
Provision for income taxes	$ 8,729	$ 22,356	$ 6,861
Effective income tax rate	21.5 %	21.2 %	28.4 %

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities of continuing operations are as follows (in thousands):

	December 31,	
	2021	2020
Deferred tax assets:		
Net operating loss carryforwards	$ 3,570	$ 840
Capital loss carryforward	946	957
Tax credit carryforwards	516	389
Interest expense carryforward	5,100	1,570
Accounts receivable allowance	4,456	1,923
Accrued items and reserves	10,730	14,511
Stock-based compensation	812	852
Deferred rent	1,029	382
Deferred revenue	595	183
Project costs	952	—
Other	—	591
Total deferred tax assets	28,706	22,198
Deferred tax liabilities:		
Prepaids	3,181	2,336
Property and equipment depreciation	11,174	4,600
Goodwill and intangibles amortization	82,290	66,781
Equity investment	23,209	38,400
Other	99	—
Total deferred tax liabilities	119,953	112,117
Deferred tax liabilities, net of deferred tax assets	(91,247)	(89,919)
Less valuation allowance	(3,364)	(2,276)
Net deferred tax liabilities	$ (94,611)	$ (92,195)

At December 31, 2021, the Company had $2.2 million federal net operating loss ("NOL") carryforwards, and approximately $46.4 million of state NOL carryforwards which expire as follows (in thousands):

2026	$ 490
2027 and thereafter	45,934
Total state net operating loss carryforwards	$ 46,424

The federal NOL carryforwards and approximately $25.1 million of the state NOL carryforwards relate to pre-acquisition tax periods and are subject to change of ownership limitations on their use. These limitations are not expected to restrict the ultimate use of these loss carryforwards.

Realization of the Company's net operating loss carryforwards is dependent on reversing taxable temporary differences and on generating sufficient taxable income. Although realization is not assured, management believes it is more likely than not that all of the deferred tax assets will be realized to the extent they are not covered by a valuation allowance. The amount of the deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

The net change in the total valuation allowance for the year ended December 31, 2021 was an increase of $1.1 million, of which $0.4 million related to current operations, $0.3 million related to an adjustment to the balance from the Simplura acquisition, and $0.4 million related to the balance from the Care Finders acquisition. The valuation allowance of $3.4 million includes amounts for state NOLs, capital loss and tax credit carryforwards for which the Company has concluded that it is more likely than not that these carryforwards will not be realized in the ordinary course of operations. The Company will continue to assess the valuation allowance, and to the extent it is determined that the valuation allowance should be changed, an appropriate adjustment will be recorded.

U.S. Tax Reform, CARES ACT

On December 22, 2017, the Tax Reform Act was enacted which institutes fundamental changes to the taxation of corporations. The Tax Reform Act includes a permanent reduction in the corporate tax rate to 21%, repeal of the corporate alternative minimum tax, expensing of capital investment, and limitation of the deduction for interest expense. This Act also provides that U.S. NOLs incurred after 2017 can only be carried forward to offset future taxable income.

On March 27, 2020, the CARES Act was enacted into law. The CARES Act includes several significant business tax provisions that, among other things, allows businesses to carry back NOLs arising in 2018, 2019 and 2020 to the five prior years, accelerate refunds of previously generated corporate alternative minimum tax credits, and generally loosen the business interest limitation imposed by the Tax Reform Act.

Pursuant to the CARES Act, the Company carried its 2018 NOL back five years. As a result, the Company recorded a $27.3 million receivable for the 2018 U.S. NOL carryback, and a $11.0 million tax benefit from the favorable carryback tax rate of 35% compared to a carryforward tax rate of 21%. The Company also recorded an additional income tax payable of $3.5 million for 2019 as a result of the 2018 NOL being carried back instead of carried forward.

As of December 31, 2021, the Company received all of the $27.3 million receivable for the 2018 U.S. NOL carryback. This $27.3 million was also subject to the IRS Joint Committee Review, which was completed in the third quarter of 2021 with no material adjustments being made.

Unrecognized Tax Benefits

The Internal Revenue Service completed its audit of our consolidated U.S. income tax returns for 2015-2018 and the large refunds (total of $47.6 million from capital loss and NOL carrybacks) received from the loss on the WD Services sale with no material adjustments being made. In addition, we are being examined by various states and by the Saudi Arabian tax authorities. All known adjustments have been fully reserved.

The Company recognizes interest and penalties as a component of income tax expense. During the years ended December 31, 2021, 2020 and 2019, the Company recognized a benefit of approximately $0.2 million, an expense of $0.1 million and an expense of $0.1 million, respectively, in interest and penalties from continuing operations. The Company had approximately $0.1 million and $0.2 million, for the payment of penalties and interest of continuing operations accrued as of December 31, 2021 and 2020, respectively.

A reconciliation of the liability for unrecognized income tax benefits for continuing operations is as follows (in thousands):

	December 31,		
	2021	2020	2019
Unrecognized tax benefits, beginning of year	$ 1,519	$ 1,403	$ 1,222
Increase related to prior year tax positions	(1,027)	—	133
Increase related to current year tax positions	148	116	128
Statute of limitations expiration	(50)	—	(80)
Unrecognized tax benefits, end of year	$ 590	$ 1,519	$ 1,403

The entire ending balance in unrecognized tax benefits of $0.6 million as of December 31, 2021 would reduce tax expense and our effective tax rate. The Company expects no material amount of the unrecognized tax benefits to be recognized during the next twelve months.

The Company is subject to taxation in the U.S. and various state jurisdictions. The statute of limitations is generally three years for the U.S. and between three and four years for the various states in which the Company operates. The tax years that remain open for examination by the U.S. and states principally include the years 2017 to 2020.

20. 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, our 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's deadline to move for class certification is April 4, 2022, and ModivCare Solutions' opposition to class certification is due May 19, 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 seek to recover damages, fees and costs under the federal False Claims Act, including treble damages, civil penalties and attorneys' fees. In addition, the Relators seek reinstatement to their jobs with the Mobile Care Entities. None of the Relators were employed by ModivCare Solutions. The federal government has 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, which is currently pending before the Sixth Circuit Court of Appeals. ModivCare Solutions believes that the case 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 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.

Deferred Compensation Plan

The Company has one deferred compensation plan for management and highly compensated employees of NEMT Services as of December 31, 2021. The deferred compensation plan is unfunded, and benefits are paid from the general assets of the Company. The total of participant deferrals, which is reflected in "Other long-term liabilities" in the consolidated balance sheets, was $2.7 million and $2.6 million at December 31, 2021 and 2020, respectively.

21. Transactions with Related Parties

Cash Settled Awards

On an annual basis, the Company grants stock equivalent unit awards (“SEUs”) to Coliseum Capital Management, LLC (“Coliseum”) as compensation for the board of directors’ service of Christopher Shackelton, Chairman of the Board, for his service on the Board in lieu of the restricted share awards that are given to our other non-employee directors. These SEUs typically have a one-year vesting schedule and are paid out in cash upon vesting based upon the closing price of the Company’s common stock on the date of vesting. During the years ended December 31, 2021, 2020 and 2019, respectively, the Company granted 725, 1,952 and 1,857 SEUs under this program. The fair value of the SEUs is based on the closing stock price on the last day of the period and the completed requisite service period. The Company recorded an expense of $0.3 million and $0.3 million for SEUs during the years ended December 31, 2021 and 2020, respectively. The Company had an immaterial expense for SEUs for the year ended December 31, 2019. The unrecognized compensation cost for SEUs is expected to be recognized over a weighted average period of 0.1 years; however, the total expense for SEUs will continue to be adjusted until the awards are settled. The liability for unvested SEU awards of $0.2 million and $0.4 million at December 31, 2021 and 2020, respectively, is reflected in “Accrued expenses and other current liabilities” in the consolidated balance sheets. At December 31, 2021, the Company had 1,344 SEUs outstanding.

In addition, on September 11, 2014, the Company granted 200,000 stock option equivalent units (“SOEUs”) to Coliseum at an exercise price of $43.81 per share that were fully vested. The SOEUs were accounted for as liability awards, with the recorded expense adjustment attributable to the Company’s change in stock price from the previous reporting period. On August 12, 2021, Coliseum exercised all of the SOEUs at a stock price of $182.73 per share for a total cash settlement of $27.8 million. The Company recorded an expense of $8.8 million and $15.8 million for SOEUs during the years ended December 31, 2021 and 2020, respectively, and a benefit of $0.4 million for the year ended December 31, 2019. These impacts are included in “General and administrative expense” in the consolidated statements of operations. At December 31, 2021, there were no SOEU's outstanding. The liability for unexercised SOEUs of $19.0 million was included in “Accrued expenses and other current liabilities” in the consolidated balance sheets as of December 31, 2020, there was no remaining liability as of December 31, 2021.

The cash settled share-based compensation expense in total excluded a tax benefit of $2.6 million and $4.5 million for the years ended December 31, 2021 and 2020, respectively, and a tax expense of $0.1 million for the year ended December 31, 2019.

As discussed in Note 14, *Convertible Preferred Stock, Net*, on June 8, 2020, the Company entered into a Preferred Stock Conversion Agreement with Coliseum Capital Partners, L.P. and certain funds and accounts managed by Coliseum Capital Management, LLC. Pursuant to the Conversion Agreement, the Company purchased 369,120 shares of Series A Convertible Preferred Stock, par value $0.001 per share, in exchange for $209.88 in cash per share of Series A Preferred Stock, plus a cash amount equal to accrued but unpaid dividends on such shares of Series A Preferred Stock through the day prior to June 11, 2020. Further, the Holders converted 369,120 shares of Series A Preferred Stock into 925,567 shares of common stock, a cash payment equal to accrued but unpaid dividends on such shares of Series A Preferred Stock through the day prior to June 11, 2020, and a cash payment of $8.82 per share of Series A Preferred Stock. The amount of accrued dividends paid pursuant to the Conversion Agreement was equal to $0.8 million.

Further, on September 3, 2020, the Company elected to affect the conversion (the “Conversion”) of all of the outstanding Series A Convertible Preferred Stock. In accordance with the Preferred Stock Conversion Agreement dated June 8, 2020 (as amended), immediately prior to the Conversion, the Company repurchased 27,509 shares of Series A Preferred Stock from the Holders for a cash amount equal to $209.88 per share of Series A Preferred Stock and a cash amount equal to accrued but unpaid dividends on such shares through the day prior to the Conversion.

There were no convertible preferred stock dividends earned by Coliseum Stockholders during the year ended December, 31, 2021. Convertible preferred stock dividends earned by the Coliseum Stockholders during the year ended December 31, 2020 totaled $2.0 million, including accrued dividends paid pursuant to the Conversion Agreement.

22. Discontinued Operations

WD Services Segment

On December 21, 2018, the Company completed the sale of substantially all of the operating subsidiaries of its WD Services segment to APM and APM UK Holdings Limited, an affiliate of APM, except for the segment's employment services operations in Saudi Arabia. The Company's contractual counterparties in Saudi Arabia, including an entity owned by the Saudi Arabian government, assumed these operations beginning January 1, 2019.

The total cash consideration of the sale was $46.5 million, with the buyer retaining existing WD Services cash of $21.0 million. In addition to the purchase consideration, the Company expects to realize cash tax benefits of approximately $63.8 million from the transaction (considering CARES Act impact), of which $62.6 million ($59.1 million of refunds and $3.5 million of avoided payments) have been realized as of December 31, 2021. The remaining cash tax benefit of $1.2 million is expected to be realized as refunds and offsets to tax payments over the next year. In addition, $0.9 million of benefits related to capital loss carryforwards is available, which amount was reserved as of December 31, 2021.

The Company continues to recognize certain immaterial expenses related to the wind down of this segment. The loss of $0.3 million and $0.8 million for the year ended December 31, 2021 and 2020, respectively, was primarily related to costs incurred for personnel, facilities and miscellaneous administrative expenses in our continuing efforts to wind down the WD Services Saudi Arabian entity.

Human Services Segment

On November 1, 2015, the Company completed the sale of its Human Services segment. During the year ended December 31, 2019, the Company recorded additional expenses related to the Human Services segment, principally related to previously disclosed legal proceedings. In a prior period, the Company received a settlement from an insurance agency to partially offset a previously recognized loss from 2017, in the amount of $6.9 million, and reported a provision for income taxes related to this settlement of $0.9 million. There has been no further activity for the Human Services segment and there are no assets or liabilities on the balance sheet of the Company related to this segment as of December 31, 2021 and 2020.

23. Subsequent Events

On February 3, 2022, the Company entered into a five-year senior secured revolving credit facility in the amount of up to $325.0 million with JPMorgan Chase Bank, N.A. as administrative agent, swing line lender and letter of credit issuer, and the other lenders party thereto. A portion of the revolving credit facility in the amount of $60.0 million will be available for issuance as letters of credit. Additional information concerning the New Credit Agreement and related New Credit Facility is included in the Company's current report on Form 8-K filed by the Company with the SEC on February 4, 2022, which information is incorporated herein by reference thereto, as well under the caption "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – New Credit Facility*", which information is incorporated herein by reference thereto.

Item 9. ***Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.***

None.

Item 9A. ***Controls and Procedures.***

Evaluation of Disclosure Controls and Procedures

The Company's management, under the supervision and with the participation of our 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 Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), as of the end of the period covered by this Annual Report on Form 10-K (December 31, 2021). Based upon this evaluation, the Company's principal executive officer and principal financial officer have concluded that, to the extent of the material weaknesses identified in internal control over financial reporting as described below, the Company's disclosure controls and procedures were not effective as of December 31, 2021.

In light of the material weaknesses described below, management performed additional analysis and other procedures to ensure that our consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles (GAAP). Accordingly, management believes that the consolidated financial statements included in this Annual Report on Form 10-K fairly present, in all material respects, our financial position, results of operations, and cash flows as of and for the periods presented, in accordance with U.S. GAAP.

Management's Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act). Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the consolidated financial statements.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

The Company, under the supervision and with the participation of its management, including its principal executive officer and principal financial officer, and under the oversight of our Board of Directors, conducted an evaluation of the effectiveness of the Company's internal control over financial reporting as of December 31, 2021, based on the criteria set forth in the *Internal Control–Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Our evaluation of internal control over financial reporting did not include Care Finders Total Care ("Care Finders"), acquired on September 14, 2021, and VRI Intermediate Holdings, LLC ("VRI"), acquired on September 22, 2021, as permitted by applicable SEC guidance. The amount of total assets and revenue included in our consolidated financial statements as of and for the year ended December 31, 2021 that is attributable to Care Finder and VRI was $57.7 million (excluding intangibles and goodwill brought on through the transaction) and $74.1 million, respectively.

Management's evaluation of the effectiveness of our internal control over financial reporting determined that the Company's internal control over financial reporting was not effective as of December 31, 2021, to the extent of the following material weaknesses related to our subsidiary, Simplura Health Group:

The Company did not (i) effectively structure reporting lines, appropriate authorities, or responsibilities or (ii) establish mechanisms to enforce accountability in the pursuit of objectives to establish and operate effective internal control over financial reporting.

As a consequence, within Simplura Health Group, the Company did not effectively design, implement and operate process-level control activities related to its revenue processes (including service revenue and accounts receivable) and payroll processes (including payroll expenses recorded within service expense and general and administrative expense, and accrued payroll recorded within accrued expenses and other current liabilities). As another consequence, the Company did not establish effective general information technology controls (GITCs), specifically program change controls and access controls, that support the consistent operation of certain of the Company’s information technology (IT) systems. Therefore, automated process-level controls and manual controls dependent upon the accuracy and completeness of information derived from those IT systems were also ineffective because they could have been adversely impacted.

The control deficiencies described above did not result in any material misstatement in our consolidated financial statements or disclosures. However, these control deficiencies created a reasonable possibility that a material misstatement in our consolidated financial statements would not be prevented or detected on a timely basis and, therefore, we concluded that these deficiencies represent material weaknesses in our internal control over financial reporting as of December 31, 2021.

Our independent registered public accounting firm, KPMG LLP, who audited the Company’s consolidated financial statements included in this Annual Report on Form 10-K, has expressed an adverse opinion on the operating effectiveness of the Company’s internal control over financial reporting. KPMG LLP’s report is presented in Part II, Item 8 of this Annual Report on Form 10-K.

Management’s Remediation Plan

We, with the oversight from the Audit Committee of the Board of Directors, are actively in the process of remediating the identified material weaknesses, and have identified the following remediation steps at our subsidiary, Simplura Health Group:

- Design and implement structured reporting lines and appropriate authorities and responsibilities to create an environment which enforces accountability and ensures that the impacted financial reporting processes and related internal controls are properly designed, implemented and executed;
- Enhance the design of existing control activities and implement additional process-level control activities including, to the extent possible, the standardization of control activities and information used in those activities. Ensure these enhancements are properly documented and operating effectively; and
- Design, enhance and implement GITCs, including program change and access controls, to support process-level automated controls to ensure that information needed for the operation of manual process-level controls and financial reporting is accurate and complete.

Changes in Internal Control Over Financial Reporting

Except for the integration of the Simplura Heath Group into our existing control framework, there were no changes in our internal control over financial reporting during the fiscal quarter ended December 31, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. ***Other Information.***

None.

PART III

Item 10. ***Directors, Executive Officers and Corporate Governance*.**

The information required by Item 10 is incorporated by reference from our definitive proxy statement on Schedule 14A to be filed with the SEC and delivered to stockholders in connection with our 2022 Annual Meeting of Stockholders (the "2022 Proxy Statement") under the captions "*Election of Directors*," "*Corporate Governance*" and "*Delinquent Section 16(a) Reports"*; provided that if our 2022 Proxy Statement is not filed on or before April 30, 2022, such information will be included in an amendment to this Annual Report on Form 10-K filed on or before such date.

Code of Ethics

We have adopted a code of ethics that applies to our senior management, including our chief executive officer, chief financial officer, controller and persons performing similar functions, as well as our directors, officers and employees. This code of ethics is part of our broader Compliance and Ethics Plan and Code of Conduct, which is available free of charge in the “Investors” section of our website at www.modivcare.com. We intend to disclose any amendment to, or waiver from, a provision of the code of ethics that applies to our principal executive officer, principal financial officer or principal accounting officer on our website. The information contained on our website is not part of, and is not incorporated in, this Annual Report on Form 10-K or any other report we file with or furnish to the SEC.

Item 11. ***Executive Compensation.***

The information required by Item 11 is incorporated by reference from our 2022 Proxy Statement under the captions "*Executive Compensation*" and "*Corporate Governance*"; provided that if our 2022 Proxy Statement is not filed on or before April 30, 2022, such information will be included in an amendment to this Annual Report on Form 10-K filed on or before such date.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.***

The following table provides information, as of December 31, 2021, regarding our 2006 Plan.

Plan category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights [1]	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders	270,239	$ 88.72	1,230,202
Equity compensation plans not approved by security holders	—	—	—
Total	270,239	$ 88.72	1,230,202

(1) The number of shares shown in this column represents the number of shares available for issuance pursuant to stock options and other stock-based awards that were previously granted and were outstanding as of December 31, 2021 under the 2006 Plan.

Item 13. ***Certain Relationships and Related Transactions, and Director Independence.***

The information required by Item 13 is incorporated by reference from our 2022 Proxy Statement under the sub-captions "*Certain Relationships and Related Party Transactions*" and "*Independence of the Board*" under the caption "*Corporate Governance*"; provided that if our 2022 Proxy Statement is not filed on or before April 30, 2022, such information will be included in an amendment to this Annual Report on Form 10-K filed on or before such date.

Item 14. ***Principal Accounting Fees and Services*.**

The information required by Item 14 is incorporated by reference from our 2022 Proxy Statement under the caption "*Independent Registered Public Accountants*"; provided that if our 2022 Proxy Statement is not filed on or before April 30, 2022, such information will be included in an amendment to this Annual Report on Form 10-K filed on or before such date.

PART IV

Item 15. ***Exhibits, Financial Statement Schedules.***

(a)(1) Financial Statements

The following consolidated financial statements including footnotes are included in Item 8.

- Consolidated Balance Sheets at December 31, 2021 and 2020;
- Consolidated Statements of Operations for the years ended December 31, 2021, 2020 and 2019;
- Consolidated Statements of Cash Flows for the years ended December 31, 2021, 2020 and 2019; and
- Consolidated Statements of Stockholders' Equity for the years ended December 31, 2021, 2020 and 2019.

(2) Financial Statement Schedules

Schedule II Valuation and Qualifying Accounts

		Additions			
	Balance at beginning of period	**Charged to costs and expenses**	**Charged to other accounts**	**Deductions**	**Balance at end of period**
Year Ended December 31, 2021:					
Allowance for doubtful accounts	$ 2,403	1,740	$ —	$ (1,847) (1)	$ 2,296
Year Ended December 31, 2020:					
Allowance for doubtful accounts	$ 5,933	$ 642	$ —	$ (4,172) (1)	$ 2,403
Year Ended December 31, 2019:					
Allowance for doubtful accounts	$ 1,854	$ 3,220	$ 1,090	$ (231) (1)	$ 5,933

Notes:

(1) Write-offs, net of recoveries.

All other schedules are omitted because they are not applicable or the required information is shown in our financial statements or the related notes thereto.

(3) Exhibits

Exhibit Number	Description
2.1	Stock Purchase Agreement, dated as of September 28, 2020, by and among OEP AM, Inc., the Company, Socrates LLC and OEP AM Holdings, LLC (Incorporated by reference to Exhibit 2.1 to the registrant's current report on Form 8-K filed with the SEC on September 29, 2020).
2.2	Agreement and Plan of Merger, dated as of July 25, 2021, by and among Care Finders Total Care LLC, the registrant, Socrates Health Holdings, LLC, Saints Merger Sub, LLC, and Shareholder Representative Services LLC (Incorporated by reference to Exhibit 2.1 to the registrant's current report on Form 8-K filed with the SEC on July 26, 2021).
2.3	Securities Purchase Agreement, dated as of August 2, 2021, by and among VRI Ultimate Holdings, LLC, VRI Intermediate Holdings, LLC, the registrant and Victory Health Holdings, LLC (Incorporated by reference to Exhibit 2.1 to the registrant's current report on Form 8-K filed with the SEC on August 3, 2021).
3.1	Second Amended and Restated Certificate of Incorporation of the registrant, as filed with the Secretary of State of Delaware on December 9, 2011 (Incorporated by reference to Exhibit 3.1 to the registrant's annual report on Form 10-K filed with the SEC on March 1, 2021).
3.2	Certificate of Amendment to the Second Amended and Restated Certificate of Incorporation of the registrant, dated as of May 6, 2015 (Incorporated by reference to Exhibit 3.1 to the registrant's current report on Form 8-K filed with the SEC on May 7, 2015).
3.3	Second Amendment to the Second Amended and Restated Certificate of Incorporation of the registrant, effective January 6, 2021 (Incorporated by reference to Exhibit 3.1 to the registrant's current report on Form 8-K filed with the SEC on January 6, 2021).
3.4	Amended and Restated Bylaws of the registrant, effective January 6, 2021 (Incorporated by reference to Exhibit 3.2 to the registrant's current report on Form 8-K filed with the SEC on January 6, 2021).
4.1	Description of the registrant's securities registered pursuant to Section 12 of the Exchange Act (Incorporated by reference to Exhibit 4.1 to the registrant's annual report on Form 10-K filed with the SEC on March 1, 2021).
4.2	Indenture for 5.875% Senior Notes Due 2025 dated as of November 4, 2020, between the registrant and The Bank of New York Mellon Trust Company, N.A., as trustee (Incorporated by reference to Exhibit 4.1 to the registrant's current report on Form 8-K filed with the SEC on November 12, 2020).
4.3	Indenture for 5.000% Senior Notes Due 2029 dated as of August 24, 2021, between ModivCare Escrow Issuer, Inc. and The Bank of New York Mellon Trust Company, N.A., as trustee (Incorporated by reference to Exhibit 4.1 to the registrant's current report on Form 8-K filed with the SEC on August 24, 2021).
10.1†	Credit Agreement dated as of February 3, 2022, among the registrant, the co-syndication agents party thereto, the co-documentation agents party thereto, the lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent (Incorporated by reference to Exhibit to the registrant's current report on Form 8-K filed with the SEC on February 4, 2022).
10.2+	Employment Agreement dated November 29, 2019, by and among the registrant, ModivCare Solutions, LLC and Daniel E. Greenleaf (Incorporated by reference to Exhibit 10.1 to the registrant's current report on Form 8-K filed with the SEC on December 2, 2019).
10.3*+	Offer Letter, dated February 22, 2021, by and among the registrant, ModivCare Solutions, LLC and L. Heath Sampson.
10.4*+	Offer Letter, dated July 26, 2021, by and among the registrant, ModivCare Solutions, LLC and Jonathan B. Bush.
10.5*+	Offer Letter, dated July 22, 2021, by and among the registrant, ModivCare Solutions, LLC and Kenneth Shepard.

10.6*+	Offer Letter, dated October 14, 2021, by and among the registrant, ModivCare Solutions, LLC and Grover Wray.
10.7*+	Offer Letter, dated January 27, 2020, by and among the registrant, ModivCare Solutions, LLC and Walt Meffert.
10.8*+	Director Compensation Summary
10.9+	The Company's 2006 Long-Term Incentive Plan, as amended and restated effective July 27, 2016 (Incorporated by reference to an appendix to the registrant's definitive proxy statement filed under cover of Schedule 14A with the SEC on June 14, 2016).
10.10+	Form of Restricted Stock Agreement (Incorporated by reference to Exhibit 10.1 to the registrant's quarterly report on Form 10-Q for the quarter ended September 30, 2019 filed with the SEC on November 7, 2019).
10.11+	Form of Restricted Stock Unit Agreement (Incorporated by reference to Exhibit 10.25 to the registrant's annual report on Form 10-K for the year ended December 31, 2020 filed with the SEC on March 1, 2021).
10.12+	Form of Stock Option Agreement (Incorporated by reference to Exhibit 10.26 to the registrant's annual report on Form 10-K for the year ended December 31, 2020 filed with the SEC on March 1, 2021).
10.13	Second Amended and Restated Limited Liability Company Agreement of Mercury Parent, LLC, dated February 16, 2018, by and between Prometheus Holdco, LLC and Mercury Fortuna Buyer, LLC (Incorporated by reference to Exhibit 10.26 to the registrant's annual report on Form 10-K for the year ended December 31, 2017 filed with the SEC on March 9, 2018).
10.14	Registration Indemnification Agreement, dated May 9, 2018, between the registrant, Coliseum Capital Partners, L.P., Coliseum Capital Partners II, L.P., Coliseum Capital Co-Invest, L.P. and Blackwell Partners, LLC - Series A (Incorporated by reference to Exhibit 10.33 to the registrant's Registration Statement on Form S-1 filed with the SEC on May 9, 2018).
21.1*	Subsidiaries of the Registrant.
23.1*	Consent of KPMG LLP.
23.2*	Consent of Deloitte & Touche LLP (Mercury Parent, LLC financial statements).
31.1*	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
31.2*	Rule 13a-14(a)/15d-14 Certification of Chief Financial Officer.
32.1**	Section 1350 Certification of Chief Executive Officer.
32.2**	Section 1350 Certification of Chief Financial Officer.
99.1*	Financial Statements of Mercury Parent, LLC.
101. INS*	Inline XBRL Instance 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)

\+ Management contract or compensatory plan or arrangement.

* Filed herewith.

** Furnished herewith.

† Certain schedules and exhibits have been omitted pursuant to Item 601(a)(5) of Regulation S-K. The descriptions of the omitted schedules and exhibits are contained within the agreement. The Company hereby agrees to furnish a copy of any omitted schedule or exhibit to the SEC upon request.

Item 16. Form 10-K Summary.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By: /s/ Daniel E. Greenleaf
Daniel E. Greenleaf
Chief Executive Officer

Dated: February 28, 2022

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/S/ DANIEL E. GREENLEAF Daniel E. Greenleaf	Chief Executive Officer and Director (Principal Executive Officer)	February 28, 2022
/S/ L. HEATH SAMPSON L. Heath Sampson	Chief Financial Officer (Principal Financial Officer)	February 28, 2022
/S/ KENNETH SHEPARD Kenneth Shepard	Chief Accounting Officer (Principal Accounting Officer)	February 28, 2022
/S/ CHRISTOPHER S. SHACKELTON Christopher S. Shackelton	Chairman of the Board	February 28, 2022
/S/ TODD J. CARTER Todd J. Carter	Director	February 28, 2022
/S/ DAVID A. COULTER David A. Coulter	Director	February 28, 2022
/S/ RICHARD A. KERLEY Richard A. Kerley	Director	February 28, 2022
/S/ LESLIE V. NORWALK Leslie V. Norwalk	Director	February 28, 2022
/S/ FRANK J. WRIGHT Frank J. Wright	Director	February 28, 2022
/S/ RAHUL SAMANT Rahul Samant	Director	February 28, 2022
/S/ STACY SAAL Stacy Saal	Director	February 28, 2022
/S/ GARTH GRAHAM Garth Graham	Director	February 28, 2022

February 22, 2021

PERSONAL AND CONFIDENTIAL

L. Heath Sampson
64 Windsor Way
Greenwood Village, CO 80111

Dear Heath,

It gives me great pleasure to offer you the position of Chief Financial Officer with ModivCare Solutions, LLC. In addition to confirming our offer, this letter will detail the terms and conditions of your employment and outline the current major features of ModivCare's compensation and benefit plans and practices.

Assumption of Duties

We expect you to commence employment with ModivCare on February 26, 2021 or such earlier date as may be mutually agreed. In your role you will report to Daniel Greenleaf, Chief Executive Officer, and will have responsibilities commensurate with your title/position. You will be based at our corporate headquarters located at 4700 S. Syracuse Street, Suite 440, Denver, CO 80237.

Base Salary

Your initial annual base salary will be $475,000, payable in bi-weekly installments, less applicable taxes and deductions.

Short-Term Cash Incentive Bonus

You are eligible to participate in a short-term incentive bonus program in the calendar year 2021. Your target bonus for 2021 will be 90% of your base salary, pro-rated for the number of days you are employed during calendar year 2021. Your short-term cash incentive bonus will be payable, less applicable taxes and deductions, at such time as cash incentive bonuses are paid to executives generally (typically payable 1st quarter following the performance year), and, unless otherwise specified, no later than March 15 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 of ModivCare Inc., ModivCare's parent corporation (the "Compensation Committee") in its discretion, 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 Equity Incentive Program

Beginning in the calendar year 2021, 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 2021, subject to approval of the Compensation Committee, you will be eligible to receive an equity award with a target grant date value equal to 150% of your base salary, the value of which will be allocated 50% to restricted stock units (RSUs) and 50% to nonqualified stock options. All equity awards will be granted under and subject to all of the terms and conditions of the ModivCare's stock incentive plan and forms of award agreement approved for use thereunder.

Employee Benefits and Perquisites

You will be eligible to participate in such employee benefit plans, arrangements and programs maintained by ModivCare from time to time for the benefit of its employees generally. Please be aware that these programs are subject to change. If they are modified in the future, you will continue to be eligible for such benefits as are provided to other employees of the company. ModivCare's current benefit program covers medical, dental, life, short-term and long-term disability insurance, flexible spending accounts, voluntary vision, voluntary life insurance, 401K, vacation and sick benefits. As part of our current benefit package, employees can elect medical and/or dental insurance. Please refer to the attached benefit summary for cost details. Also currently included is a 100% company-paid short- and long-term disability policy and a 100% company paid life insurance in the amount of $25,000.00. We also offer the opportunity to participate in voluntary vision, voluntary life insurance and both medical care and dependent care flexible spending accounts.

Based on your position, any core benefits and health insurance benefits you choose will be effective retroactive to your first day of employment. You must make your benefit elections within the first 30 days of employment. If you miss your initial enrollment window, please note that you will need to wait until the next annual enrollment period.

You will be eligible for paid time off in accordance with company polices. Please refer to the attached vacation policy for VP and above. Additionally, all employees receive six company holidays throughout the calendar year. I have included a current Employee Benefits Summary, which provides you with an overview of the comprehensive package of health and welfare benefits that ModivCare offers employees.

"At will" Employment and Termination of Employment

Your employment with ModivCare will be an employment "at will" and this arrangement may be altered only in writing by the CEO or General Counsel of ModivCare. 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. All employees are subject to a 90-day introductory period.

You will also be a participant in ModivCare's Severance Policy for Executive Leaders (the "Policy"), as in effect from time to time, subject to the terms and conditions thereof, which currently provides, among other things, for a severance payment equal to twelve (12) months of a participant's annual base salary upon termination of a participant's employment by the Company (other than a termination for Cause (as defined in the Policy) or due to death or Disability (as defined in the Policy)).

Professional Requirements

You will 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.

In addition, as an executive officer of ModivCare, you hereby acknowledge and agree that you are subject to the terms and conditions of the ModivCare Clawback Policy, as in effect from time to time, a current copy of which has already been provided to you. You also agree that all "incentive payments" and "performance-based equity awards" you receive, as such terms are defined in the Policy, are subject to the terms and conditions of the Policy.

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.

Upon starting employment with ModivCare, 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

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

This offer letter 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.

Acceptance

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

I look forward to your success with ModivCare. If you have any questions, please don't hesitate to call me.

Sincerely,

Laurel Emory

Laurel B. Emory, Ph.D.
Senior Vice President, Human Resources
ModivCare Solutions, LLC

ACCEPTED:

L. Heath Sampson

2/24/21
Date

modivcare

July 22, 2021

Jonathan Bush
10417 Maplebrook Way
Hghlnds Ranch, Colorado 80126-5768

Dear Jonathan,

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

Assumption of Duties: Your tentative start date will be on July 21, 2021 (such date, the "Start Date"). In your role you will report to Daniel Greenleaf, and will have responsibilities commensurate with your SVP, General Counsel and Secretary. You will be based in 6900 Layton Ave, Suite 1200, Denver, Colorado 80237 with the requirement to travel per business need.

Base Salary: Your initial base salary will be USD $330,000.00 payable in bi-weekly installments, less applicable taxes and deductions.

In your new role, you will be eligible for the Executive Leadership Team Severance Program.

Short-Term Cash Incentive Bonus

You are eligible to participate in a short-term incentive bonus program in the calendar year 2021. Your target bonus for 2021 will be 50% 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 executives generally (typically payable 1st quarter following the performance year), and, unless otherwise specified, no later than March 15 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 ModivCare in its discretion, 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 Equity Incentive Program

Beginning in the calendar year 2021, 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 2021, you will be eligible to receive an equity award with a target grant date value equal to 50% of your base salary, comprised of 50% restricted stock units (RSUs) and 50% options.

Employee Benefits and Perquisites

You will be eligible to participate in such employee benefit plans, arrangements and programs maintained by ModivCare from time to time for the benefit of its employees generally. Please be aware that these programs are subject to change. If they are modified in the future, you will continue to be eligible for such benefits as are provided to other employees of the company. ModivCare's current benefit program covers medical, dental, life, short-term and long-term disability insurance, flexible spending accounts, voluntary vision, voluntary life insurance, 401K, and paid time off. As part of our current benefit package, employees can elect medical and/or dental insurance. Please refer to the attached benefit summary for cost details. Also currently included is a 100% company-paid short- and long-term disability policy and 100% company paid life insurance one times annual salary up to $100,000.00. We also offer the opportunity to participate in voluntary vision, voluntary life insurance and both medical care and dependent care flexible spending accounts.

You will be eligible for paid time off in accordance with company polices. Please refer to the attached vacation policy for VP and above. Additionally, all employees receive six company holidays throughout the calendar year. I have included a current Employee Benefits Summary, which provides you with an overview of the comprehensive package of health and welfare benefits that ModivCare offers employees.

"At will" Employment and Termination of Employment

Your employment with ModivCare will be an employment "at will" and this arrangement may be altered only in writing by the CEO or General Counsel of ModivCare. This means that employees have the right to terminate their employment at any time and for any reason. Likewise, ModivCare reserves the right to discontinue your employment with or without cause at any time and for any reason.

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

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

Notwithstanding anything in this letter to the contrary, other than the payment of the Accrued Compensation through the date of termination of your employment, you shall not be entitled to any severance payments or benefits described in clauses (1) through (3) above (i) unless and until you execute and deliver to ModivCare, within twenty-one (21) days of the date of termination of your employment, a unilateral general release of all known and unknown claims against ModivCare and its officers, directors, employees, agents and affiliates in a form acceptable to ModivCare, and such release becomes fully effective and irrevocable under applicable law, and (ii) unless you are, and continue to be, in compliance with the Restrictive Covenants Agreement described below and ttached hereto and made part of this offer. In addition, promptly following any termination of your employment (other than by reason of your death), you will deliver to ModivCare reasonably satisfactory written evidence of your resignation from all positions that you may then hold as an employee, officer or director of ModivCare or any affiliate.

For purposes of this letter: "Accrued Compensation" means, as of any date, the amount of any unpaid base salary earned by you through the date of the termination of

your employment, and, other than in the case of a termination for Cause or resignation without Good Reason, any short-term cash incentive bonus earned by you, but not yet paid, for the most recently completed fiscal year prior to the termination of your employment.

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

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

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

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

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.

Acceptance

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

I look forward to your success with ModivCare. If you have any questions, please don't hesitate to call me.

Sincerely,

Daniel Greenleaf
ModivCare

Enclosures:
Benefits Booklet & Vacation Policy

Cc: File

ELECTRONIC SIGNATURE : Jonathan Bush
Status : Accepted
Date : 2021-07-26 17:25

modivcare

July 22, 2021

Kenneth Shepard
1325 Dover Cir Ne
Brookhaven, Georgia 30319

Dear Kenneth,

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

Assumption of Duties: Your tentative start date will be on July 21, 2021 (such date, the "Start Date"). In your role you will report to Larry Sampson, and will have responsibilities commensurate with your VP, Chief Accounting Officer. You will be based in Denver,CO with the requirement to travel per business need.

Base Salary: Your initial base salary will be USD $275,000.00 payable in bi-weekly installments, less applicable taxes and deductions.

Short-Term Cash Incentive Bonus

You are eligible to participate in a short-term incentive bonus program in the calendar year 2021. Your target bonus for 2021 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 executives generally (typically payable 1st quarter following the performance year), and, unless otherwise specified, no later than March 15 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 of The Providence Service Corporation, ModivCare's parent corporation (the "Compensation Committee") in its discretion, 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 Equity Incentive Program

Beginning in the calendar year 2021, 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 2021, you will be eligible to receive an equity award with a target grant date value equal to 40% of your base salary, comprised of 50% restricted stock units (RSUs) and 50% options.

Employee Benefits and Perquisites

You will be eligible to participate in such employee benefit plans, arrangements and programs maintained by ModivCare from time to time for the benefit of its employees generally. Please be aware that these programs are subject to change. If they are modified in the future, you will continue to be eligible for such benefits as are provided to other employees of the company. ModivCare's current benefit program covers medical, dental, life, short-term and long-term disability insurance, flexible spending accounts, voluntary vision, voluntary life insurance, 401K, and paid time off. As part of our current benefit package, employees can elect medical and/or dental insurance. Please refer to the attached benefit summary for cost details. Also currently included is a 100% company-paid short- and long-term disability policy and 100% company paid life insurance one times annual salary up to $100k. We also offer the opportunity to participate in voluntary vision, voluntary life insurance and both medical care and dependent care flexible spending accounts.

You will be eligible for paid time off in accordance with company polices. Please refer to the attached vacation policy for VP and above. Additionally, all employees receive six company holidays throughout the calendar year. I have included a current Employee Benefits Summary, which provides you with an overview of the comprehensive package of health and welfare benefits that ModivCare offers employees.

"At will" Employment and Termination of Employment

Your employment with ModivCare will be an employment "at will" and this arrangement may be altered only in writing by the CEO or General Counsel of ModivCare. 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. All employees are subject to a 90-day introductory period.

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

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

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.

Acceptance

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

I look forward to your success with ModivCare. If you have any questions, please don't hesitate to call me.

Sincerely,

Larry Sampson
ModivCare

Enclosures:
Benefits Booklet & Vacation Policy

Cc: File

ELECTRONIC SIGNATURE : Kenneth Shepard
Status : Accepted
Date : 2021-07-26 13:55

October 14, 2021

Grover Wray
13937 Pinehurst Circle

Broomfield, CO, 80023

Dear Grover,

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

Assumption of Duties: Your tentative start date will be on October 25, 2021 (such date, the "Start Date"). In your role you will report to Daniel Greenleaf and will have responsibilities commensurate with the Chief Human Resources Officer role. You will be based in 6900 Layton Ave, Suite 1200, Denver, Colorado 80237 with the requirement to travel per business need.

Base Salary: Your initial base salary will be USD $440,000.00 payable in bi-weekly installments, less applicable taxes and deductions. In your new role, you will be eligible for the Executive Leadership Team Severance Program.

Short-Term Cash Incentive Bonus

You are eligible to participate in a short-term incentive bonus program in the calendar year 2021. Your target bonus for 2021 will be 75% 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 executives generally (typically payable 1st quarter following the performance year), and, unless otherwise specified, no later than March 15 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 Modivcare in its discretion 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 Equity Incentive Program

Beginning in the calendar year 2021, 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 2021, you will be eligible to receive an equity award of $141,041 comprised of 50% restricted stock units (RSU's) and 50% options. For 2022, with a target grant date value equal to 150% of your base salary, comprised of 50% restricted stock units (RSUs) and 50% options.

Relocation

You are eligible for 20% of your base salary for relocation reimbursement based on the Modivcare Relocation Policy.

Employee Benefits and Perquisites

You will be eligible to participate in such employee benefit plans, arrangements and programs maintained by Modivcare from time to time for the benefit of its employees generally. Please be aware that these programs are subject to change. If they are modified in the future, you will continue to be eligible for such benefits as are provided to other employees of the company. Modivcare's current benefit program covers medical, dental, life, short-term and long-term disability insurance, flexible spending accounts, voluntary vision, voluntary life insurance, 401K, and paid time off. As part of our current benefit package, employees can elect medical and/or dental insurance. Please refer to the attached benefit summary for cost details. Also currently included is a 100% company-paid short- and long-term disability policy and 100% company paid life insurance one times annual salary up to $100,000.00. We also offer the opportunity to participate in voluntary vision, voluntary life insurance and both medical care and dependent care flexible spending accounts.

You will be eligible for paid time off in accordance with company polices. Please refer to the attached vacation policy for VP and above. Additionally, all employees receive six company holidays throughout the calendar year. I have included a current Employee Benefits Summary, which provide s you with an overview of the comprehensive package of health and welfare benefits that Modivcare offers employees.

"At will" Employment and Termination of Employment

Your employment with Modivcare will be an employment "at will" and this arrangement may be altered only in writing by the CEO or General Counsel of Modivcare. This means that employees have the right to terminate their employment at any time and for any reason. Likewise, Modivcare reserves the right to discontinue your employment with or without cause at any time and for any reason.

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

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

Notwithstanding anything in this letter to the contrary, other than the payment of the Accrued Compensation through the date of termination of your employment, you shall not be entitled to any severance payments or benefits described in clauses (1) through (3) above (i) unless and until you execute and deliver to Modivcare, within twenty-one (21) days of the date of termination of your employment, a unilateral general release of all known and unknown claims against Modivcare and its officers, directors, employees, agents and affiliates in a form acceptable to Modivcare, and such release becomes fully effective and irrevocable under applicable law, and (ii) unless you are, and continue to be, in compliance with the Restrictive Covenants Agreement described below and attached hereto and made part of this offer. In addition, promptly following any termination of your employment (other than by reason of your death), you will deliver to Modivcare reasonably satisfactory writtenevidence of your resignation from all positions that you may then hold as an employee, officer or director of Modivcare or any affiliate.

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

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

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

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

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 i s 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

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.

Acceptance

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

I look forward to your success with Modivcare. If you have any questions, please don't hesitate to call me.

Sincerely,

Daniel Greenleaf

/s/ Daniel Greenleaf

Agreed and Accepted:

Grover Wray

/s/ Grover Wray

Date: 10/18/2022

LogistiCare | CIRCULATION

Corporate
1275 Peachtree Street, 6th Floor, Atlanta, Georgia 30309
Office: 404-888-5800 HR Facsimile: 404-888-5994
www.logisticare.com

January 27, 2020

Walt Meffert
610 E Market St. Unit 3116
San Antonio, TX 78205
walt@meffert.us
410-916-8400

Dear Walt,

It gives me great pleasure to offer you a position with LogistiCare. In addition to confirming our offer, this letter will detail the terms and conditions of your employment and outline the current major features of LogistiCare's compensation and benefit plans and practices. All offers of employment are contingent upon the completion of any required pre-employment screening and your ability to establish your identity and authorization to work in the United States. Please be sure to bring work authorization documentation with you on your first day of employment to complete the form I9.

Assumption of Duties: Your start date will be January 31, 2020, for you to assume the position of Chief Information Officer. You will report to Dan Greenleaf, Chief Executive Officer, and your primary work location will be your place of residence with the requirement to travel for business reasons as determined by the CEO.

Base Salary: Your initial base salary will be $400,000.00 payable in bi-weekly installments, less applicable taxes and deductions.

Short-Term Incentive Bonus: You are eligible to participate in a short-term incentive bonus program in 2020 which will be a target of 50% of your base salary. Bonus consideration is based on individual and organizational performance. Bonuses are typically payable 1st quarter following the performance year.

Long Term Incentive: In connection with your position and the long-term incentive program (LTIP) for calendar year 2020, you will receive an equity grant award equivalent to 50% of your base pay comprised of 50% restricted stock units (RSUs) and 50% options. This grant is pursuant to, and subject in all respects to the terms and conditions contained in, the Company's 2006 Long-Term Incentive Plan as amended in 2016 and an applicable award agreement. You will be eligible for future LTIP grants in which other executives of LogistiCare-Circulation participate under the terms and conditions (including an applicable award agreement), and at a grant date, approved by the Board's Compensation Committee.

Executive Non-Qualified Deferred Compensation Plan: You are also eligible to participate in the Executive Non-Qualified Deferred Compensation plan. The next open enrollment will be in December 2020 for a January 1, 2021 effective date. You may elect to defer up to 10% of your salary and/or 100% of your annual discretionary bonus.

Severance: Severance Payment: Should you be asked to leave LogistiCare-Circulation for any reason other than for "Cause", as the term is defined below, you will receive six (6) months of severance pay at your base compensation in effect at that time. You will be required to sign a severance agreement and general release of claims as a condition of receiving any severance payment, attached. For purposes of this paragraph, "Cause" shall

be defined as: (a) an intentional act of fraud, embezzlement, theft or any other material violation of law by you in the course of your employment; (b) the willful and continued failure to substantially perform your duties for the company (other than as a result of incapacity due to physical or mental illness); or (c) conviction of a crime involving moral turpitude.

Total Rewards Benefits Programs: You will receive such benefits as are generally accorded to employees at LogistiCare, subject to company policy and any applicable terms and conditions as they may be amended from time to time.

LogistiCare's current benefit program covers medical, dental, life, short-term and long-term disability insurance, flexible spending accounts, voluntary vision, voluntary life insurance, 401K, vacation and sick benefits. As part of our current benefit package, employees can elect medical and/or dental insurance. Please refer to the attached benefit summary for cost details. Also currently included is a 100% company-paid short and long-term disability policy and a 100% company paid life insurance in the amount of $25,000.00. We also offer the opportunity to participate in voluntary vision, voluntary life insurance and both medical care and dependent care flexible spending accounts.

Based on your position, any core benefits and health insurance benefits you choose will be effective retro to your first day of employment. You must make your benefit elections within the first 30 days of employment. If you miss your initial enrollment window, please note that you will need to wait until the next annual enrollment period.

401k Retirement Plan: LogistiCare offers employees the opportunity to participate in a 401K (pre-tax) and/or Roth (post-tax) retirement saving plans. The plan provides for employer matching contributions; the contribution amount is a discretionary amount that is determined each plan year and subject to a vesting schedule. To participate, the plan requires: You must be age 21. You must have completed 2 months of employment service; you are eligible the first of the month following 2 months of service from your date of hire. As a new employee, once you have met the eligibility requirements, you will automatically be enrolled in the plan at a deferral percentage of 3%. If you do not wish to participate, you must change your deferral percentage to zero. Once employed you can do this by accessing the 401K website at www.mykplan.com or contact a 401K Employee Customer Service Representative at 1-888-822-9238.

Paid Time Off: You will be eligible for paid time off in accordance with company polices. Please refer to the attached vacation policy for VP and above. You are also entitled to accrue sick leave each month up to 40 hours per calendar year in accordance with state law, local ordinance or company policy. Additionally, all employees receive four floating holidays and six company holidays throughout the calendar year. I have included a current Employee Benefits Summary, which provides you with an overview of the comprehensive package of health and welfare benefits that LogistiCare offers employees.

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 will be required to maintain a standard of legal and ethical conduct consistent with our Corporate Ethics program.

This letter and restrictive covenant agreement 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 LogistiCare 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, LogistiCare reserves the right to discontinue your employment with or without cause at any time and for any reason. All employees are subject to a 90-day introductory period.

By acceptance of this offer, you agree that you have brought to LogistiCare's attention and provided it with a copy of any agreement which may impact your future employment at LogistiCare, including non-disclosure, non-competition, invention/patent assignment agreements or agreements containing future work restrictions.

Further by acceptance of this offer, you acknowledge your responsibilities under the Restrictive Covenant Agreement attached hereto and made part of this offer.

We are excited about the opportunity to work with you and look forward to hearing your positive response to this letter by **January 29, 2020.** If you agree with the terms of this offer of employment and restrictive covenant agreement, please sign both documents and email to jennys@logisticare.com.

Sincerely,

Daniel E. Greenleaf, Chief Executive Officer PRSC/LogistiCare

Acceptance Signature:

____ ________________

Walt Meffert Date

Exhibit 10.9

MODIVCARE INC.

DIRECTOR COMPENSATION SUMMARY

As compensation for their service as directors of ModivCare Inc. (the "Company"), each non-employee member of the Board of Directors (the "Board") receives an annual retainer composed of a combination of cash and Company equity. All retainers are prorated for partial periods of service.

Each non-employee member of the Board receives an annual cash retainer of $85,000. For service as committee chairs, the Chairperson of the Audit Committee receives an additional cash retainer of $35,000 and the Chairpersons of the Compensation Committee and Nominating and Governance Committee each receives an additional cash retainer of $20,000. For service as Chairman of the Board, the Chairman of the Board receives an additional cash retainer of $35,000. Members of the Audit Committee, the Compensation Committee and the Nominating and Governance Committees (other than the Chairpersons) receive an additional cash retainer of $15,000, $7,500 and $7,500, respectively. Payment of the cash retainers are made on a monthly basis in advance of each month of service.

The Company's target value of the equity retainer for non-employee members of the Board is currently $130,000, based on the closing stock price of the Company's common stock as reported on the Nasdaq Stock Market on the grant date. Except for certain expense reimbursements noted below, no additional payments are made to non-employee members for participating in Board and committee meetings. Non-employee members of the Board are offered the opportunity (as approved by the Board) to elect to receive unrestricted shares of common stock in lieu of the cash component of the retainer.

Non-employee directors are reimbursed for reasonable expenses incurred in connection with attending meetings of the Board and meetings of Board committees.

Name of Subsidiary	**State/Country of Incorporation**
Unless otherwise noted all subsidiaries listed are, directly or indirectly, wholly owned by ModivCare Inc.	
ModivCare Solutions, LLC	Delaware
Circulation, Inc.	Delaware
Health Trans, Inc.	Delaware
Provado Technologies, LLC	Florida
Red Top Transportation, Inc.	Florida
Ride Plus, LLC	Delaware
Ingeus Investments Limited	United Kingdom
Ingeus, LLC	Saudi Arabia
Prometheus Holdco, LLC	Delaware
Victory Health Holdings, LLC	Delaware
Socrates Health Holdings, LLC	Delaware
National MedTrans, LLC	New York
OEP AM, Inc.	Delaware
AM Intermediate Holdco, Inc.	Delaware
AM Holdco, Inc. (dba Simplura Health Group)	Delaware
All Metro Health Care Services, Inc.	Delaware
CGA Holdco, Inc.	Delaware
Multicultural Home Care, Inc.	Massachusetts
Personal In-Home Services, Inc.	West Virginia
A&B Homecare Solutions, LLC	Connecticut
All Metro Home Care Services, Inc.	Delaware
Caregivers On Call, Inc.	Delaware
All Metro Field Service Workers Payroll Services Corporation	Delaware
All Metro CGA Payroll Services Corporation	Delaware
All Metro Management and Payroll Services Corporation	Delaware
All Metro Home Care Service of New York, Inc.	New York
All Metro Home Care Services of Florida, Inc.	Delaware
All Metro Home Care Services of New Jersey, Inc.	Delaware
All Metro Aids Inc.	New York
All Metro Payroll Services Corporation	New York
Independence Healthcare Corporation	Massachusetts
CareGivers America, LLC	Pennsylvania
CareGivers America Medical Staffing, LLC	Pennsylvania
CareGivers Alliance, LLC	Pennsylvania
CareGivers America Registry, LLC	Pennsylvania
ARU Hospice, Inc.	Pennsylvania
Helping Hand Home Health Care Agency, Inc.	Pennsylvania
CareGivers America Home Health Services, LLC	Pennsylvania
CareGivers America Medical Supply, LLC	Pennsylvania
CGA Staffing Services, LLC	Pennsylvania
Arsens Home Care, Inc.	Pennsylvania
ARUBU, Inc.	Pennsylvania
Helping Hand Hospice, Inc.	Pennsylvania
Panhandle Support Services, Inc.	West Virginia
ABC Homecare, LLC	Connecticut
TriMed, LLC	Utah
Metropolitan Medical Transportation IPA, LLC	New York
Florida MedTrans Network MSO, LLC	Florida
Florida MedTrans Network, LLC	Florida
California MedTrans Network MSO, LLC	California

California MedTrans Network IPA, LLC	California
NEMT Insurance DE LLC, Series 1 (90% owned)	Delaware
Care Finders Total Care LLC	Delaware
Philadelphia Home Care Agency, Inc.	Pennsylvania
Union Home Care LLC	Pennsylvania
At-Home Quality Care LLC	Pennsylvania
Secura Home Health Holdings, Inc.	Delaware
Secura Home Health, LLC	Delaware
VRI Intermediate Holdings, LLC	Delaware
Valued Relationships, Inc.	Ohio
New England Emergency Response Systems, Inc.	New Hampshire
Auditory Response Systems, Inc.	New Hampshire
Safe Living Technologies, LLC	Delaware
Associated Home Services, Inc.	Texas
Barney's Medical Alert-ERS, Inc.	Texas
A.E. Medical Alert, Inc.	Texas
Healthcom Holdings LLC	Delaware
Healthcom, Inc.	Illinois
MLA Sales, LLC	Illinois

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the registration statements (Nos. 333-212888, 333-183339, 333-166978, 333-151079, 333-135126, and 333-145843) on Form S-8, and the registration statement (No. 333-233676) on Form S-3 of our reports dated February 28, 2022, with respect to the consolidated financial statements and financial statement schedule II of ModivCare Inc. and the effectiveness of internal control over financial reporting.

/s/ KPMG LLP

Atlanta, Georgia
February 28, 2022

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-233676 on Form S-3 and Registration Statement Nos. 333-212888, 333-183339, 333-166978, 333-151079, 333-135126, and 333-145843 on Form S-8 of our report dated February 25, 2022, relating to the financial statements of Mercury Parent, LLC as of December 31, 2021 and for each of the three years in the period ended December 31, 2021 included as Exhibit 99.1 to the Annual Report on Form 10-K of ModivCare, Inc. for the year ended December 31, 2021.

/s/ Deloitte & Touche LLP

Phoenix, Arizona
February 28, 2022

Exhibit 31.1

CERTIFICATIONS

I, Daniel E. Greenleaf, certify that:

1. I have reviewed this annual report on Form 10-K 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 (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

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

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

Date: February 28, 2022

By: /s/ Daniel E. Greenleaf
Daniel E. Greenleaf
Chief Executive Officer
(*Principal Executive Officer*)

Exhibit 31.2

CERTIFICATIONS

I, L. Heath Sampson, certify that:

1. I have reviewed this annual report on Form 10-K 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 (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

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

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

Date: February 28, 2022

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

Exhibit 32.1

MODIVCARE INC.

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

Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of ModivCare Inc. (the "Company"), does hereby certify with respect to the Annual Report of the Company on Form 10-K for the year ended December 31, 2021 (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: February 28, 2022

/s/ Daniel E. Greenleaf
Daniel E. Greenleaf
Chief Executive Officer
(*Principal Executive Officer*)

Exhibit 32.2

MODIVCARE INC.

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

Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of ModivCare Inc. (the "Company"), does hereby certify with respect to the Annual Report of the Company on Form 10-K for the year ended December 31, 2021 (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: February 28, 2022

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

Mercury Parent, LLC

Consolidated Financial Statements as of
December 31, 2021 and 2020, and for the
Years Ended December 31, 2021, 2020, and 2019,
and Report of Independent Registered Public
Accounting Firm

MERCURY PARENT, LLC

TABLE OF CONTENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of Mercury Parent, LLC

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Mercury Parent, LLC and subsidiaries (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of operations, members' equity, and cash flows, for each of the three years in the period ended December 31, 2021, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Goodwill — Refer to Note 2 to the financial statements

Critical Audit Matter Description

The Company's evaluation of goodwill for impairment involves the comparison of the fair value of each reporting unit to its carrying value. The Company used the discounted cash flow model to estimate fair value, which requires management to make significant estimates and assumptions related to discount rates and forecasts of future revenues and operating margins. Changes in these assumptions could have a significant impact on the fair value of the reporting units and the resulting impairment charge. Prior to the impairment recorded, the goodwill balance was $448 million, of which $192 million pertained to the Clinical Solutions reporting unit. The carrying value of Clinical Solutions exceeded fair value as of December 31, 2021 and, therefore, an impairment of $110.3 million was recognized.

We identified valuation of goodwill for Clinical Solutions as a critical audit matter because of the significant judgments made by management to estimate the fair value of the Clinical Solutions reporting unit. This required a high degree of auditor judgment and an increased extent of effort, including the need to involve our fair value specialists when performing audit procedures to evaluate the reasonableness of management's estimates and assumptions related to forecasted revenues and the selection of the discount rate.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to forecasted revenues and the discount rate used by management to estimate the fair value of Clinical Solutions included the following, among others:

- We evaluated the reasonableness of management's forecasted revenues by comparing the forecasts to (1) historical results, (2) internal communications to management and the Board of Directors, (3) forecasts used in the preceding impairment assessments, (4) guideline company data.

- With the assistance of our fair value specialists, we evaluated the reasonableness of management's determination of the discount rate to determine the fair value of the Clinical Solutions reporting unit by:
  - Developing an independent estimate and comparing those to the selected discount rate by management
  - Comparing the discount rate used by management to the discount rate associated with other healthcare companies with similar risk profiles
  - Evaluating the reasonableness of the interaction between the discount rate and other assumptions used in the forecast.

/s/ Deloitte & Touche LLP

Phoenix, Arizona
February 25, 2022

We have served as the Company's auditor since 2017.

MERCURY PARENT, LLC

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2021 AND 2020
(Amounts in thousands, except unit and per unit amounts)

		2021		2020
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$	57,843	$	70,295
Accounts receivable—net of allowance of $1,165 and $1,120, respectively		49,778		61,111
Prepaid expenses and other current assets		11,538		5,397
Medical supplies		4,921		6,307
Total current assets		124,080		143,110
PROPERTY AND EQUIPMENT—Net		10,722		12,096
OPERATING RIGHT-OF-USE ASSETS—Net		13,018		13,602
FINANCING RIGHT-OF-USE ASSETS—Net		639		1,762
GOODWILL		338,126		448,397
INTANGIBLE ASSETS—Net		119,216		143,335
OTHER LONG-TERM ASSETS		343		450
TOTAL ASSETS	$	606,144	$	762,752
LIABILITIES AND MEMBERS' EQUITY				
CURRENT LIABILITIES:				
Accounts payable	$	3,308	$	6,208
Accrued liabilities—including related party of $1,189 and $2,952, respectively		41,921		59,001
Current portion of long-term debt		1,902		1,888
Income taxes payable		-		5,019
Current operating lease liabilities		7,408		6,906
Current financing lease liabilities		577		793
Other short-term liabilities		1,932		2,106
Total current liabilities		57,048		81,921
LONG-TERM DEBT—Net of current portion		312,223		314,125
DEFERRED TAX LIABILITY—Net		19,732		22,980
LONG-TERM OPERATING LEASE LIABILITIES		7,057		7,840
LONG-TERM FINANCING LEASE LIABILITIES		906		1,813
OTHER LONG-TERM LIABILITIES		531		4,278
Total liabilities		397,497		432,957
COMMITMENTS AND CONTINGENCIES (Note 11)				
MEMBERS' EQUITY:				
Common A units—353,450,000 units authorized, issued, and outstanding, liquidity preference of $1 per unit		191,206		302,698
Common B units—24,158,682 units authorized, issued, and outstanding, liquidity preference of $1.267 per unit		17,441		27,097
Series A units—39,066,667 units authorized, 25,557,389 and 21,672,810 units issued and outstanding, participate in dividends and distributions in excess of $1 per common unit		-		-
Series B units—18,170,543 units authorized, 12,271,080 and 10,556,253 units issued and outstanding, participate in dividends and distributions in excess of $2 per common unit		-		-
Series C units—14,777,249 units authorized, 9,979,550 and 8,584,962 units issued and outstanding, participate in dividends and distributions in excess of $3 per common unit		-		-
Series D units—15,885,542 units authorized, 10,727,450 and 9,228,269 units issued and outstanding, participate in dividends and distributions in excess of $4 per common unit		-		-
Total members' equity		208,647		329,795
TOTAL LIABILITIES AND MEMBERS' EQUITY	$	606,144	$	762,752

See accompanying notes to consolidated financial statements.

MERCURY PARENT, LLC

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2021, 2020, AND 2019
(Amounts in thousands)

	2021	2020	2019
NET REVENUES	$ 398,260	$ 414,622	$ 275,391
OPERATING EXPENSES:			
Service expense	348,036	316,386	228,320
General and administrative	15,705	7,210	4,615
Depreciation and amortization	31,270	47,594	43,666
Asset impairment charges	111,358	-	55,056
Loss on disposition of assets	823	25	665
(Loss) reduction in contingency	(2,147)	(898)	1,872
Management fees	3,257	4,893	2,196
Total operating expenses	508,302	375,210	336,390
(LOSS) INCOME FROM OPERATIONS	(110,042)	39,412	(60,999)
INTEREST EXPENSE—Net and other expense:			
Interest expense—net and other expense	(16,776)	(19,790)	(24,903)
(LOSS) INCOME BEFORE TAXES	(126,818)	19,622	(85,902)
INCOME TAX BENEFIT (EXPENSE)	3,920	(4,485)	16,549
NET (LOSS) INCOME	$ (122,898)	$ 15,137	$ (69,353)

See accompanying notes to consolidated financial statements.

MERCURY PARENT, LLC

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2021, 2020, AND 2019
(Amounts in thousands)

	Common A Units	Common B Units	Series A Units	Series B Units	Series C Units	Series D Units	Total Members' Equity
BALANCE—December 31, 2018	$ 349,628	$ 30,609	$ -	$ -	$ -	$ -	$ 380,237
Capital contributions	500	-	-	-	-	-	500
Units repurchased	(371)	(29)	-	-	-	-	(400)
Net loss	(64,340)	(5,013)	-	-	-	-	(69,353)
Equity-based compensation	1,492	116	-	-	-	-	1,608
BALANCE—December 31, 2019	286,909	25,683	-	-	-	-	312,592
Units repurchased	(302)	(27)	-	-	-	-	(329)
Net income	13,893	1,244	-	-	-	-	15,137
Equity-based compensation	2,198	197	-	-	-	-	2,395
BALANCE—December 31, 2020	302,698	27,097	-	-	-	-	329,795
Units repurchased	(31)	(3)	-	-	-	-	(34)
Net loss	(113,103)	(9,795)	-	-	-	-	(122,898)
Equity-based compensation	1,642	142	-	-	-	-	1,784
BALANCE—December 31, 2021	$ 191,206	$ 17,441	$ -	$ -	$ -	$ -	$ 208,647

See accompanying notes to consolidated financial statements.

MERCURY PARENT, LLC

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021, 2020, AND 2019
(Amounts in thousands)

	2021	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net (loss) income	$ (122,898)	$ 15,137	$ (69,353)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	30,859	47,157	43,666
Amortization of debt issuance costs	1,412	1,431	1,441
Amortization of right-of-use asset	6,443	366	-
Change in deferred income taxes	(3,248)	(8,242)	(21,169)
Equity-based compensation	1,784	2,395	1,608
Provision for bad debts	1,105	903	1,304
Loss on disposal of property and equipment	823	25	357
Loss on impairment of goodwill	110,275	-	55,056
Loss on impairment of fixed assets	251	-	-
Loss on impairment of ROU assets	833	-	-
Loss on termination of leases	-	-	308
(Loss) reduction in contingency	(2,147)	(898)	1,872
Changes in operating assets and liabilities:			
Accounts receivable	10,228	(29,720)	1,003
Prepaid expenses and other current assets	(658)	(3,220)	688
Medical supplies	1,386	(3,138)	(248)
Other long-term assets	107	236	559
Accounts payable and accrued liabilities	(18,324)	36,142	(312)
Lease liabilities	(6,332)	(434)	-
Other liabilities	(3,990)	3,480	1,355
Income taxes receivable	(5,484)	-	1,533
Income taxes payable	(5,019)	4,860	159
Net cash (used in) provided by operating activities	(2,594)	66,480	19,827
CASH FLOWS FROM INVESTING ACTIVITIES:			
Business acquisition—net of cash acquired	26	(18,089)	-
Proceeds from sale of assets	31	20	459
Purchases of property and equipment	(6,037)	(4,838)	(9,477)
Net cash used in investing activities	(5,980)	(22,907)	(9,018)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Capital contributions	-	-	500
Draw on line of credit	-	33,500	-
Payments on line of credit	-	(33,500)	-
Payments on term loan	(3,300)	(3,300)	(3,300)
Payments on financing leases	(544)	(532)	(651)
Repurchase of members' units	(34)	(329)	(400)
Net cash used in financing activities	(3,878)	(4,161)	(3,851)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(12,452)	39,412	6,958
CASH AND CASH EQUIVALENTS—Beginning of the period	70,295	30,883	23,925
CASH AND CASH EQUIVALENTS—End of the period	$ 57,843	$ 70,295	$ 30,883
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid for interest	$ 15,066	$ 17,711	$ 23,284
Cash paid for income taxes	$ 9,988	$ 10,193	$ 3,179
NONCASH INVESTING AND FINANCING TRANSACTIONS:			
Additions to property and equipment financed through accounts payable and accrued expenses	$ 432	$ 95	$ 80
Property acquired under capital lease obligations	$ -	$ -	$ 1,855
Right-of-use assets obtained in exchange for operating lease liabilities	$ 6,529	$ 20,290	$ -
Right-of-use assets obtained in exchange for finance lease liabilities	$ -	$ 149	$ -

See accompanying notes to consolidated financial statements.

1. ORGANIZATION AND NATURE OF OPERATIONS

Nature of Operations Mercury Parent, LLC ("Mercury Parent" and collectively with its subsidiaries and affiliates, the "Company") is a Delaware limited liability company formed on October 19, 2016, as a holding company for CCHN Group Holdings, Inc. (the "Group"), CCHN Holdings, LLC ("Holdings"), and Community Care Health Network, LLC and its subsidiaries (CCHN). In 2020, the Company formed new subsidiaries of CCHN; Matrix Clinical Solutions, LLC, Matrix Consulting Group, LLC, and MCS Diagnostics, Inc., a holding company for Biocerna, LLC. In 2021, the Company formed a new entity in Ireland, which is a wholly-owned subsidiary of Matrix Clinical Solutions, LLC. This entity is expected to commence operations in 2022. All financial activity is recorded on Community Care Health Network, LLC and its subsidiaries.

Through a national network of more than 3,800 clinical practitioners and 27 mobile clinics, Matrix generates revenue from two business units, Clinical Care and Clinical Solutions. In the Clinical Care business unit, the Company performs comprehensive health exams (CHAs) to gather health plan members' information related to health status, social, environmental, and medication risks, which helps health plans improve the accuracy of such data and optimize care for the health plan member. In the Clinical Solutions business, the Company focuses on providing onsite clinical services, COVID-19 symptom screening and testing, vaccine studies, lab processing services, and decentralized clinical trials.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation—The consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) and include the accounts of Mercury Parent, its consolidated and wholly owned subsidiaries, and its affiliates.

Affiliated entities operate in states that have statutory requirements regarding legal ownership of operating entities by a licensed medical practitioner. Accordingly, each affiliate entity has a contractual relationship with the Company whereby the Company provides management and other services for these affiliates. The Company has entered into license, service, and redemption agreements with the affiliates and the members of the affiliates. The Company may terminate the license, service, or employment agreement with or without cause upon written notice to the affiliated entity and/or member subject to certain time requirements, generally less than 90 days. Upon termination, the member shall surrender the stock and the status of the physician as a member shall be deemed to have terminated and shall have no further ownership in the Company. The surrender of the stock by the member will be exchanged for a nominal amount as specified in the redemption agreement. As such and in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 810-10-05, *Consolidation of Entities Controlled by Contract*, the affiliated entities are being presented on a consolidated

basis as the Company meets the requirements to consolidate, specifically the controlling financial interest provisions.

All intercompany accounts and transactions, including those between the Company and its subsidiaries and the affiliated entities, are eliminated in consolidation.

Covid-19 Pandemic— In December 2019, a novel strain of coronavirus ("COVID-19") was identified and the disease has since spread across the world, including the United States. In March 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic. The outbreak of the pandemic affected the Company's Clinical Care business in that many clients requested that Matrix pause in home CHA visits in early 2020. As a result of this request from customers, the Company developed a Telehealth product that allowed Matrix to perform CHA visits remotely. In 2021 the Clinical Care business made a strong recovery in the fact that Matrix clinicians were allowed to perform services in the home resulting in increased home assessment volumes by 21.5%.

In 2020, the Company launched its Clinical Solutions business unit in response to the COVID-19 pandemic. Clinical Solutions service offerings include Onsite clinical services, COVID-19 screening and testing, vaccine administration, lab processing and clinical trials. During 2020, the Clinical Solutions business performance more than offset the adverse effect to the Clinical Care business. In 2021 the Clinical Solutions business saw a decline in overall revenue from 2020 of $67.8 million mainly from the decline of screening and testing as the COVID-19 pandemic began to subside.

The full extent to which the COVID-19 outbreak will impact the Company's business moving forward, including results of operations, financial condition and cash flows will depend on future developments that are highly uncertain, including new information that may emerge concerning COVID-19 and the actions to contain it or treat its impact and the economic impact on local, regional, national, and international markets. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted into law. As part of the CARES Act, the Company is able to defer $7.2 million of the employers' share of Social Security tax for up to two years, and had the interest limitation increased from 30% to 50% allowing a greater interest tax deduction. Of the $7.2 million, the Company paid $3.6 million during the year ended December 31, 2021 and the remaining $3.6 million is recorded within "Accrued liabilities" on the consolidated balance sheet as of December 31, 2021. Due to the re-allocation of resources and response to this public health crisis, the Company did not take any loans under the Paycheck Protection Program. With the approval and release of COVID-19 vaccines for emergency use in December 2020, vaccine services ramped up while testing services declined until Q4 when the Omicron variant began rapidly spreading. As the COVID-19 pandemic continues to evolve, the company has focused on establishing contracts for the Clinical Solutions business related to non-COVID-19 service offerings such as on-site clinics and expansion of clinical trials.

Revenue Recognition—The Company recognizes revenue when it satisfies a performance obligation in an amount reflecting the consideration to which it expects to be entitled. The Company applies a five-step approach in determining the amount and timing of revenue to be recognized: (1) identifying the contract with a customer; (2) identifying the performance obligations in the contract; (3) determining the transaction price; (4) allocating the transaction price to the performance obligations in the contract; and (5) recognizing revenue when the performance obligation is satisfied.

The Company's revenue is generated from the performance of CHAs (see Note 1) and, to a lesser extent, other services related to gathering, monitoring, and assessing information related to health plan members' health and health care activities. The Company also generates revenue from its newly created line of business, Clinical Solutions services, which includes various services such as clinical support, COVID-19 tests, vaccine administration, lab processing services, and decentralized clinical trials.

CHAs are performed subject to customer contracts and are conducted either at a health plan members' home, a skilled nursing facility (SNF), or telephonically. These delivery mechanisms are subject to different economic factors (e.g., the efficiency associated with conducting CHAs for multiple health plan members) and different average revenues and fulfillment costs.

Clinical Solutions services are performed subject to customer contracts and are conducted on site or in a mobile clinic setting. The Company's revenue is derived from access to clinical staff for the purposes of screening, testing, and onsite clinical support. For the clinical trial service offerings, revenue is earned from access to clinical staff and mobile clinics. Vaccine service contracts derive revenue based upon access to mobile clinics, and clinicians, or on a per dose basis. The Company's COVID-19 RT-PCR, Alpha-1 Antitrypsin Deficiency and other Clinical Solutions tests (Lab Testing) are performed subject to customer contracts and are conducted by the Company's CLIA-certified and CAP-accredited laboratory, which was purchased in 2020.

Revenues are recognized over time and are disaggregated as follows (in millions):

	Years Ended December 31,		
	2021	2020	2019
Clinical care (home/SNF/mobile assessments, home/mobile quality visits)	$ 236.8	$ 185.3	$ 275.4
Clinical solutions (on-site clinical support, Covid testing and tracing, vaccine study and administration, lab processing, clinical trials)	161.5	229.3	0.0
	$ 398.3	$ 414.6	$ 275.4

Clinical Care—The performance obligation identified in the CHA-related customer contracts is the performance of a completed assessment as part of a series. The Company recognizes revenues for the completion of CHAs over time using cost-based input methods, in which judgment is required to evaluate assumptions including the amount of net contract revenues and the total estimated costs to determine the Company's progress toward contract completion and to calculate the corresponding amount of revenue to recognize. The Company believes that this method provides a realistic depiction of the transfer of services to the customer.

Payment is typically due from the customer upon delivery of the CHA results. As billing occurs after performance obligations have been satisfied, there are no contract liability balances, and contract asset balances arise from accounts receivable and revenue recognized in advance of billing. Such amounts are reflected as "Accounts receivable—net" in the accompanying consolidated balance sheet.

Some customer contracts provide for variable service-level agreement bonuses and/or rebates that are tied to certain performance criteria and are settled at the end of the contract period. Because such amounts are immaterial and are not estimable, such amounts are constrained at the onset of the contract until such time that payment becomes probable. Probability of payment is based on, among other factors, the Company's historical experience.

The aggregate amount of the transaction price allocated to performance obligations that are partially unsatisfied at December 31, 2021, relates to CHAs that are in process at year-end. The aggregate amount of revenue yet to be billed for in-process CHAs was immaterial at December 31, 2021 and 2020 and is expected to be billed within one to two months after year-end.

Costs to obtain a contract consist of commissions and are recognized as the related revenues are recognized over the term of the related contract. Such amounts are immaterial.

Clinical Solutions—The performance obligation is providing clinical solutions, and clinical trials through the Company's clinicians and mobile units directly at the customer's location of choice. The Company's recognition of revenue for these services are based on clinical hours incurred and contractually agreed upon rates for those clinical hours. In certain vaccine related contracts the performance obligation is to administer vaccine doses in which revenue is derived on a per dose basis. The Company has elected the "right to invoice" practical expedient which allows the Company to recognize as revenue consideration in the amount to which the entity has a right to invoice. The Company elected this practical expedient because the Company has a right to consideration from its customer in an amount that corresponds directly with the value to the customer of the Company's performance completed to date. There are no contract liability and contract asset balances. Commission expense related to revenue is expensed as incurred because the associated amortization period is less than one year.

Lab Testing contracts are typically in the form of laboratory services agreements, under which statements of work are made by customers. The performance obligation identified is to provide one integrated service of standing ready to process testing samples over the contract's term. No substantial termination penalties exist, and contract terms vary from month-to-month to six months. The stand ready performance obligation will be treated as a series of distinct daily laboratory testing sample processing services and the Company uses a time-based measure of progress to recognize revenue. Certain contracts contain fixed consideration in the form of monthly minimums. The Company recognizes fixed consideration as revenue in its Lab Testing contracts over the contract term using days elapsed. Variable consideration in lab contracts typically relate to number of lab tests performed and often include volume-based discounts. The Company determined that variable consideration in its Lab Testing contracts meets the criteria of ASC 606-10-32-40(a) and 606-10-32-40(b) to be recognized as revenue in the period in which the lab tests are performed. There are no contract liability and contract asset balances.

In certain Lab Testing contracts, the Company purchases supplies from the customer, which are subsequently used in processing the customer's testing samples and are ultimately reimbursed by the customer at cost. The Company determined that the customer does not transfer a distinct good or service to the Company. The Company accounts for consideration payable to the customer as a reduction of the transaction price and, therefore, of revenue. As such, revenue for reimbursed supplies used in customer testing, net of costs incurred, is always zero.

Concentration of Credit Risk—For the year ended December 31, 2021, two customers were individually greater than 10% of the Company's net revenues, and these two customers combined made up approximately 35% of net revenues. Accounts receivable from these two customers were approximately 15% of total accounts receivable at December 31, 2021. For the year ended December 31, 2020, four customers were individually greater than 10% of the Company's net revenues, and these four customers combined made up approximately 68% of net revenues. Accounts receivable from these four customers were approximately 27% of total accounts receivable at December 31, 2020. For the year ended December 31, 2019, there were two customers individually greater than 10%, and these two customers made up approximately 57% of net revenues, respectively. Accounts receivable from these two customers were approximately 39% of total accounts receivable at December 31, 2019.

Use of Estimates—The preparation of consolidated financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual events and results could materially differ from those assumptions and estimates. The most significant assumptions and estimates underlying these consolidated financial statements and the accompanying notes involve the recognition of revenues and receivables, allowances for contractual discounts and unbillable services, impairment of goodwill and other long-lived assets, accounting for income taxes, insurance reserves, fair value estimates, and share-based payments.

Cash and Cash Equivalents—The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents are maintained at financial institutions, and at times, balances may exceed federally insured limits. At December 31, 2021 and 2020, the Company has $57.6 million and $69.5 million, respectively, of interest-bearing and non-interest-bearing cash balances with three financial institutions that exceed federally insured limits.

Accounts Receivable and Sales Allowance—The Company records accounts receivable amounts at the contractual amount, less an allowance for unbillable services. The Company maintains an allowance at an amount it estimates to be sufficient to cover the risk that services will not be able to be billed and collected. The Company regularly evaluates its accounts receivable and reassesses its sales allowance based on updated information.

Sales allowance consists of the following (in millions):

Balance at January 1, 2019	$ 2,310
Provisions	1,304
Write-offs	(2,062)
Balance at December 31, 2019	$ 1,552
Balance at January 1, 2020	$ 1,552
Provisions	903
Write-offs	(1,335)
Balance at December 31, 2020	$ 1,120
Balance at January 1, 2021	$ 1,120
Provisions	1,105
Write-offs	(1,060)
Balance at December 31, 2021	$ 1,165

Property and Equipment—Property and equipment are recorded at cost, less accumulated depreciation, and are depreciated using the straight-line method over the following estimated useful lives of the related assets:

Computer applications	3 years
Computer equipment	3 years
Office equipment	5 years
Furniture and fixtures	Lease term or 5 years
Leasehold improvements	Lease term or 5 years
Vehicles and accessories	Lease term or 6 years
Medical equipment	Lease term or 5 years

Expenditures for repairs and maintenance are charged to expense as incurred. Expenditures for major renewals and betterments, which extend the useful lives of existing equipment, are capitalized. For items that are disposed, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the consolidated statements of operations.

The Company evaluates the carrying amount of its long-lived assets whenever changes in circumstances or events indicate that the value of such assets may not be fully recoverable. Long-lived assets include, for example, property and equipment and identifiable intangible assets. An impairment loss is recorded when the sum of the undiscounted future cash flows is less than the carrying amount of the asset and is measured as the amount by which the carrying amount of the asset exceeds its fair value.

The Company recorded fixed asset impairment charges of $0.3 million, $0, and $2.4 million for the years ended December 31, 2021, 2020, and 2019, respectively. The amounts are included in "Asset impairment charges" in the consolidated statements of operations. See Note 4.

Software Development Costs—The Company capitalizes certain development costs incurred in connection with its internal-use software in accordance with ASC 350-40, *Internal-Use Software*. The costs incurred in the preliminary stages of development are expensed as incurred. Once an application has reached the development stage, internal and external costs, if direct and incremental, are capitalized until the software is substantially complete and ready for its intended use. Capitalization ceases upon

completion of all substantial testing. Internal-use software is included as a component of property and equipment, and amortization begins when the computer software is ready for its intended use. Internal-use software is amortized on a straight-line basis over the estimated useful lives of the related software applications, which are generally three years.

For the years ended December 31, 2021, 2020 and 2019, $2.7 million, $2.2 million, and $7.2 million, respectively, were capitalized as internally developed software, which is a component of computer software included in property and equipment.

Goodwill—Goodwill represents the excess of the purchase price over the fair value of tangible net assets of acquired businesses after amounts are allocated to other intangible assets.

The Company evaluates goodwill for impairment on an annual basis as of the first day of the fourth quarter of each calendar year-end and on an interim basis should events and circumstances warrant. To test for impairment, the Company first performs a qualitative assessment of relevant circumstances and events to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying value, including goodwill. If this qualitative assessment indicates it is more likely than not the estimated fair value of a reporting unit exceeds its carrying value, no further analysis is required and goodwill is not impaired. Otherwise, the Company performs a quantitative goodwill impairment test to determine if goodwill is impaired. The quantitative test compares the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds the carrying value of the net assets associated with that unit, goodwill is not considered impaired. If the carrying value of the net assets associated with the reporting unit exceeds the fair value of the reporting unit, goodwill is considered impaired and will be determined as the amount by which the reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. Determining the fair value of the Company's reporting units is subjective in nature and involves the use of significant estimates and assumptions, including projected net cash flows, discount, and long-term growth rates. The Company determines the fair value of its reporting units based on an income approach, whereby the fair value of the reporting unit is derived from the present value of estimated future cash flows. The assumptions about estimated cash flows include factors such as future revenue, gross profit, operating expenses, and industry trends. The Company considers historical rates and current market conditions when determining the discount and long-term growth rates to use in its analysis. The Company considers other valuation methods, such as the cost approach or market approach, if it is determined that these methods provide a more representative approximation of fair value. Changes in these estimates based on evolving economic conditions or business strategies could result in material impairment charges in future periods. The Company bases its fair value estimates on assumptions it believes to be reasonable. Actual results may differ from those estimates.

Due to the start of the Company's new Clinical Solutions business, the Company re-evaluated its reporting units and determined that discrete financial information was available to the Chief Operating Decision Maker and determined that it met the criteria for two separate reporting units starting October 1, 2020. The Clinical Care reporting unit consists of CHAs, whereby the Company helps health plans optimize care for members. The Clinical Solutions reporting unit consists of onsite clinical services, COVID-19 testing, vaccine studies and lab processing services. The Company's existing goodwill was allocated to the reporting units based on their relative fair value.

The Company recorded goodwill impairment charges of $110.3 million, $0, and $14.1 million for the years ended December 31, 2021, 2020, and 2019, respectively. The goodwill impairment charge in 2021 was recorded to the Clinical Solutions reporting unit. The goodwill impairment charge in 2019 was recorded to the Clinical Care reporting unit. The amounts are included in "Asset impairment charges" in the consolidated statements of operations. See Note 4.

Other Intangible Assets—Other intangible assets consist of customer relationships, trade names and trademarks, and developed technologies acquired in business combination transactions. Intangible assets (excluding indefinite-lived assets) are amortized over their estimated useful lives using the straight-line method.

In accordance with ASC 360-10-35, *Impairment or Disposal of Long-Lived Assets*, the Company evaluates the carrying amount of its long-lived assets whenever changes in circumstances or events indicate that the value of such assets may not be fully recoverable. Long-lived assets include, for example, property and equipment and identifiable intangible assets. An impairment loss is recorded when the sum of the undiscounted future cash flows is less than the carrying amount of the asset and is measured as the amount by which the carrying amount of the asset exceeds its fair value.

The Company recorded long-lived intangible asset impairment charges of $0, $0, and $38.6 million for the years ended December 31, 2021, 2020, and 2019, respectively. The amounts are included in "Asset impairment charges" in the consolidated statements of operations. See Note 4.

Fair Value Measurements—The Company applies fair value accounting for assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a recurring or nonrecurring basis. The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date.

The accounting framework for determining fair value includes a hierarchy for ranking the quality and reliability of the information used to measure fair value, which enables the reader of the consolidated financial statements to assess the inputs used to develop those measurements. The fair value hierarchy consists of three tiers as follows: Level 1, defined as quoted market prices in active markets for identical assets or liabilities; Level 2, defined as inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, model-based valuation techniques for which all significant assumptions are observable in the market, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and Level 3, defined as unobservable inputs that are not corroborated by market data. The Company applied Level 3 inputs to measure the fair value of long-lived assets that were impaired for the years ended December 31, 2021 and 2019. See Note 4. The Company also applied Level 3 inputs to measure the fair value of contingent consideration and intangible assets arising from the Biocerna acquisition. See Note 3.

The fair values of cash, accounts receivable, trade accounts payable, capital expenditures payable, and certain other current assets and accrued expenses approximate carrying values because of their short-term nature. Assets and liabilities recorded at fair value on a recurring basis include cash equivalent money market funds and contingent consideration arising from the Biocerna acquisition. The carrying value of long-term debt (see Note 8)

includes an amount recorded as debt discount that reduces the unpaid principal balance of the debt to an amount that approximated fair value at December 31, 2021 and 2020. Interest on such debt is based on variable rates, which approximate borrowing rates currently available to the Company for long-term borrowings with similar terms and variable interest rates. Cash equivalent money market funds (Level 1) were $18.9 million and $43.3 million as of December 31, 2021 and 2020, respectively. Contingent consideration arising from the Biocerna acquisition was $1.7 million as of the acquisition date and December 31, 2020, respectively, and $0 as of December 31, 2021.

Leases—In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU No. 2016-02 requires lessees to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Under ASU No. 2016-02, a lessee is required to recognize assets and liabilities for leases with terms of more than 12 months. Lessor accounting remains substantially similar to current GAAP. In addition, disclosures of leasing activities are expanded to include qualitative along with specific quantitative information. The Company adopted the standard beginning January 1, 2020 using the optional transition method prescribed by ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*, whereby the Company recognized a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. See *Recently Adopted Accounting Pronouncements*.

To determine if a contract is or contains a lease, the Company considers whether (1) explicitly or implicitly identified assets have been deployed in the contract and (2) the Company obtains substantially all of the economic benefits from the use of that underlying asset and direct how and for what purpose the asset is used during the term of the contract. If the Company determines a contract is, or contains, a lease, the Company assesses whether the contract contains multiple lease components. The Company considers a lease component to be separate from other lease components in the contract if (a) it can benefit from the right of use either on its own or together with other resources that are readily available to the Company and (b) the right of use is neither highly dependent on nor highly interrelated with the other right(s) to use underlying assets in the contract. The Company has elected to account for the lease and non-lease components as a single lease component. Leases are classified as either operating leases or finance leases, as appropriate. Leases with an initial term of 12 months or less are not recorded on the consolidated balance sheet.

Operating Leases

The Company leases office space and automobiles under various operating lease agreements, some of which contain escalation clauses. The Company recognizes a lease liability and right-of-use asset for leases classified as operating leases in the consolidated balance sheet upon lease commencement. The lease liability represents the present value of the remaining lease payments. For all leases the Company is a party to, the discount rate implicit in the lease was not readily determinable. Therefore, the Company used its incremental borrowing rate for each lease to determine the present value of the lease. The Company determined the incremental borrowing rate applicable to each lease through a model that represents the rate of interest the Company would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. The incremental borrowing rate was applied to each lease based on the remaining term of the lease. For operating leases with a term of 12 months or less, the Company elected the short-term exception and has not recorded these leases on the consolidated balance sheet.

The Company recorded ROU operating lease asset impairment charges of $0.6 million, $0, and $0 for the years ended December 31, 2021, 2020, and 2019, respectively. The amounts are included in "Asset impairment charges" in the consolidated statements of operations. See Note 4.

Finance Leases

The Company capitalizes assets acquired under finance leases at lease commencement and amortizes them to depreciation expense over the lesser of the useful life of the asset or the lease term on a straight-line basis. The Company records the present value of the related lease payments as a lease liability. Finance lease liabilities relate primarily to equipment and mobile clinics.

The Company recorded ROU finance lease asset impairment charges of $0.2 million, $0, and $0 for the years ended December 31, 2021, 2020, and 2019, respectively. The amounts are included in "Asset impairment charges" in the consolidated statements of operations. See Note 4.

Debt Issuance Costs—Debt issuance costs are deferred and amortized to interest expense using the effective interest method over the term of the related debt. For the years ended December 31, 2021, 2020, and 2019, the Company recognized interest expense of $1.4 million, $1.4 million, and $1.4 million, respectively, from the amortization of debt issuance costs. Unamortized debt issuance costs are a reduction of current and long-term debt.

Defined Contribution Plans—The Company maintains defined contribution plans (the "Plans") for the benefit of eligible employees under the provision of Section 401(k) of the U.S. Internal Revenue Code (IRC). The Company provides matching contributions that vest over three years. Unvested matching contributions are forfeitable upon employee termination. Employee contributions are fully vested and nonforfeitable. The assets of the Plans are held separately from those of the Company and are independently managed and administered. The Company's contributions to the Plans were $1.1 million, $1.3 million, and $1.2 million for the years ended December 31, 2021, 2020, and 2019, respectively.

Income Taxes—The Company accounts for income taxes under an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in its consolidated financial statements or tax returns. In estimating future tax consequences, the Company generally considers all expected future events other than enactments of changes in the tax law or rates.

While Mercury Parent is a pass-through entity, affiliates and subsidiaries in these consolidated financial statements are taxable entities, giving rise to the tax provisions contained in these consolidated financial statements.

The Company reviews its filing positions for all open tax years in all U.S. federal and state jurisdictions where it is required to file for uncertain tax positions. The Company recognizes a liability for each uncertain tax position at the amount estimated to be required to settle the issue. The Company's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. The Company recognized expense of $0.1 million, $0.1 million, and $0.2 million, during the years ended December 31, 2021, 2020, and 2019 respectively, related to uncertain tax positions.

Equity-Based Compensation—Equity-based compensation cost is measured at the grant date based on the fair value of the award and the Company accounts for forfeitures as they occur.

The Company uses an option-pricing model to determine the fair value of stock-based awards. The assumption for expected term was determined based on management's estimate of a time to liquidation of approximately two years. A liquidation event may take place as an initial public offering, recapitalization, sale to a strategic buyer, or other transaction. The risk-free interest rate is based on the U.S. Treasury rates at the grant date with maturity dates approximately equal to the expected term at the grant date. The historical volatility of a representative group of peer companies' stock is used as the basis for the volatility assumption.

Service Expenses— The Company accounts for services expenses as incurred. Service expenses include direct and indirect costs, except for facility and transaction-related costs. Facility and transaction-related costs are included in "General and administrative" in the consolidated statements of operations.

Related-Party Transactions

Clinical Solutions— During 2021, the Company performed clinical services for one related party. The Company earned $0.2 million in revenue from these services. During 2020, the Company performed environmental assessments and clinical services for two related parties. The Company earned $3.4 million in revenue from these services. The Company also utilized clinicians from one related party, for which the Company incurred $0.03 million in expenses. The expenses were recorded to "Services expenses" in the consolidation statements of operations. There were no related party revenues and expenses for Clinical Solutions for the year ended December 31, 2019.

Management Fees—In 2016, the Company entered into a management services agreement with an affiliate of its majority member. As part of the agreement, the Company is also obligated to pay to its members an ongoing management fee that equals a combined 4% of adjusted EBITDA, as such term is defined in the agreement, to be distributed based upon each member's relative share of ownership.

The Company recognized management fee expense of $2.8 million, $4.9 million, and $2.2 million for the years ended December 31, 2021, 2020, and 2019, respectively. Included in the management fee expense for the year ended December 31, 2020, are transaction fees of $0.3 million paid to related parties for the Biocerna acquisition. There were no acquisition-related transaction fees included in management fee expense for the years ended December 31, 2021 and 2019, respectively.

Additionally, the Company incurred $0.3 million, $3.1 million and $0.6 million in consulting fees and related expenses for the CEO for the years ended December 31, 2021, 2020, and 2019, respectively. The Company also incurred travel expenses and related fees for board members and owners of $0.3 million, $0.4 million, and $0.1 million for the years ended December 31, 2021, 2020, and 2019, respectively. The Company incurred cost of $0.6 million to majority shareholders for reimbursements of legal fees incurred related to the HealthFair litigation for the year ended December 31, 2021.

Leases—The Company leases one of its properties from the former owner of HealthFair. For the year ended December 31, 2019, the Company paid $0.3 million in rent and taxes related to this property. This lease agreement was terminated as of December 31, 2019.

Recently Adopted Accounting Pronouncements— In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU No. 2016-02 requires lessees to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Under ASU No. 2016-02, a lessee is required to recognize assets and liabilities for leases with terms of more than 12 months. Lessor accounting remains substantially similar to current GAAP. In addition, disclosures of leasing activities are expanded to include qualitative along with specific quantitative information.

The Company adopted the standard beginning January 1, 2020 using the optional transition method prescribed by ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*, whereby the Company recognized a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Under ASU 2016-02, the Company recognized a right-of-use asset and a right-of-use liability for leases classified as operating leases in the consolidated balance sheet. The Company has applied the package of practical expedients when scoping and identifying leases and elected not to reassess the following: (i) whether any expired or existing contracts are or contain leases; (ii) the lease classification for any expired or existing leases; and (iii) initial direct costs for any existing leases. The adoption of the standard did not have a material impact on the accounting for finance (capital) leases.

As of January 1, 2020, the Company recognized a lease liability for its operating leases of approximately $22.2 million and a corresponding right-of-use asset of $20.8 million in its consolidated balance sheet. The difference of $1.4 million reflects a reduction to the right-of-use asset for existing deferred rent balances, which was reversed upon adoption of the new standard. The Company did not recognize a material cumulative effect adjustment to retained earnings as of January 1, 2020 and the adoption of the standard did not have a material impact on the consolidated statement of operations or consolidated statement of cash flows.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820)* to modify the disclosure requirements on fair value measurements. The Company adopted this guidance when it became effective on January 1, 2020. The adoption of this guidance did not have a material impact on the Company's disclosures.

Recently Issued Accounting Pronouncements Not Yet Adopted—In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326)* and subsequently issued further clarifications and amendments which changed the incurred loss impairment methodology under current GAAP with a methodology that reflects a current expected credit loss ("CECL") measurement to estimate the allowance for credit losses over the contractual life of the financial assets and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. There are no prescribed methods to develop an estimate of CECL. The CECL model, among others, applies to trade receivables and contract assets that result from revenue transactions, debt instruments except available for sale debt securities and loan commitments. The guidance is effective for fiscal years beginning after December 15, 2022, with early adoption permitted. The Company will adopt the amendments January 1, 2023. The Company is currently evaluating the impact of this standard.

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. The amendments simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740 and clarifying other areas of existing guidance. The amendments are effective for public entities for fiscal years beginning after December 15, 2020. It is effective for all other entities for

fiscal years beginning after December 15, 2022. The Company will adopt the amendments January 1, 2023. The Company is currently evaluating the impact of this standard.

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848): *Facilitation of the Effects of Reference Rate Reform on Financial Reporting* (ASU 2020-04). ASU 2020-04 provides optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. The amendments in ASU 2020-04 provide optional expedients and exceptions for applying generally accepted accounting principles to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. ASU 2020-04 is effective for all entities beginning on March 12, 2020 and may be applied prospectively through December 31, 2022. The Company will evaluate transactions or contract modifications occurring as a result of reference rate reform and determine whether to apply the optional guidance on an ongoing basis. As of December 31, 2021, there was no impact to the Company's consolidated financial statements.

Subsequent Events—The Company has evaluated all subsequent events that occurred after the consolidated balance sheet date through February 25, 2022, which represents the date the consolidated financial statements were available to be issued. The Company is not aware of any significant events that have not been disclosed herein that will have an impact on these consolidated financial statements.

3. ACQUISITIONS

Biocerna— On October 2, 2020, the Company entered into an agreement to purchase all of the issued and outstanding limited liability interests ("Unit Purchase Agreement") of Biocerna LLC (Biocerna).

Pursuant to the Biocerna Unit Purchase Agreement governing the transaction, the Company acquired all the assets and liabilities of Biocerna for an aggregate purchase price of $20.4 million.

Purchase Consideration		**Amount**
Cash (including Escrow)	$	17.3
Seller Expenses		1.4
Contingent Consideration		1.7
Total purchase price	$	20.4

The Company has accounted for this transaction as a purchase under ASC 805, *Business Combinations*. Accordingly, the purchase price has been allocated to the assets acquired and liabilities assumed based on their respective fair values at the date of the acquisition. The excess of the purchase price over the fair value of the net assets acquired was recorded as goodwill.

As part of the transaction, the Company incurred acquisition-related costs of $0.8 million, consisting of consulting, legal, and accounting services. Of the $0.8 million, $0.3 million is included within "Management fees", and the remaining $0.5 million is included within "General and administrative" within the consolidated statements of operations for the year ended December 31, 2020.

The contingent consideration arrangement requires the Company to pay the selling shareholders of Biocerna $2.0 million if the Company earns non-COVID revenue of more

than $8.9 million, and up to $6.0 million in payments dependent on total Company revenue during the earn-out period. The earn-out period is one year from the date of acquisition. The potential undiscounted amount of all future payments that the Company could be required to make under the contingent consideration arrangement is between $0 and $8.0 million. The contingent consideration was measured and recorded at fair value of $1.7 million as of the acquisition date. As the operational goals were not met during the earn-out period, the contingent consideration accrual was released during the year ended December 31, 2021. The $1.7 million was recorded to "(Loss) reduction in contingency" in the consolidated statements of operations for the year ended December 31, 2021.

The goodwill of $13.6 million resulting from this transaction is attributable to the synergies gained with the Company's existing business. The Biocerna goodwill is attributable to the Clinical Solutions reporting unit. The goodwill recognized is expected to be $12.5 million for tax purposes. As the Company has released the $1.7 million of the contingent liability tax will never obtain basis, resulting in a favorable permanent book tax difference in the current year.

The following table summarizes the preliminary allocation of the total purchase consideration at the date of the acquisition based on current estimates of the fair value of assets acquired and liabilities assumed:

Cash and cash equivalents	$ 0.6
Accounts receivable	2.6
Inventory	1.7
Finance lease ROU assets	0.1
Operating lease ROU assets	0.2
Property and equipment, net	0.7
Other assets	0.1
Intangible assets	3.6
Goodwill	13.6
Accounts payable	(1.5)
Accrued expenses	(0.5)
Deferred revenue	(0.5)
Lease liabilities	(0.3)
	$ 20.4

Intangible assets in the table above include proprietary lab tests of $0.7 million, customer relationships of $2.8 million, and trademarks of $0.1 million that will be amortized over their useful lives of 3 years, 2 years, and 1 year, respectively.

4. IMPAIRMENT OF LONG-LIVED ASSETS

The Company reviews the carrying value of long-lived assets when indicators of potential impairment exist. Such indicators include, but are not limited to, significant underperformance relative to expected, historical or projected future operating results; significant negative industry or economic trends; and significant changes in laws and regulations.

2021 Impairment

The Company's Clinical Solutions business is relatively new and, while it was successful during the initial stages of the COVID-19 pandemic, revenue has trended down in recent periods. The decline in revenue was attributed to COVID-19 vaccine, testing and screening services, which decreased as the pandemic slowed down. Due to the continued decline in revenue, coupled with our assessment of market opportunities in the Clinical Solutions business as a whole, the Company assessed whether events or circumstances changed that would more likely than not reduce the fair value of a reporting unit below its carrying amount. As such, the Company performed an impairment analysis and recoverability test during the fourth quarter of 2021, which ultimately concluded long-lived assets of the Clinical Solutions reporting unit were impaired. For the year ended December 31, 2021, the Company recorded total asset impairment charges of $111.4 million to Clinical Solutions. Of the $111.4 million, $0.8 million was recorded to ROU assets, $0.3 million was recorded to fixed assets, and $110.3 million was recorded to Goodwill. The following table sets forth the carrying values and impairment charges of the affected assets as of the impairment date of December 31, 2021:

	Carrying Value	Impairment
PP&E and ROU assets	$ 5.7	$ (1.1)
Goodwill	192.2	(110.3)
Total	$ 197.9	$ (111.4)

The Company determined the Clinical Solutions business is the lowest level of separately identifiable cash flows and constitutes the asset group to be tested for impairment. The Company estimated the fair value of the long-lived assets based on expected future cash flows using Level 3 inputs.

2019 Impairment

Given the continued underperformance and overcapacity of the Company's HealthFair business, management determined impairment indicators were present as of October 1, 2019. As such, the Company performed an impairment analysis and recoverability test during the fourth quarter of 2019, which ultimately concluded the long-lived assets of the HealthFair business were impaired.

For the year ended December 31, 2019, the Company recorded total asset impairment charges related to the HealthFair and LP businesses of $55.1 million. The following table sets forth the carrying values and impairment charges of the affected assets as of the impairment date of October 1, 2019:

	Carrying Value	Impairment
Customer relationships (HealthFair)	$ 44.8	$ (37.3)
Customer relationships (LP)	1.3	(1.3)
Vehicles (HealthFair)	3.2	(1.0)
Other PP&E (HealthFair)	1.7	(1.4)
Goodwill	95.3	(14.1)
Total	$ 146.3	$ (55.1)

The Company determined the HealthFair business is the lowest level of separately identifiable cash flows and constitutes the asset group to be tested for impairment. Based on recent sales transactions, the Company estimated the fair value of the vehicles to be approximately $2.1 million. The Company wrote the vehicles down to the estimated fair value and then allocated the remaining impairment among the long-lived assets of the group. The depreciable life of the remaining HealthFair customer list was also reduced to seven years during the fourth quarter of 2019. Effective January 1, 2020, the Company adjusted the remaining depreciable life of the HealthFair customer relationships to 12 months. No impairment charges were recorded for the year ended December 31, 2020 and 2021.

5. PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2021 and 2020, consist of the following (in millions):

	December 31, 2021	December 31, 2020
Computer equipment	$ 6.7	$ 6.8
Computer software	32.6	36.5
Furniture and fixtures	0.7	0.8
Office equipment	0.1	0.1
Leasehold improvements	0.9	0.9
Medical equipment	1.4	1.1
Vehicles	0.4	0.1
Work in process	4.0	0.9
	46.8	47.2
Accumulated depreciation	(36.1)	(35.1)
Property and equipment—net	$ 10.7	$ 12.1

Depreciation expense on property and equipment, including amortization of finance leases, was $7.2 million, $10.0 million, and $11.3 million for the years ended December 31, 2021, 2020, and 2019, respectively. The amount of amortization of finance leases included in depreciation expense was $ 0.4 million, $0.4 million, and $0.5 million for the years ended December 31, 2021, 2020, and 2019, respectively. Accumulated depreciation for computer software is $29.0 million and $28.4 million as of December 31, 2021 and 2020, respectively. Impairment charges were $0.3 million, $0 million, and $2.5 million for the years ended December 31, 2021, 2020 and 2019, respectively. See Note 4.

6. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill of $338.1 million consists of $81.9 million related to Clinical Solutions and $256.2 million related to Clinical Care. Goodwill impairment charges were $110.3 million, $1.9 million and $0.0 million at Clinical Solutions for the years ended December 31, 2021, 2020 and 2019, respectively. Goodwill impairment charges were $0.0 million, $0.0 million, and $14.1 million at Clinical Care for the years ended December 31, 2021, 2020 and 2019, respectively. See Note 4.

In Q1 2020, the Company recorded a reclass of $0.4 million between goodwill and intangible assets resulting from a change in allocation of the 2019 impairment charge.

Goodwill consists of the following (in millions):

Balance at December 31, 2018	$ 448.5
Impairment losses	(14.1)
Balance at December 31, 2019	$ 434.4
2019 impairment adjustment in 2020	0.4
Acquisition	13.6
Balance at December 31, 2020	$ 448.4
Impairment loss	(110.3)
Acquisition measurement period adjustment	0.0
Balance at December 31, 2021	$ 338.1

Other intangible assets—net consist of the following (in millions):

	As of December 31, 2021			
	Gross Carrying Amount	Accumulated Amortization	Impairment	Net Carrying Value
Customer relationships	$ 200.4	$ (112.9)	$ -	$ 87.5
Developed technologies	48.2	(48.2)	-	-
Trade names and trademarks	31.5	(0.2)	-	31.3
Proprietary lab tests	0.7	(0.3)	-	0.4
	$ 280.8	$ (161.6)	$ -	$ 119.2

	As of December 31, 2020			
	Gross Carrying Amount	Accumulated Amortization	Impairment	Net Carrying Value
Customer relationships	$ 200.4	$ (93.5)	$ -	$ 106.9
Developed technologies	48.2	(43.8)	-	4.4
Trade names and trademarks	31.5	(0.1)	-	31.4
Proprietary lab tests	0.7	(0.1)	-	0.6
	$ 280.8	$ (137.5)	$ -	$ 143.3

At December 31, 2021, the remaining net book value of customer relationships and proprietary lab tests is expected to be amortized over a weighted-average period of 4.7 years and 1.8 years, respectively. Trade names and trademarks are indefinite-lived intangible assets and are not subject to amortization, except for trade names and trademarks acquired through historical acquisitions, which are amortized over a useful life of one year.

Other intangible assets are amortized using the straight-line method over the following useful lives:

	Useful Life
Customer relationships	1 to 10 years
Developed technologies	1 to 5 years
Proprietary lab tests	3 years

The Company recognized amortization expense related to other intangible assets of $24.1 million, $37.6 million, and $32.3 million for the years ended December 31, 2021, 2020, and 2019, respectively.

Estimated future amortization expense of the other intangible assets with finite lives is as follows for each of the fiscal years ending December 31 (in millions):

2022	$ 19.3
2023	18.2
2024	18.0
2025	18.0
2026	14.4
Total	$ 87.9

7. ACCRUED LIABILITIES

Accrued liabilities consist of the following (in millions):

	December 31, 2021	December 31, 2020
Salaries, payroll taxes, and benefits	$ 13.4	$ 16.1
Accrued bonuses	5.2	20.0
Accrued medical supplies	1.6	7.4
Consulting fees	7.8	1.9
Other accruals	13.9	13.6
Total accrued liabilities	$ 41.9	$ 59.0

8. LONG-TERM DEBT

Long-term debt consists of the following (in millions):

	December 31, 2021	December 31, 2020
Term loan	$ 318.4	$ 321.8
Unamortized debt issuance costs	(4.3)	(5.8)
Total term loan	314.1	316.0
Less current portion of long-term debt	1.9	1.9
Long-term debt—net of current portion	$ 312.2	$ 314.1

In 2018, the Company conducted a refinancing of its existing term and line of credit facilities, with its existing lenders. The revised credit facility agreement is with two national banks and provides for an initial term loan facility in the amount of $330 million and a revolving credit line of $20 million. The term loan bears interest at a rate of London InterBank Offered Rate (LIBOR) plus 4.5% (4.84% at December 31, 2021). Principal and interest payments are due and payable quarterly through the maturity date of February 16, 2025. The debt is collateralized by all the assets of the Company. The Company incurred debt issuance costs of $5.4 million which have been recorded as a direct reduction to the carrying value of the loan and are amortized over the life of the loan.

Total amortization of debt issuance costs was $1.4 million, $1.4 million, and $1.4 million for the years ended December 31, 2021, 2020, and 2019, respectively. As of December 31, 2021 and 2020, unamortized debt issuance costs were $4.3 million and $5.8 million, respectively. The revolving credit line has a variable interest rate that adjusts to the Company's secured net leverage ratio. The interest rate of the revolving credit line is LIBOR plus 4.25%. The unused portion of the revolving credit line is subject to a commitment fee rate up to 0.5%. Commitment fees incurred on the revolving credit line were $58 thousand, $71 thousand, and $101 thousand for the years ended December 31, 2021, 2020, and 2019, respectively.

The Company was in compliance with debt covenants as of December 31, 2021 and 2020.

Annual maturities of long-term debt for the years ending December 31 (in millions) are as follows:

2022	$ 3.3
2023	3.3
2024	3.3
2025	308.5
Total	$ 318.4

9. INCOME TAXES

The components of the Company's income tax provision are as follows (in millions):

	Year Ended December 31, 2021	2020	2019
Current:			
Federal	$ (0.9)	$ 9.0	$ 3.3
State—net of state tax credits	0.3	3.7	1.3
Total current	(0.6)	12.7	4.6
Deferred:			
Federal	(2.5)	(4.7)	(16.8)
State	(0.8)	(3.5)	(4.3)
Total deferred	(3.3)	(8.2)	(21.1)
Total income tax (benefit) expense	$ (3.9)	$ 4.5	$ (16.5)

A reconciliation of the provision for income taxes with the expected provision for income taxes computed by applying the federal statutory income tax rate of 21% to the net loss before provision for income taxes is as follows (in millions):

	Year Ended December 31, 2021	2020	2019
Federal income tax at statutory rate	$ (26.6)	$ 4.1	$ (18.0)
State income tax benefit—net of federal income tax effect	(5.4)	1.0	(4.7)
Change in blended rate	(0.5)	(1.1)	1.0
Research and development tax credits	(1.3)	(0.9)	(1.4)
Goodwill impairment	28.0	-	3.7
Non-deductible expenses	-	0.4	0.2
Change in uncertain tax positions	0.1	0.1	0.2
Change in valuation allowance	1.4	0.3	1.6
Mercury Parent, LLC equity compensation	0.5	0.6	0.4
Other—net	(0.1)	0.0	0.5
Total income tax (benefit) expense	$ (3.9)	$ 4.5	$ (16.5)

The Company has made an accounting policy election to first allocate goodwill impairment to goodwill for which there is no corresponding tax basis. As a result, the Company recorded a permanent tax difference of $28.0 million and $3.7 million for the years ended December 31, 2021 and 2019, respectively. There was no impairment in the year ended December 31, 2020.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's net deferred income taxes are as follows (in millions):

	December 31, 2021	December 31, 2020
Deferred tax assets:		
Accrued incentive compensation	$ 1.2	$ 5.1
Other reserves and accruals	2.0	3.6
Loss carryforwards	3.2	2.0
Credit carryforwards	6.2	5.1
Interest limitation	2.6	0.2
Lease liabilities	4.1	4.5
Total deferred tax assets	19.3	20.5
Deferred tax liabilities:		
Goodwill—tax amortization	(4.6)	(3.1)
Intangible assets	(20.7)	(26.5)
Fixed assets	(1.6)	(2.7)
Deferred financing costs	(0.3)	(0.3)
Right-of-use assets	(3.5)	(4.0)
Total deferred tax liabilities	(30.7)	(36.6)
Valuation allowance	(8.3)	(6.9)
Net deferred tax liabilities	$ (19.7)	$ (23.0)

At December 31, 2021, the Company has Arizona and California state research and development tax credits of $7.4 million available to offset future income taxes, if any, for those jurisdictions. The Arizona research and development tax credits will begin to expire in 2026. The California research and development tax credits may be carried forward indefinitely.

Deferred tax assets arise primarily because expenses have been recorded in historical financial statement periods that will not become taxable for income taxes until future years. The Company records valuation allowances to reduce the book value of the deferred tax assets to amounts that are estimated on a more likely than not basis to be realized. The valuation allowance increases of $1.4 million and $0.3 million for the years ended December 31, 2021 and 2020, respectively, relate to separate legal entities that operate at breakeven for tax purposes, state research and development credits, and state net operating losses. The valuation allowance was $8.3 million and $6.9 million as of December 31, 2021 and 2020, respectively.

The Company has gross federal and state net operating loss carryforwards of $10.4 million and $14.5 million, respectively, at December 31, 2021. Federal net operating loss carryforwards will begin to expire in 2027 while the state net operating losses will begin to expire in 2023. The Company has a gross interest limitation carryforward of $10.2 million under Section 163(j) for federal tax purposes at December 31, 2021. The Section 163(j) interest may be carried forward indefinitely.

Under IRC Section 382 ("Section 382"), the annual utilization of the Company's federal net operating loss carryforwards, state research and developmental credits, and federal IRC Section 163(j) interest expense carryforward may be limited. The Company has determined that the annual limitation did not affect net operating loss, research and development, or interest expense utilization in 2021.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted into law. The legislation contains a number of economic relief provisions in response to the COVID-19 pandemic, including the following tax related provisions; (1) ability to carryback tax losses five years for losses generated in tax year 2018 through 2020, (2) the ability for Corporations to elect to utilize the 2019 Adjusted Taxable Income and 50% limitation for IRC Section 163(j) purposes, (3) a technical correction to the definition of Qualified Leasehold Improvement Property, and (4) the ability to defer employer payroll taxes for the period of March 27 to December 31, 2020. As of December 31, 2021, the provisions reflected in the Company's income tax provision include the election to apply the 50% limitation for IRC Section 163(j) purposes and the ability to defer employer payroll taxes. As a result, the company recorded a deferred tax asset of $1.9 million as of December 31, 2020. During 2021, the Company paid half (or $950 thousand of the deferred tax asset) of its deferred employer share of payroll taxes. The Company expects to pay the remaining amount during the year ending December 31, 2022. All other provisions enacted do not materially impact the company.

With exceptions due to the generation and utilization of net operating losses or credits, as of December 31, 2021, the CCHN Group Holdings, Inc. and subsidiaries and the affiliated entities are no longer subject to federal or state examinations by taxing authorities for tax years before 2018 and 2017, respectively.

The Company expects no material amount of the unrecognized tax benefits to be recognized during the next 12 months. The Company's policy is to recognize interest and penalties accrued on unrecognized tax benefits as a component of income tax expense. The Company has accrued interest and penalties of $128 thousand. A reconciliation of the liability for unrecognized income tax benefits is as follows:

	December 31,	
	2021	**2020**
Unrecognized tax benefits—beginning of year	$ 2.0	$ 1.8
Increase related to prior-year tax positions	(0.1)	(0.0)
Increase related to current-year tax positions	0.3	0.3
Unrecognized tax benefits—end of year	$ 2.2	$ 2.1

10. MEMBERS' EQUITY

Capital Structure—At December 31, 2021, Mercury Parent had an authorized capital structure consisting of the following units:

- Common A units—353.5 million units authorized and outstanding, voting rights, liquidation preference of $1 per unit
- Common B units—24.2 million units authorized and outstanding, voting rights, liquidation preference of $1.267 per unit

- Series A units—39.1 million units authorized, no voting rights, participation in distributions in excess of $1 per common unit
- Series B units—18.2 million units authorized, no voting rights, participation in distributions in excess of $2 per common unit
- Series C units—14.8 million units authorized, no voting rights, participation in distributions in excess of $3 per common unit
- Series D units—15.9 million units authorized, no voting rights, participation in distributions in excess of $4 per common unit

For the year ended December 31, 2021, the Company had no capital contributions and did not repurchase any units.

For the year ended December 31, 2020, the Company had no capital contributions. During 2020, the Company repurchased 0.9 million Series A units, 0.5 million Series B units, 0.4 million Series C units and 0.4 million Series D units at fair value for an aggregate cost of $0.3 million.

For the year ended December 31, 2019, the Company issued an aggregate of 0.5 million Common A units to its members in exchange for proceeds of $0.5 million. In October 2019, the Company repurchased 3.8 million Series A units, 1.8 million Series B units, 1.4 million Series C units and 1.6 million Series D units at fair value for an aggregate cost of $0.4 million.

Equity-Based Compensation—On October 19, 2016, the Company's board of directors adopted a Value Unit Plan (the "Plan") for certain executives within the Company. The Plan provides for awarding of up to 39.1 million Series A units, 18.2 million Series B units, 14.8 million Series C units, and 15.9 million Series D units, with each series of units being nonvoting and vesting at a rate of 25% after the first-year anniversary of the date of grant and 1/36 of the remaining to be vested in each successive month following the first-year anniversary. Each of the units shall participate in distributions provided that minimum value thresholds are met as defined in the Plan. The company periodically repurchases vested units at fair value. The repurchased units are considered authorized and unissued. At December 31, 2021, there were 7.2 million of Series A units, 3.3 million of Series B units, 2.7 million of Series C units, and 2.9 million of Series D units available for issuance under the Plan.

The fair value of each Plan unit was established at the date of award based on an option-pricing model using the following assumptions:

	Years Ended December 31, 2020	Years Ended December 31, 2019
Risk-free interest rate	0.13 %	1.56 %
Expected term	2.0 years	2.0 years
Volatility	65.00 %	70.00 %

The risk-free interest rate was based on the U.S. Federal Reserve rate in effect as of the date of grant, which corresponds to the expected term of the award. The expected term was based on management's estimated time to a transaction event, such as a sale, initial

public offering, and recapitalization. The volatility was based on historical data for a group of peer companies for the expected term of the award.

The following is the activity for the awards for the years ended December 31, 2021, 2020, and 2019:

	Series A Units	Fair Value per Unit	Series B Units	Fair Value per Unit	Series C Units	Fair Value per Unit	Series D Units	Fair Value Per Unit
Awards outstanding at December 31, 2018	27,012,792	0.27	12,712,414	0.13	10,338,410	0.07	11,113,790	0.04
Awards granted	10,348,663	0.19	7,222,792	0.08	5,873,956	0.04	6,314,505	0.02
Awards forfeited	(6,615,810)	0.19	(3,490,721)	0.08	(2,838,840)	0.04	(3,051,753)	0.02
Awards repurchased	(3,832,417)	0.19	(1,782,520)	0.08	(1,449,639)	0.04	(1,558,362)	0.02
Awards outstanding at December 31, 2019	26,913,228	0.19	14,661,965	0.08	11,923,888	0.04	12,818,180	0.02
Awards granted	7,382,531	0.19	1,317,363	0.08	1,071,351	0.04	1,151,701	0.02
Awards forfeited	(883,924)	0.19	(272,558)	0.08	(221,671)	0.04	(238,283)	0.02
Awards repurchased	(870,474)	0.19	(461,079)	0.08	(374,966)	0.04	(403,097)	0.02
Awards outstanding at December 31, 2020	32,541,361	0.19	15,245,691	0.08	12,398,602	0.04	13,328,501	0.02
Awards granted	-	0.00	-	0.00	-	0.00	-	0.00
Awards forfeited	(695,267)	0.28	(336,981)	0.15	(274,051)	0.09	(294,605)	0.06
Awards repurchased	-	0.00	-	0.00	-	0.00	-	0.00
Awards outstanding at December 31, 2021	31,846,094	0.00	14,908,710	0.00	12,124,551	0.00	13,033,896	0.00
Awards vested at December 31, 2021	25,557,389	0.00	12,271,080	0.00	9,979,550	0.00	10,727,450	0.00

The Company issues the respective equity units upon reaching the vesting date. There were no unit awards granted during the year ended December 31, 2021. The grant-date fair value of all unit awards granted under the Plan during the years ended December 31, 2020 and 2019, was $1.6 million and $6.7 million, respectively. The fair value of shares vested during the year ended December 31, 2021 was $2.2 million. During the years ended December 31, 2021, 2020, and 2019, the Company recognized $1.8 million, $2.4 million, and $1.6 million, respectively, of compensation expense for these awards. All compensation expense is included in service expense in the consolidated statements of operations. Unrecognized compensation expense related to the Plan as of December 31, 2021 was $2.3 million, which is expected to be recognized over a weighted-average period of 1.6 years. All awards are classified as equity.

11. COMMITMENTS AND CONTINGENCIES

Leases— The Company leases office space and automobiles under various operating lease agreements, some of which contain escalation clauses. Lease expense for the years ended December 31, 2021, 2020, and 2019 was approximately $10.4 million, $9.3 million and $7.8 million, respectively. The Company also has finance leases for equipment and mobile clinics. All of the leases, other than those that may qualify for the short-term scope exception of 12 months or less, are recorded on the Company's consolidated balance sheet as of December 31, 2021. Many of the Company's lease agreements include options to extend the lease, which are not included in the minimum lease terms unless they are

reasonably certain to be exercised. There are no early termination penalties, residual value guarantees, restrictions or covenants imposed by the leases.

During the year ended December 31, 2020, the Company subleased its office space in Boston and received rental income of $25 thousand. There were no subleases for the years ended December 31, 2021 and 2019.

The components of lease cost were as follows (in millions):

	Year Ended December 31, 2021		Year Ended December 31, 2020	
Operating lease expense				
Fixed lease expense	$	7.1	$	7.3
Short-term lease expense		1.7		1.3
Variable lease expense		0.2		0.3
Impairment expense		0.6		-
Finance lease expense				
Amortization of leased assets		0.4		0.4
Interest on lease liabilities		0.2		0.2
Impairment expense		0.2		-
Total lease expense	$	10.4	$	9.5

Of the $10.4 million and $9.5 million in total lease expense for the years ended December 31, 2021 and 2020, respectively, $5.0 million and $5.6 million is recorded in "Service expense", $4.0 million and $3.3 million is recorded in "General and administrative", $0.4 million and $0.4 million is recorded in "Depreciation and amortization", $0.2 million and $0.2 million is recorded in "Interest expense-net and other expense", and $0.8 million is recorded in "Asset impairment charges" in the consolidated statements of operations. There was no ROU asset impairment expense for the year ended December 31, 2020.

A summary of the lease classification on the consolidated balance sheet follows (in millions):

	Year Ended December 31, 2021		Year Ended December 31, 2020	
Assets				
Operating right-of-use lease assets	$	13.0	$	13.6
Finance lease assets		0.6		1.8
Total lease assets	$	13.6	$	15.4
Liabilities				
Current				
Operating	$	7.4	$	6.9
Finance		0.6		0.9
Long-term				
Operating		7.0		7.8
Finance		0.9		1.8
Total lease liabilities	$	15.9	$	17.4

Supplemental cash flow information is as follows (in millions):

	Year Ended December 31, 2021	2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 7.4	$ 7.6
Operating cash flows from finance leases	$ 0.2	$ 0.2
Financing cash flows from finance leases	$ 0.5	$ 0.5

A summary of the weighted-average remaining lease term and weighted-average discount rate follows:

	December 31, 2021	2020
Weighted-average remaining lease term (years):		
Operating leases	2.6	2.6
Finance leases	2.9	3.9
Weighted-average discount rate:		
Operating leases	7.3%	7.4%
Finance leases	8.3%	8.2%

As of December 31, 2021, maturities for operating and finance lease liabilities were as follows:

	Operating Leases	Finance Leases	Total
2022	$ 7.4	$ 0.6	$ 8.0
2023	5.1	0.6	5.7
2024	2.0	0.5	2.5
2025	1.2	-	1.2
Total lease payments	15.7	1.7	17.4
Less: Interest	(1.3)	(0.2)	(1.5)
Amounts recorded in the Consolidated Balance Sheet	$ 14.4	$ 1.5	$ 15.9

In connection with certain strategic operating decisions in 2019 to downsize the HealthFair business, the Company planned to early terminate several of the capital leases for mobile equipment and certain operating leases, which would require a cash outlay that exceeds the carrying value of the leases. As of December 31, 2019, the Company recorded a contingent liability of $1.9 million reflected within "Accrued liabilities-" in the accompanying consolidated balance sheet and a corresponding charge to "Loss contingency" in the accompanying consolidated statement of operations. Of this total liability, $1.3 million relates to the termination of operating leases, and $0.6 million relates to the termination of capital leases. In 2020, the Company terminated five leases for a net loss of $0.2 million, and remeasured the lost contingency resulting in a reduction to the loss of $0.9 million. In September 2021, the Company released the remaining liability when it sold the last of the mobile clinics related to the lease terminations.

Severance Agreements—Occasionally, the Company enters into employment and termination agreements with key personnel that obligate the Company for salary continuation upon termination without cause. These agreements typically relate to changes in geographic markets which result in reductions to the workforce. The Company incurred $1.8 million, $1.5 million, and $2.1 million of severance costs for the years ended December 31, 2021, 2020, and 2019, respectively. At December 31, 2021 and 2020, the Company had $0.3 million and $0.3 million in accrued severance costs, respectively.

Consulting Agreements— In April 2020, the Company entered into an agreement with an outside consultant to provide Clinical Care business optimization, vaccine deployment

project management, and clinical engagement transformation. The Company pays hourly fees in exchange for these services. In May 2020, the Company entered into an agreement with an additional outside consultant to help set up the Clinical Solutions business. In exchange for Clinical Solutions consulting services, the Company pays a fee based on a percentage of revenue earned by the Clinical Solutions business, up to a maximum fee of $22.5 million. In January 2021, the Company entered into an agreement with an outside consultant to provide IT strategy and mobilization expertise for multiple IT initiatives, up to a maximum fee of $8.4 million. For the years ended December 31, 2021 and 2020, the Company recognized $27.0 million and $7.6 million, respectively, in consulting fees recorded in "Service expense" within the consolidated statements of operations. For the year ended December 31, 2021, the Company recognized $2.9 million in consulting fees recorded in "General and administrative" within the consolidated statement of operations. For the year ended December 31, 2021, the Company recognized $1.2 million in capital expenditures recorded on the consolidated balance sheet in "Property and equipment-net". As of December 31, 2021 and 2020, the Company accrued $7.8 million and $1.9 million, respectively, of consulting fees recorded in "Accrued liabilities" on the consolidated balance sheet.

Management Incentive Plan—The Company has a bonus incentive plan available for certain managers and executives of the Company. The bonus incentive plan is based on individual personal performance goals and the financial results of the Company, which include certain benchmark thresholds that are determined annually to establish a baseline pool of the amounts to be distributed to the eligible participants. If the Company does not meet the requirements as defined annually by the board of directors, the baseline pool is established for distribution based on a sliding scale. Further, the distribution of the bonus amounts is based at least in part on the individual performance of the eligible participants. For the years ended December 31, 2021, 2020, and 2019, the Company incurred $3.0 million, $18.3 million, and $4.1 million, respectively, of management incentive costs. At December 31, 2021 and 2020, the Company had $2.8 million and $18.6 million, respectively, in accrued management incentive costs.

Laws and Regulations—The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, Medicare and Medicaid fraud and abuse, false claims, and disguised payments in exchange for the referral of patients. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Compliance with such laws and regulations can be subject to future government review and interpretations.

The Health Insurance Portability and Accountability Act (HIPAA) was enacted on August 21, 1996, to ensure health insurance portability, reduce health care fraud and abuse, guarantee security and privacy of health information, and enforce standards for health information. Effective August 2009, the Health Information Technology for Economic and Clinical Health Act was introduced imposing notification requirements in the event of certain security breaches relating to protected health information. Organizations are required to be in compliance with HIPAA provisions and are subject to significant fines and penalties if found not to be compliant with the provisions outlined in the regulations.

Legal Proceedings—The Company is a party to certain legal actions against the Company arising in the ordinary course of business. The Company believes that potential liability, if any, under these claims will not have a material adverse effect on the consolidated financial position, results of operations, or cash flows.

As of December 31, 2021, the Company is defending one medical malpractice lawsuit that arose from operations involving a business that was discontinued in 2012, four employment discrimination lawsuits alleging racial/national origin/disability discrimination and retaliation, one lawsuit alleging violation of Americans with Disabilities Act (ADA) and retaliation, and one lawsuit involving two deceased former employees of a customer of the Company, who allege the Company failed to protect them from contracting COVID-19. The Company does not believe the aggregate amount of liability that could be reasonably possible with respect to these lawsuits would have a material adverse effect on its financial results.

Additionally, the Company is a party to four lawsuits related to the acquisition of the HealthFair business, including one action filed by the Company against the HealthFair Sellers and a separate action filed by the HealthFair Sellers, alleging violation of antitrust law. On April 2, 2019, the Company filed suit against the HealthFair Sellers for fraud, breach of contract and other theories of liability in connection with the Securities Purchase Agreement (SPA) dated January 4, 2018. The HealthFair Sellers filed a counterclaim against the Company in that action. In addition, two physician practice owners involved in the HealthFair business filed suit against the Company and the HealthFair sellers, alleging they did not receive adequate proceeds as a result of the sale of HealthFair to the Company. The HealthFair sellers have fully indemnified Matrix in connection with those two actions, as required under the SPA. Discovery is ongoing in all of the above-described cases. As of December 31, 2021, the Company believes that potential liability, if any, under these actions will not have a material adverse effect on the consolidated financial position, results of operations, or cash flows. On January 4, 2022, the antitrust counterclaim filed by the HealthFair sellers against the Company finally concluded in favor of the Company, and the case is now closed.

Insurance—The Company has established and maintained a fully funded, no deductible workers' compensation plan (in all states, except North Dakota, Wyoming, Ohio and Washington). The Company also maintains a self-insured medical plan. Other health care benefits, such as vision and dental, remained fully insured.

Determining reserves for losses in these self-insured programs involves significant judgments based upon the Company's experience and expectations of future events, including projected settlements for pending claims, known incidents that may result in claims, estimate of incurred but not yet reported claims, estimated litigation costs, and other factors. Since these reserves are based on estimates, actual expenses may differ from the amount reserved. The Company accrued $0.5 million and $0.6 million of estimated workers' compensation plan expenses and $1.1 million and $1.0 million of estimated medical plan expenses at December 31, 2021 and 2020, respectively. The amounts are included in "Accrued liabilities" on the consolidated balance sheets.

* * * * * *