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

# FORM 10-Q

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

**For the quarterly period ended June 30, 2023**

**OR**

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

**Commission file number: 001-38399**

## AdaptHealth Corp.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware** | **82-3677704** |
| (State of Other Jurisdiction of incorporation or Organization) | (I.R.S. Employer Identification No.) |
| **220 West Germantown Pike Suite 250, Plymouth Meeting, Pennsylvania** | **19462** |
| (Address of principal executive offices) | (Zip code) |

**Registrant's telephone number, including area code: (610) 424-4515**

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

| Title of Each Class | Trading Symbol(s) | Name Of Each Exchange On Which Registered |
|---|---|---|
| **Common Stock, par value $0.0001 per share** | **AHCO** | **The Nasdaq Stock Market LLC** |

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

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

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.0405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

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

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

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

As of August 4, 2023, there were 136,106,010 shares of the Registrant's Common Stock issued and outstanding.

**ADAPTHEALTH CORP.**

**FORM 10-Q**
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**CAUTIONARY STATEMENT**

In this Quarterly Report on Form 10-Q, including "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" in Part I Item 2, and the documents incorporated by reference herein, we make forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements relate to expectations for future financial performance, business strategies or expectations for our business. These statements may be preceded by, followed by or include the words "may," "might," "will," "will likely result," "should," "estimate," "plan," "project," "forecast," "intend," "expect," "anticipate," "believe," "seek," "continue," "target" or similar expressions.

These forward-looking statements are based on information available to us as of the date they were made, and involve a number of risks and uncertainties which may cause them to turn out to be wrong. Accordingly, forward-looking statements should not be relied upon as representing our views as of any subsequent date, and we do not undertake any obligation to update forward-looking statements to reflect events or circumstances after the date they were made, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws. As a result of a number of known and unknown risks and uncertainties, our actual results or performance may be materially different from those expressed or implied by these forward- looking statements. Some factors that could cause actual results to differ include:

- competition and the ability of our business to grow and manage growth profitably;
- fluctuations in the U.S. and/or global stock markets;
- the possibility that we may be adversely affected by other economic, business, and/or competitive factors;
- changes in applicable laws or regulations;
- failure to consummate or realize the expected benefits of acquisitions; and
- other risks and uncertainties set forth in this Form 10-Q.

Investors should carefully consider the foregoing factors and the other risks and uncertainties that may affect our business including those outlined under Item 1A, Risk Factors, in our most recent annual report on Form 10-K and our quarterly reports on Form 10-Q.

## PART I – FINANCIAL INFORMATION

### *Item 1. Interim Consolidated Financial Statements*

**ADAPTHEALTH CORP. AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEETS**
**(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)**
**(UNAUDITED)**

| | June 30, 2023 | December 31, 2022 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash | $ 45,126 | $ 46,272 |
| Accounts receivable | 365,708 | 359,146 |
| Inventory | 114,882 | 127,754 |
| Prepaid and other current assets | 42,572 | 52,136 |
| Total current assets | 568,288 | 585,308 |
| Equipment and other fixed assets, net | 504,356 | 487,079 |
| Operating lease right-of-use assets | 117,798 | 129,506 |
| Finance lease right-of-use assets | 14,819 | 5,423 |
| Goodwill | 3,552,311 | 3,545,297 |
| Identifiable intangible assets, net | 142,774 | 162,773 |
| Other assets | 22,175 | 22,415 |
| Deferred tax assets | 280,491 | 281,786 |
| Total Assets | $ 5,203,012 | $ 5,219,587 |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $ 337,700 | $ 337,498 |
| Current portion of long-term debt | 40,000 | 35,000 |
| Current portion of operating lease obligations | 29,579 | 30,001 |
| Current portion of finance lease obligations | 4,246 | 2,211 |
| Contract liabilities | 34,748 | 31,641 |
| Other liabilities | 11,705 | 19,863 |
| Total current liabilities | 457,978 | 456,214 |
| Long-term debt, less current portion | 2,135,624 | 2,153,267 |
| Operating lease obligations, less current portion | 93,241 | 104,394 |
| Finance lease obligations, less current portion | 10,638 | 3,950 |
| Other long-term liabilities | 302,683 | 305,501 |
| Warrant liability | 15,777 | 38,503 |
| Total Liabilities | 3,015,941 | 3,061,829 |
| Commitments and contingencies (note 14) | | |
| Stockholders' Equity: | | |
| Common Stock, par value of $0.0001 per share, 300,000,000 shares authorized; 134,517,446 and 134,435,119 shares issued and outstanding as of June 30, 2023 and December 31, 2022, respectively | 13 | 13 |
| Preferred Stock, par value of $0.0001 per share, 5,000,000 shares authorized; 124,060 shares issued and outstanding as of June 30, 2023 and December 31, 2022 | 1 | 1 |
| Treasury stock, at cost (1,382,788 and 750,835 shares at June 30, 2023 and December 31, 2022, respectively) | (23,216) | (13,992) |
| Additional paid-in capital | 2,139,820 | 2,130,148 |
| Retained earnings | 55,979 | 26,295 |
| Accumulated other comprehensive income | 8,342 | 8,693 |
| Total stockholders' equity attributable to AdaptHealth Corp. | 2,180,939 | 2,151,158 |
| Noncontrolling interest in subsidiary | 6,132 | 6,600 |
| Total Stockholders' Equity | 2,187,071 | 2,157,758 |
| Total Liabilities and Stockholders' Equity | $ 5,203,012 | $ 5,219,587 |

See accompanying notes to unaudited interim consolidated financial statements.

**ADAPTHEALTH CORP. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF OPERATIONS**
**(IN THOUSANDS, EXCEPT PER SHARE DATA)**

**(UNAUDITED)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| Net revenue | $ 793,286 | $ 727,614 | $ 1,537,912 | $ 1,433,817 |
| Costs and expenses: | | | | |
| Cost of net revenue | 673,397 | 610,011 | 1,328,793 | 1,207,133 |
| General and administrative expenses | 50,078 | 42,548 | 97,599 | 83,992 |
| Depreciation and amortization, excluding patient equipment depreciation | 15,549 | 15,877 | 31,081 | 31,962 |
| Total costs and expenses | 739,024 | 668,436 | 1,457,473 | 1,323,087 |
| Operating income | 54,262 | 59,178 | 80,439 | 110,730 |
| Interest expense, net | 32,552 | 25,608 | 64,507 | 50,384 |
| Change in fair value of warrant liability (note 10) | (812) | 8,208 | (22,726) | (18,509) |
| Other loss, net | 2,082 | 1,262 | 3,257 | 6,922 |
| Income before income taxes | 20,440 | 24,100 | 35,401 | 71,933 |
| Income tax expense | 5,399 | 8,853 | 3,685 | 14,456 |
| Net income | 15,041 | 15,247 | 31,716 | 57,477 |
| Income attributable to noncontrolling interest | 1,064 | 1,215 | 2,032 | 1,695 |
| Net income attributable to AdaptHealth Corp. | $ 13,977 | $ 14,032 | $ 29,684 | $ 55,782 |
| | | | | |
| Weighted average common shares outstanding - basic | 134,295 | 134,332 | 134,409 | 134,178 |
| Weighted average common shares outstanding - diluted | 136,233 | 137,015 | 138,000 | 138,335 |
| | | | | |
| Basic net income per share (note 11) | $ 0.10 | $ 0.10 | $ 0.20 | $ 0.38 |
| Diluted net income per share (note 11) | $ 0.09 | $ 0.09 | $ 0.03 | $ 0.24 |

See accompanying notes to unaudited interim consolidated financial statements.

**ADAPTHEALTH CORP. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**(IN THOUSANDS)**
**(UNAUDITED)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| Net income | $ 15,041 | $ 15,247 | $ 31,716 | $ 57,477 |
| Other comprehensive income (loss): | | | | |
| Gain (loss) on interest rate swap agreements, inclusive of reclassification adjustment, net of tax | 2,454 | 1,593 | (351) | 7,591 |
| Comprehensive income | 17,495 | 16,840 | 31,365 | 65,068 |
| | | | | |
| Income attributable to noncontrolling interest | 1,064 | 1,215 | 2,032 | 1,695 |
| Comprehensive income attributable to AdaptHealth Corp. | $ 16,431 | $ 15,625 | $ 29,333 | $ 63,373 |

See accompanying notes to unaudited interim consolidated financial statements.

**ADAPTHEALTH CORP. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**
**(IN THOUSANDS)**
**(UNAUDITED)**

| | Common Stock | | Preferred Stock | | Treasury Stock | | Additional paid-in capital | Retained Earnings | Accumulated other comprehensive income (loss) | Noncontrolling interest in subsidiary | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | | | | | |
| Balance, December 31, 2022 | 134,435 | $ 13 | 124 | $ 1 | 751 | $ (13,992) | $ 2,130,148 | $ 26,295 | $ 8,693 | $ 6,600 | $ 2,157,758 |
| Equity-based compensation | 292 | — | — | — | — | — | 5,916 | — | — | — | 5,916 |
| Payments for tax withholdings from restricted stock vesting | — | — | — | — | — | — | (1,883) | — | — | — | (1,883) |
| Common Stock issued in connection with employee stock purchase plan | 53 | — | — | — | — | — | 1,021 | — | — | — | 1,021 |
| Shares purchased under share repurchase program | (632) | — | — | — | 632 | (9,224) | — | — | — | — | (9,224) |
| Net income | — | — | — | — | — | — | — | 15,707 | — | 968 | 16,675 |
| Change in fair value of interest rate swaps, inclusive of reclassification adjustment | — | — | — | — | — | — | — | — | (2,805) | — | (2,805) |
| Balance, March 31, 2023 | 134,148 | $ 13 | 124 | $ 1 | 1,383 | $ (23,216) | $ 2,135,202 | $ 42,002 | $ 5,888 | $ 7,568 | $ 2,167,458 |
| Equity-based compensation | 156 | — | — | — | — | — | 6,847 | — | — | — | 6,847 |
| Exercise of stock options | 214 | — | — | — | — | — | — | — | — | — | — |
| Payments for tax withholdings from restricted stock vesting and stock option exercises | — | — | — | — | — | — | (2,229) | — | — | — | (2,229) |
| Distribution to non-controlling interest | — | — | — | — | — | — | — | — | — | (2,500) | (2,500) |
| Net income | — | — | — | — | — | — | — | 13,977 | — | 1,064 | 15,041 |
| Change in fair value of interest rate swaps, inclusive of reclassification adjustment | — | — | — | — | — | — | — | — | 2,454 | — | 2,454 |
| Balance, June 30, 2023 | 134,518 | $ 13 | 124 | $ 1 | 1,383 | $ (23,216) | $ 2,139,820 | $ 55,979 | $ 8,342 | $ 6,132 | $ 2,187,071 |

| | Common Stock | | Preferred Stock | | Treasury Stock | | Additional paid-in capital | Accumulated deficit | Accumulated other comprehensive income (loss) | Noncontrolling interest in subsidiary | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | | | | | |
| Balance, December 31, 2021 | 133,844 | $ 13 | 124 | $ 1 | — | $ — | $ 2,107,267 | $ (43,021) | $ (2,354) | $ 4,783 | $ 2,066,689 |
| Equity-based compensation | 187 | — | — | — | — | — | 5,502 | — | — | — | 5,502 |
| Exercise of stock options | 184 | — | — | — | — | — | 723 | — | — | — | 723 |
| Payments for tax withholdings from restricted stock vesting and stock option exercises | — | — | — | — | — | — | (1,269) | — | — | — | (1,269) |
| Common Stock issued in connection with employee stock purchase plan | 31 | — | — | — | — | — | 753 | — | — | — | 753 |
| Net income | — | — | — | — | — | — | — | 41,750 | — | 480 | 42,230 |
| Change in fair value of interest rate swaps, inclusive of reclassification adjustment | — | — | — | — | — | — | — | — | 5,998 | — | 5,998 |
| Balance, March 31, 2022 | 134,246 | $ 13 | 124 | $ 1 | — | $ — | $ 2,112,976 | $ (1,271) | $ 3,644 | $ 5,263 | $ 2,120,626 |
| Equity-based compensation | 117 | — | — | — | — | — | 5,720 | — | — | — | 5,720 |
| Exercise of stock options | 43 | — | — | — | — | — | — | — | — | — | — |
| Payments for tax withholdings from restricted stock vesting and stock option exercises | — | — | — | — | — | — | (613) | — | — | — | (613) |
| Shares purchased under share repurchase program | — | — | — | — | 199 | (3,375) | — | — | — | — | (3,375) |
| Reclassification of warrant liability to equity for exercised warrants | 19 | — | — | — | — | — | 495 | — | — | — | 495 |
| Distribution to non-controlling interest | — | — | — | — | — | — | — | — | — | (2,000) | (2,000) |
| Net income | — | — | — | — | — | — | — | 14,032 | — | 1,215 | 15,247 |
| Change in fair value of interest rate swaps, inclusive of reclassification adjustment | — | — | — | — | — | — | — | — | 1,593 | — | 1,593 |
| Balance, June 30, 2022 | 134,425 | $ 13 | 124 | $ 1 | 199 | $ (3,375) | $ 2,118,578 | $ 12,761 | $ 5,237 | $ 4,478 | $ 2,137,693 |

See accompanying notes to unaudited interim consolidated financial statements.

**ADAPTHEALTH CORP. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(IN THOUSANDS)**
**(UNAUDITED)**

| | Six Months Ended June 30, 2023 | Six Months Ended June 30, 2022 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 31,716 | $ 57,477 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization, including patient equipment depreciation | 193,109 | 156,504 |
| Equity-based compensation | 12,763 | 11,222 |
| Change in fair value of warrant liability | (22,726) | (18,509) |
| Reduction in the carrying amount of operating lease right-of-use assets | 16,794 | 9,530 |
| Reduction in the carrying amount of finance lease right-of-use assets | 3,007 | — |
| Deferred income tax expense | 1,413 | 11,975 |
| Change in fair value of interest rate swaps, net of reclassification adjustment | (987) | (1,460) |
| Amortization of deferred financing costs | 2,617 | 2,617 |
| Other | — | (2,262) |
| Changes in operating assets and liabilities, net of effects from acquisitions: | | |
| Accounts receivable | (5,011) | 7,027 |
| Inventory | 13,808 | 18,807 |
| Prepaid and other assets | 10,199 | 10,406 |
| Operating lease obligations | (16,662) | (9,452) |
| Operating liabilities | (13,473) | (83,958) |
| Net cash provided by operating activities | 226,567 | 169,924 |
| Cash flows from investing activities: | | |
| Purchases of equipment and other fixed assets | (171,730) | (154,340) |
| Payments for business acquisitions, net of cash acquired | (17,905) | (15,324) |
| Payments for cost method investments | (128) | (367) |
| Net cash used in investing activities | (189,763) | (170,031) |
| Cash flows from financing activities: | | |
| Proceeds from borrowings on long-term debt | 50,000 | — |
| Repayments on long-term debt | (65,000) | (10,000) |
| Repayments of finance lease liabilities | (3,679) | (12,547) |
| Payments for shares purchased under share repurchase program | (9,224) | (3,375) |
| Proceeds from the exercise of stock options | — | 723 |
| Proceeds received in connection with employee stock purchase plan | 1,021 | 753 |
| Payments relating to the Tax Receivable Agreement | (3,202) | — |
| Distributions to noncontrolling interest | (2,500) | (2,000) |
| Payments for tax withholdings from restricted stock vesting and stock option exercises | (4,366) | (1,882) |
| Payments of contingent consideration and deferred purchase price from acquisitions | (1,000) | (2,383) |
| Net cash used in financing activities | (37,950) | (30,711) |
| Net decrease in cash | (1,146) | (30,818) |
| Cash at beginning of period | 46,272 | 149,627 |
| Cash at end of period | $ 45,126 | $ 118,809 |
| Supplemental disclosures: | | |
| Cash paid for interest | $ 62,782 | $ 50,503 |
| Cash paid for income taxes | 5,567 | 9,828 |
| Noncash investing and financing activities: | | |
| Equipment acquired under finance lease obligations | $ — | $ 1,335 |
| Unpaid equipment and other fixed asset purchases at end of period | 32,942 | 37,704 |
| Assets subject to operating lease obligations | 5,112 | 4,582 |
| Operating lease obligations | (5,112) | (4,582) |
| Assets subject to finance lease obligations | 12,203 | — |
| Finance lease obligations | (12,203) | — |
| Deferred purchase price in connection with acquisitions | 50 | 422 |

See accompanying notes to unaudited interim consolidated financial statements.

**ADAPTHEALTH CORP. AND SUBSIDIARIES**

**Notes to Interim Consolidated Financial Statements (Unaudited)**

**(1) General Information**

AdaptHealth Corp. and subsidiaries ("AdaptHealth" or the "Company"), is a national leader in providing patient-centered, healthcare-at-home solutions including home medical equipment ("HME"), medical supplies, and related services. AdaptHealth focuses primarily on providing (i) sleep therapy equipment, supplies and related services (including CPAP and bi PAP services) to individuals suffering from obstructive sleep apnea ("OSA"), (ii) medical devices and supplies to patients for the treatment of diabetes (including continuous glucose monitors ("CGM") and insulin pumps), (iii) home medical equipment to patients discharged from acute care and other facilities, (iv) oxygen and related chronic therapy services in the home, and (v) other HME devices and supplies on behalf of chronically ill patients with wound care, urological, incontinence, ostomy and nutritional supply needs. AdaptHealth services beneficiaries of Medicare, Medicaid and commercial insurance payors.

As previously disclosed, by mutual agreement with the Company, effective June 30, 2023, Stephen Griggs resigned as Chief Executive Officer and did not stand for reelection as a member of the Company's Board of Directors (the "Board") at the Company's annual meeting. On June 27, 2023, the Company announced the appointment of Crispin Teufel to serve as Chief Executive Officer of the Company effective September 1, 2023. Richard Barasch, Chairman of the Board of the Company, will serve as interim Chief Executive Officer of the Company, effective July 1, 2023 through August 31, 2023.

The interim consolidated financial statements are unaudited, but reflect all normal recurring adjustments that are, in the opinion of management, necessary to fairly present the information set forth herein. The interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022. Interim results are not necessarily indicative of the results for a full year.

There have been no material changes in the Company's significant accounting policies as compared to the significant accounting policies described in the Company's Annual Report on Form 10-K for the year ended December 31, 2022.

***(a) Basis of Presentation***

The interim consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). In the opinion of management, the interim consolidated financial statements include all necessary adjustments for a fair presentation of the financial position and results of operations for the periods presented.

***(b) Basis of Consolidation***

The accompanying interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

***(c) Concentration of Credit Risk***

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and trade accounts receivable. The Company maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

***(d) Accounting Estimates***

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and reported amounts of revenues and expenses during the reporting period. Management bases these estimates and assumptions upon historical experience, existing and known circumstances, authoritative accounting pronouncements and other factors that management believes to be reasonable. Significant areas requiring the use of management estimates relate to revenue recognition and the valuation of accounts receivable (implicit price concession), income taxes, equity-based compensation, warrant liability and long-lived assets, including goodwill and identifiable intangible assets. Actual results could differ from those estimates.

***(e) Valuation of Goodwill***

The Company has a significant amount of goodwill on its balance sheet that resulted from the business acquisitions the Company has made. Goodwill is not amortized, rather, it is assessed for impairment annually and upon the occurrence of a triggering event or change in circumstances indicating a possible impairment. Such triggering events potentially warranting an annual or interim goodwill impairment assessment include, among other factors, declines in historical or projected revenue, operating income or cash flows, and sustained decreases in the Company's stock price or market capitalization. Such changes in circumstance can include, among others, changes in the legal environment, reimbursement environment, operating performance, and/or future prospects. The Company performs its annual impairment assessment of goodwill during the fourth quarter of each year. The impairment assessment can be performed on either a quantitative or qualitative basis. The Company first assesses qualitative factors to determine whether it is necessary to perform a quantitative goodwill impairment analysis. If determined necessary, the Company applies the quantitative impairment test to identify and measure the amount of impairment, if any. Fair value determinations require considerable judgment and are sensitive to changes in underlying assumptions and factors, such as estimates of a reporting unit's fair value and judgment about impairment triggering events. As a result, there can be no assurance that the estimates and assumptions made for purposes of the annual or interim goodwill impairment test will prove to be accurate predictions of the future. During 2023, the Company experienced a decline in its market capitalization as a result of a sustained decrease in the Company's stock price. The Company considered such sustained decrease to represent a triggering event and performed goodwill impairment tests as of March 31, 2023 and June 30, 2023. The Company did not recognize any impairment charges of goodwill during the six months ended June 30, 2023 and 2022. Refer to Note 5, *Goodwill and Identifiable Intangible Assets*, for additional details.

***(f) Long-Lived Assets***

The Company's long-lived assets, such as equipment and other fixed assets, operating lease right-of-use assets, finance lease right-of-use assets and definite-lived identifiable intangible assets, are assessed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Definite-lived identifiable intangible assets consist of tradenames, payor contracts, contractual rental agreements and developed technology. These assets are amortized using the straight-line method over their estimated useful lives, which reflects the pattern in which the economic benefits of the assets are expected to be consumed. In addition to consideration of impairment upon the events or changes in circumstances described above, management regularly evaluates the remaining useful lives of its long-lived assets. The following table summarizes the useful lives of the Company's identifiable intangible assets:

| | |
|---|---|
| Tradenames | 5 to 10 years |
| Payor contracts | 10 years |
| Contractual rental agreements | 2 years |
| Developed technology | 5 years |

The Company did not recognize any impairment charges on long-lived assets for the six months ended June 30, 2023 and 2022.

***(g) Equity-based Compensation***

The Company accounts for its equity-based compensation in accordance with FASB ASC Topic 718, *Compensation Stock Compensation*, which establishes accounting for share based awards exchanged for employee services and requires companies to expense the estimated fair value of these awards over the requisite employee service period. Equity-based compensation expense related to these grants is included within general and administrative expenses and cost of net revenue in the accompanying consolidated statements of operations. The Company measures and recognizes equity-based compensation expense for such awards based on their estimated fair values on the date of grant. For share based awards with service only or service and performance conditions, the value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service period in the Company's consolidated financial statements. For share based awards with only a service condition, equity-based compensation expense is recognized on a straight-line basis over the requisite service period. For awards with performance conditions, equity-based compensation expense is recognized straight-line on a tranche-by-tranche basis over the employees' requisite service period subject to management's estimation of the probability of vesting of such awards. If management determines that the performance conditions are no longer probable of achievement, the Company will reverse the previously recognized equity-based compensation expense in the period of determination. For awards with market conditions, the grant-date fair value is estimated using a monte-carlo simulation analysis, which is recognized straight-line on a tranche-by-tranche basis over the employees' requisite service period regardless of whether or the extent to which the awards ultimately vest. Refer to Note 10, *Stockholders' Equity*, for additional information regarding the Company's equity-based compensation expense.

***(h) Business Segment***

The Company's chief operating decision-makers are its Interim Chief Executive Officer and President, who make resource allocation decisions and assess performance based on financial information presented on an aggregate basis. There are no segment managers who are held accountable by the chief operating decision-makers, or anyone else, for any planning, strategy and key decision-making regarding operations. The corporate office is responsible for contract negotiation with vendors and payors, corporate compliance with healthcare laws and regulations, and revenue cycle management, among other corporate supporting functions. Accordingly, the Company has a single reportable segment and operating segment structure.

***(i) Accounting for Leases***

The Company accounts for its leases in accordance with FASB Accounting Standards Update ("ASU") No. 2016-02, *Leases* (Topic 842) (ASC 842). ASC 842 requires the Company to recognize a lease liability, which represents the discounted obligation to make future minimum lease payments, and a corresponding right-of-use ("ROU") asset on its consolidated balance sheet for most leases, and disclose key information about leasing arrangements. ASC 842 applies to a number of arrangements to which the Company is a party.

Whenever the Company enters into a new arrangement, it must determine, at the inception date, whether the arrangement is or contains a lease. This determination generally depends on whether the arrangement conveys to the Company the right to control the use of an explicitly or implicitly identified asset for a period of time in exchange for consideration. Control of an underlying asset is conveyed to the Company if the Company obtains the rights to direct the use of and obtain substantially all the economic benefits from the use of the underlying asset.

If a lease exists, the Company must then determine the separate lease and non-lease components of the arrangement. Each right to use an underlying asset conveyed by a lease arrangement should generally be considered a separate lease component if it both: (i) can benefit the Company without depending on other resources not readily available to the Company and (ii) does not significantly affect and is not significantly affected by other rights of use conveyed by the lease. Aspects of a lease arrangement that transfer other goods or services to the Company but do not meet the definition of lease components are considered non-lease components. The consideration owed by the Company pursuant to a lease arrangement is generally allocated to each lease and non-lease component for accounting purposes. However, the Company has elected, for all of its leases, to not separate lease and non-lease components. Each lease component is accounted for separately from other lease components, but together with the associated non-lease components.

For each lease, the Company must then determine the lease term, the present value of lease payments and the classification of the lease as either an operating or finance lease.

The lease term is the period of the lease not cancellable by the Company, together with periods covered by: (i) renewal options the Company is reasonably certain to exercise, (ii) termination options the Company is reasonably certain not to exercise, and (iii) renewal or termination options that are controlled by the lessor.

The present value of lease payments is calculated based on:

- Lease payments – lease payments include fixed and certain variable payments, less lease incentives, together with amounts probable of being owed by the Company under residual value guarantees and, if reasonably certain of being paid, the cost of certain renewal options and early termination penalties set forth in the lease arrangement. Lease payments exclude consideration that is not related to the transfer of goods and services of the Company.

- Discount rate – the discount rate must be determined based on information available to the Company upon the commencement of the lease. Lessees are required to use the rate implicit in the lease whenever such rate is readily available; however, as the implicit rate in the Company's leases is generally not readily determinable, the Company generally uses the hypothetical incremental borrowing rate it would have to pay to borrow an amount equal to the lease payments, on a collateralized basis, over a timeframe similar to the lease term.

In making the determination of whether a lease is an operating lease or a finance lease, the Company considers the lease term in relation to the economic life of the leased asset, the present value of lease payments in relation to the fair value of the leased asset and certain other factors, including the lessee's and lessor's rights, obligations, and economic incentives over the term of the lease.

Generally, upon the commencement of a lease, the Company will record a lease liability and a ROU asset. However, the Company has elected, for all underlying leases with initial terms of twelve months or less (known as short-term leases), to not recognize a lease liability or ROU asset. Lease liabilities are initially recorded at lease commencement as the present value of future lease payments. ROU assets are initially recorded at lease commencement as the initial amount of the lease liability, together with the following, if applicable: (i) initial direct costs incurred by the lessee and (ii) lease payments made to the lessor net of lease incentives received, prior to lease commencement.

Over the lease term, the Company generally increases its lease liabilities using the effective interest method and decreases its lease liabilities for lease payments made. For finance leases, amortization and interest expense are recognized separately in the consolidated statements of operations, with amortization expense generally recorded on a straight-line basis over the lease term and interest expense recorded using the effective interest method. For operating leases, a single lease cost is generally recognized in the consolidated statements of operations on a straight-line basis over the lease term unless an impairment has been recorded with respect to a leased asset. Lease costs for short-term leases not recognized in the consolidated balance sheets are recognized in the consolidated statements of operations on a straight-line basis over the lease term. Variable lease costs not initially included in the lease liability and ROU asset impairment charges are expensed as incurred. ROU assets are assessed for impairment, similar to other long-lived assets. Refer to Note 12, *Leases,* for additional information.

***(j) Recently Adopted Accounting Pronouncements***

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform ("Topic 848")*, which provides optional guidance to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. Specifically, the guidance permits an entity, when certain criteria are met, to consider amendments to contracts made to comply with reference rate reform to meet the definition of a modification under U.S. GAAP. It further allows hedge accounting to be maintained and a one-time transfer or sale of qualifying held-to-maturity securities. The expedients and exceptions provided by the amendments are permitted to be adopted any time through December 31, 2024, with early adoption permitted, and do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022, except for certain optional expedients elected for certain hedging relationships existing as of December 31, 2022. The Company adopted this standard during the six months ended June 30, 2023, which did not have a material impact on its consolidated financial statements and related disclosures.

**(2) Revenue Recognition and Accounts Receivable**

***Revenue Recognition***

The Company generates revenues for services and related products that the Company provides to patients for home medical equipment, related supplies, and other items. The Company's revenues are recognized in the period in which services and related products are provided to customers and are recorded either at a point in time for the sale of supplies and disposables, or over the fixed monthly service period for equipment.

Revenues are recognized when control of the promised good or service is transferred to customers, in an amount that reflects the consideration to which the Company expects to receive from patients or under reimbursement arrangements with Medicare, Medicaid and third-party payors, in exchange for those goods and services.

The Company determines the transaction price based on contractually agreed-upon amounts or rates, adjusted for estimates of variable consideration, such as implicit price concessions. The Company utilizes the expected value method to determine the amount of variable consideration that should be included to arrive at the transaction price, using contractual agreements and historical reimbursement experience within each payor type. The Company applies constraint to the transaction price, such that net revenue is recorded only to the extent that it is probable that a significant reversal in the amount of the cumulative revenue recognized will not occur in the future. If actual amounts of consideration ultimately received differ from the Company's estimates, the Company adjusts these estimates, which would affect net revenue in the period such adjustments become known.

Sales revenue is recognized upon transfer of control of products or services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those products or services. Revenues for the sale of sleep therapy equipment supplies (including CPAP resupply products), home medical equipment and related supplies (including wheelchairs, hospital beds and infusion pumps), diabetic medical devices and supplies (including continuous glucose monitors ("CGM") and insulin pumps), and other HME products and supplies are recognized when control of the promised good or service is transferred to customers, which is generally upon shipment for direct to consumer medical devices and supplies and upon delivery to the home for home medical equipment.

The Company provides certain equipment to patients which is reimbursed periodically in fixed monthly payments for as long as the patient is using the equipment and medical necessity continues (in certain cases, the fixed monthly payments are capped at a certain amount). The equipment provided to the patient is based upon medical necessity as documented by prescriptions and other documentation received from the patient's physician. The patient generally does not negotiate or select the manufacturer or model of the equipment prescribed by their physician and delivered by the Company. Once initial delivery of this equipment is made to the patient for initial setup, a monthly billing process is established based on the initial setup service date. The Company recognizes the fixed monthly revenue ratably over the service period as earned, less estimated adjustments, and defers revenue for the portion of the monthly bill that is unearned. No separate revenue is earned from the initial setup process. Included in fixed monthly revenue are unbilled amounts for which the revenue recognition criteria had been met as of period-end but were not yet billed to the payor. The estimate of net unbilled fixed monthly revenue recognized is based on historical trends and estimates of future collectability.

The Company's billing system contains payor-specific price tables that reflect the fee schedule amounts in effect or contractually agreed upon by various government and commercial insurance payors for each item of equipment or supply provided to a customer. Revenues are recorded based on the applicable fee schedule. The Company has established a contractual allowance to account for adjustments that result from differences between the payment amount received and the expected realizable amount. If the payment amount received differs from the net realizable amount, an adjustment is recorded to revenues in the period that these payment differences are determined. The Company reports revenues in its consolidated financial statements net of such adjustments.

The Company recognizes revenue in the consolidated statements of operations and contract assets on the consolidated balance sheets only when services have been provided. Since the Company has performed its obligation under the contract, it has unconditional rights to the consideration recorded as contract assets and therefore classifies those billed and unbilled contract assets as accounts receivable.

Fixed monthly payments that the Company receives from customers in advance of providing services represent contract liabilities. Such payments primarily relate to patients who are billed monthly in advance and are recognized over the period as earned.

The Company disaggregates net revenue from contracts with customers by payor type and by core service lines. The Company believes that disaggregation of net revenue into these categories depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The payment terms and conditions within the Company's revenue-generating contracts vary by payor type and payor source.

The composition of net revenue by payor type for the three and six months ended June 30, 2023 and 2022 are as follows (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| Insurance | $ 474,828 | $ 436,179 | $ 911,612 | $ 857,069 |
| Government | 209,662 | 196,338 | 398,509 | 377,988 |
| Patient pay | 108,796 | 95,097 | 227,791 | 198,760 |
| Net revenue | $ 793,286 | $ 727,614 | $ 1,537,912 | $ 1,433,817 |

The composition of net revenue by core service lines for the three and six months ended June 30, 2023 and 2022 are as follows (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| Net sales revenue: | | | | |
| Sleep | $ 215,849 | $ 194,693 | $ 429,306 | $ 387,028 |
| Diabetes | 165,021 | 162,259 | 307,565 | 313,618 |
| Supplies to the home | 48,323 | 43,881 | 94,878 | 83,746 |
| Respiratory | 8,191 | 7,891 | 16,120 | 16,036 |
| HME | 27,237 | 30,313 | 55,800 | 60,365 |
| Other | 57,012 | 53,617 | 110,219 | 107,816 |
| Total net sales revenue | $ 521,633 | $ 492,654 | $ 1,013,888 | $ 968,609 |
| | | | | |
| Net revenue from fixed monthly equipment reimbursements: | | | | |
| Sleep | $ 86,783 | $ 65,661 | $ 167,705 | $ 123,599 |
| Diabetes | 3,886 | 4,034 | 7,717 | 7,980 |
| Respiratory | 145,889 | 128,865 | 280,612 | 261,445 |
| HME | 23,974 | 25,547 | 46,315 | 51,272 |
| Other | 11,121 | 10,853 | 21,675 | 20,912 |
| Total net revenue from fixed monthly equipment reimbursements | $ 271,653 | $ 234,960 | $ 524,024 | $ 465,208 |
| | | | | |
| Total net revenue: | | | | |
| Sleep | $ 302,632 | $ 260,354 | $ 597,011 | $ 510,627 |
| Diabetes | 168,907 | 166,293 | 315,282 | 321,598 |
| Supplies to the home | 48,323 | 43,881 | 94,878 | 83,746 |
| Respiratory | 154,080 | 136,756 | 296,732 | 277,481 |
| HME | 51,211 | 55,860 | 102,115 | 111,637 |
| Other | 68,133 | 64,470 | 131,894 | 128,728 |
| Total net revenue | $ 793,286 | $ 727,614 | $ 1,537,912 | $ 1,433,817 |

***Accounts Receivable***

Due to the continuing changes in the healthcare industry and third-party reimbursement environment, certain estimates are required to record accounts receivable at their net realizable values. Inherent in these estimates is the risk that they will have to be revised or updated as additional information becomes available. The complexity of third-party billing arrangements and laws and regulations governing Medicare and Medicaid may result in adjustments to amounts originally recorded.

The Company performs a periodic analysis to review the valuation of accounts receivable and collectability of outstanding balances. Management's evaluation takes into consideration such factors as historical cash collections experience, business and economic conditions, trends in healthcare coverage, other collection indicators and information about specific receivables. The Company's evaluation also considers the age and composition of the outstanding amounts in determining their estimated net realizable value.

Receivables are considered past due when not collected by established due dates. Specific patient balances are written off after collection efforts have been followed and the account has been determined to be uncollectible. Revisions in reserve estimates are recorded as an adjustment to net revenue in the period of revision.

Included in accounts receivable are earned but unbilled accounts receivables. Billing delays, ranging from several days to several weeks, can occur due to the Company's policy of compiling required payor specific documentation prior to billing for its services rendered. As of June 30, 2023 and December 31, 2022, the Company's unbilled accounts receivable was $37.4 million and $38.6 million, respectively.

**(3) Acquisitions**

During the six months ended June 30, 2023 and 2022, the Company completed certain acquisitions to strengthen its current market share in existing markets. Each of the Company's acquisitions was accounted for using the acquisition method pursuant to the requirements of FASB ASC Topic 805, *Business Combinations*, and are included in the Company's consolidated financial statements since the respective acquisition date. The goodwill generated from these acquisitions is attributable to expected growth and cost synergies and the expected contribution of each acquisition to the Company's overall strategy. The goodwill recorded during the six months ended June 30, 2023 is expected to be deductible for tax purposes. The estimated fair values of the net assets of acquired businesses as described below are subject to change resulting from such items as final analysis of valuations and working capital adjustments post-acquisition. As a result, the acquisition accounting for certain acquired businesses could change in subsequent periods resulting in adjustments to goodwill once finalized.

*Six Months Ended June 30, 2023*

During the six months ended June 30, 2023, the Company acquired 100% of the equity interests of three providers of home medical equipment ("HME") and acquired certain assets of the home medical equipment businesses of two providers of HME. The following table summarizes the consideration paid at closing for all acquisitions during the six months ended June 30, 2023 (in thousands):

| | | |
|---|---|---|
| Cash | $ | 18,173 |
| Deferred payments | | 50 |
| Total | $ | 18,223 |

The Company allocated the consideration paid to the net assets acquired based on their estimated acquisition date fair values. Based upon management's evaluation, which is preliminary and subject to completion of working capital and other adjustments, the consideration paid for all acquisitions during the six months ended June 30, 2023 was allocated as follows during the period (in thousands):

| | | |
|---|---|---|
| Cash | $ | 268 |
| Accounts receivable | | 1,798 |
| Inventory | | 1,001 |
| Prepaid and other current assets | | 10 |
| Equipment and other fixed assets | | 9,863 |
| Operating lease right-of-use assets | | 5,506 |
| Finance lease right-of-use assets | | 200 |
| Goodwill | | 6,796 |
| Accounts payable and accrued expenses | | (667) |
| Other current liabilities | | (846) |
| Operating lease liabilities | | (5,506) |
| Finance lease liabilities | | (200) |
| Net assets acquired | $ | 18,223 |

*Six Months Ended June 30, 2022*

During the six months ended June 30, 2022, the Company acquired 100% of the equity interests of two providers of HME and acquired certain assets of the home medical equipment businesses of four providers of HME.

The following table summarizes the consideration paid at closing for all acquisitions during the six months ended June 30, 2022 (in thousands):

| | | |
|---|---|---|
| Cash | $ | 16,377 |
| Deferred payments | | 422 |
| Total | $ | 16,799 |

The Company allocated the consideration paid to the net assets acquired based on their estimated acquisition date fair values. Based upon management's evaluation, which was preliminary and subject to completion of working capital and other adjustments, the consideration paid for all acquisitions during the six months ended June 30, 2022 was allocated as follows during that period (in thousands):

| | | |
|---|---|---|
| Cash | $ | 155 |
| Accounts receivable | | 2,476 |
| Inventory | | 797 |
| Prepaid and other current assets | | 3 |
| Equipment and other fixed assets | | 11,219 |
| Goodwill | | 4,591 |
| Identifiable intangible assets | | 500 |
| Accounts payable and accrued expenses | | (2,942) |
| Net assets acquired | $ | 16,799 |

During the six months ended June 30, 2022, the Company received net cash of $0.9 million relating to working capital and other adjustments associated with businesses that were acquired during 2021, which was recorded as a decrease to goodwill during the period.

Net revenue and operating income in the period of acquisition since the respective acquisition dates for the acquisitions described above were immaterial for the three and six months ended June 30, 2023 and 2022.

**(4) Equipment and Other Fixed Assets**

Equipment and other fixed assets as of June 30, 2023 and December 31, 2022 are as follows (in thousands):

| | June 30, 2023 | December 31, 2022 |
|---|---|---|
| Patient medical equipment | $ 802,119 | $ 747,985 |
| Computers and Software | 86,862 | 70,897 |
| Delivery vehicles | 43,048 | 35,326 |
| Other | 20,056 | 16,059 |
| | 952,085 | 870,267 |
| Less accumulated depreciation | (447,729) | (383,188) |
| | $ 504,356 | $ 487,079 |

For the three months ended June 30, 2023 and 2022, the Company recorded depreciation expense of $89.3 million and $69.4 million. For the six months ended June 30, 2023 and 2022, the Company recorded depreciation expense of $173.1 million and $136.5 million, respectively.

**(5) Goodwill and Identifiable Intangible Assets**

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. The change in the carrying amount of goodwill for the six months ended June 30, 2023 was as follows (in thousands):

| | Gross carrying amount |
|---|---|
| Balance at December 31, 2022 | $ 3,545,297 |
| Goodwill from acquisitions | 6,796 |
| Net increase relating to measurement period adjustments | 218 |
| Balance at June 30, 2023 | $ 3,552,311 |

Management is required to perform an assessment of the recoverability of goodwill on an annual basis and upon the identification of a triggering event. Triggering events potentially warranting an interim goodwill impairment assessment include, among other factors, declines in historical or projected revenue, operating results or cash flows, and sustained decreases in the Company’s stock price or market capitalization. While management cannot predict if or when future goodwill impairments may occur, a non-cash goodwill impairment charge could have a material adverse effect on the Company’s operating results, net assets and the Company’s cost of, or access to, capital.

During 2023, the Company experienced a decline in its market capitalization as a result of a sustained decrease in the Company’s stock price. The Company considered such sustained decrease to represent a triggering event and performed goodwill impairment tests as of March 31, 2023 and June 30, 2023. Based on the results of these tests, it was concluded that the estimated fair value of the Company’s reporting unit was greater than its carrying value, as such, the Company did not recognize a goodwill impairment charge during the periods ended March 31, 2023 or June 30, 2023. While the Company's goodwill impairment test did not result in an impairment charge, based on the results of such tests, the excess of the estimated fair value of the Company's reporting unit over its carrying value was less than 20% of such carrying value. If in future periods the Company were to experience a further decline in its market capitalization or expected results for a sustained period of time, the Company may be required to perform an additional goodwill impairment test at an interim or annual period and could be required to recognize a non-cash goodwill impairment charge at that time, which could be material.

Identifiable intangible assets that are separable and have determinable useful lives are valued separately and amortized over the period which reflects the pattern in which the economic benefits of the assets are expected to be consumed. Identifiable intangible assets consisted of the following at June 30, 2023 and December 31, 2022 (dollars in thousands):

| | June 30, 2023 | |
|---|---|---|
| | | Weighted-Average Remaining Life (Years) |
| Tradenames, net of accumulated amortization of $31,907 | $ 80,893 | 7.1 |
| Payor contracts, net of accumulated amortization of $24,116 | 57,884 | 7.1 |
| Contractual rental agreements, net of accumulated amortization of $52,723 | 1,477 | 0.3 |
| Developed technology, net of accumulated amortization of $3,780 | 2,520 | 2.0 |
| Identifiable intangible assets, net | $ 142,774 | |

| | December 31, 2022 | |
|---|---|---|
| | | Weighted-Average Remaining Life (Years) |
| Tradenames, net of accumulated amortization of $25,498 | $ 87,302 | 7.5 |
| Payor contracts, net of accumulated amortization of $20,016 | 61,984 | 7.6 |
| Contractual rental agreements, net of accumulated amortization of $43,863 | 10,337 | 0.8 |
| Developed technology, net of accumulated amortization of $3,150 | 3,150 | 2.5 |
| Identifiable intangible assets, net | $ 162,773 | |

Amortization expense related to identifiable intangible assets, which is included in depreciation and amortization, excluding patient equipment depreciation, in the accompanying statements of operations was $10.0 million and $20.0 million for the three and six months ended June 30, 2023, respectively, and was $10.0 million and $20.0 million for the three and six months ended June 30, 2022, respectively.

Future amortization expense related to identifiable intangible assets is estimated to be as follows (in thousands):

| Twelve months ending June 30, | |
|---|---|
| 2024 | $ 23,753 |
| 2025 | 22,217 |
| 2026 | 20,119 |
| 2027 | 18,384 |
| 2028 | 17,936 |
| Thereafter | 40,365 |
| Total | $ 142,774 |

The Company did not recognize any impairment charges related to identifiable intangible assets during the six months ended June 30, 2023 and 2022.

**(6) Fair Value of Assets and Liabilities**

FASB ASC Topic 820, *Fair Value Measurements and Disclosures* ("ASC 820"), creates a single definition of fair value, establishes a framework for measuring fair value in U.S. GAAP and expands disclosures about fair value measurements. Assets and liabilities adjusted to fair value in the balance sheet are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Level inputs, as defined by ASC 820, are as follows:

| Level input | Input Definition |
|---|---|
| Level 1 | Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date. |
| Level 2 | Inputs, other than quoted prices included in Level 1 that are observable for the asset or liability through corroboration with market data at the measurement date. |
| Level 3 | Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. |

The following table presents the valuation of the Company's financial assets and liabilities as of June 30, 2023 and December 31, 2022 measured at fair value on a recurring basis. The fair value estimates presented herein are based on information available to management as of June 30, 2023 and December 31, 2022. These estimates are not necessarily indicative of the amounts the Company could ultimately realize.

| (in thousands) | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| **June 30, 2023** | | | |
| **Assets** | | | |
| Interest rate swap agreements-short term | $ — | $ 6,423 | $ — |
| Interest rate swap agreements-long term | — | 3,568 | — |
| Total assets measured at fair value | $ — | $ 9,991 | $ — |
| **Liabilities** | | | |
| Acquisition-related contingent consideration-short term | $ — | $ — | $ 7,500 |
| Warrant liability | — | — | 15,777 |
| Total liabilities measured at fair value | $ — | $ — | $ 23,277 |

| (in thousands) | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| **December 31, 2022** | | | |
| **Assets** | | | |
| Interest rate swap agreements-short term | $ — | $ 5,748 | $ — |
| Interest rate swap agreements-long term | — | 3,728 | — |
| Total assets measured at fair value | $ — | $ 9,476 | $ — |
| **Liabilities** | | | |
| Acquisition-related contingent consideration-short term | $ — | $ — | $ 7,500 |
| Warrant liability | — | — | 38,503 |
| Total liabilities measured at fair value | $ — | $ — | $ 46,003 |

*Interest Rate Swaps*

The Company uses interest rate swap agreements to manage interest rate risk by converting a portion of its variable rate borrowings to a fixed rate and recognizes these derivative instruments as either assets or liabilities in the accompanying consolidated balance sheets at fair value. The valuation of these derivative instruments is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. The fair value of the Company's interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash payments and the discounted expected variable cash payments receipts. The variable cash receipts are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. To comply with the provisions of FASB ASC Topic 820, *Fair Value Measurement*, the Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts and guarantees.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with the Company's derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by the Company and the respective counterparties. The Company has determined that the significance of the impact of the credit valuation adjustments made to its derivative contracts, which determination was based on the fair value of each individual contract, was not significant to the overall valuation. As a result, all of the Company's derivatives held as of June 30, 2023 and December 31, 2022 were classified as Level 2 of the fair value hierarchy. Refer to Note 7, *Derivative Instruments and Hedging Activities*, for additional information regarding the Company's derivative instruments.

*Acquisition-Related Contingent Consideration*

The Company estimates the fair value of acquisition-related contingent consideration liabilities by applying the income approach using a probability-weighted discounted cash flow model. This fair value measurement is based on significant inputs not observed in the market and thus represents a Level 3 measurement. Level 3 instruments are valued based on unobservable inputs that are supported by little or no market activity and reflect the Company's own assumptions in measuring fair value. Each period, the Company evaluates the fair value of acquisition-related contingent consideration obligations and records any changes in the fair value of such liabilities in other income in the Company's consolidated statements of operations. At June 30, 2023 and December 31, 2022, contingent consideration liabilities of $7.5 million and $7.5 million were included in other current liabilities, respectively, in the accompanying consolidated balance sheets. A reconciliation of the Company's contingent consideration liabilities related to acquisitions for the six months ended June 30, 2023 and 2022 is as follows (in thousands):

| **Six Months Ended June 30, 2023** | **Beginning Balance** | **Payments** | **Change in Fair Value** | **Ending Balance** |
|---|---|---|---|---|
| Contingent consideration - Level 3 liabilities | $ 7,500 | $ — | $ — | $ 7,500 |
| **Six Months Ended June 30, 2022** | | | | |
| Contingent consideration - Level 3 liabilities | $ 20,300 | $ (3,250) | $ 238 | $ 17,288 |

*Warrant Liability*

The warrant liability represents the estimated fair value of the Company's outstanding private warrants. The fair value of the private warrants was estimated using the Black-Scholes option pricing model. Refer to Note 10, *Stockholders' Equity*, for additional discussion of the warrant liability and the material assumptions leveraged for the pricing model.

*Non-Financial Assets Measured at Fair Value on a Non-Recurring Basis*

During the six months ended June 30, 2023 and 2022, there were no fair value measurements on a non-recurring basis for the Company's non-financial assets.

**(7) Derivative Instruments and Hedging Activities**

The Company records all derivatives on its consolidated balance sheet at fair value. As of June 30, 2023, the Company had outstanding interest rate derivatives with third parties in which the Company pays a fixed interest rate and receives a rate equal to the one-month Secured Overnight Financing Rate ("Term SOFR"). As of December 31, 2022, the

Company had outstanding interest rate derivatives with third parties in which the Company paid a fixed interest rate and received a rate equal to the one-month LIBOR. During the six months ended June 30, 2023, the Company amended its interest rate swap agreements to change the benchmark rate under the agreements from LIBOR to Term SOFR. As discussed in Note 1(j), *General Information - Recently Adopted Accounting Pronouncements,* during the six months ended June 30, 2023, the Company adopted ASU No. 2020-04, *Reference Rate Reform ("Topic 848")*. As a result of the adoption of this standard, the amendments to the Company's interest rate swap agreements did not have an impact on the accounting for such derivative instruments. The notional amount associated with the Company's interest rate swap agreements that were outstanding as of June 30, 2023 was $250 million and have maturity dates in and March 2024 and January 2026. In April 2022, the Company entered into forward-dated interest rate swap agreements with third parties. The purpose of these forward-dated interest rate swap agreements is to ensure that the Company operates within its derivatives policy by maintaining a total notional amount of $250 million under the Company's outstanding interest rate swap agreements through the maturity date of the Company's current credit agreement. A portion of these forward-dated interest rate swap agreements became effective in February 2023 and a portion will become effective in March 2024, and mature in January 2026. The Company has designated its swaps as effective cash flow hedges of interest rate risk. Accordingly, changes in the fair value of the interest rate swaps are recorded as a component of accumulated other comprehensive income within stockholders' equity and subsequently reclassified into interest expense in the same period during which the hedged transaction affects earnings.

The table below presents the fair value of the Company's derivatives related to its interest rate swap agreements, which are designated as hedging instruments, as well as their classification in the consolidated balance sheets at June 30, 2023 and December 31, 2022 (in thousands):

| Balance Sheet Location | June 30, 2023 | December 31, 2022 |
|---|---|---|
| | Asset (Liability) | |
| Prepaid and other current assets | $ 6,423 | $ 5,748 |
| Other assets | 3,568 | 3,728 |
| Total | $ 9,991 | $ 9,476 |

During the three months ended June 30, 2023 and 2022, as a result of the effect of cash flow hedge accounting, the Company recognized a gain, net of tax, of $2.8 million and $2.3 million, respectively, in other comprehensive income. In addition, during the three months ended June 30, 2023 and 2022, $0.4 million and $0.7 million, respectively, was reclassified from other comprehensive income and recognized as a reduction to interest expense, net, in the accompanying consolidated statements of operations. During the six months ended June 30, 2023 and 2022, as a result of the effect of cash flow hedge accounting, the Company recognized a gain, net of tax, of $0.6 million and $9.0 million, respectively, in other comprehensive income. In addition, during the six months ended June 30, 2023 and 2022, $1.0 million and $1.4 million, respectively, was reclassified from other comprehensive income and recognized as a reduction to interest expense, net, in the accompanying consolidated statements of operations.

## (8) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses as of June 30, 2023 and December 31, 2022 consisted of the following (in thousands):

| | June 30, 2023 | December 31, 2022 |
|---|---|---|
| Accounts payable | $ 226,533 | $ 222,505 |
| Employee-related accruals | 36,651 | 41,872 |
| Accrued interest | 28,968 | 28,877 |
| Other | 45,548 | 44,244 |
| Total | $ 337,700 | $ 337,498 |

**(9) Debt**

The following is a summary of long term-debt as of June 30, 2023 and December 31, 2022 (in thousands):

| | June 30, 2023 | December 31, 2022 |
|---|---|---|
| Secured term loans | $ 750,000 | $ 765,000 |
| Senior unsecured notes | 1,450,000 | 1,450,000 |
| Unamortized deferred financing fees | (24,376) | (26,733) |
| | 2,175,624 | 2,188,267 |
| Current portion | (40,000) | (35,000) |
| Long-term portion | $ 2,135,624 | $ 2,153,267 |

In January 2021, the Company entered into a credit agreement, as amended, (the "2021 Credit Agreement"). The 2021 Credit Agreement included borrowings of $800 million under a secured term loan (the "2021 Term Loan"), and $450 million in commitments for revolving credit loans (the 2021 Revolver). The 2021 Revolver has a $55 million letter of credit sublimit. The 2021 Term Loan and the 2021 Revolver both have maturities in January 2026. On March 31, 2023, the Company amended the 2021 Credit Agreement to change the variable interest rate under the agreement to be based on Term SOFR. In connection with the amendment, amounts borrowed under the 2021 Credit Agreement bear interest quarterly at variable rates based upon the sum of (a) Term SOFR (subject to a zero percent floor) equal to Term SOFR (as defined) for the applicable interest period multiplied by the statutory reserve rate, plus (b) an applicable margin (as defined) ranging from 1.50% to 3.25% per annum based on the Consolidated Senior Secured Leverage Ratio (as defined), plus (c) a Term SOFR Adjustment (as defined) of 0.1%. Prior to the March 31, 2023 amendment to the Company's credit agreement, the variable interest rate for amounts borrowed under the 2021 Credit Agreement was based on Adjusted LIBOR. The 2021 Revolver carries a commitment fee during the term of the 2021 Credit Agreement ranging from 0.25% to 0.50% per annum of the average daily undrawn portion of the 2021 Revolver based on the Consolidated Senior Secured Leverage Ratio.

Under the 2021 Credit Agreement, the Company is subject to a number of restrictive covenants that, among other things, impose operating and financial restrictions on the Company. Financial covenants include a Consolidated Total Leverage Ratio and a Consolidated Interest Coverage Ratio, both as defined in the 2021 Credit Agreement. The 2021 Credit Agreement also contains certain customary events of default, including, among other things, failure to make payments when due thereunder, failure to observe or perform certain covenants, cross-defaults, bankruptcy and insolvency-related events, and non-compliance with healthcare laws. Any borrowing under the 2021 Credit Agreement may be repaid, in whole or in part, at any time and from time to time without premium or penalty, other than customary breakage costs, and any amounts repaid under the 2021 Revolver may be reborrowed. Mandatory prepayments are required under the 2021 Revolver when borrowings and letter of credit usage exceed the total commitments for revolving credit loans. Mandatory prepayments are also required in connection with the disposition of assets to the extent not reinvested, unpermitted debt transactions, and excess cash flow, as defined, if certain leverage tests are not met. There were no changes to these restrictive covenants per the March 2023 amendment. The Company was in compliance with all debt covenants as of June 30, 2023.

*Secured Term Loans*

The borrowings under the 2021 Term Loan require quarterly principal repayments of $5.0 million beginning June 30, 2021 through March 31, 2023, increasing to $10.0 million beginning June 30, 2023 through December 31, 2025, and the unpaid principal balance is due at maturity in January 2026. At June 30, 2023 and December 31, 2022, there was $750 million and $765 million, respectively, outstanding under the 2021 Term Loan. The interest rate under the 2021 Term Loan was 7.25% at June 30, 2023.

*Revolving Credit Facility*

During the six months ended June 30, 2023, the Company borrowed $50.0 million under the 2021 Revolver, and repaid $50.0 million during the period. At June 30, 2023, there were no outstanding borrowings under the 2021 Revolver. During the six months ended June 30, 2022, the Company had no borrowings under the 2021 Revolver. At June 30, 2023, based on the financial debt covenants under the 2021 Credit Agreement, the maximum borrowings available pursuant to the 2021 Revolver was $124.2 million.

*Senior Unsecured Notes*

In August 2021, the Company issued $600.0 million aggregate principal amount of 5.125% senior unsecured notes (the "5.125% Senior Notes"). The 5.125% Senior Notes will mature on March 1, 2030. Interest on the 5.125% Senior Notes is payable on March 1st and September 1st of each year, beginning on March 1, 2022. The 5.125% Senior Notes will be redeemable at the Company's option, in whole or in part, at any time on or after March 1, 2025, and the redemption price for the 5.125% Senior Notes if redeemed during the 12 months beginning (i) March 1, 2025 is 102.563%, (ii) March 1, 2026 is 101.281%, (iii) March 1, 2027 and thereafter is 100.000% , in each case together with accrued and unpaid interest. The Company may also redeem some or all of the 5.125% Senior Notes before March 1, 2025 at a redemption price of 100% of the principal amount of the 5.125% Senior Notes, plus a "make-whole" premium, together with accrued and unpaid interest. In addition, the Company may redeem up to 40% of the original aggregate principal amount of the 5.125% Senior Notes before March 1, 2025 with the proceeds from certain equity offerings at a redemption price equal to 105.125% of the principal amount of the 5.125% Senior Notes, together with accrued and unpaid interest. Furthermore, the Company may be required to make an offer to purchase the 5.125% Senior Notes upon the sale of certain assets or upon specific kinds of changes of control.

In January 2021, the Company issued $500.0 million aggregate principal amount of 4.625% senior unsecured notes (the "4.625% Senior Notes"). The 4.625% Senior Notes will mature on August 1, 2029. Interest on the 4.625% Senior Notes is payable on February 1st and August 1st of each year, beginning on August 1, 2021. The 4.625% Senior Notes will be redeemable at the Company's option, in whole or in part, at any time on or after February 1, 2024, and the redemption price for the 4.625% Senior Notes if redeemed during the 12 months beginning (i) February 1, 2024 is 102.313%, (ii) February 1, 2025 is 101.156%, (iii) February 1, 2026 and thereafter is 100.000%, in each case together with accrued and unpaid interest. The Company may also redeem some or all of the 4.625% Senior Notes before February 1, 2024 at a redemption price of 100% of the principal amount of the 4.625% Senior Notes, plus a "make-whole" premium, together with accrued and unpaid interest. In addition, the Company may redeem up to 40% of the original aggregate principal amount of the 4.625% Senior Notes before February 1, 2024 with the proceeds from certain equity offerings at a redemption price equal to 104.625% of the principal amount of the 4.625% Senior Notes, together with accrued and unpaid interest. Furthermore, the Company may be required to make an offer to purchase the 4.625% Senior Notes upon the sale of certain assets or upon specific kinds of changes of control.

In July 2020, the Company issued $350.0 million aggregate principal amount of 6.125% senior unsecured notes (the "6.125% Senior Notes"). The 6.125% Senior Notes will mature on August 1, 2028. Interest on the 6.125% Senior Notes is payable on February 1st and August 1st of each year, beginning on February 1, 2021. The 6.125% Senior Notes will be redeemable at the Company's option, in whole or in part, at any time on or after August 1, 2023, and the redemption price for the 6.125% Senior Notes if redeemed during the 12 months beginning (i) August 1, 2023 is 103.063%, (ii) August 1, 2024 is 102.042%, (iii) August 1, 2025 is 101.021% and (iv) August 1, 2026 and thereafter is 100.000%, in each case together with accrued and unpaid interest. The Company may also redeem some or all of the 6.125% Senior Notes before August 1, 2023 at a redemption price of 100% of the principal amount of the 6.125% Senior Notes , plus a "make-whole" premium, together with accrued and unpaid interest. In addition, the Company may redeem up to 40% of the original aggregate principal amount of the 6.125% Senior Notes before August 1, 2023 with the proceeds from certain equity offerings at a redemption price equal to 106.125% of the principal amount of the 6.125% Senior Notes, together with accrued and unpaid interest. Furthermore, the Company may be required to make an offer to purchase the 6.125% Senior Notes upon the sale of certain assets or upon specific kinds of changes of control.

**(10) Stockholders' Equity**

Under the Company's Third Amended and Restated Certificate of Incorporation, there are 300,000,000 shares of authorized Common Stock and 5,000,000 shares of authorized Preferred Stock. Holders of Common Stock are entitled to one vote for each share. The shares of Preferred Stock shall be issued with such designations, voting and other rights and preferences as may be determined from time to time by the Company's board of directors.

*Treasury Stock*

In May 2022, the Company's board of directors authorized a share repurchase program for up to $200.0 million of the Company's Common Stock through December 31, 2023 (the "Share Repurchase Program"). The timing and actual number of shares to be repurchased will depend upon market conditions and other factors. Shares of the Company's Common Stock may be purchased from time to time on the open market, through privately negotiated transactions or otherwise. Purchases of the Company's Common Stock may be started or stopped at any time without prior notice depending on market conditions and other factors. During the six months ended June 30, 2023 and 2022, the Company purchased 631,953 and 199,418 shares of the Company's Common Stock for $9.2 million and $3.4 million, respectively, under the Share Repurchase Program, which is reflected in Treasury Stock in the accompanying consolidated statements of stockholders' equity. As of June 30, 2023, there was $176.8 million remaining that may be used to purchase shares under the Share Repurchase Program.

*Warrants*

As of June 30, 2023, the Company had 3,871,557 warrants outstanding, which have an expiration date of November 20, 2024. Each warrant is exercisable into one share of Common Stock at a price of $11.50 per share. The exercise price and number of shares of Common Stock issuable upon exercise of the warrants may be adjusted in certain circumstances including in the event of a share dividend, or recapitalization, reorganization, merger or consolidation. However, the warrants will not be adjusted for the issuance of Common Stock at a price below its exercise price. There were no warrants exercised during the six months ended June 30, 2023. During the six months ended June 30, 2022, 52,785 warrants were exercised in a cashless transaction resulting in the issuance of 18,667 shares of Common Stock.

The Company classifies its warrants as a liability in its consolidated balance sheets because of certain terms included in the corresponding warrant agreement. The estimated fair value of the warrants is recorded as a liability, with such fair value reclassified to stockholders' equity upon the exercise of such warrants. Prior to exercise, the change in the estimated fair value of such warrants each period is recognized as a non-cash charge or gain in the Company's consolidated statements of operations.

A reconciliation of the changes in the warrant liability during the six months ended June 30, 2023 and 2022 was as follows (in thousands):

| | | |
|---|---|---|
| Estimated fair value of warrant liability at December 31, 2022 | $ | 38,503 |
| Change in estimated fair value of the warrant liability | | (22,726) |
| Estimated fair value of warrant liability at June 30, 2023 | $ | 15,777 |
| | | |
| Estimated fair value of warrant liability at December 31, 2021 | $ | 57,764 |
| Change in estimated fair value of the warrant liability | | (18,509) |
| Reclassification of warrant liability to equity for exercised warrants | | (495) |
| Estimated fair value of warrant liability at June 30, 2022 | $ | 38,760 |

*Equity-based Compensation*

In connection with the Company's 2019 Stock Incentive Plan (the "2019 Plan"), the Company provides equity-based compensation to attract and retain employees while also aligning employees' interest with the interests of its stockholders. The 2019 Plan permits the grant of various equity-based awards to selected employees and non-employee directors. At June 30, 2023, the 2019 Plan permits the grant of up to 10,000,000 shares of Common Stock, subject to certain adjustments and limitations. At June 30, 2023, 1,205,431 shares of the Company's Common Stock were available for issuance under the 2019 Plan.

*Stock Options*

There were no stock options granted during the six months ended June 30, 2023 and 2022. The following table provides the activity regarding the Company's outstanding stock options during the six months ended June 30, 2023 that were granted in connection with the 2019 Plan (in thousands, except per share data):

| | Number of Options | Weighted-Average Grant Date Fair Value per Share | Weighted-Average Exercise Price per Share | Weighted-Average Remaining Contractual Term |
|---|---|---|---|---|
| Outstanding, December 31, 2022 | 2,219 | $ 3.75 | $ 19.36 | |
| Activity - none | — | | | |
| Outstanding, June 30, 2023 | 2,219 | $ 3.75 | $ 19.36 | 5.6 Years |

The following table provides the activity for all outstanding stock options during the six months ended June 30, 2023 (in thousands, except per share data):

| | Number of Options | Weighted-Average Exercise Price per Share | Weighted-Average Remaining Contractual Term |
|---|---|---|---|
| Outstanding, December 31, 2022 | 4,962 | $ 12.19 | |
| Exercised | (559) | $ 4.38 | |
| Outstanding, June 30, 2023 | 4,403 | $ 13.18 | 5.4 Years |

During the six months ended June 30, 2023, 559,071 stock options were exercised on a cashless basis resulting in the issuance of 213,852 shares of the Company's Common Stock. During the six months ended June 30, 2022, 115,732 stock options were exercised resulting in $0.7 million of cash proceeds received by the Company and the issuance of 115,732 shares of the Company's Common Stock. Also, during the six months ended June 30, 2022, 258,352 stock options were exercised on a cashless basis resulting in the issuance of 111,071 shares of the Company's Common Stock.

*Restricted Stock*

During the six months ended June 30, 2023, the Company granted 140,556 shares of restricted stock to various employees which vest ratably over the three-year period following the vesting commencement date (which is generally the grant date), subject to the employees' continuous employment through the applicable vesting date. The grant-date fair value of these awards was $2.1 million. During the six months ended June 30, 2023, the Company granted 139,190 shares of restricted stock to its non-employee directors, which vest approximately one year following the grant date. The grant-date fair value of these awards was $1.4 million. During the six months ended June 30, 2023, the Company granted 17,143 shares of restricted stock to its interim CEO, which vest on August 31, 2023. The grant-date fair value of these awards was $0.2 million.

During the six months ended June 30, 2023, the Company granted 327,000 restricted stock units to senior executive management of the Company. These awards vest ratably over the three-year period following the vesting commencement date (February 1, 2023), subject to the employees' continuous employment through the applicable vesting date. The grant-date fair value of these awards was $4.9 million. In addition, during the six months ended June 30, 2023, the Company granted 327,000 shares of performance-vested restricted stock units ("Performance RSUs") to senior executive management of the Company which will vest on the third anniversary of the vesting commencement date (February 1, 2023) subject to the achievement of specified goals relative to the Company's three-year relative total shareholder return ("Relative TSR") performance versus the Company's defined peer group (the "Peer Group"), which is considered a market condition, and is also subject to the employees' continuous employment through the vesting date. The grant-date fair value of these awards, using a Monte-Carlo simulation analysis, was $6.6 million, which will be recognized as equity-based compensation expense from the date of grant through the third anniversary of the vesting commencement date, regardless of whether or the extent to which the awards ultimately vest. The payout of shares on the vesting date are as follows based on the Company's Relative TSR versus the Peer Group (for performance between the stated goals noted below, straight-line interpolation will be applied):

- Less than 25$^{th}$ Percentile – No payout
- Greater than or equal to 25$^{th}$ Percentile – 50% of Performance RSUs
- Equal to 50$^{th}$ Percentile – 100% of Performance RSUs
- Greater than or equal to 75$^{th}$ Percentile – 200% of Performance RSUs

Activity related to the Company's non-vested restricted stock grants for the six months ended June 30, 2023 is presented below (in thousands, except per share data):

| | Number of Shares of Restricted Stock | Weighted-Average Grant Date Fair Value per Share |
|---|---|---|
| Non-vested balance, December 31, 2022 | 2,261 | $ 23.90 |
| Granted | 951 | $ 15.89 |
| Vested | (665) | $ 21.52 |
| Forfeited | (303) | $ 28.09 |
| Non-vested balance, June 30, 2023 | 2,244 | $ 20.52 |

*Equity-Based Compensation Expense*

The Company recognized equity-based compensation expense of $6.8 million during the three months ended June 30, 2023, of which $7.7 million is included in general and administrative expenses in the accompanying consolidated statements of operations. The equity-based compensation expense recognized during the three months ended June 30, 2023 includes a net reduction to expense of $0.9 million included in cost of net revenue in the accompanying consolidated statements of operations. As a result of the change in the probability assessment of the vesting of certain unvested shares of restricted stock in which vesting was based on the achievement of a performance condition, during the three months ended June 30, 2023, the Company reversed $2.2 million of previously recognized equity-based compensation expense related to performance conditions no longer deemed probable, which is included in cost of net revenue in the accompanying consolidated statements of operations. The Company recognized equity-based compensation expense of $5.7 million during the three months ended June 30, 2022, of which $3.9 million and $1.8 million is included in general and administrative expenses and cost of net revenue, respectively, in the accompanying consolidated statements of operations. The Company recognized equity-based compensation expense of $12.8 million during the six months ended June 30, 2023, of which $12.3 million and $0.5 million is included in general and administrative expenses and cost of net revenue, respectively, in the accompanying consolidated statements of operations. The Company recognized equity-based compensation expense of $11.2 million during the six months ended June 30, 2022, of which $7.5 million and $3.7 million is included in general and administrative expenses and cost of net revenue, respectively, in the accompanying consolidated statements of operations. At June 30, 2023, there was $30.9 million of unrecognized compensation expense related to equity-based compensation awards, which is expected to be recognized over a weighted-average period of 1.9 years.

As previously disclosed, by mutual agreement with the Company, effective June 30, 2023, Stephen Griggs resigned as Chief Executive Officer of the Company. In connection with Mr. Griggs' separation, the Company accelerated the vesting of 78,130 unvested stock options and 143,739 unvested shares of restricted stock which were subject to time-based vesting conditions only. In addition, the Company modified the vesting conditions for 159,555 shares of Performance RSU's to allow for vesting based on the achievement of the applicable Relative TSR, but no longer requires continuous employment through the applicable vesting date. In connection with the accelerated vesting and modification, the Company recognized $4.0 million of equity-based compensation expense, which is included in general and administrative expenses in the accompanying consolidated statements of operations for the three and six months ended June 30, 2023.

**ADAPTHEALTH CORP. AND SUBSIDIARIES**

**Notes to Interim Consolidated Financial Statements (Unaudited) (Continued)**

### (11) Earnings Per Share

Earnings Per Share ("EPS") is computed by dividing net income by the weighted average number of common shares outstanding during the period on a basic and diluted basis. The Company computes diluted net income per share using the more dilutive of the treasury stock method and the two-class method after giving effect to all potential dilutive Common Stock.

The Company's potentially dilutive securities include potential common shares related to outstanding warrants, contingent consideration common shares, unvested restricted stock, outstanding stock options and outstanding preferred stock. Refer to Note 10, *Stockholders' Equity*, for additional discussion of these potential dilutive securities.

Diluted net income per share considers the impact of potentially dilutive securities except when the potential common shares have an antidilutive effect. The Company's outstanding preferred stock are considered participating securities, thus requiring the two-class method of computing diluted net income per share. Computation of diluted net income per share under the two-class method excludes from the numerator any dividends paid or owed on participating securities and any undistributed earnings considered to be attributable to participating securities. The related participating securities are similarly excluded from the denominator.

Computations of basic and diluted net income per share were as follows (in thousands, except per share data):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| **Numerator** | | | | |
| Net income attributable to AdaptHealth Corp. | $ 13,977 | $ 14,032 | $ 29,684 | $ 55,782 |
| Less: Earnings allocated to participating securities (1) | 1,182 | 1,186 | 2,508 | 4,721 |
| Net income for basic EPS | $ 12,795 | $ 12,846 | $ 27,176 | $ 51,061 |
| Change in fair value of warrant liability (2) | — | — | (22,726) | (18,509) |
| Net income for diluted EPS | $ 12,795 | $ 12,846 | $ 4,450 | $ 32,552 |
| | | | | |
| **Denominator (1) (2)** | | | | |
| Basic weighted-average common shares outstanding | 134,295 | 134,332 | 134,409 | 134,178 |
| Add: Warrants (2) | — | — | 857 | 1,313 |
| Add: Stock options | 833 | 2,472 | 1,552 | 2,597 |
| Add: Unvested restricted stock | 1,105 | 211 | 1,182 | 247 |
| Diluted weighted-average common shares outstanding | 136,233 | 137,015 | 138,000 | 138,335 |
| | | | | |
| Basic net income per share | $ 0.10 | $ 0.10 | $ 0.20 | $ 0.38 |
| Diluted net income per share | $ 0.09 | $ 0.09 | $ 0.03 | $ 0.24 |

(1) The Company's preferred stock are considered participating securities. Computation of EPS under the two-class method excludes from the numerator any dividends paid or owed on participating securities and any undistributed earnings considered to be attributable to participating securities. The related participating securities are similarly excluded from the denominator.

(2) For the six months ended June 30, 2023 and 2022, the impact to earnings from the change in fair value of the Company's warrant liability is excluded from the numerator, and the corresponding security is included in the denominator, for purposes of computing diluted net income per share. These adjustments are included as the effect of the numerator and denominator adjustments for these derivative instruments is dilutive as a result of the non-cash

gains recorded for the change in fair value of these instruments during the periods. For the three months ended June 30, 2023, these adjustments are excluded from the computation of diluted net income per share under the treasury stock method since the warrants were out-of-the money in that period.

The table below provides the weighted-average number of potential common shares associated with outstanding securities not included in the Company's computation of diluted net income per share for the three and six months ended June 30, 2023 and 2022 because to do so would be antidilutive (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| Preferred Stock | 12,406 | 12,406 | 12,406 | 12,406 |
| Warrants | — | 1,168 | — | — |
| Stock options | 2,219 | 468 | 468 | 468 |
| Unvested restricted stock | — | 391 | — | 336 |
| Total | 14,625 | 14,433 | 12,874 | 13,210 |

**(12) Leases**

The Company leases its operating locations and office facilities under noncancelable lease agreements which expire at various dates through March 2033. Some of these lease agreements include an option to renew at the end of the term. The Company also leases certain office facilities on a month-to-month basis. In some instances, the Company is also required to pay its pro rata share of real estate taxes and utility costs in connection with the premises. Some of the leases contain fixed annual increases of minimum rent.

The Company's leases frequently allow for lease payments that could vary based on factors such as inflation and the incurrence of contractual charges such as those for common area maintenance or utilities.

Renewal and/or early termination options are common in the lease arrangements, particularly with respect to real estate leases. The Company's right-of-use assets and lease liabilities generally include periods covered by renewal options and exclude periods covered by early termination options (based on the conclusion that it is reasonably certain that the Company will exercise such renewal options and not exercise such early termination options).

The Company is also party to certain sublease arrangements related to real estate leases, where the Company acts as the lessee and intermediate lessor.

The Company leases certain of its vehicles through finance leases. The finance lease obligations represent the present value of minimum lease payments under the respective agreement, payable monthly at various interest rates.

**ADAPTHEALTH CORP. AND SUBSIDIARIES**

**Notes to Interim Consolidated Financial Statements (Unaudited) (Continued)**

The following table presents information about the Company's right-of-use assets and lease liabilities as of June 30, 2023 and December 31, 2022 (in thousands):

| | Consolidated Balance Sheets Line Item | June 30, 2023 | December 31, 2022 |
|---|---|---|---|
| Right-of-use (ROU) assets: | | | |
| Operating lease ROU assets | Operating lease right-of-use assets | $ 117,798 | $ 129,506 |
| Finance lease ROU assets | Finance lease right-of-use assets | 14,819 | 5,423 |
| Finance lease ROU assets | Equipment and other fixed assets, net | — | 103 |
| Total ROU assets | | $ 132,617 | $ 135,032 |
| Operating lease liabilities: | | | |
| Current operating lease liabilities | Current portion of operating lease obligations | $ 29,579 | $ 30,001 |
| Noncurrent operating lease liabilities | Operating lease obligations, less current portion | 93,241 | 104,394 |
| Total operating lease liabilities | | $ 122,820 | $ 134,395 |
| Finance lease liabilities: | | | |
| Current finance lease liabilities | Current portion of finance lease obligations | $ 4,246 | $ 2,211 |
| Noncurrent finance lease liabilities | Finance lease obligations, less current portion | 10,638 | 3,950 |
| Total finance lease liabilities | | $ 14,884 | $ 6,161 |

The following table presents information about lease costs and expenses and sublease income for the three and six months ended June 30, 2023 and 2022 (in thousands). The amounts below are included in cost of net revenue in the accompanying consolidated statements of operations for the periods presented.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| Operating lease costs | $ 10,598 | $ 9,661 | $ 21,072 | $ 19,299 |
| Finance lease costs: | | | | |
| Amortization of ROU assets | $ 2,477 | $ 2,165 | $ 3,007 | $ 6,626 |
| Other lease costs and income: | | | | |
| Variable leases costs (1) | $ 4,538 | $ 4,707 | $ 10,559 | $ 8,952 |
| Sublease income | $ 409 | $ 348 | $ 787 | $ 683 |

(1) Amounts represent variable costs incurred that were not included in the initial measurement of the lease liability such as common area maintenance and utilities costs associated with leased real estate.

The following table provides the weighted average remaining lease terms and weighted average discount rates for the Company's leases as of June 30, 2023 and December 31, 2022:

| | June 30, 2023 | December 31, 2022 |
|---|---|---|
| Weighted average remaining lease term, weighted based on lease liability balances: | | |
| Operating leases | 5.9 years | 6.2 years |
| Finance leases | 3.7 years | 3.7 years |
| Weighted average discount rate, weighted based on remaining balance of lease payments: | | |
| Operating leases | 4.1 % | 3.9 % |

The following table provides the undiscounted amount of future cash flows related to the Company's operating and finance leases, as well as a reconciliation of such undiscounted cash flows to the amounts included in the Company's lease liabilities as of June 30, 2023 (in thousands):

| | Operating Leases | Finance Leases |
|---|---|---|
| 2023 (remaining six months) | $ 20,749 | $ 3,098 |
| 2024 | 30,847 | 4,740 |
| 2025 | 25,988 | 4,439 |
| 2026 | 18,162 | 3,768 |
| 2027 | 11,780 | 964 |
| Thereafter | 35,119 | — |
| Total future undiscounted lease payments | $ 142,645 | $ 17,009 |
| Less: amount representing interest | (19,825) | (2,125) |
| Present value of future lease payments (lease liability) | $ 122,820 | $ 14,884 |

The following table provides certain cash flow and supplemental non-cash information related to the Company's lease liabilities for the six months ended June 30, 2023 and 2022, respectively (in thousands):

| | Six Months Ended June 30, | |
|---|---|---|
| Cash paid for amounts included in the measurement of lease liabilities: | 2023 | 2022 |
| Operating cash payments for operating leases | $ 20,847 | $ 19,220 |
| Financing cash payments for finance leases | $ 3,679 | $ 12,547 |
| Lease liabilities arising from obtaining right-of-use assets: | | |
| Operating leases | $ 5,112 | $ 4,582 |
| Finance leases | $ 12,203 | $ 1,335 |

**(13) Income Taxes**

The Company is subject to U.S. federal, state, and local income taxes. For the three months ended June 30, 2023 and 2022, the Company recorded income tax expense of $5.4 million and $8.9 million, respectively. For the six months ended June 30, 2023 and 2022, the Company recorded income tax expense of $3.7 million and $14.5 million, respectively.

As of June 30, 2023 and December 31, 2022, the Company had an unrecognized tax benefit of $6.6 million.

*Tax Receivable Agreement*

AdaptHealth Corp. is party to a Tax Receivable Agreement ("TRA") with certain current and former members of AdaptHealth Holdings LLC, a Delaware limited liability company ("AdaptHealth Holdings"). The TRA provides for the payment by AdaptHealth Corp. of 85% of the tax savings, if any, that AdaptHealth Corp. realizes (or is deemed to realize in certain circumstances) as a result of (i) certain increases in tax basis resulting from two exchanges of common units representing limited liability company interests in AdaptHealth Holdings and shares of Class B Common Stock, par value $0.0001 per share (which, as of July 28, 2021, no longer exists); (ii) certain tax attributes of the corresponding sellers existing prior to an exchange; (iii) imputed interest deemed to be paid by AdaptHealth Corp. as a result of payments it makes under the TRA; and (iv) certain increases in tax basis resulting from payments AdaptHealth Corp. makes under the TRA.

During the six months ended June 30, 2022, the Company recognized an expense of $4.5 million related to changes in the estimated liability related to the TRA as a result of settling the current portion of contingent consideration common shares during that period, which is included in Other loss (income), net in the accompanying consolidated statement of operations.

At June 30, 2023, the Company's liability relating to the TRA was $294.2 million, of which $2.3 million and $291.9 million is included in other current liabilities and other long-term liabilities, respectively, in the accompanying consolidated balance sheets. At December 31, 2022, the Company's liability relating to the TRA was $297.4 million, of which $3.3 million and $294.1 million is included in other current liabilities and other long-term liabilities, respectively, in the accompanying consolidated balance sheets.

**(14) Commitments and Contingencies**

In the normal course of business, the Company is subject to loss contingencies, such as legal proceedings and claims arising out of its business that cover a wide range of matters. In accordance with FASB ASC Topic 450, *Accounting for Contingencies*, the Company records accruals for such loss contingencies when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. Significant judgment is required to determine both probability and the estimated amount. The Company reviews its accruals at least quarterly and adjusts accordingly to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and updated information. At this time, the Company has no material accruals related to lawsuits, claims, investigations and proceedings. While there can be no assurance, based on the Company’s evaluation of information currently available, the Company’s management believes any liability that may ultimately result from resolution of such loss contingencies will not have a material adverse effect on the Company’s financial conditions or results of operations. However, the Company’s assessment may be affected by limited information. Accordingly, the Company’s assessment may change in the future based upon availability of new information and further developments in the proceedings of such matters. The results of legal proceedings are inherently uncertain, and material adverse outcomes are possible.

On July 25, 2017, AdaptHealth Holdings was served with a subpoena by the U.S. Attorney’s Office for the United States District Court for the Eastern District of Pennsylvania ("EDPA”) pursuant to 18 U.S.C. §3486 to produce certain audit records and internal communications regarding ventilator billing. The investigation focused on billing practices regarding one payor that contracted for bundled payments for certain ventilators. AdaptHealth Holdings has cooperated with investigators and, through agreement with the EDPA, has submitted all information requested in the Company’s possession. An independent third party was retained by AdaptHealth Holdings that identified overpayments and underpayments for ventilator billings related to the payor, and a remittance was sent to reconcile that account. On October 3, 2019, the Company received a follow-up civil investigative demand from the EDPA regarding a document previously produced to the EDPA and patients included in the review by the independent third party. The Company has responded to the EDPA and supplemented its production as requested with any relevant documents in the Company’s possession. During subsequent communications, the EDPA indicated to the Company that the investigation remained ongoing. The EDPA also requested additional information regarding certain patient services and claims refunds processed by the Company in 2017. The Company produced this information in coordination with the EDPA. The EDPA also raised questions regarding other aspects of ventilator billing. On April 21, 2023, the Company entered into a settlement agreement with the EDPA resolving all allegations and claims related to the investigation without a determination of liability on the part of the Company. In connection with the settlement, the Company made a payment of $5.3 million, which was fully accrued as of December 31, 2022, and was not required to enter into any post-settlement agreements related to the settlement.

In March 2019, prior to its acquisition by the Company, AeroCare Holdings, Inc. ("AeroCare") was served with a civil investigative demand (CID) issued by the United States Attorney for the Western District of Kentucky ("WDKY"). The CID seeks to investigate allegations that AeroCare improperly billed, or caused others to improperly bill, for oxygen tank contents that were not delivered to beneficiaries. The WDKY has requested documents related to such oxygen tank content billing as well as other categories of information. AeroCare has cooperated with the WDKY and has produced documents and provided explanations of its billing practices. In September 2020, the WDKY indicated the investigation includes alleged violations of the federal False Claims Act and as well as alleged violations of state Medicaid false claims acts in ten states. AeroCare has cooperated fully with the investigation and has indicated to the WDKY that concerns raised do not accurately identify Medicare coverage criteria and that state Medicaid coverage requirements generally do not provide for separate reimbursement for portable gaseous oxygen contents in the circumstances at issue. On June 23, 2022, the complaint filed in connection with this investigation was dismissed by the United States District Court in the Western District of Kentucky with the consent of the WDKY.

On July 29, 2021, Robert Charles Faille Jr., a purported shareholder of the Company, filed a purported class action complaint against the Company and certain of its current and former officers in the United States District Court for the Eastern District of Pennsylvania (the "Complaint”). The Complaint purports to be asserted on behalf of a class of persons who purchased the Company's stock between November 11, 2019 and July 16, 2021. The Complaint generally alleges that the Company and certain of its current and former officers violated federal securities laws by making allegedly false and misleading statements and/or failing to disclose material information regarding the Company's organic growth trajectory. The Complaint seeks unspecified damages. On October 14, 2021, the Delaware County Employees Retirement System and the Bucks County Employees Retirement System were named Lead Plaintiffs. Pursuant to the scheduling order, Lead Plaintiffs filed a consolidated complaint on November 22, 2021 (the "Consolidated Complaint"), which asserts substantially the same claim, but adds a number of current and former directors of the Company as additional defendants and a new theory of recovery based on the Company's alleged failure to disclose information concerning the Company's former Co-CEO's alleged tax fraud arising from certain past private activity (the "Consolidated Class Action"). On January 20, 2022, the defendants filed a motion to dismiss the Consolidated Complaint. Lead Plaintiffs' opposition to defendants' motion was filed on March 21, 2022, and defendants' reply was filed April 15, 2022. On June 9, 2022, the court issued an opinion and order denying the defendants' motion to dismiss the Consolidated Complaint.

On July 15, 2022, the court entered a scheduling order providing for, inter alia, a schedule for completing class certification discovery, as well as setting a briefing schedule for motions for class certification. Pursuant to the scheduling order, Lead Plaintiffs filed their motion for class certification on July 28, 2022. On December 12, 2022, the court entered an amended scheduling order with respect to class certification discovery and remaining briefing on Lead Plaintiffs' motion for class certification. Pursuant to the amended scheduling order, the defendants filed their opposition to Lead Plaintiffs' motion for class certification on March 30, 2023, and Lead Plaintiffs filed their reply on May 22, 2023.

On June 7, 2023, the court entered as order staying the Consolidated Class Action pending the outcome of a private mediation between the parties.

The Company intends to vigorously defend against the allegations contained in the Consolidated Complaint, but there can be no assurance that the defense will be successful.

On December 6, 2021, a putative shareholder of the Company, Carol Hessler, filed a shareholder derivative complaint against certain current and former directors and officers of the Company in the United States District Court for the Eastern District of Pennsylvania (the "Derivative Complaint"). The Derivative Complaint generally alleges that the defendants breached their fiduciary duties owed to the Company by allegedly causing or allowing misrepresentations and/or omissions regarding the Company's organic growth and the Company's former Co-CEO's alleged criminal activity, failing to maintain an adequate system of oversight, disclosure controls and procedures, and internal controls over financial reporting and due diligence into the Company's management team, and engaging in insider trading. The Derivative Complaint also alleges claims for waste of corporate assets and unjust enrichment. Finally, the Derivative Complaint alleges that certain of the individual defendants violated Section 14(a) of the Securities Exchange Act by allegedly negligently issuing, causing to be issued, and participating in the issuance of materially misleading statements to stockholders in the Company's Proxy Statements on Schedule DEF 14A in connection with a Special Meeting of Stockholders, held on March 3, 2021, and the 2021 Annual Meeting of Stockholders, held on July 27, 2021. The Derivative Complaint seeks, among other things, an award of money damages.

On March 4, 2022, the parties stipulated to stay the Hessler action pending final resolution of the Consolidated Class Action. On March 7, 2022, the court so-ordered the parties' stipulation.

The Company intends to vigorously defend against the allegations contained in the Derivative Complaint, but there can be no assurance that the defense will be successful.

On May 2, 2022, the U.S. Attorney's Office for the Southern District of New York issued a civil investigative demand to a subsidiary of the Company, pursuant to the False Claims Act, 31 U.S.C. § 3733 ("FCA") surrounding whether the subsidiary submitted false claims in violation of the FCA related to its billing of, and reimbursements from, federal health care programs for ventilators provided to patients from January 1, 2015 to the present. The Company is fully cooperating with the investigation. Given the investigation is in the early stages, it is not possible to determine whether it will have a material adverse effect on the Company.

**(15) Related Party Transactions**

The Company and one of its executive officers and shareholder own an equity interest in a vendor of the Company that provides automated order intake software. The individual's equity ownership is less than 1%. The expense related to this vendor was $2.7 million and $1.7 million for the three months ended June 30, 2023 and 2022, respectively, and $5.0 million and $3.1 million for the six months ended June 30, 2023 and 2022, respectively. The Company accounts for this investment under the cost method of accounting based on its level of equity ownership. As of June 30, 2023 and December 31, 2022, the Company had an immaterial outstanding accounts payable balance to this vendor.

A director of the Company serves on the board of directors of a third-party payor that does business with the Company in the normal course of providing services to patients. Net revenue from this third-party payor was less than 1.0% of the Company's consolidated net revenue during the three and six months ended June 30, 2023 and 2022. As of June 30, 2023 and December 31, 2022, the Company had an immaterial outstanding accounts receivable balance from this third-party payor.

A director of the Company is an employee of a beneficial owner of more than 5% of the Company's Common Stock as of June 30, 2023. This beneficial owner is also a minority shareholder of a vendor that provides medical equipment and supplies to the Company in the normal course of business. Purchases from this vendor were $9.4 million and $15.6 million for the three months ended June 30, 2023 and 2022, respectively, and $20.6 million and $29.6 million, for the six months ended June 30, 2023 and 2022, respectively. As of June 30, 2023 and December 31, 2022, the Company had an immaterial outstanding accounts payable balance to this vendor.

A former regional manager of the Company is a shareholder of a business which provides contract labor to the Company. Payments to this service provider were $7.3 million and $5.7 million for the three months ended June 30, 2023 and 2022, respectively, and $11.2 million and $10.5 million for the six months ended June 30, 2023 and 2022, respectively. As of June 30, 2023 and December 31, 2022, the Company had $0.2 million and $2.2 million, respectively, in outstanding accounts payable to this service provider. The regional manager left the Company effective March 31, 2023 via a separation agreement which provides severance and separation benefits, including a pro rata bonus. Also, the Company and the former employee have entered into a short-term consulting agreement whereby the former employee's services will be available to the Company through March 2024.

**(16) Subsequent Events**

The Company evaluated subsequent events for the period from June 30, 2023 through the date that the Company's interim consolidated financial statements were available to be issued. There were no subsequent events requiring adjustment to the Company's interim consolidated financial statements or additional disclosure.

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

The following discussion should be read in conjunction with AdaptHealth Corp.'s ("AdaptHealth" or the "Company") consolidated financial statements and the accompanying notes included in this report. All amounts presented are in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"), except as noted. In addition to historical information, this discussion contains forward-looking statements that involve risks, uncertainties and assumptions that could cause actual results to differ materially from management's expectations. Factors that could cause such differences include, but are not limited to, those discussed in Item 1A, "*Risk Factors*", in our 2022 Annual Report on Form 10-K filed with the SEC on February 28, 2023. Certain amounts that appear in this section may not sum due to rounding.

**AdaptHealth Corp. Overview**

AdaptHealth is a national leader in providing patient-centered, healthcare-at-home solutions including home medical equipment ("HME"), medical supplies, and related services. The Company focuses primarily on providing (i) sleep therapy equipment, supplies and related services (including CPAP and bi PAP services) to individuals suffering from obstructive sleep apnea ("OSA"), (ii) medical devices and supplies to patients for the treatment of diabetes (including continuous glucose monitors and insulin pumps), (iii) home medical equipment to patients discharged from acute care and other facilities, (iv) oxygen and related chronic therapy services in the home, and (v) other HME devices and supplies on behalf of chronically ill patients with wound care, urological, incontinence, ostomy and nutritional supply needs. The Company services beneficiaries of Medicare, Medicaid and commercial insurance payors. As of June 30, 2023, AdaptHealth serviced approximately 4.0 million patients annually in all 50 states through its network of approximately 710 locations in 47 states. The Company's principal executive offices are located at 220 West Germantown Pike, Suite 250, Plymouth Meeting, Pennsylvania 19462.

**Impact of Inflation**

Current and future inflationary effects may be driven by, among other things, general inflationary cost increases, supply chain disruptions and governmental stimulus or fiscal policies. The cost to manufacture and distribute the equipment and products that AdaptHealth provides to patients is influenced by the cost of materials, labor, and transportation, including fuel costs. AdaptHealth continues to experience inflationary pressure and higher costs as a result of the increasing cost of materials, labor and transportation. The increase in the cost of equipment and products is due in part to higher cost of shipping and general inflationary cost increases. Additionally, it is not certain that AdaptHealth will be able to pass increased costs onto customers to offset inflationary pressures. Continuing increases in inflation could impact the overall demand for AdaptHealth's products and services, its costs for labor, equipment and products, and the margins it is able to realize on its products, all of which could have an adverse impact on AdaptHealth's business, financial position, results of operations and cash flows. In addition, future volatility of general price inflation and the impact of inflation on costs and availability of materials, costs for shipping and warehousing and other operational overhead could adversely affect AdaptHealth's financial results. Although there have been increases in inflation, AdaptHealth cannot predict whether these trends will continue. AdaptHealth's mitigation efforts relating to these inflationary pressures include utilizing AdaptHealth's purchasing power in negotiations with vendors and the increased use of technology to drive operating efficiencies and control costs, such as AdaptHealth's digital platform for prescriptions, orders and delivery. In April 2023, AdaptHealth formalized a cost management program and continues to execute against this plan to drive operating efficiencies and more simplified and scalable business processes. These efforts include rationalization of AdaptHealth's real estate footprint, renegotiation of certain supply contracts, and expanded use of more efficient operating models for certain back-office functions. These changes reflect AdaptHealth's continued strategic focus on process standardization and efficiency across the enterprise through technology and related investments. In total, AdaptHealth anticipates this program will result in approximately $40 million of annualized Adjusted EBITDA improvement with a 2023 Adjusted EBITDA impact of approximately $25 million and a cost to achieve of approximately $8 million. In the second quarter of 2023, AdaptHealth executed against a workforce reduction. In addition, AdaptHealth continues to evaluate all opportunities to rationalize its operating footprint and related cost structure to better align with business needs.

***Key Components of Operating Results***

***Net Revenue.*** Net revenue is recorded for services that AdaptHealth provides to patients for home healthcare equipment, medical supplies to the home and related services. AdaptHealth' s primary service lines are (i) sleep therapy equipment, supplies and related services (including CPAP and bi PAP services) to individuals suffering from OSA, (ii) medical devices and supplies to patients for the treatment of diabetes (including continuous glucose monitors and insulin pumps), (iii) home medical equipment to patients discharged from acute care and other facilities, (iv) oxygen and related chronic therapy services in the home, and (v) other HME devices and supplies on behalf of chronically ill patients with wound care, urological, incontinence, ostomy and nutritional supply needs. Revenues are recorded either (x) at a point in time for the sale of supplies and disposables, or (y) over the service period for equipment rental (including, but not limited to, CPAP machines, hospital beds, wheelchairs and other equipment), at amounts estimated to be received from patients or under reimbursement arrangements with Medicare, Medicaid and other third-party payors, including private insurers. Certain trends or uncertainties that may have a material impact on revenue growth and operating results include the Company's ability to obtain new patient starts and to generate referrals from patient referral sources and the ability to meet the increased demand considering supply chain issues and inflationary pressures.

***Cost of Net Revenue.*** Cost of net revenue primarily includes the cost of non-capitalized medical equipment and supplies, distribution expenses, labor costs, facilities and vehicle rental costs, revenue cycle management costs and depreciation for capitalized patient equipment. Distribution expenses represent the cost incurred to coordinate and deliver products and services to the patients. Included in distribution expenses are leasing, maintenance, licensing and fuel costs for the vehicle fleet; salaries, benefits and other costs related to drivers and dispatch personnel; and amounts paid to couriers.

***General and Administrative Expenses.*** General and administrative expenses consist of corporate support costs including information technology, human resources, finance, contracting, legal, compliance, equity-based compensation, transaction expenses and other administrative costs.

***Depreciation and Amortization, Excluding Patient Equipment Depreciation.*** Depreciation expense includes depreciation charges for capital assets other than patient equipment (which is included as part of the cost of net revenue). Amortization expense includes amortization of identifiable intangible assets.

**Factors Affecting AdaptHealth's Operating Results**

AdaptHealth's operating results and financial performance are influenced by certain unique events during the periods discussed herein, including the following:

*Acquisitions*

AdaptHealth accounts for its acquisitions in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 805, *Business Combinations*, and the operations of the acquired entities are included in the historical results of AdaptHealth for the periods following the closing of the acquisition. Refer to Note 3, *Acquisitions*, included in our interim consolidated financial statements for the three and six months ended June 30, 2023 included in this Quarterly Report on Form 10-Q for additional information regarding AdaptHealth's acquisitions.

*Seasonality*

AdaptHealth's business experiences some seasonality. Its patients are generally responsible for a greater percentage of the cost of their treatment or therapy during the early months of the year due to co-insurance, co-payments and deductibles, and therefore may defer treatment and services of certain therapies until meeting their annual deductibles. In addition, changes to employer insurance coverage often go into effect at the beginning of each calendar year which may impact eligibility requirements and delay or defer treatment. Also, net revenue generated by the Company's diabetes product line is typically higher in the fourth quarter compared to the earlier part of the year due to the timing of when patients meet their annual deductibles and their associated reordering patterns. These factors may lead to lower net revenue and cash flow in the early part of the year versus the latter half of the year. Additionally, the increased incidence of respiratory infections during the winter season may result in initiation of additional respiratory services such as oxygen therapy for certain patient populations. AdaptHealth's quarterly operating results may fluctuate significantly in the future depending on these and other factors.

**Key Business Metrics**

AdaptHealth focuses on Net revenue, EBITDA, Adjusted EBITDA and Free Cash Flow as it reviews its performance. Refer to EBITDA, Adjusted EBITDA and Free Cash Flow included in the Non-GAAP measures section below.

Total net revenue is comprised of net sales revenue and net revenue from fixed monthly equipment reimbursements less implicit price concessions. Net sales revenue consists of revenue recognized at a point in time for the sale of supplies and disposables. Net revenue from fixed monthly equipment reimbursements consists of revenue recognized over the service period for equipment (including, but not limited to, CPAP machines, oxygen concentrators, ventilators, hospital beds, wheelchairs and other equipment).

| **Net Revenue (dollars in thousands)** | **Three Months Ended June 30, 2023 Dollars** | **June 30, 2023 Revenue Percentage** | **June 30, 2022 Dollars** | **June 30, 2022 Revenue Percentage** |
|---|---|---|---|---|
| | **(Unaudited)** | | | |
| Net sales revenue: | | | | |
| Sleep | $ 215,849 | 27.2 % | $ 194,693 | 26.8 % |
| Diabetes | 165,021 | 20.8 % | 162,259 | 22.3 % |
| Supplies to the home | 48,323 | 6.1 % | 43,881 | 6.0 % |
| Respiratory | 8,191 | 1.0 % | 7,891 | 1.1 % |
| HME | 27,237 | 3.4 % | 30,313 | 4.2 % |
| Other | 57,012 | 7.2 % | 53,617 | 7.4 % |
| Total net sales revenue | $ 521,633 | 65.8 % | $ 492,654 | 67.7 % |
| Net revenue from fixed monthly equipment reimbursements: | | | | |
| Sleep | $ 86,783 | 10.9 % | $ 65,661 | 9.0 % |
| Diabetes | 3,886 | 0.5 % | 4,034 | 0.6 % |
| Respiratory | 145,889 | 18.4 % | 128,865 | 17.7 % |
| HME | 23,974 | 3.0 % | 25,547 | 3.5 % |
| Other | 11,121 | 1.4 % | 10,853 | 1.5 % |
| Total net revenue from fixed monthly equipment reimbursements | $ 271,653 | 34.2 % | $ 234,960 | 32.3 % |
| Total net revenue: | | | | |
| Sleep | $ 302,632 | 38.1 % | $ 260,354 | 35.8 % |
| Diabetes | 168,907 | 21.3 % | 166,293 | 22.9 % |
| Supplies to the home | 48,323 | 6.1 % | 43,881 | 6.0 % |
| Respiratory | 154,080 | 19.4 % | 136,756 | 18.8 % |
| HME | 51,211 | 6.5 % | 55,860 | 7.7 % |
| Other | 68,133 | 8.6 % | 64,470 | 8.9 % |
| Total net revenue | $ 793,286 | 100.0 % | $ 727,614 | 100.0 % |

| Net Revenue (dollars in thousands) | Six Months Ended June 30, 2023 Dollars | Six Months Ended June 30, 2023 Revenue Percentage | Six Months Ended June 30, 2022 Dollars | Six Months Ended June 30, 2022 Revenue Percentage |
|---|---|---|---|---|
| | (Unaudited) | | | |
| Net sales revenue: | | | | |
| Sleep | $ 429,306 | 27.9 % | $ 387,028 | 27.0 % |
| Diabetes | 307,565 | 20.0 % | 313,618 | 21.9 % |
| Supplies to the home | 94,878 | 6.2 % | 83,746 | 5.8 % |
| Respiratory | 16,120 | 1.0 % | 16,036 | 1.1 % |
| HME | 55,800 | 3.6 % | 60,365 | 4.2 % |
| Other | 110,219 | 7.2 % | 107,816 | 7.5 % |
| Total net sales revenue | $ 1,013,888 | 65.9 % | $ 968,609 | 67.6 % |
| Net revenue from fixed monthly equipment reimbursements: | | | | |
| Sleep | $ 167,705 | 10.9 % | $ 123,599 | 8.6 % |
| Diabetes | 7,717 | 0.5 % | 7,980 | 0.6 % |
| Respiratory | 280,612 | 18.2 % | 261,445 | 18.2 % |
| HME | 46,315 | 3.0 % | 51,272 | 3.6 % |
| Other | 21,675 | 1.4 % | 20,912 | 1.5 % |
| Total net revenue from fixed monthly equipment reimbursements | $ 524,024 | 34.1 % | $ 465,208 | 32.4 % |
| Total net revenue: | | | | |
| Sleep | $ 597,011 | 38.8 % | $ 510,627 | 35.6 % |
| Diabetes | 315,282 | 20.5 % | 321,598 | 22.4 % |
| Supplies to the home | 94,878 | 6.2 % | 83,746 | 5.8 % |
| Respiratory | 296,732 | 19.3 % | 277,481 | 19.4 % |
| HME | 102,115 | 6.6 % | 111,637 | 7.8 % |
| Other | 131,894 | 8.6 % | 128,728 | 9.0 % |
| Total net revenue | $ 1,537,912 | 100.0 % | $ 1,433,817 | 100.0 % |

**Results of Operations**

***Comparison of Three Months Ended June 30, 2023 and Three Months Ended June 30, 2022.***

The following table summarizes AdaptHealth's consolidated results of operations for the three months ended June 30, 2023 and 2022:

| | Three Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2023 | | 2022 | | Increase/(Decrease) | |
| (in thousands, except percentages) | Dollars | Revenue Percentage | Dollars | Revenue Percentage | Dollars | Percentage |
| | (unaudited) | | | | | |
| **Net revenue** | **$ 793,286** | **100.0%** | **$ 727,614** | **100.0%** | **$ 65,672** | **9.0%** |
| Costs and expenses: | | | | | | |
| Cost of net revenue | 673,397 | 84.9% | 610,011 | 83.8% | 63,386 | 10.4% |
| General and administrative expenses | 50,078 | 6.3% | 42,548 | 5.8% | 7,530 | 17.7% |
| Depreciation and amortization, excluding patient equipment depreciation | 15,549 | 2.0% | 15,877 | 2.2% | (328) | (2.1)% |
| **Total costs and expenses** | **739,024** | **93.2%** | **668,436** | **91.8%** | **70,588** | **10.6%** |
| **Operating income** | **54,262** | **6.8%** | **59,178** | **8.2%** | **(4,916)** | **(8.3) %** |
| Interest expense, net | 32,552 | 4.1% | 25,608 | 3.5% | 6,944 | 27.1% |
| Change in fair value of warrant liability | (812) | (0.1)% | 8,208 | 1.1 % | (9,020) | (109.9)% |
| Other loss, net | 2,082 | 0.3% | 1,262 | 0.2 % | 820 | 65.0% |
| **Income before income taxes** | **20,440** | **2.6%** | **24,100** | **3.4%** | **(3,660)** | **(15.2) %** |
| Income tax expense | 5,399 | 0.7% | 8,853 | 1.2% | (3,454) | (39.0)% |
| **Net income** | **15,041** | **1.9%** | **15,247** | **2.2%** | **(206)** | **(1.4) %** |
| Income attributable to noncontrolling interest | 1,064 | 0.1% | 1,215 | 0.2 % | (151) | (12.4)% |
| **Net income attributable to AdaptHealth Corp.** | **$ 13,977** | **1.8%** | **$ 14,032** | **2.0%** | **$ (55)** | **(0.4) %** |

***Net Revenue.*** The comparability of AdaptHealth's net revenue between periods was impacted by certain factors as described below. The table below presents the items that impacted the change in AdaptHealth's net revenue between periods.

| | Three Months Ended June 30, Variance 2023 vs. 2022 | |
|---|---|---|
| (in thousands, except percentages) | $ | % |
| Revenue change driver: | (Unaudited) | |
| Increase from non-acquired growth | $ 63,356 | 8.7 % |
| Increase from acquisitions | 2,316 | 0.3 % |
| **Total change in net revenue** | **$ 65,672** | **9.0 %** |

Net revenue for the three months ended June 30, 2023 and 2022 was $793.3 million and $727.6 million, respectively, an increase of $65.7 million, or 9.0%. The increase in net revenue was driven by non-acquired growth $63.4 million, and acquisitions, which increased revenue by $2.3 million. Net revenue from AdaptHealth's sleep business increased by $42.3 million, or 16.2%, for the three months ended June 30, 2023 compared to the prior year period, primarily due to increased patient census driven by strong patient demand for sleep products, including CPAP resupply products. Net revenue from AdaptHealth's respiratory business increased by $17.3 million, or 12.7%, for the three months ended June 30, 2023 compared to the prior year period, primarily due to increased patient census driven by strong patient demand for respiratory products. Net revenue from AdaptHealth's diabetes business increased slightly by $2.6 million, or 1.6%, for the three months ended June 30, 2023 compared to the prior year period, primarily due to an increase in CGM patient census, partially offset by a shift in diabetes patients by certain large commercial insurance and other payors from DME suppliers to dual-benefit and pharmacy-only suppliers. Additionally, there was lower net revenue from insulin pumps and supplies in the 2023 period compared to the 2022 period as a result of a shift toward more pumps being sold to patients through the pharmacy channel as well as the effect from manufacturers bringing additional distribution business in-house.

For the three months ended June 30, 2023, net sales revenue (recognized at a point in time) comprised 66% of total net revenue, compared to 68% of total net revenue for the three months ended June 30, 2022. For the three months ended June 30, 2023, net revenue from fixed monthly equipment reimbursements comprised 34% of total net revenue, compared to 32% of total net revenue for the three months ended June 30, 2022.

***Cost of Net Revenue.***

The following table summarizes cost of net revenue for the three months ended June 30, 2023 and 2022:

| | Three Months Ended June 30, | | | | Increase/(Decrease) | |
|---|---|---|---|---|---|---|
| | 2023 | | 2022 | | | |
| (in thousands, except percentages) | Dollars | Revenue Percentage | Dollars | Revenue Percentage | Dollars | Percentage |
| | (unaudited) | | | | | |
| Cost of products and supplies | $ 323,548 | 40.8 % | $ 288,947 | 39.7 % | $ 34,601 | 12.0 % |
| Salaries, labor and benefits | 192,328 | 24.2 % | 183,334 | 25.2 % | 8,994 | 4.9 % |
| Patient equipment depreciation | 83,747 | 10.6 % | 63,597 | 8.7 % | 20,150 | 31.7 % |
| Other operating expenses | 58,131 | 7.3 % | 56,521 | 7.8 % | 1,610 | 2.8 % |
| Rent and occupancy | 16,498 | 2.1 % | 15,833 | 2.2 % | 665 | 4.2 % |
| Equity-based compensation | (855) | (0.1) % | 1,779 | 0.2 % | (2,634) | (148.1) % |
| **Total cost of net revenue** | **$ 673,397** | **84.9 %** | **$ 610,011** | **83.8 %** | **$ 63,386** | **10.4 %** |

Cost of net revenue for the three months ended June 30, 2023 and 2022 was $673.4 million and $610.0 million, respectively, an increase of $63.4 million or 10.4%. Costs of products and supplies increased by $34.6 million primarily as a result of increased net sales revenue and general inflationary cost increases. Salaries, labor and benefits increased by $9.0 million, primarily related to increased headcount, higher wages and commissions and workforce wage pressure driven by inflation. Patient equipment depreciation was 10.6% of net revenue in the 2023 period compared to 8.7% in the 2022 period, primarily as a result of higher medical equipment prices and rental counts.

***General and Administrative Expenses.*** General and administrative expenses for the three months ended June 30, 2023 and 2022 were $50.1 million and $42.5 million respectively, an increase of $7.5 million or 17.7%. This increase is primarily due to higher professional fees including legal operations, accounting, information-technology, and consulting expenses associated with systems implementation activities and post-implementation support services, and higher equity-based compensation expense, partially offset by lower transaction costs. General and administrative expenses as a percentage of net revenue was 6.3% in the 2023 period, compared to 5.8% in the 2022 period. General and administrative expenses in the 2023 period included $7.7 million of equity-based compensation expense, $0.1 million of transaction costs, and other non-recurring expenses of $9.4 million. General and administrative expenses in the 2022 period included $3.9 million of equity-based compensation expense, $1.8 million of transaction costs, and other non-recurring expenses of $3.1 million.

***Depreciation and amortization, excluding patient equipment depreciation.*** Depreciation and amortization, excluding patient equipment depreciation, for the three months ended June 30, 2023 and 2022 was $15.5 million and $15.9 million, respectively, a decrease of $0.3 million.

***Interest Expense, net.*** Interest expense, net for the three months ended June 30, 2023 and 2022 was $32.6 million and $25.6 million, respectively, an increase of $6.9 million. Interest expense related to AdaptHealth's credit agreement increased by $9.0 million in the 2023 period compared to the 2022 period as a result of higher interest rates, offset by lower average outstanding borrowings in the 2023 period compared to the 2022 period. Interest expense related to the Company's senior unsecured notes increased by $0.2 million in the 2023 period compared to the 2022 period. These increases were offset by a reduction in interest expense of $2.3 million related to AdaptHealth's interest rate swap agreements.

***Change in Fair Value of Warrant Liability***. AdaptHealth has outstanding warrants to purchase shares of Common Stock, as discussed in Note 10, *Stockholders' Equity*, to the accompanying June 30, 2023 interim consolidated financial statements. These warrants are liability-classified, and the change in fair value of the warrant liability represents a non-cash gain in the 2023 period and a non-cash charge in the 2022 period for the change in the estimated fair value of such liability during the respective periods.

***Other Loss, net.*** Other loss, net for the three months ended June 30, 2023 consisted of $1.4 million of impairments of operating lease right-of-use assets and $0.7 million of lease termination costs. Other loss, net for the three months ended June 30, 2022 consisted of $1.0 million of expenses associated with legal settlements and $0.3 million of other charges.

***Income Tax Expense.*** Income tax expense for the three months ended June 30, 2023 and 2022 was $5.4 million and $8.9 million, respectively. The decrease in income tax expense was primarily related to lower pre-tax income net of warrant liability fair value adjustments.

***Comparison of Six Months Ended June 30, 2023 and Six Months Ended June 30, 2022.***

The following table summarizes AdaptHealth's consolidated results of operations for the six months ended June 30, 2023 and 2022:

| | Six Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2023 | | 2022 | | Increase/(Decrease) | |
| **(in thousands, except percentages)** | **Dollars** | **Revenue Percentage** | **Dollars** | **Revenue Percentage** | **Dollars** | **Percentage** |
| | | | (unaudited) | | | |
| **Net revenue** | **$ 1,537,912** | **100.0 %** | **$ 1,433,817** | **100.0 %** | **$ 104,095** | **7.3 %** |
| Costs and expenses: | | | | | | |
| Cost of net revenue | 1,328,793 | 86.4 % | 1,207,133 | 84.2 % | 121,660 | 10.1 % |
| General and administrative expenses | 97,599 | 6.3 % | 83,992 | 5.9 % | 13,607 | 16.2 % |
| Depreciation and amortization, excluding patient equipment depreciation | 31,081 | 2.0 % | 31,962 | 2.2 % | (881) | (2.8) % |
| **Total costs and expenses** | **1,457,473** | **94.8 %** | **1,323,087** | **92.3 %** | **134,386** | **10.2 %** |
| **Operating income** | **80,439** | **5.2 %** | **110,730** | **7.7 %** | **(30,291)** | **(27.4) %** |
| Interest expense, net | 64,507 | 4.2 % | 50,384 | 3.5 % | 14,123 | 28.0 % |
| Change in fair value of warrant liability | (22,726) | (1.5) % | (18,509) | (1.3) % | (4,217) | 22.8 % |
| Other loss, net | 3,257 | 0.2 % | 6,922 | 0.5 % | (3,665) | (52.9) % |
| **Income before income taxes** | **35,401** | **2.3 %** | **71,933** | **5.0 %** | **(36,532)** | **(50.8) %** |
| Income tax (benefit) expense | 3,685 | 0.2 % | 14,456 | 1.0 % | (10,771) | (74.5) % |
| **Net income** | **31,716** | **2.1 %** | **57,477** | **4.0 %** | **(25,761)** | **(44.8) %** |
| Income attributable to noncontrolling interest | 2,032 | 0.1 % | 1,695 | 0.1 % | 337 | 19.9 % |
| **Net income attributable to AdaptHealth Corp.** | **$ 29,684** | **1.9 %** | **$ 55,782** | **3.9 %** | **$ (26,098)** | **(46.8) %** |

***Net Revenue.*** The comparability of AdaptHealth's net revenue between periods was impacted by certain factors as described below. The table below presents the items that impacted the change in AdaptHealth's net revenue between periods.

| (in thousands, except percentages) | Six Months Ended June 30, Variance 2023 vs. 2022 | |
|---|---|---|
| | $ | % |
| Revenue change driver: | (Unaudited) | |
| Increase from non-acquired growth | $ 96,537 | 6.7 % |
| Increase from acquisitions | 7,558 | 0.5 % |
| **Total change in net revenue** | **$ 104,095** | **7.3 %** |

Net revenue for the six months ended June 30, 2023 and 2022 was $1,537.9 million and $1,433.8 million, respectively, an increase of $104.1 million, or 7.3%. The increase in net revenue was driven by non-acquired growth $96.5 million, and acquisitions, which increased revenue by $7.6 million. Net revenue from AdaptHealth's sleep business increased by $86.4 million, or 16.9%, for the six months ended June 30, 2023 compared to the prior year period, primarily due to increased patient census driven by strong patient demand for sleep products, including CPAP resupply products. Net revenue from AdaptHealth's respiratory business increased by $19.3 million, or 6.9%, for the three months ended June 30, 2023 compared to the prior year period, primarily due to increased patient census driven by strong patient demand for respiratory products. Net revenue from AdaptHealth's diabetes business decreased by $6.3 million, or 2.0%, for the six months ended June 30, 2023 compared to the prior year period, primarily due to a shift in diabetes patients by certain large commercial insurance and other payors from DME suppliers to dual-benefit and pharmacy-only suppliers, partially offset by an increase in CGM patient census. Additionally, the decrease was due to lower net revenue from insulin pumps and supplies as a result of a shift toward more pumps being sold to patients through the pharmacy channel as well as the effect from manufacturers bringing additional distribution business in-house.

For the six months ended June 30, 2023, net sales revenue (recognized at a point in time) comprised 66% of total net revenue, compared to 68% of total net revenue for the six months ended June 30, 2022. For the six months ended June 30, 2023, net revenue from fixed monthly equipment reimbursements comprised 34% of total net revenue, compared to 32% of total net revenue for the six months ended June 30, 2022.

***Cost of Net Revenue.***

The following table summarizes cost of net revenue for the six months ended June 30, 2023 and 2022:

| (in thousands, except percentages) | Six Months Ended June 30, 2023 Dollars | 2023 Revenue Percentage | 2022 Dollars | 2022 Revenue Percentage | Increase/(Decrease) Dollars | Increase/(Decrease) Percentage |
|---|---|---|---|---|---|---|
| | (unaudited) | | | | | |
| Cost of products and supplies | $ 634,573 | 41.3 % | $ 571,540 | 39.9 % | $ 63,033 | 11.0 % |
| Salaries, labor and benefits | 385,313 | 25.1 % | 362,229 | 25.3 % | 23,084 | 6.4 % |
| Patient equipment depreciation | 162,028 | 10.5 % | 124,542 | 8.7 % | 37,486 | 30.1 % |
| Other operating expenses | 112,645 | 7.3 % | 114,939 | 8.0 % | (2,294) | (2.0) % |
| Rent and occupancy | 33,750 | 2.2 % | 30,189 | 2.1 % | 3,561 | 11.8 % |
| Equity-based compensation | 484 | — % | 3,694 | 0.2 % | (3,210) | (86.9) % |
| **Total cost of net revenue** | **$ 1,328,793** | **86.4 %** | **$ 1,207,133** | **84.2 %** | **$ 121,660** | **10.1 %** |

Cost of net revenue for the six months ended June 30, 2023 and 2022 was $1,328.8 million and $1,207.1 million, respectively, an increase of $121.7 million or 10.1%. Costs of products and supplies increased by $63.0 million primarily as a result of increased net sales revenue and general inflationary cost increases. Salaries, labor and benefits increased by $23.1 million, primarily related to increased headcount, higher wages and commissions and workforce wage pressure driven by inflation. Patient equipment depreciation was 10.5% of net revenue in the 2023 period compared to 8.7% in the 2022 period, primarily as a result of higher medical equipment prices and rental counts.

***General and Administrative Expenses.*** General and administrative expenses for the six months ended June 30, 2023 and 2022 were $97.6 million and $84.0 million, respectively, an increase of $13.6 million or 16.2%. This increase is primarily due to higher professional fees including legal operations, accounting, information-technology, and consulting expenses associated with systems implementation activities and post-implementation support services, and higher equity-based compensation expense, partially offset by lower transaction costs. General and administrative expenses as a percentage of net revenue was 6.3% in the 2023 period, compared to 5.9% in the 2022 period. General and administrative expenses in the 2023 period included $12.3 million of equity-based compensation expense, $0.3 million of transaction costs, and other non-recurring expenses of $17.3 million. General and administrative expenses in the 2022 period included $7.5 million of equity-based compensation expense, $4.7 million of transaction costs, and other non-recurring expenses of $3.5 million.

***Depreciation and amortization, excluding patient equipment depreciation.*** Depreciation and amortization, excluding patient equipment depreciation, for the six months ended June 30, 2023 and 2022 was $31.1 million and $32.0 million, respectively, a decrease of $0.9 million.

***Interest Expense, net.*** Interest expense, net for the six months ended June 30, 2023 and 2022 was $64.5 million and $50.4 million, respectively, an increase of $14.1 million. Interest expense related to AdaptHealth's credit agreement increased by $18.8 million in the 2023 period compared to the 2022 period as a result of higher interest rates, offset by lower average outstanding borrowings in the 2023 period compared to the 2022 period. Interest expense related to the Company's senior unsecured notes increased by $0.1 million in the 2023 period compared to the 2022 period. These increases were offset by a reduction in interest expense of $4.8 million related to AdaptHealth's interest rate swap agreements.

***Change in Fair Value of Warrant Liability***. AdaptHealth has outstanding warrants to purchase shares of Common Stock, as discussed in Note 10, *Stockholders' Equity*, to the accompanying June 30, 2023 interim consolidated financial statements. These warrants are liability-classified, and the change in fair value of the warrant liability represents a non-cash gain in the 2023 and 2022 periods for the change in the estimated fair value of such liability during the respective periods.

***Other Loss, net.*** Other loss, net for the six months ended June 30, 2023 consisted of $1.2 million expenses associated with legal settlements, $1.4 million of impairments of operating lease right-of-use assets and $0.7 million of lease termination costs. Other loss, net for the six months ended June 30, 2022 consisted of a $4.5 million expense related to changes in AdaptHealth's estimated TRA liability, $1.0 million of expenses associated with legal settlements, $0.8 million loss related to the write-off of an investment, and $0.6 million of net other expenses.

***Income Tax Expense.*** Income tax expense for the six months ended June 30, 2023 and 2022 was $3.7 million and $14.5 million, respectively. The decrease in income tax expense was primarily related to lower pre-tax income net of warrant liability fair value adjustments.

**EBITDA and Adjusted EBITDA**

AdaptHealth uses EBITDA and Adjusted EBITDA, which are financial measures that are not in accordance with generally accepted accounting principles in the United States, or U.S. GAAP, to analyze its financial results and believes that they are useful to investors, as a supplement to U.S. GAAP measures. In addition, AdaptHealth's ability to incur additional indebtedness and make investments under its existing credit agreement is governed, in part, by its ability to satisfy tests based on a variation of Adjusted EBITDA.

AdaptHealth defines EBITDA as net income (loss) attributable to AdaptHealth Corp., plus net income (loss) attributable to noncontrolling interests, interest expense, net, income tax expense (benefit), and depreciation and amortization, including patient equipment depreciation.

AdaptHealth defines Adjusted EBITDA as EBITDA (as defined above), plus equity-based compensation expense, transaction costs, change in fair value of the warrant liability, and certain other non-recurring items of expense or income.

AdaptHealth believes Adjusted EBITDA is useful to investors in evaluating AdaptHealth's financial performance. AdaptHealth uses this metric as the profitability measure in its incentive compensation plans that have a profitability component and to evaluate acquisition opportunities, where it is most often used for purposes of contingent consideration arrangements.

EBITDA and Adjusted EBITDA should not be considered as measures of financial performance under U.S. GAAP, and the items excluded from EBITDA and Adjusted EBITDA are significant components in understanding and assessing financial performance. Accordingly, these key business metrics have limitations as an analytical tool. They should not be considered as an alternative to net income or any other performance measures derived in accordance with U.S. GAAP or as an alternative to cash flows from operating activities as a measure of AdaptHealth's liquidity.

The following unaudited table presents the reconciliation of net income attributable to AdaptHealth to EBITDA and Adjusted EBITDA for the three and six months ended June 30, 2023 and 2022:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| **(in thousands)** | **2023** | **2022** | **2023** | **2022** |
| | **(Unaudited)** | | | |
| Net income attributable to AdaptHealth Corp. | $ 13,977 | $ 14,032 | $ 29,684 | $ 55,782 |
| Income attributable to noncontrolling interest | 1,064 | 1,215 | 2,032 | 1,695 |
| Interest expense, net | 32,552 | 25,608 | 64,507 | 50,384 |
| Income tax expense | 5,399 | 8,853 | 3,685 | 14,456 |
| Depreciation and amortization, including patient equipment depreciation | 99,296 | 79,474 | 193,109 | 156,504 |
| **EBITDA** | **152,288** | **129,182** | **293,017** | **278,821** |
| Equity-based compensation expense (a) | 6,847 | 5,720 | 12,763 | 11,222 |
| Transaction costs (b) | 92 | 2,205 | 284 | 5,313 |
| Change in fair value of warrant liability (c) | (812) | 8,208 | (22,726) | (18,509) |
| Other non-recurring expense, net (d) | 12,630 | 4,692 | 21,671 | 10,804 |
| **Adjusted EBITDA** | **$ 171,045** | **$ 150,007** | **$ 305,009** | **$ 287,651** |
| Net income attributable to AdaptHealth Corp. as a percentage of net revenue | 1.8% | 1.9% | 1.9% | 3.9% |
| Adjusted EBITDA as a percentage of net revenue | 21.6% | 20.6% | 19.8% | 20.1% |

(a) Represents equity-based compensation expense for awards granted to employees and non-employee directors.

(b) Represents transaction costs and expenses related to integration efforts related to acquisitions.

(c) Represents a non-cash charge or gain for the change in the estimated fair value of the warrant liability. Refer to Note 10, *Stockholders' Equity*, included in the accompanying notes to the interim consolidated financial statements for the three and six months ended June 30, 2023 for additional discussion of such non-cash charge or gain.

(d) The 2023 year-to-date period consists of $9.6 million of expenses associated with litigation, $4.9 million of severance charges (of which $2.9 million relates to the separation of the Company's former CEO), $2.6 million of consulting expenses associated with systems implementation activities, $1.4 million of impairments of operating lease right-of-use assets, and $3.2 million of other non-recurring expenses. The 2022 year-to-date period consists of a $4.5 million expense related to changes in AdaptHealth's estimated liability related to its Tax Receivable Agreement, $3.6 million of expenses associated with litigation, a $0.8 million loss related to the write-off of an investment, $0.6 million of lease termination costs, and $1.3 million of net other non-recurring expenses.

**Free Cash Flow**

AdaptHealth uses free cash flow, which is a financial measure that is not in accordance with U.S. GAAP, in its operational and financial decision-making and believes free cash flow is useful to investors because similar measures are frequently used by securities analysts, investors, ratings agencies and other interested parties to evaluate AdaptHealth's competitors and to measure the ability of companies to service their debt. AdaptHealth's presentation of free cash flow should not be construed as a measure of liquidity or discretionary cash available to AdaptHealth to fund its cash needs, including investing in the growth of its business and meeting its obligations.

AdaptHealth defines free cash flow as net cash provided by operating activities less cash paid for purchases of equipment and other fixed assets. For further discussion on free cash flow, including a reconciliation from cash flows provided by operating activities, refer to *Liquidity and Capital Resources - Free Cash Flow* below.

**Liquidity and Capital Resources**

AdaptHealth's principal sources of liquidity are its operating cash flows, borrowings under its credit agreements and other debt arrangements, and proceeds from equity issuances. AdaptHealth has used these funds to meet its capital requirements, which primarily consist of capital expenditures including patient equipment, product and supply costs, salaries, labor, benefits and other employee-related costs, third-party customer service, billing and collections and logistics costs, acquisitions and debt service, and to fund share repurchases. In addition, AdaptHealth continues to make operational changes that management believes will continue to improve accounts receivable collections in the future. AdaptHealth's future capital expenditure requirements will depend on many factors, including its patient volume and revenue growth rates.

AdaptHealth's capital expenditures are made in advance of patients beginning service. Certain operating costs are incurred at the beginning of the equipment service period and during initial patient set up.

AdaptHealth believes that its expected operating cash flows, together with its existing cash and amounts available under its existing credit agreement, will continue to be sufficient to fund its operations and growth strategies for at least the next twelve months.

AdaptHealth may seek additional equity or debt financing in connection with the growth of its business, primarily for acquisitions. In addition, economic conditions may cause disruption in the capital markets, which could make financing more difficult and/or expensive. In the event that additional financing is required from outside sources, AdaptHealth may not be able to raise it on acceptable terms or at all. If additional capital is unavailable when desired, AdaptHealth's business, results of operations, and financial condition would be materially adversely affected.

As of June 30, 2023, AdaptHealth had approximately $45.1 million of cash.

At June 30, 2023, AdaptHealth had $750 million outstanding under its existing credit facility. In January 2021, AdaptHealth entered into a credit agreement, as amended, (the "2021 Credit Agreement"). The 2021 Credit Agreement consists of a $800 million secured term loan (the "2021 Term Loan") and $450 million in commitments for revolving credit loans with a $55 million letter of credit sublimit (the "2021 Revolver"), both with maturities in January 2026. The borrowing under the 2021 Term Loan requires quarterly principal repayments of $5 million beginning June 30, 2021 through March 31, 2023, increasing to $10 million beginning June 30, 2023 through December 31, 2025, and the unpaid principal balance is due at maturity in January 2026. Borrowings under the 2021 Revolver may be used for working capital and other general corporate purposes, including for capital expenditures and acquisitions permitted under the 2021 Credit Agreement. As of June 30, 2023, and the date of this filing, there were no outstanding borrowings under the 2021 Revolver. At June 30, 2023, based on the financial debt covenants under the 2021 Credit Agreement, the maximum borrowings available pursuant to the 2021 Revolver was $124.2 million. Amounts borrowed under the 2021 Credit Agreement bear interest quarterly at variable rates based upon the sum of (a) the Secured Overnight Financing Rate ("Term SOFR") (subject to a zero percent floor) equal to Term SOFR (as defined) for the applicable interest period multiplied by the statutory reserve rate, plus (b) an applicable margin (as defined) ranging from 1.50% to 3.25% per annum based on the Consolidated Senior Secured Leverage Ratio (as defined), plus (c) a Term SOFR Adjustment (as defined) of 0.1%. On March 31, 2023, the Company amended the 2021 Credit Agreement to change the variable interest rate under the agreement to be based on Term SOFR The 2021 Revolver carries a commitment fee during the term of the 2021 Credit Agreement ranging from 0.25% to 0.50% per annum of the actual daily undrawn portion of the 2021 Revolver based on the Consolidated Senior Secured Leverage Ratio.

Under the 2021 Credit Agreement, AdaptHealth is subject to a number of restrictive covenants that, among other things, impose operating and financial restrictions on AdaptHealth. Financial covenants include a Consolidated Total Leverage Ratio and a Consolidated Interest Coverage Ratio, both as defined in the 2021 Credit Agreement. The 2021 Credit Agreement also contains certain customary events of default, including, among other things, failure to make payments when due thereunder, failure to observe or perform certain covenants, cross-defaults, bankruptcy and insolvency-related events, and non-compliance with healthcare laws. Any borrowing under the 2021 Credit Agreement may be repaid, in whole or in part, at any time and from time to time without premium or penalty, other than customary breakage costs, and any amounts repaid under the 2021 Revolver may be reborrowed. Mandatory prepayments are required under the 2021 Revolver when borrowings and letter of credit usage exceed the total commitments for revolving credit loans. Mandatory prepayments are also required in connection with the disposition of assets to the extent not reinvested, unpermitted debt transactions, and excess cash flow, as defined, if certain leverage tests are not met. AdaptHealth was in compliance with all debt covenants as of June 30, 2023.

At June 30, 2023, AdaptHealth had $1,450.0 million outstanding under its existing unsecured senior notes. In August 2021, AdaptHealth LLC issued $600 million aggregate principal amount of 5.125% senior unsecured notes (the "5.125% Senior Notes"). The 5.125% Senior Notes will mature on March 1, 2030. Interest on the 5.125% Senior Notes is payable on March 1st and September 1st of each year, beginning on March 1, 2022. The 5.125% Senior Notes will be redeemable at AdaptHealth's option, in whole or in part, at any time on or after March 1, 2025, and the redemption price for the 5.125% Senior Notes if redeemed during the 12 months beginning (i) March 1, 2025 is 102.563%, (ii) March 1, 2026 is 101.281%, (iii) March 1, 2027 and thereafter is 100.00%, in each case together with accrued and unpaid interest. AdaptHealth may also redeem some or all of the 5.125% Senior Notes before March 1, 2025 at a redemption price of 100% of the principal amount of the 5.125% Senior Notes, plus a "make-whole" premium, together with accrued and unpaid interest. In addition, AdaptHealth may redeem up to 40% of the original aggregate principal amount of the 5.125% Senior Notes before March 1, 2025 with the proceeds from certain equity offerings at a redemption price equal to 105.125% of the principal amount of the 5.125% Senior Notes, together with accrued and unpaid interest. Furthermore, AdaptHealth may be required to make an offer to purchase the 5.125% Senior Notes upon the sale of certain assets or upon specific kinds of changes of control.

In January 2021, AdaptHealth LLC issued $500 million aggregate principal amount of 4.625% senior unsecured notes (the "4.625% Senior Notes"). The 4.625% Senior Notes will mature on August 1, 2029. Interest on the 4.625% Senior Notes is payable on February 1st and August 1st of each year, beginning on August 1, 2021. The 4.625% Senior Notes will be redeemable at AdaptHealth's option, in whole or in part, at any time on or after February 1, 2024, and the redemption price for the 4.625% Senior Notes if redeemed during the 12 months beginning (i) February 1, 2024 is 102.313%, (ii) February 1, 2025 is 101.156%, and (iii) February 1, 2026 and thereafter is 100.00% in each case together with accrued and unpaid interest. AdaptHealth may also redeem some or all of the 4.625% Senior Notes before February 1, 2024 at a redemption price of 100% of the principal amount of the 4.625% Senior Notes, plus a "make-whole" premium, together with accrued and unpaid interest. In addition, AdaptHealth may redeem up to 40% of the original aggregate principal amount of the 4.625% Senior Notes before February 1, 2024 with the proceeds from certain equity offerings at a redemption price equal to 104.625% of the principal amount of the 4.625% Senior Notes, together with accrued and unpaid interest. Furthermore, AdaptHealth may be required to make an offer to purchase the 4.625% Senior Notes upon the sale of certain assets or upon specific kinds of changes of control.

In July 2020, AdaptHealth LLC issued $350 million aggregate principal amount of 6.125% senior unsecured notes (the "6.125% Senior Notes"). The 6.125% Senior Notes will mature on August 1, 2028. Interest on the 6.125% Senior Notes is payable on February 1st and August 1st of each year, beginning on February 1, 2021. The 6.125% Senior Notes will be redeemable at AdaptHealth's option, in whole or in part, at any time on or after August 1, 2023, and the redemption price for the 6.125% Senior Notes if redeemed during the 12 months beginning (i) August 1, 2023 is 103.063%, (ii) August 1, 2024 is 102.042%, (iii) August 1, 2025 is 101.021% and (iv) August 1, 2026 and thereafter is 100.000%, in each case together with accrued and unpaid interest. AdaptHealth may also redeem some or all of the 6.125% Senior Notes before August 1, 2023 at a redemption price of 100% of the principal amount of the 6.125% Senior Notes, plus a "make-whole" premium, together with accrued and unpaid interest. In addition, AdaptHealth may redeem up to 40% of the original aggregate principal amount of the 6.125% Senior Notes before August 1, 2023 with the proceeds from certain equity offerings at a redemption price equal to 106.125% of the principal amount of the 6.125% Senior Notes, together with accrued and unpaid interest. Furthermore, AdaptHealth may be required to make an offer to purchase the 6.125% Senior Notes upon the sale of certain assets or upon specific kinds of changes of control.

As of June 30, 2023 and December 31, 2022, AdaptHealth had working capital of $110.3 million and $129.1 million, respectively. A significant portion of AdaptHealth's assets consists of accounts receivable from third-party payors that are responsible for payment for the products and services that AdaptHealth provides.

***Cash Flow.*** The following table presents selected data from AdaptHealth's consolidated statements of cash flows for the six months ended June 30, 2023 and 2022:

| (in thousands) | Six Months Ended June 30, 2023 | Six Months Ended June 30, 2022 |
|---|---|---|
| | (unaudited) | |
| Net cash provided by operating activities | $ 226,567 | $ 169,924 |
| Net cash used in investing activities | (189,763) | (170,031) |
| Net cash used in financing activities | (37,950) | (30,711) |
| Net increase (decrease) in cash | (1,146) | (30,818) |
| Cash at beginning of period | 46,272 | 149,627 |
| Cash at end of period | $ 45,126 | $ 118,809 |

Net cash provided by operating activities for the six months ended June 30, 2023 and 2022 was $226.6 million and $169.9 million, respectively, an increase of $56.6 million. The increase was the result of a $25.8 million reduction in net income, a net increase of $33.9 million in non-cash charges, primarily from depreciation and amortization, the change in the estimated fair value of the warrant liability, and deferred income taxes, payments of contingent consideration related to acquisitions of $2.5 million in the 2022 period, and a net $46.0 million increase resulting from the change in operating assets and liabilities, primarily from the change in accounts receivable, inventory and accounts payable and accrued expenses.

Net cash used in investing activities for the six months ended June 30, 2023 and 2022 was $189.8 million and $170.0 million, respectively. The use of funds in the 2023 period consisted of $171.7 million for equipment and other fixed asset purchases, $17.9 million for business acquisitions, and $0.1 million for other investments. The use of funds in the 2022 period consisted of $154.3 million for equipment and other fixed asset purchases, $15.3 million for business acquisitions, and $0.4 million for other investments.

Net cash used in financing activities for the six months ended June 30, 2023 and 2022 was $38.0 million and $30.7 million, respectively. Net cash used in financing activities for the 2023 period consisted of repayments of $68.7 million on long-term debt and finance lease liabilities payments of $9.2 million for Common Stock purchases under a share repurchase program, payments of $3.2 million in connection with the Company's liability relating to the TRA, payments of $4.4 million for tax withholdings associated with equity-based compensation and stock option exercises, a payment of $2.5 million for a distribution to the noncontrolling interest, and payments of $1.0 million for deferred purchase price in connection with acquisitions, offset by borrowings of long-term debt of $50.0 million and proceeds of $1.0 million in connection with the employee stock purchase plan. Net cash used in financing activities for the six months ended June 30, 2022 consisted of repayments of $22.5 million on long-term debt and finance lease liabilities, payments of 2.4 million for contingent consideration and deferred purchase price in connection with acquisitions, a payment of 3.4 million for Common Stock purchases under a share repurchase program, a payment of $2.0 million for a distribution to the noncontrolling interest, and payments of $1.9 million for tax withholdings associated with equity-based compensation and stock option exercises, offset by proceeds of $0.8 million in connection with the employee stock purchase plan and proceeds of $0.7 million relating to stock option exercises.

*Free Cash Flow*

The following table reconciles net cash provided by operating activities to free cash flow, which is a non-GAAP measure, for the three and six months ended June 30, 2023 and 2022:

| (in thousands) | Three Months Ended June 30, 2023 | Three Months Ended June 30, 2022 | Six Months Ended June 30, 2023 | Six Months Ended June 30, 2022 |
|---|---|---|---|---|
| Net cash provided by operating activities | $ 86,319 | $ 103,473 | $ 226,567 | $ 169,924 |
| Purchases of equipment and other fixed assets | (82,610) | (77,174) | (171,730) | (154,340) |
| Free cash flow | **$ 3,709** | **$ 26,299** | **$ 54,837** | **$ 15,584** |

Free cash flow was $3.7 million for the three months ended June 30, 2023 compared to $26.3 million for the three months ended June 30, 2022. The decrease in free cash flow was primarily due to lower net cash provided by operating activities due to a net increase in the use of cash from operating assets and liabilities, primarily from accounts receivable, inventory and accounts payable and accrued expenses, an increase in cash paid for interest, and an increase in, and timing of, purchases of patient medical equipment for operating requirements.

Free cash flow was $54.8 million for the six months ended June 30, 2023 compared to $15.6 million for the six months ended June 30, 2022. The increase in free cash flow was primarily due to higher net cash provided by operating activities due to a net decrease in the use of cash from operating assets and liabilities, primarily from accounts receivable, inventory and accounts payable and accrued expenses, offset by an increase in cash paid for interest, and an increase in, and timing of, purchases of patient medical equipment for operating requirements.

**Critical Accounting Policies and Critical Estimates**

The discussion and analysis of the Company's financial condition and results of operations is based upon the Company's consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of the Company's consolidated financial statements requires its management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses and related disclosures of contingent assets and liabilities. The Company's management bases its estimates, assumptions and judgments on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Different assumptions and judgments would change the estimates used in the preparation of the Company's consolidated financial statements which, in turn, could change the results from those reported. In addition, actual results may differ from these estimates and such differences could be material to the Company's financial position and results of operations.

Critical accounting policies and critical estimates are those that the Company's management considers the most important to the portrayal of the Company's financial condition and results of operations because they require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. The Company's critical accounting policies and critical estimates in relation to its consolidated financial statements include those related to revenue recognition, valuation of accounts receivable (implicit price concession), and valuation of goodwill and long-lived assets. There have been no material changes in the Company's critical accounting policies and critical estimates as compared to the critical accounting policies and critical estimates described in the Company's Annual Report on Form 10-K for the year ended December 31, 2022.

**Commitments and Contingencies**

In the normal course of business, the Company is subject to loss contingencies, such as legal proceedings and claims arising out of its business that cover a wide range of matters. In accordance with FASB ASC Topic 450, *Accounting for Contingencies*, the Company records accruals for such loss contingencies when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. Significant judgment is required to determine both probability and the estimated amount. The Company reviews its accruals at least quarterly and adjusts accordingly to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and updated information. At this time, the Company has no material accruals related to lawsuits, claims, investigations and proceedings. While there can be no assurance, based on the Company's evaluation of information currently available, the Company's management believes any liability that may ultimately result from resolution of such loss contingencies will not have a material adverse effect on the Company's financial conditions or results of operations. However, the Company's assessment may be affected by limited information. Accordingly, the Company's assessment may change in the future based upon availability of new information and further developments in the proceedings of such matters. The results of legal proceedings are inherently uncertain, and material adverse outcomes are possible.

On July 25, 2017, AdaptHealth Holdings LLC, a Delaware limited liability company (AdaptHealth Holdings), was served with a subpoena by the U.S. Attorney's Office for the United States District Court for the Eastern District of Pennsylvania ("EDPA") pursuant to 18 U.S.C. §3486 to produce certain audit records and internal communications regarding ventilator billing. The investigation focused on billing practices regarding one payor that contracted for bundled payments for certain ventilators. AdaptHealth Holdings has cooperated with investigators and, through agreement with the EDPA, has submitted all information requested in the Company's possession. An independent third party was retained by AdaptHealth

Holdings that identified overpayments and underpayments for ventilator billings related to the payor, and a remittance was sent to reconcile that account. On October 3, 2019, the Company received a follow-up civil investigative demand from the EDPA regarding a document previously produced to the EDPA and patients included in the review by the independent third party. The Company has responded to the EDPA and supplemented its production as requested with any relevant documents in the Company's possession. During subsequent communications, the EDPA indicated to the Company that the investigation remained ongoing. The EDPA also requested additional information regarding certain patient services and claims refunds processed by the Company in 2017. The Company produced this information in coordination with the EDPA. The EDPA also raised questions regarding other aspects of ventilator billing. On April 21, 2023, the Company entered into a settlement agreement with the EDPA resolving all allegations and claims related to the investigation without a determination of liability on the part of the Company. In connection with the settlement, the Company made a payment of $5.3 million, which was fully accrued as of December 31, 2022, and was not required to enter into any post-settlement agreements related to the settlement.

In March 2019, prior to its acquisition by the Company, AeroCare was served with a civil investigative demand (CID) issued by the United States Attorney for the Western District of Kentucky (WDKY). The CID seeks to investigate allegations that AeroCare improperly billed, or caused others to improperly bill, for oxygen tank contents that were not delivered to beneficiaries. The WDKY has requested documents related to such oxygen tank content billing as well as other categories of information. AeroCare has cooperated with the WDKY and has produced documents and provided explanations of its billing practices. In September 2020, the WDKY indicated the investigation includes alleged violations of the federal False Claims Act and as well as alleged violations of state Medicaid false claims acts in ten states. AeroCare has cooperated fully with the investigation and has indicated to the WDKY that concerns raised do not accurately identify Medicare coverage criteria and that state Medicaid coverage requirements generally do not provide for separate reimbursement for portable gaseous oxygen contents in the circumstances at issue. On June 23, 2022, the complaint filed in connection with this investigation was dismissed by the United States District Court in the Western District of Kentucky with the consent of the WDKY.

On July 29, 2021, Robert Charles Faille Jr., a purported shareholder of the Company, filed a purported class action complaint against the Company and certain of its current and former officers in the United States District Court for the Eastern District of Pennsylvania (the "Complaint"). The Complaint purports to be asserted on behalf of a class of persons who purchased the Company's stock between November 11, 2019 and July 16, 2021. The Complaint generally alleges that the Company and certain of its current and former officers violated federal securities laws by making allegedly false and misleading statements and/or failing to disclose material information regarding the Company's organic growth trajectory. The Complaint seeks unspecified damages. On October 14, 2021, the Delaware County Employees Retirement System and the Bucks County Employees Retirement System were named Lead Plaintiffs. Pursuant to the scheduling order, Lead Plaintiffs filed a consolidated complaint on November 22, 2021 (the "Consolidated Complaint"), which asserts substantially the same claim, but adds a number of current and former directors of the Company as additional defendants and a new theory of recovery based on the Company's alleged failure to disclose information concerning the Company's former Co-CEO's alleged tax fraud arising from certain past private activity (the "Consolidated Class Action"). On January 20, 2022, the defendants filed a motion to dismiss the Consolidated Complaint. Lead Plaintiffs' opposition to defendants' motion was filed on March 21, 2022, and defendants' reply was filed April 15, 2022. On June 9, 2022, the court issued an opinion and order denying the defendants' motion to dismiss the Consolidated Complaint.

On July 15, 2022, the court entered a scheduling order providing for, inter alia, a schedule for completing class certification discovery, as well as setting a briefing schedule for motions for class certification. Pursuant to the scheduling order, Lead Plaintiffs filed their motion for class certification on July 28, 2022. On December 12, 2022, the court entered an amended scheduling order with respect to class certification discovery and remaining briefing on Lead Plaintiffs' motion for class certification. Pursuant to the amended scheduling order, the defendants filed their opposition to Lead Plaintiffs' motion for class certification on March 30, 2023, and Lead Plaintiffs filed their reply on May 22, 2023.

On June 7, 2023, the court entered as order staying the Consolidated Class Action pending the outcome of a private mediation between the parties.

The Company intends to vigorously defend against the allegations contained in the Consolidated Complaint, but there can be no assurance that the defense will be successful.

On December 6, 2021, a putative shareholder of the Company, Carol Hessler, filed a shareholder derivative complaint against certain current and former directors and officers of the Company in the United States District Court for the Eastern District of Pennsylvania (the "Derivative Complaint"). The Derivative Complaint generally alleges that the defendants breached their fiduciary duties owed to the Company by allegedly causing or allowing misrepresentations and/or omissions regarding the Company's organic growth and the Company's former Co-CEO's alleged criminal activity, failing to maintain an adequate system of oversight, disclosure controls and procedures, and internal controls over financial reporting and due diligence into the Company's management team, and engaging in insider trading. The Derivative Complaint also alleges claims for waste of corporate assets and unjust enrichment. Finally, the Derivative Complaint alleges that certain of the individual defendants violated Section 14(a) of the Securities Exchange Act by allegedly negligently issuing, causing to be issued, and participating in the issuance of materially misleading statements to stockholders in the Company's Proxy Statements on Schedule DEF 14A in connection with a Special Meeting of Stockholders, held on March 3, 2021, and the 2021 Annual Meeting of Stockholders, held on July 27, 2021. The Derivative Complaint seeks, among other things, an award of money damages.

On March 4, 2022, the parties stipulated to stay the Hessler action pending final resolution of the Consolidated Class Action. On March 7, 2022, the court so-ordered the parties' stipulation.

The Company intends to vigorously defend against the allegations contained in the Derivative Complaint, but there can be no assurance that the defense will be successful.

On May 2, 2022, the U.S. Attorney's Office for the Southern District of New York issued a civil investigative demand to a subsidiary of the Company, pursuant to the False Claims Act, 31 U.S.C. § 3733 (FCA) surrounding whether the subsidiary submitted false claims in violation of the FCA related to it's billing of, and reimbursements from, federal health care programs for ventilators provided to patients from January 1, 2015 to the present. The Company is fully cooperating with the investigation. Given the investigation is in the early stages, it is not possible to determine whether it will have a material adverse effect on the Company.

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

Our exposure to market risk relates to fluctuations in interest rates from borrowings under the 2021 Credit Agreement. The interest accrued on our debt borrowings is based on a variable rate which is tied to the Secured Overnight Financing Rate plus an applicable margin and therefore is exposed to changes in interest rates. As of June 30, 2023, there was $750.0 million outstanding under the 2021 Term Loan, no outstanding borrowings under the 2021 Revolver, $21.6 million outstanding under letters of credit, and based on the financial debt covenants under the 2021 Credit Agreement, the maximum borrowings available pursuant to the 2021 Revolver was $124.2 million.

**Item 4. Controls and Procedures**

*Evaluation of Disclosure Controls and Procedures*

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of June 30, 2023. Disclosure controls and procedures are designed to ensure that information required to be disclosed by us in our Exchange Act reports are recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, during the period covered by this Quarterly Report, our disclosure controls and procedures were not effective due to material weaknesses in internal control over financial reporting as further described below in Management's Report on Internal Control Over Financial Reporting.

As previously disclosed in Part II, Item 9A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2022, management identified material weaknesses in internal control over financial reporting relating to an insufficient complement of resources to complete risk assessment which resulted in a lack of implementation and ineffectiveness of both process level controls in substantially all processes and the general information technology controls that support our financial statements and reporting.

Notwithstanding the identified material weaknesses, management, including our principal executive officer and principal financial officer, believes the consolidated financial statements included in this Quarterly Report on Form 10-Q fairly represent in all material respects our financial condition, results of operations and cash flows at and for the periods presented in accordance with U.S. GAAP.

*Remediation of Previously Reported Material Weaknesses in Internal Control Over Financing Reporting*

With respect to the material weaknesses identified in 2022, management continues to take steps to remediate such material weaknesses, including (1) implementing a system to provide real time visibility for process and control owners to the remediation of internal control matters, (2) expanding the number of management and third-party consultants with expertise in process mapping and internal controls; (3) completing an entity wide risk assessment including process mapping for each of the Company's business cycles to identify relevant process risk points, service and sub-service organizations, information technology systems and information used in the operation of controls, (4) identifying manual and automated controls responsive to the process risk points for significant processes, and (5) implementing an enterprise resource planning system in 2022 and continuing implementing additional technology and processes to enhance control environment. While management has completed the risk assessment to identify controls, the material weaknesses cannot be considered remediated until the enhanced controls have been fully implemented and determined to be operating effectively for a sufficient period of time.

*Changes in Internal Control over Financial Reporting*

Except with respect to the changes in connection with the implementation of the initiatives to remediate the material weaknesses noted above, there were no changes in the Company's internal control over financial reporting that occurred during the quarter ended June 30, 2023 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

See Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations —Commitments and Contingencies".

**Item 1A. Risk Factors**

Factors that could cause our actual results to differ materially from those in this report are any of the risks disclosed under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2022 filed with the SEC on February 28, 2023. Any of those factors could result in a significant or material adverse effect on our results of operations or financial condition. Additional risk factors not presently known to us or that we currently deem immaterial may also impair our business or results of operations.

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

We had no sales of unregistered equity securities during the period covered by this report that were not previously reported in a Quarterly Report on Form 10-Q or a Current Report on Form 8-K.

There were no purchases of our Common Stock made during the three months ended June 30, 2023 by us or any of our "affiliated purchasers" as defined in Rule 10b-18(a)(3) under the Exchange Act.

**Item 3. Defaults upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

During the three months ended June 30, 2023, none of the Company’s directors or officers (as defined in Rule 16a-1(f) of the Exchange Act) adopted, terminated or modified a Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement (as such terms are defined in Item 408 of Regulation S-K of the Securities Act of 1933).

**Item 6. Exhibits**

See Exhibit Index for documents filed or furnished herewith and incorporated herein by reference.

**EXHIBIT INDEX**

| Exhibit Number | Description |
|---|---|
| 3.1 | Third Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 of the Company’s Current Report on Form 8-K, filed with the SEC on July 29, 2021). |
| 3.2 | Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 of the Company’s Current Report on Form 8-K, filed with the SEC on November 14, 2019). |
| 3.3 | Certificate of Designation of Preferences, Rights and Limitations of Series B-1 Convertible Preferred Stock (incorporated by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K filed with the SEC on June 26, 2020). |
| 10.1† | Transition Letter Agreement, between AdaptHealth Corp. and Stephen P. Griggs, dated May 8, 2023 (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K, filed with the SEC on May 9, 2023). |
| 10.2† | Employment Agreement between AdaptHealth Corp. and Crispin Teufel, dated June 22, 2023 (incorporated by reference to Exhibit 10.1 of the Company's Current Report on form 8-K, filed with the SEC on June 27, 2023). |
| 10.3† | Letter Agreement between AdaptHealth Corp. and Richard Barasch, dated June 26, 2023 (incorporated by reference to Exhibit 10.2 of the Company's Current Report on form 8-K, filed with the SEC on June 27, 2023). |
| 31.1* | Certification of Chief Executive Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15(d)-14(a), as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2* | Certification of Chief Financial Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15(d)-14(a), as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32** | Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS*** | XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. |
| 101.SCH*** | XBRL Taxonomy Extension Schema Document |
| 101.CAL*** | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF*** | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB*** | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE*** | XBRL Taxonomy Extension Presentation Linkbase Document |
| Exhibit 104 *** | Cover Page Interactive Data File - The cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document |

* Filed herewith.
** Furnished herewith.

*** XBRL (eXtensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

† Management contract or compensatory plan or arrangement.

**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.

| | | |
|---|---|---|
| | | *AdaptHealth Corp.* |
| August 8, 2023 | By: | /s/ Richard Barasch |
| | | Richard Barasch<br>Interim Chief Executive Officer and Chairman of the Board<br>*(Principal Executive Officer)* |
| August 8, 2023 | By: | /s/ Jason Clemens |
| | | Jason Clemens<br>Chief Financial Officer<br>*(Principal Financial Officer)* |
| August 8, 2023 | By: | /s/ Christine Archbold |
| | | Christine Archbold<br>Chief Accounting Officer<br>*(Principal Accounting Officer)* |

**Exhibit 31.1**

**CERTIFICATION**
**PURSUANT TO RULES 13A-14 AND 15D-14**
**UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, Richard Barasch, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of AdaptHealth Corp.;

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 the 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:

   (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.

August 8, 2023

/s/ Richard Barasch
Richard Barasch
Interim Chief Executive Officer and Chairman of the Board
(Principal Executive Officer)

**Exhibit 31.2**

**CERTIFICATION**
**PURSUANT TO RULES 13A-14 AND 15D-14**
**UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, Jason Clemens, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of AdaptHealth Corp.;

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 the 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:

   (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.

August 8, 2023

/s/ Jason Clemens
Jason Clemens
Chief Financial Officer
(Principal Financial Officer)

**Exhibit 32**

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

In connection with the Quarterly Report of AdaptHealth Corp. (the "Company") on Form 10-Q for the quarter ended June 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certify that to the best of our 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.

| | | |
|---|---|---|
| August 8, 2023 | /s/ Richard Barasch | Interim Chief Executive Officer and Chairman of the Board |
| | Richard Barasch | (Principal Executive Officer) |
| August 8, 2023 | /s/ Jason Clemens | Chief Financial Officer |
| | Jason Clemens | (Principal Financial Officer) |