STATE OF WASHINGTON
DEPARTMENT OF HEALTH
Olympia, Washington 98504

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CERTIFICATE OF NEED PROGRAM
DEPARTMENT OF HEALTH

WASHINGTON STATE CERTIFICATE OF NEED PROGRAM
RCW 70.38 AND WAC 246-310

20-26

APPLICATION FOR CERTIFICATE OF NEED
HOSPICE PROJECTS
(excludes amendments)

Certificate of Need applications must be submitted with a fee in accordance with the instructions on page 2 of this form.

Application is made for a Certificate of Need in accordance with provisions in Revised Code of Washington (RCW) 70.38 and Washington Administrative Code (WAC) 246-310 adopted by the Washington State Department of Health. I hereby certify that the statements made in this application are correct to the best of my knowledge and belief.

Signature and Title of Responsible Officer: Secretary **Date: 12/31/2019**	**Person To Whom Questions Regarding This Application Should Be Directed:** **Trevor Higby** **Telephone Number: 208-401-1400**
Legal Name of Applicant: Emerald Healthcare, Inc., d/b/a Puget Sound Hospice of King County **Address of Applicant:** 1675 E Riverside Dr., Ste. 200 Eagle, ID 83616 **Telephone Number:** 208-401-1400	**Type of Project (check all that apply):** [X] New Agency [ ] Existing Medicare Certified/Medicaid Eligible Agency Expanding into Different County [ ] Existing Licensed-Only Hospice Agency to Become Medicare Certified/Medicaid Eligible

EMERALD HEALTHCARE, INC.,
d/b/a Puget Sound Hospice of King County

Certificate of Need Application
Establish a Medicare/Medicaid Certified Hospice Agency
in
King County

December 2019

INTRODUCTION

Emerald Healthcare, Inc., d/b/a Puget Sound Hospice of King County[1] is seeking a hospice certificate of need for King County to enable it to provide life-changing hospice care to King County residents. Puget Sound Hospice will operate under the philosophy and model of all affiliates of its ultimate parent company, the Pennant Group. Specifically, that to provide the best outcomes to our patients' health care must be a community-driven service—we must be able to adapt to the specific needs of the communities in which we operate, while simultaneously providing world-class care. This application sets forth in detail how Puget Sound Hospice's unique operating structure sets it apart as the applicant best situated to meet the hospice care needs of the residents of King County. Three facets of our structure are worth noting at the outset.

First, Pennant's organizational structure is a "flat leadership" structure. In other words, Pennant does not operate as a heavy-handed, top-down corporate structure wherein programs are mandated regardless of whether they're applicable or needed in a given community. Local leaders of Pennant-affiliated agencies such as Puget Sound Hospice are empowered to run their agency to meet the specific needs of their respective communities; in fact, not only are they empowered to do so, knowing and meeting the specific needs of their community is an *expectation*.

Second, all Pennant affiliates, such as Puget Sound Hospice, enjoy the support of a world class service center that includes experts in the field of hospice. The Pennant Service Center has contracted with Puget Sound Hospice, already providing it with exceptional services such as quality monitoring and improvement, revenue cycle management and protection, legal services, accounting services, HR support, accounts payable, information technology support, EMR software support, business intelligence and operational data monitoring, clinical resource support including education and quality assessment, HIPAA compliance monitoring, clinical and billing compliance support and monitoring, Medicare, Medicaid and state licensing, regional operations resources, and more. This Service Center is comprised of individuals who have designated themselves as "Resources," as opposed to "Corporate Headquarters." What this means is agencies such as Puget Sound Hospice have a team of hospice experts who view themselves as partners and peers, dedicating their professional lives to the agency's success.

Lastly, as a Pennant- and Cornerstone-affiliate Puget Sound Hospice of King County already has established community partners and well-vetted vendors. It has access to the wisdom, best practices, and guidance from established hospice operators. It has relationships with providers across the entire continuum of post-acute care, enabling patients to receive the most appropriate care in a very well-coordinated manner.

[1] Throughout this application, the proposed hospice agency will be referred to as "Puget Sound Hospice of King County" or "Puget Sound Hospice."

These three facets, along with the others set out in this application, uniquely position Puget Sound Hospice of King County to provide a level of care that its competitors simply can't meet; the exact type of county-specific care that Washington's Certificate of Need program is designed to produce.

SECTION 1
APPLICANT DESCRIPTION

A. Legal name(s) of applicant(s).
Note: The term "applicant" for purposes of this certificate of need application is defined as any person (which includes a private corporation) proposing to engage in any undertaking subject to review under chapter 70.38 RCW.

The legal name of the applicant is Emerald Healthcare, Inc. ("Emerald") d/b/a Puget Sound Hospice of King County. Throughout the application, the proposed hospice agency will be referred to as *Puget Sound Hospice* or *Puget Sound Hospice of King County*.

B. For existing facilities, provide the name and address of the facility.
Note: The term "existing facility" for this purpose is defined as a hospice agency that is currently providing licensed only hospice care services OR a hospice agency that is seeking to expand its Medicare certified service area.

Puget Sound Hospice of King County is not an existing operating entity. That said, Emerald does own and operate Puget Sound Home Health of King County, located in Tacoma and serving, with CN-approval, King County. Emerald's ultimate parent, Pennant, owns and operates 129 health care provider entities across 13 states, including 33 hospice agencies, 28 home health agencies, 9 homecare/private duty agencies, and 54 senior care entities. This includes 8 CN-approved home health and hospice agencies in the State of Washington.

C. Identify the type of ownership (public/private/corporation, etc.).

Emerald is a for profit-corporation registered and operating in the State of Washington.

D. Provide the name and address of *owning* entity at completion of project (unless same as applicant).

The owning entity is the same as the applicant.

E. Provide the name and address of *operating* entity at completion of project (unless same as applicant).

The operating entity is the same as the applicant.

F. Identify the corporate structure and related parties. Attach a chart showing organizational relationship to related parties.

Emerald is a corporation registered with the Washington Secretary of State under the UBI #604-111-051. The organizational chart included as Exhibit 1 depicts that Emerald is wholly owned by Cornerstone Healthcare, Inc. Cornerstone is a wholly owned by the Pennant Group, Inc. The Pennant is a publicly traded company and no individual shareholder has more than a 5% ownership interest.[2]

G. Provide a general description and address of each facilities owned and/or operated by applicant (include out-of-state facilities, if any).

A listing of other agencies and facilities ultimately owned and/or operated by Pennant is included in Exhibit 2.

H. For existing facilities, identify the geographic primary service area.

This question is not applicable.

I. Identify the facility licensure/accreditation status.

Emerald Healthcare, Inc., d/b/a Puget Sound Hospice will seek State of Washington licensure, Medicare and Medicaid certification, and accreditation by the Accreditation Commission for Health Care (ACHC).

J. Is applicant reimbursed for services under Titles V, XVIII, and XIX of Social Security Act?

Puget Sound Hospice will obtain Medicare and Medicaid certification once Certificate of Need (CN) approval is secured.

[2] While Emerald Healthcare is the applicant, will be operating the hospice agency, and will be the CN holder, throughout this application we will reference Cornerstone and Pennant primarily because the close network of hospice and other health care entities under the larger Pennant umbrella provide support, best practices, and more that have proven to help drive optimal patient outcomes as well as produce high employee satisfaction.

K. Identify the medical director and provide his/her professional license number, and specialty represented.

Puget Sound Hospice has not yet selected a physician to contract with for medical director services. Puget Sound Hospice anticipates having an executed medical director contract prior to the conclusion of the screening period. In any event, Puget Sound Hospice is willing to accept a condition requiring it to submit an executed medical director agreement identifying the physician prior to establishing services.

L. Please identify whether the medical director is employed directly by or has contracted with the applicant. If services are contracted, please provide a copy of the contract.

Puget Sound Hospice will contract for Medical Director services. A copy of Puget Sound Hospice's draft medical director agreement is included as Exhibit 3.

M. For existing facilities, please provide the following information for each county currently serving.

1. **total number of unduplicated hospice patients served per year for last three years;**
2. **average length of stay (days) per patient for the last three years;**
3. **median length of stay;**
4. **average daily census per year for the last three years.**

Emerald does not operate any hospice agencies in Washington State.

SECTION 2
PROJECT DESCRIPTION

A. Provide the name and address of the proposed facility.

Puget Sound Hospice will be based out of an office located in King County at the following address:

301 W. North Bend Way, Suite 108
North Bend, WA 98045

B. Describe the project for which Certificate of Need approval is sought.

Puget Sound Hospice will be a state licensed and Medicare/Medicaid certified hospice agency in King County. As with all Pennant-affiliated hospice agencies, Puget Sound Hospice will provide exceptional patient-specific care, enabling the patient to remain safely at home, whether in his or her own residence, a long-term care facility or in a temporary location such as an acute care hospital. The provision of exceptional care will be provided by an interdisciplinary team of experienced and specially trained professionals providing medical, physical, emotional, social and spiritual support to the patient and their family.

Puget Sound Hospice's interdisciplinary staff will work in coordination with the patient's physician(s), other caregivers, and the patient and his/her family to establish personalized hospice care goals for pain and symptom management; offering to the patient all necessary hospice services including physician and nursing services, pharmacy services, hospice aide and social worker services, medical supplies and equipment, bereavement support for family and friends, and use of short-term inpatient care when necessary.

Puget Sound Hospice approaches hospice care as does all Pennant-affiliated hospice agencies: with the overarching belief that hospice care is fundamentally a community-specific service. At the same time, hospice care must meet rigorous clinical, compliance, and legal obligations. To ensure Puget Sound Hospice will be able to be both adaptable to the community's needs and to meet the strict clinical, legal, and administrative demands placed on it, it contracts with its affiliate, Cornerstone Service Center. The Cornerstone Service Center will provide Puget Sound Hospice with teams of experts in the field of hospice to provide world-class expertise in areas including quality integrity and improvement, human resources, legal, accounting, revenue cycle management, information technology, business data analytics, compliance auditing and assessment, and clinical education and training.

C. List new services or changes in services represented by the project. Please indicate which services would be provided directly by the agency and which services would be contracted.

Table 1 summarizes the services that will be offered directly and via contract.

Table 1
Service Listing and Indication of Direct Provision or Contract

Service	Direct or Contract
Physician	Contract
Nursing	Direct
Certified Nursing Assistant	Direct
Physical, Occupational and Speech therapy	Contract
Alternative therapies	Contract as needed
Dietary	Contract
Social Work	Direct
Spiritual Care Coordinator	Direct
Pharmacy	Contract
Inpatient /Respite	Contract
Continuous Care	Direct
Bereavement Counselor (provided by Chaplain)	Direct
Volunteer Coordinator (provided by Social Work)	Direct

Source: Applicant

D. General description of types of patients to be served by the project.

Puget Sound Hospice will serve all hospice eligible patients enrolled in hospice and desiring to be cared for by Puget Sound Hospice of King County. According to the 2018/2019 King County Community Health Needs Assessment, residents of King County are widely diverse with limited access to care. Puget Sound Hospice shares the County's leadership vision of embracing the diversity of our communities and partnering with state and local government, community-based organizations, and others to improve the care of patients.

E. List the equipment proposed for the project:

1. **description of equipment proposed; and**
2. **description of equipment to be replaced, including cost of the equipment, disposal, or use of the equipment to be replaced.**

Equipment needs are limited to office furnishings and communication/computers. The specific equipment is included in Table 2. All costs include sales tax.

Table 2
Equipment List[3]

Item	Cost
Furniture	$8,000
Phone System	$2,000
Computer/IT equipment	$5,000
Total	**$15,000**

Source: Applicant

F. Provide drawings of the proposed project:

1. **single line drawings, approximately to scale, of current locations which identify current departments and services; and**
2. **single line drawings, approximately to scale, of proposed locations which identify current departments and services; and**
3. **Total net and gross square feet of project.**

A floor plan of the proposed King County office location is included at Exhibit 4. Suite 108 is the leased space for the office.

G. Identify the anticipated dates of both commencement and completion of the project.

Puget Sound Hospice intends to begin serving patients within 30 days of receiving the CN for King County. We will commence licensure, certification and accreditation immediately following CN approval.

[3] Includes sales tax.

H. Describe the relationship of this project to the applicant's long-range business plan and long-range financial plan (if any).

Pennant operates with the philosophy that hospice should be available to any and all persons with an illness for which there is no cure or for persons who elect not to attempt a cure, resulting in a limited life expectancy. The opportunity to submit a CN to serve King County—where we are confident that we can make a difference in the lives of the terminally ill and their families—is consistent with our business planning.

I. Provide documentation that the applicant has sufficient interest in the site or facility proposed. "*Sufficient interest*" shall mean any of the following:

1. **clear legal title to the proposed site; or**
2. **a lease for at least one year with options to renew for not less than a total of three years; or**
3. **A legally enforceable agreement (i.e., draft detailed sales or lease agreement, executed sales or lease agreement with contingencies clause), to give such title or such lease in the event that a Certificate of Need is issued for the proposed project.**

A copy of the signed terms and conditions sheet for the applicant's lease proposal is included in Exhibit 5. If the CN Program requires any additional documentation, we request that it be asked for during the screening process.

SECTION 3
PROJECT RATIONALE
A. NEED

1. **Identify and analyze the unmet hospice service needs and/or other problems toward which this project is directed.**

    a. **identify the unmet hospice needs of the patient population in the proposed service area(s). The unmet patient need should not include physical plant deficiencies and/or increase facility operation deficiencies; and**

The goal of Puget Sound Hospice to provide the best outcomes and care to our patients and families. Health care is a community-driven service, as such our care staff and leadership teams are local community members that are able to adapt to the specific needs of the communities in which we operate, while also offering world-class care.

Our requested project seeks to address the unmet need for additional hospice services in King County. The Hospice Numeric Need Methodology used by the Department of Health has identified the need for additional agencies.

The unmet hospice needs of the patient population within King County for calendar years 2020 and 2021 are calculated using the Department of Health 2019-2020 Hospice Numeric Need Methodology. The methodology indicates an unmet Average Daily Census (ADC) of 46 and 94 for 2020 and 2021, respectively. This unmet ADC translates into unmet patient days of 16,787 and 34,159 for 2020 and 2021. Please see Table 3 below for a breakout of unmet hospice needs.

The need for additional hospice agencies is determined by the same methodology referenced above. As applied to King County, it identifies a need for 2.67 additional hospice providers by 2021. Please see Table 4 below. The step by step description of the methodology is provided in Exhibit 11 due to the length of explanation.

Table 3
Unmet Hospice Need

Indicator	2020	2021
Admissions (unmet)	279	568
Patient Days (Unmet)	16,787	34,159
ADC (Unmet)	46	94
Additional agencies needed (numeric need)		2.67

Source: DOH 260-028 November 2019 Hospice Need Methodology

Table 4
Numeric Need - Additional Agencies Needed

Step 7 (Patient Days/365) =Unmet ADC				Step 8 -Numeric Need	
County	**2019 ADC (unmet)**	**2020 ADC (unmet)**	**2021 ADC (unmet)**	**Numeric Need?**	**Agencies Needed?**
Jefferson	9.66	10.63	11.86	FALSE	FALSE
King	**(5.88)**	**45.99**	**93.59**	**TRUE**	**2.67**
Kitsap	19.77	27.15	35.36	TRUE	1.01

Source: DOH 260-028 November 2019
Hospice Need Methodology

The CN application directs applicants to provide certain financial projections for the first three years of the project. The timeframe in which the CN decisions are scheduled to be rendered for this cycle is mid-year of 2020, which means applicants are required to provide projections at least into the year 2023. However, official population forecasts that far into the future are not readily available although the methodology incorporates population trends in several steps.

In an effort to remain consistent with utilization of the methodology as the basis for this project rationale, population forecasts for 2022 and 2023 have been estimated
The historic population trends as well as the projected populations for 2019-2021 provided by the Office of Financial Management (OFM) were used to determine growth rates for 2022 and 2023. As seen in Table 4a, the growth rate used for 2022 and 2023, for both age cohorts, is the same rate the OFM used to project 2021 population.

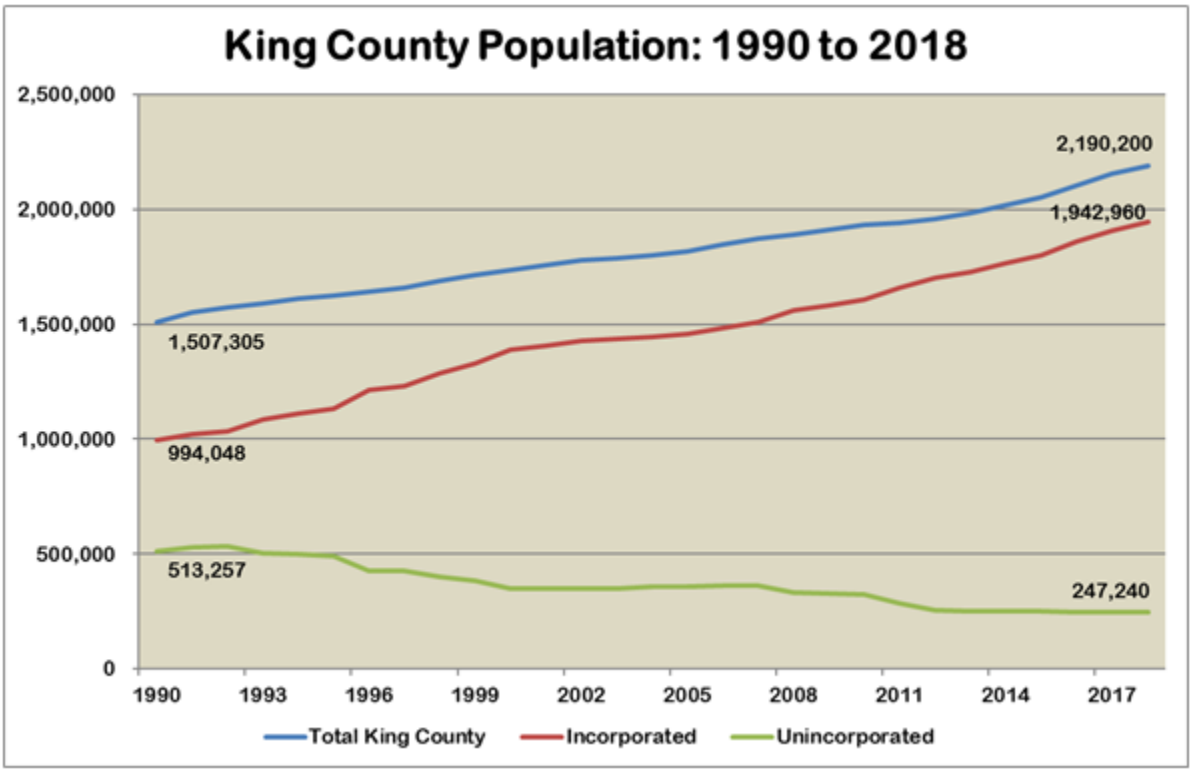
Table 4a King County Population Cohort Growth Rate

County	2016-2018 Average Population	2019 projected population	2020 projected population	2021 projected population	2022 projected population	2023 projected population
0-64 age cohort	1,841,848	1,885,115	1,906,749	1918470	1929981	1941561
Growth rate over prior year	NA	2.30%	1.13%	0.61%	0.60%	0.60%
65+ Age Cohort	282,395	310,572	324,660	337,771	347904	358341
Growth rate over prior year	NA	9.07%	4.34%	3.88%	3.00%	3.00%

This simplistic but conservative trending demonstrates that there exists a shortage of at least two agencies to serve this rapidly growing community. Further, the very soonest any agency could begin serving patients in King County is August of 2020 which leaves hundreds of patients without timely access to their Medicare benefit in hospice in 2020. For this reason alone, the rationale for this project is simply to provide hospice care to those that are entitled to the service.

b. Identify the negative impact and consequences of unmet hospice needs and deficiencies.

Based on the above, the negative impact failing to meet the hospice needs of the residents of King County would be substantial. King County has experienced significant population growth over the past decade and this pattern is projected to continue.



Source: Washington State Office of Economic and Financial Analysis

The nature of hospice is to provide care, comfort and support to some of our most vulnerable as they experience perhaps the most fragile time of life, wherever they reside. Accessibility to a provider of the patient's choice is critical to providing that care. The numeric need indicates that accessibility to providers is limited in 2020 and beyond which could leave those residents of King County nearing the end of life with limited or no options. Puget Sound Hospice of King County is confident it can provide superior, life-changing care to those residents in need.

2. **Define the types of patients that are expected to be served by the project. The types of patients expected to be served can be defined according to the specific needs and circumstances of patients (i.e., culturally diverse, limited English speaking, etc.) or by the number of persons who prefer to receive the services of a particular recognized school or theory of medical care.**

As stated in the 2018/2019 King County Community Health Needs Assessment, 1 in 4 King County residents are to be 60 or older by 2040. The publication goes on to states that the fastest growing segments include those 85 and older and disabled. For this, "Healthcare systems need to prepare for this important demographic shift with adequate workforce capacity and accessible services."[4]

Puget Sound Hospice recognizes that King County residents come from a wide range of ethnic, cultural, and social economic backgrounds. We know and appreciate that each patient and family that we get the honor to care for are special and unique. Care planning for the patient and family is specific to their needs, beliefs and desires. This project intends to help ensure that all those nearing end of life in King County have ample hospice care options.

As is demonstrated in Table 5, the King County population of persons 65+ is projected to grow by 9% from 2016-2018 to 2021. This is a population increase of 55,376 for the 65+ population *alone* within the next three years.

This population growth trend projection is consistent with the actual growth that occurred from 2011 to 2018, which increased by a staggering 23%. The 65+ age cohort accounts for an overwhelming majority of the growth in King County as seen in Table 6. This tremendous growth in the elderly population has and will lead to growth in the need for hospice care.

Table 5

King County Historical Population and Projected Population by Age Cohort

Age Cohorts	2016-2018 Average Population	2016-2018 % of population	2019 projected population	2020 projected population	2021 projected population	2021 % of population	% Change 2018 to 2021
0-64	1,841,848	86.71%	1,885,115	1,906,749	1,918,470	85.03%	2%
65+	282,395	13%	310,572	324,660	337,771	15%	9%
Total	2,124,243	100.00%	2,195,687	2,231,409	2,256,241	100.00%	3%

Source: DOH 260-028 November 2019 Hospice Need Methodology

[4] King County Hospitals for a Healthier Community: *King County Community Health Needs Assessment 2018/2019,* p. 15.

Table 6
County Historical Population and Projected Population by Age Cohort

Age Cohorts	2011 Pop.	2011 % of Pop.	2016-2018 Average Pop.	2016-2018 % of pop.	2021 projected pop.	2021 % of pop.	% Change 2011 to 2018	% Change 2011 to 2021
0-64	1,725,983	88.85%	1,841,848	86.71%	1,918,470	85.03%	6%	10%
65+	216,617	11%	282,395	13%	337,771	15%	23%	36%
Total	1,942,600	100.00%	2,124,243	100.00%	2,256,241	100.00%	9%	14%

Source: Washington State 2017 GMA Projections – Medium Series

3. **For existing facilities, include a patient origin analysis for at least the most recent three-month period, if such data is maintained, or provide patient origin data from the last statewide patient origin study. Patient origin is to be indicated by zip code. Zip codes are to be grouped by city and county, and include a zip code map illustrating the service area.**

Puget Sound Hospice is not an existing agency. This question is not applicable.

4. **Please provide the utilization forecasts for the following, for each county proposing to serve:**
   a. **total unduplicated hospice patients served per year for the first three years;**
   b. **average length of stay (days) per patient per year for the first three years;**
   c. **median length of stay; and**
   d. **average daily census per year for the first three years.**

If our proposed project is approved, we intend to begin the Medicare certification process immediately. We will be able to begin providing care as soon as a state license has been issued. A care staff team will already be in place via our recently approved Thurston County CN that can facilitate the accreditation process. Therefore, the project commencement forecasts are provided for CY 2020. However, the first full year of operation will be 2021. Forecasts for 2021-2023 are provided in Table 7.
Table 7 details the admissions, patient days, ALOS and ADC that Puget Sound Hospice projects in King County for its first three full years of operation as well as the commencement year, 2020.

Table 7
Puget Sound Hospice Projected Patient Census for King County

	Aug-Dec 2020	2021	2022	2023
Projected Unduplicated Admissions	15	151	213	246
ALOS	60.86	60.86	60.86	60.86
Patient Days	649	9,199	13,000	15,000
ADC	4.2	25	35.6	41.1
Puget Sound Hospice Median LOS	17	17	17	17

Source: Applicant

5. Please provide a forecasted breakdown of patient diagnoses.

Table 8 identifies Puget Sound Hospice's estimated first full year of operation estimate of patients by diagnosis. The diagnoses were determined after reviewing Washington State Department of Health, Center for Health Statistics, death certificate data, 2013-2015. They were also determined in consideration of the fact that 76% of seniors over the age of 65 in King County live with chronic disease.[5]

Table 8
Estimated Hospice Patients by Diagnosis and Percent

Diagnosis	Percent
Dementia	25%
Cancer	20%
Heart Disease	21%
Lung Disease	9%
Liver Disease	4%
COPD	9%
Stroke/CVA	7%
HIV	3%
Amyotrophic Lateral Sclerosis (ALS)	1%
Others	1%
Total	**100%**

Source: Applicant

[5] SOURCE

6. **Provide the complete step-by-step quantitative methodology used to construct each utilization forecast. All assumptions related to use rate, market share, intensity of service, and others must be provided.**

Puget Sound Hospice's assumptions related to use rate, market share and intensity of service used for planning and forecasting follow:

- The numeric need methodology projects an unmet ADC of 46 in 2020 and 94 in 2021. The utilization related to this project in 2020 provided in Table 12 assumes a minimal ADC due to being late in the year as well as the credentialing process. Utilization in 2021(first full year) assumes a moderate "ramp-up" to reach an ADC of 25. The third full year is projected to reach and ADC of 41 which is only 24% of the forecasted unmet ADC for 2023.

ALOS: Assumes the Washington State ALOS of 60.86-days.

- Patient Days- ALOS x admissions
- ADC- Patient days divided by 365 days in a full year
- Median LOS- Actual experience with Pennant's hospice agencies
- Assume 65% of the unmet ADC in 2020; increasing to 75% of unmet need ADC in 2021, 85% of unmet need in 2021.

7. **Provide detailed information on the availability and accessibility of similar existing services to the defined population expected to be served. This section should concentrate on other facilities and services which "compete" with the applicant.**
    a. **Identify all existing providers of services (licensed only and certified) similar to those proposed and provide utilization experience of those providers that demonstrates that existing services are not available to meet all or some portion of the forecasted utilization.**
    b. **If existing services are available, demonstrate that such services are not accessible. Unusual time and distance factors, among other things, are to be analyzed in this section.**
    c. **If existing services are available and accessible, justify why the proposed project does not constitute an unnecessary duplication of services.**

Currently, nine Medicare certified hospice agencies operate in King County. These agencies include:

1. Evergreen Health Home Care Services
2. Franciscan Hospice
3. Gentiva Hospice (Odyssey Hospice)
4. Kaiser Permanente Home Health and Hospice (Group Health)
5. Kline Galland Community Based Services
6. MultiCare Home Health, Hospice and Palliative Care
7. Providence Hospice and Home Care of Snohomish County
8. Providence Hospice of Seattle
9. Wesley Home

The 260-028 November 2019 Hospice Need Methodology provides the necessary analysis for us to determine that there is drastically higher projected utilization than the current capacity can support. The numeric need indicates 2.68 additional agencies are needed to meet the unmet need by 2021. The forecasted unmet patient volume (admissions) for 2021 is 8,236 where the current capacity is only 7,668. This capacity to demand comparison indicates there are potentially 279 unmet admissions in 2021. See Exhibit 11.

By definition, the presence of numeric need indicates that an additional two providers would not be considered unnecessary duplication. Emerald's proposed agency, Puget Sound Hospice, will help meet unmet need, but will not oversupply hospice services in the County.

8. **Document the manner in which low-income persons, racial and ethnic minorities, women, people with disabilities, and other under-served groups will have access to the services proposed.**

Puget Sound Hospice will actively pursue Medicare and Medicaid certification, and has included charity care in its financial projections.

Puget Sound Hospice is committed to serving all patients regardless of race, color, religion (creed), gender, gender expression, age, national origin, disability, marital status, sexual orientation, or military status, and will ensure that all populations have access to services through its charity care policy. Furthermore, Puget Sound Hospice's admission, charity care, and non-discrimination policies demonstrate a willingness and interest in caring for Medicare, Medicaid, and non-pay patients.

9. **Please provide copies (draft is acceptable) of the following documents:**
   a. **Admissions policy**
   b. **Charity care policy; and**
   c. **Patient referral policy, if not addressed in admissions policy.**

Puget Sound Hospice's charity care policy, admissions policy, and patient referral policy are included as Exhibit 6.

10. **As applicable, substantiate the following special needs and circumstances that the proposed project is to serve.**
    a. **The special needs and circumstances of entities such as medical and other health professions' schools, multi-disciplinary clinics and specialty centers that provide a substantial portion of their services, resources, or both, to individuals not residing in the health services areas in which the entities are located or in adjacent health service areas.**
    b. **The special needs and circumstances of biomedical and behavioral research projects which are designed to meet a national need and for which local conditions offer special advantages.**
    c. **The special needs and circumstances of osteopathic hospitals and non-allopathic services with which the proposed facility/service would be affiliated.**

This project is not designed to serve any of the special needs referenced above. As such, this question is not applicable.

SECTION 3
PROJECT RATIONALE
B. - FINANCIAL FEASIBILITY

1. If applicable, provide the proposed capital expenditure for the project.

Puget Sound Hospice projects an estimated capital expenditure of $15,000 for the establishment of our King County agency. The costs incurred will be for furniture, phone system, computer/IT equipment, and are detailed in Table 9.

Table 9
Proposed Capital Expenditure

Item	Cost
Furniture	$8,000
Phone System	$2,000
Computer/IT Equipment	$5,000
Total	**$15,000**

Source: Applicant

2. Explain in detail the methods and sources used for estimated capital expenditures.

Capital expenditures were estimated via vendor quotes, and Pennant's extensive experience establishing new agencies.

3. Documentation of project impact on (a) capital costs, and (b) operating costs and charges for health services.

As documented in Exhibit 7, the pro forma forecast for this project, the $15,000 capital investment has no impact on costs. Hospice care has been shown to be cost-effective and is documented to reduce end-of- life costs. This project proposes to address the hospice agency shortage in the County and will improve access. Over time, this will reduce the costs of end-of-life care and benefit patients and their families.

4. **Provide the total estimated operating revenue and expenses for the first three years of operation (please show each year separately) for the items on the following page, as applicable. Include all formulas and calculations used to arrive at the totals on a separate page.**

Please see Exhibit 7 which contains the pro forma forecast for revenue and expense statements for the first three years of operation. The underlying assumptions incorporated into the pro forma are included in the same exhibit.

5. **Identify the source(s) of financing (*loan, grant, gifts, etc.*) for the proposed project. Provide all financing costs, including reserve account, interest expense, and other financing costs. If acquisition of the asset is to be by lease, copies of any lease agreements, and/or maintenance repair contracts should be provided. The proposed lease should be capitalized with interest expense and principal separated. For debt amortization, provide a repayment schedule showing interest and principal amount for each year over which the debt will be amortized.**

The small capital investment needed for this project will be funded by the Pennant Group, using reserves. This is the best, most efficient means of funding an expenditure of this magnitude.

6. **Provide documentation that the funding is, or will be, available and the level of commitment for this project.**

A letter of commitment of funds is provided in Exhibit 8 to demonstrate Pennant's intention to fully finance Puget Sound Hospice.

7. **Provide a cost comparison analysis of the following alternative methods: purchase, lease, board-designated reserves, and interfund loan or bank loan. Provide the rationale for choosing the financing method selected.**

With a capital investment of this magnitude, the use of reserves (which does not carry any financing costs) is preferred. Emerald considered no other financing methods.

8. **Provide a pro forma balance sheet and expense and revenue statements for the first three years of operation.**

Exhibit 7 contains the pro forma revenue and expense statements for the first three years of operation.

9. **Provide a capital expenditure budget through project completion and for three years following completion of the project.**

No capital beyond that identified in the CN capital expenditure budget is anticipated during the first three full years.

10. **Identify the expected sources of revenues for the applicant's total operations (e.g., Medicaid, Medicare Managed Care, Healthy Options, Labor and Industries, etc.) for the first three years of operation, with anticipated percentage of revenue for each payer source.**

Puget Sound Hospice anticipates the following payer mix:

Table 10: Payer Mix

Payer	% of Gross Revenue
Medicare	94.6%
Medicaid	4.0%
Commercial	1.2%
Self-Pay	0.2%
Total	**100.0%**

Source: Applicant

11. **If applicant is an existing provider of health care services, provide expense and revenue statements for the last three full years.**

The applicant, Emerald Healthcare, Inc., does not presently operate a hospice agency in King County.

12. **If applicant is an existing provider of health care services, provide cash flow statements for the last three full years.**

The applicant, Emerald Healthcare, Inc., does not presently operate a hospice agency in King County.

13 If applicant is an existing provider of health care services, provide balance sheets detailing the assets, liabilities, and net worth of facility for the last three full fiscal years.

The applicant, Emerald Healthcare, Inc., does not presently operate a hospice agency in King County.

14. For existing providers, provide actual costs and charges per visit broken down by discipline (i.e., RN/LPN, OT, PT, social worker, etc.) and by payer source for each county proposing to serve.

This question is not applicable to hospice providers. Puget Sound Hospice, consistent with Medicare hospice reimbursement, will not charge, and will not be paid by visit. Rather, Puget Sound Hospice will be paid a daily rate.

15. Provide anticipated costs and charges per visit broken down by discipline (i.e., RN/LPN, OT, PT, social worker, etc.) Provide actual costs and charges per visit broken down by discipline (i.e., RN/LPN, OT, PT, social worker, etc.) and by payer source for each county proposing to serve.

This question is not applicable to hospice providers. Puget Sound Hospice, consistent with Medicare hospice reimbursement, will not charge, and will not be paid by visit. Rather, Puget Sound Hospice will be paid a daily rate.

16. Indicate the addition or reduction of FTEs with the salaries, wages, employee benefits for each FTE affected, for the first three years of operation. Please list each discipline separately.

Projected FTEs for the first full three years of operation are included in Table 11 below.

Table 11
Projected FTEs, 2020-2022

Type of Staff	Annual Salary	2021FTE	2022 FTE	2023 FTE
Administrator	$100,000	0.5	0.5	0.5
Business Office Manager, Medical Records, Scheduling	$50,000	0.5	1	2
Intake	$52,000	1.00	2.5	3
Community Liaison	$65,000	1.5	2	2
Director of Patient Care Services	$91,000	0.6	1.0	1
Registered Nurses	$85,000	3.8	5.3	6.2
Certified Nursing Assistant	$31,200	2.5	3.6	4.1
Social Work	$71,000	0.8	1.2	1.4
Spiritual Care Coordinator	$56,000	0.8	1.2	1.4
Total		12	18.3	21.6

Source: Applicant

17. Please describe how the project will cover the costs of operation until Medicare reimbursement is received. Provide documentation of sufficient reserves.

As documented by the letter of financial commitment from Emerald and from the historical financials included in Exhibit 9, Emerald has sufficient cash to assure that the costs of operations are covered until Medicare reimbursement is received for Puget Sound Hospice.

SECTION 3
PROJECT RATIONALE
C - STRUCTURE AND PROCESS (QUALITY) OF CARE

1. **Please provide the current and projected number of employees for the proposed project, using the following table.**

Puget Sound Hospice of King County is not an existing hospice agency, and thus does not currently have any employees. Projected employees were provided in Table 15, above.

2. **Please provide your staff to patient ratio.**

The staff to patient ratio is provided below in Table 12.

Table 12
Proposed Staff to Patient ADC Ratio -

Type of Staff	Staff to Patient Ratio
Registered Nurses	1:12 (day) and .8: 12 (evenings and weekends)
Certified Nursing Assistant	1:10
Social Work	1:30
Spiritual Care Coordinator	1:30

Source: Applicant

3. **Explain how this ratio compares with other national or state standards of care and existing providers in the proposed service area.**

Puget Sound Hospice is confident that our proposed staff to patient ratio is competitive for a number of reasons. First, Pennant's other hospice agencies are able to produce quality outcomes with similar ratios. Further, we compared our proposed staff/patient ratios with recently approved CN hospice applications in Washington.[6] In each case, our proposed ratios were as good as the ratios of these other approved projects.

[6] Envision King

4. **Identify and document the availability of sufficient numbers of qualified health manpower and management personnel. If staff availability is a problem, describe the manner in which the problem will be addressed.**

In addition to Emerald operating a home health agency in King County, its ultimate parent company, Pennant, owns 129 healthcare organizations around 13 states in the United States, including a senior living home in Redmond, Washington, as well as home health agencies in adjacent Pierce and Snohomish counties. In the experience of Pennant's affiliate health care agencies, health care employees are drawn to the Pacific Northwest Region for its outdoor experiences, culture and vitality, and if Puget Sound Hospice has qualified and experienced staff in good standing that want to move to King County, or to transition from long-term care or home health to hospice, we will be glad to support that relocation or transition.

Emerald and its Pennant-affiliates also have strong and proven histories of recruiting and retaining quality staff. We offer a competitive wage scale, a generous benefit package, and a professionally rewarding work setting, as well as the potential for financial assistance in furthering training and education.

Both Emerald and Pennant-affiliates have access to and utilize a variety of recruitment resources, including the use of social media and internet recruitment platforms such as LinkedIn, Indeed, Monster and Glassdoor, among others, and due to our employees' high job satisfaction have found great success in recruiting through our staff's network of other skilled healthcare professionals.

With retention even more important than recruitment, all Pennant-affiliates require and provide rigorous department orientation, clinical and safety training, initial and ongoing competencies assessments, and performance evaluations.

5. **Please identify the number of providers and specialties represented on the interdisciplinary team.**

The provider types on the interdisciplinary team were provided in Table x, the interdisciplinary team composition is consistent with CMS's Hospice Conditions of Participation (42 CFR 418.56), which requires a doctor of medicine or osteopathy (who is an employee or under contract with the hospice), a RN, MSW and pastoral or other counselor.

6. **Please identify and provide copies of (if applicable) the in-service training plan for staff. (Components of the training plan should include continuing education, hospice aide training to meet Medicare criteria, etc.)**

The in-service training plan is provided in Exhibit 10.

7. **Describe your methods for assessing customer satisfaction and quality improvement.**

Emerald frequently measures and monitors quality of care and customer satisfaction in multiple ways. For example, quality of care delivery and patient satisfaction data is analyzed in real-time using Strategic Health Programs (SHP), a third party platform that allows agencies to assess care delivery and analyze patient interactions to identify opportunities for improvement and compare our performance to that of our peers nationally and by state. SHP is also the Home Health CAHPS and CAHPS Hospice vendor. Patient surveys are sent out via mail on a monthly basis and submitted as required by CMS quarterly by SHP. The data we receive allows us to track, monitor, and respond to outcomes that align with our goals and benchmarks.

Further, and as required by CMS, Emerald will participate in the Hospice Item Set which measures items such as treatment preferences, beliefs/values, pain screening and assessment and dyspnea screening and assessment.

8. **Identify your intended hours of operation. In addition, please explain how patients will have access to services outside the intended hours of operation.**

Puget Sound Hospice's hours of operation will be 8 am to 5 pm, Monday through Friday, although services will be provided 24 hours a day, 7 days a week. Patients will have access to Puget Sound Hospice after-hours and weekends to an on-call RN staff.

9. **Identify and document the relationship of ancillary and support services to proposed services and the capability of ancillary and support services to meet the service demands of the proposed project.**

Puget Sound Hospice anticipates using many of the same ancillary and support services as does our sister organizations, Puget Sound Home Health and Olympia Transitional Care and Rehabilitation, that said, upon CN approval, we will enter into our own agreements with these vendors. Ancillary and support services that will be needed include: Physical, Occupational and Speech therapy, alternative therapies (pet, music, art, etc.), dietary, pharmacy and inpatient/respite.

The Pennant Service Center has contracted with Puget Sound Hospice to provide exceptional services such as quality monitoring and improvement, revenue cycle management and protection, legal services, accounting services, HR support, accounts payable, information technology support, EMR software support, business intelligence and operational data monitoring, clinical resource support including education and quality assessment, HIPAA compliance monitoring, clinical and billing compliance support and monitoring, Medicare, Medicaid and state licensing, regional operations resources, and more.

10. **Explain the specific means by which the proposed project will promote continuity in the provision of health care to the defined population and avoid unwarranted fragmentation of services. This section should include the identification of existing and proposed formal working relationships with hospitals, nursing homes and other health service resources serving your primary service area. This description should include recent, current and pending cooperative planning activities, shared service agreements, and transfer agreements. Copies of relevant agreements and other documents should be included.**

Much like the Hospitals for Healthier Community (HHC) Priorities have outlined (CHNA, 2019). Emerald commits to aligning with hospitals/health systems, and the post-acute care community to improve access to care for King County residents. As a provider who primarily operates in the community, hospice is key to bringing care to patients where they are.

Puget Sound Hospice is currently developing formal relationships with a medical director, local hospitals, nursing homes (including our sister entity, Olympia Transitional Care and Rehabilitation, and healthcare facilities and payers who will collaborate with Puget Sound Hospice to facilitate quick referral uptake (timely patient care), and coordinate care for our patients. The types of relationships we intend to establish include at least, primary and specialty care, hospitals, respite, long-term care (Nursing home and assisted living, home/durable medical providers and cancer centers.

11. **Fully describe any history of the applicant entity and principals in Washington with respect to criminal convictions, denial or revocation of license to operate a health care facility, revocation of license to practice a health profession, or decertification as a provider of services in the Medicare or Medicaid program. if there is such history, provide clear, relevant, and convincing evidence that the proposed project will be operated in a manner that ensures safe and adequate care to the public to be served and in conformance with applicable federal and state requirements.**

    a. **Have any of the applicants (see definition of applicants on page 4 of this application) been adjudged insolvent or bankrupt in any state or federal court?**
    b. **Have any of the applicants been involved in a court proceeding to make judgment of insolvency or bankruptcy with respect to the applicants.**

Neither Emerald, Cornerstone, nor Pennant have any history of criminal convictions, denial or revocation of license to operate a health care facility, revocation of license to practice a health profession, or decertification as a provider of services in the Medicare or Medicaid program. Further, neither has been adjudged insolvent or bankrupt in any state or federal court. And, neither has been involved in a court proceeding to make judgment of insolvency or bankruptcy with respect to the applicants.

12. List the licenses and/or credentials held by the applicant(s) and principles in Washington, as well as other states, if applicable. Include any applicable license numbers.

The applicant, Emerald does not currently operate a hospice agency in Washington and does not hold any licenses and/or credentials in the State at this time. Exhibit 2 includes a listing of all entities owned by Pennant.

13. Provide the background experience and qualifications of the applicant(s).

As stated earlier, Emerald is owned by Cornerstone Healthcare. For approximately 10 years, Cornerstone was a wholly owned subsidiary of the Ensign Group, owning and operating all of Ensign's home health and hospice agencies. Due in large part to Cornerstone's success in its home health and hospice operations, Ensign spun Cornerstone and some of Ensign's senior living facilities into its own publicly traded company: Pennant. Pennant owns 129 healthcare facilities (33 of which are hospice agencies), and, because it includes Cornerstone, enjoys extensive experience owning and operating healthcare agencies and facilities. Pennant's history and expertise in healthcare operations will contribute to the success of Puget Sound Hospice of King County.

14. For existing agencies, provide copies of the last three licensure surveys as appropriate evidence that services will be provided (a) in a manner that ensures safe and adequate care, and (b) in accordance with applicable federal and state laws, rules and regulations.

Puget Sound Hospice of King County is not an existing agency, and thus this question is not applicable. Should the Department require additional licensure information (beyond that included in Exhibit 2) for any of Emerald or Pennant's entities, we request that the Department request the information in screening.

SECTION 3
PROJECT RATIONALE
D - COST CONTAINMENT

1. **Identify the exploration of alternatives to the project you have chosen to pursue, including postponing action, shared service arrangements, joint venture, merger, contract services, and different methods of service provision, including spatial configurations you have evaluated and rejected. Each alternative should be analyzed by application of the following:**

   - **Decision making criteria (cost limits, availability, quality of care, legal restrictions, etc.);**

   - **Advantages and disadvantages, and whether the sum of either the advantages or the disadvantages outweigh each other by application of the decision-making criteria;**

   - **Capital costs;**

   - **Staffing impact.**

Emerald chose to establish a hospice agency in King County at this time due to the need shown in the methodology, and the efficiencies to be achieved by co-locating with Emerald's current home health agency in Pierce County. Due to the cost savings and efficiencies to be achieved by sharing administrative overhead with several of our administrative staff as well as clinical staff and potential vendors and services, Emerald did not consider any alternatives. Emerald's parent company, Pennant, owns over 61 hospice and home health agencies, and has extensive experience in co-locating services, and achieving cost savings. Ultimately, these savings can be passed onto the patient and payers, thus further contributing to the Triple Aim by reducing hospice care costs.

2. **Describe how the proposal will comply with Medicare conditions of participation, without exceeding the cost caps.**

The current cap amount for the cap year ending 2019 is $29,205.44. We estimate average net reimbursement per admission of $10,579.39 by Year 3; which is more than 75% below the cap. This provides assurance that Puget Sound Hospice of King County will not exceed the Medicare cost caps.

3. **Describe the specific ways in which the project will promote staff or system efficiency or productivity.**

Improved access to hospice will support system efficiency. Data demonstrates that patients who die while in hospice care have lower health care expenditures, are hospitalized less often, and undergo less intensive care than those who do not die in hospice care.[7] Hospice care is also proven to improve patient experience, reduce costs, and improving population health. Puget Sound Hospice's affiliations with health care providers throughout the entire acute and post-acute care spectrum will allow it to ensure that systems and healthcare providers in King County have sufficient, timely access to hospice services—at the right place and right time, so that when patients choose to elect that benefit, care is available. The absence of timely, quality hospice care harms the patient and their family and also increases use of the healthcare system, expressed in ED visits, clinic visits and hospitalizations.

Further, Puget Sound Hospice will share administrative support with Puget Sound Home Health in Tacoma, thus allowing for shared services, shared administrative support and shared overhead.

4. **If applicable, in the case of construction, renovation or expansion, capital cost reductions achieved by architectural planning and engineering methods and methods of building design and construction. Include an inventory of net and gross square feet for each service and estimated capital cost for each proposed service. Reference appropriate recognized space planning guidelines you have employed in your space allocation activities.**

This question is not applicable.

5. **If applicable, in the case of construction, renovation or expansion, an analysis of the capital and operating costs of alternative methods of energy consumption, including the rationale for choosing any method other than the least costly. For energy-related projects, document any efforts to obtain a grant under the National Energy Conservation Act.**

This question is not applicable.

[7] https://jamanetwork.com/journals/jama/fullarticle/1930818

Exhibit 1: Organizational Chart

ORGANIZATION CHART

The Pennant Group, Inc.

100% ownership interest in Cornerstone Healthcare, Inc.

The Pennant Group, Inc. is a publically traded company and no individual shareholder has more than 5% ownership interest.

Board of Directors:

Christopher R. Christensen	Director
Daniel H Walker	Director
John G. Nackel, Ph.D.	Director
Scott Lamb	Director
Roderic Lewis	Director
JoAnne Stringfield	Director
Steven M.R. Covey	Director

Officers:

Daniel H Walker	CEO & President
John J. Gochnour	Executive Vice President
Derek Bunker	Executive Vice President, Chief Investment Officer, & Secretary

Cornerstone Healthcare, Inc.

100% ownership interest in Emerald Healthcare, Inc.

Daniel H. Walker	Director/Sole Board Member
Brent Guerisoli	President
Elliot McMillan	Secretary
Lee Johnson	Treasurer

Emerald Healthcare, Inc., d/b/a Puget Sound Hospice of King County

Daniel Walker	Director/Sole Board Member
Brent Guerisoli	President
Elliot McMillan	Secretary
Lee Johnson	Treasurer

Organizational Chart

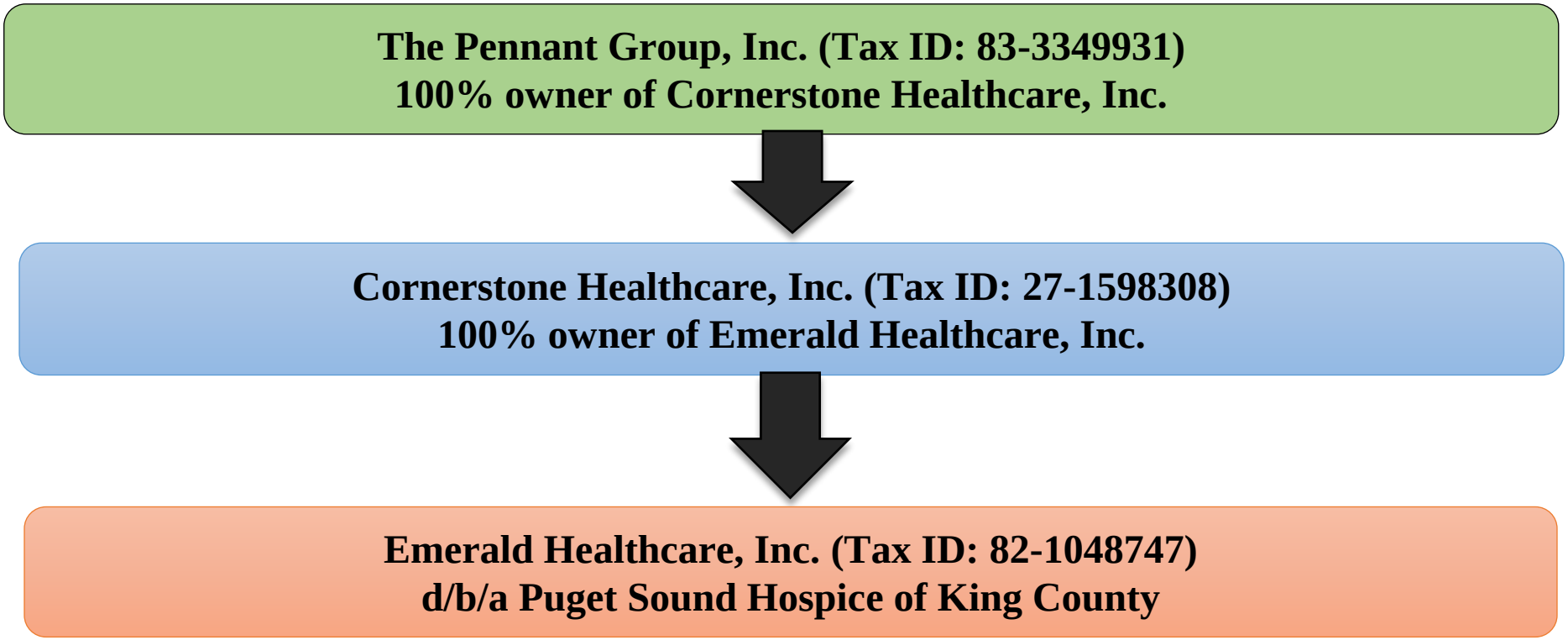


Exhibit 2: Entities Owned and Operated by Pennant

Name	Provider Type	Address
A Gentle Touch Home Care	Home Health & Hospice	1664 S. Dixie Dr., Ste C105 St. George, UT and AZ 84770
Alta Vista Rehabilitation and Healthcare	Skilled Nursing	510 Paredes Line Road Brownsville, TX 78521-2438
Angeles Home Health Care	Home Health & Hospice	3699 Wilshire Boulevard, #720 Los Angeles, CA 90010
ApisMellis Home Health	Home Health & Hospice	149350 Ukiah Trail, Suite A Big River, CA 92242-2071
ApisMellis Home Health	Home Health & Hospice	3003 Hwy. 95, Unit 39 Bullhead City, AZ 86442
ApisMellis Home Health	Home Health & Hospice	1713 Kofa Ave, Suite G Parker, AZ 85344
ApisMellis Home Health	Home Health & Hospice	500 N. Lake Havasu Ave., Ste D102 Lake Havasu, AZ 86403
ApisMellis Home Health & Hospice	Home Health & Hospice	149350 Ukiah Trail, Suite A Big River, CA 92242
ApisMellis Home Health & Hospice	Home Health & Hospice	1713 S. Kofa Ave., Ste E Parker, AZ 85344
Arbor Glen Care Center	Skilled Nursing	1033 East Arrow Highway Glendora, CA 91740-6110
Arroyo Vista Nursing Center	Skilled Nursing	3022 45th Street San Diego, CA 92105-4302
Arvada Care and Rehabilitation Center	Skilled Nursing	6121 West 60th Avenue Arvada, CO 80003-5603
Atlantic Memorial Healthcare Center	Skilled Nursing	2750 Atlantic Avenue Long Beach, CA 90806-2713
Bainbridge Island Health and Rehabilitation Center	Skilled Nursing	835 Madison Avenue N Bainbridge Island, WA 98110
Beacon Hill Rehabilitation	Skilled Nursing	128 Beacon Hill Drive Longview, WA 98632
Beatrice Health and Rehabilitation	Skilled Nursing	1800 Irving Street Beatrice, NE 68310-2236
Bella Vista Transitional Care Center	Skilled Nursing	3033 Augusta Street San Luis Obispo, CA 93401-5820

Name	Provider Type	Address
Bella Vita Health and Rehabilitation Center	Skilled Nursing	5125 North 58th Avenue Glendale, AZ 85301-7453
Brenwood Park Assisted Living	Assisted Living	9535 West Loomis Road Franklin, WI 53132
Broadway Villa Post Acute	Skilled Nursing	1250 Broadway Sonoma, CA 95476-7500
Brookfield Healthcare Center	Skilled Nursing	9300 Telegraph Road Downey, CA 90240-2425
Brookside Healthcare Center	Skilled Nursing	105 Terracina Boulevard Redlands, CA 92373-4845
Buena Vista Palliative Care and Home Health	Home Health & Hospice	1732 Palma Drive, #108 Ventura, CA 93003
California Mission Inn	Assisted Living	8417 Mission Drive Rosemead, CA 91770
Camarillo Healthcare Center	Skilled Nursing	205 Granada Street Camarillo, CA 93010-7715
Cambridge Health & Rehabilitation Center	Skilled Nursing	1106 Golfview Drive Richmond, TX 77469-5120
Cambridge Square Retirement Center	Assisted Living	2700 Avenue N Rosenburg, TX 77471-4507
Camelback Post Acute Care and Rehabilitation	Skilled Nursing	4635 North 14th Street Phoenix, AZ 85014-4016
Canterbury Gardens Independent and Assisted Living Community	Assisted Living, Independent Living	11265 East Mississippi Avenue Aurora, CO 80012-3201
Careage Campus of Care	Skilled Nursing	811 East 14th Street Wayne, NE 68787-1216
Careage Hills Rehabilitation and Healthcare	Skilled Nursing	725 North 2nd Street Cherokee, IA 51012-1229
Careage Home Care	Home Health & Hospice	212 West Bluff Street Cherokee, IA 51012-1817
Carmel Mountain Rehabilitation and Healthcare Center	Skilled Nursing	11895 Avenue of Industry San Diego, CA 92128-3423
Carrollton Health and Rehabilitation Center	Skilled Nursing	1618 Kirby Road Carrollton, TX 75006-7453

Name	Provider Type	Address
Casas Adobes Post Acute Rehabilitation Center	Skilled Nursing	1919 West Medical Street Tucson, AZ 85704-1133
Catalina Post Acute and Rehabilitation	Skilled Nursing	2611 North Warren Avenue Tucson, AZ 85719-3160
Chandler Post Acute and Rehabilitation	Skilled Nursing	2121 West Elgin Street Chandler, AZ 85224
Chateau Des Mons Care and Assisted Living	Assisted Living	3426 South Marion Street Englewood, CO 80113-3807
Citadel Independent Living Facility	Independent Living	444 S. Higley Road Mesa, AZ 85206
Citadel Post Acute	Skilled Nursing	5121 East Broadway Rd Mesa, AZ 85206-1308
Citrus Hills Senior Living	Assisted Living	142 South Prospect Street Orange, CA 92869
City Creek Post Acute	Skilled Nursing	165 South 1000 East Salt Lake City, UT 84102-1402
Claremont Care Center	Skilled Nursing	219 East Foothill Boulevard Pomona, CA 91767-1403
Clarion Wellness and Rehabilitation Center	Skilled Nursing	110 13th Avenue SW Clarion, IA 50525-2004
Cloverdale Healthcare Center	Skilled Nursing	300 Cherry Creek Road Cloverdale, CA 95425-3811
Colonial Estates	Assisted Living	811 South Main Street Randolph, NE 68771-1706
Colonial Manor of Randolph	Skilled Nursing	811 South Main Street Randolph, NE 68771-1706
Compass Post Acute Rehabilitation	Skilled Nursing	2320 Hwy 378 Conway, SC 29527
Connected Home Health & Hospice	Home Health & Hospice	7515 NE Ambassador Place, Suite C Portland, OR 97220
Copper Ridge Health Care	Skilled Nursing	3706 West 9000 South West Jordan, UT 84088-9755
Coral Desert Rehabilitation and Care	Skilled Nursing	1490 East Foremaster Drive, Building B Saint George, UT 84790-4488

Name	Provider Type	Address
Coronado Healthcare Center	Skilled Nursing	11411 North 19th Avenue Phoenix, AZ 85029-3642
Cottonwood Manor Assisted Living	Assisted Living	1450 South Military Avenue Green Bay, WI 54304
Country View Assisted Living	Assisted Living	811 East 14th Street Wayne, NE 68787-1216
Cranberry Court Assisted Living I	Assisted Living	2230 14th Street South Wisconsin Rapids, WI 54494
Cranberry Court Assisted Living II	Assisted Living	2230 James Court Wisconsin Rapids, WI 54494
Custom Care Home Health	Home Health & Hospice	6606 LBJ Fwy, Bldg J, Suite 110 Dallas, TX 75240
Desert Sky Assisted Living	Assisted Living	125 North 58th Avenue Glendale, AZ 85301-7453
Desert Springs Senior Living	Assisted Living, Independent Living	6650 West Flamingo Road Las Vegas, NV 89103-6002
Desert Terrace Healthcare Center	Skilled Nursing	2509 North 24th Street Phoenix, AZ 85008-1805
Discovery Care Center	Skilled Nursing, Assisted Living	600 Shanafelt Street Salmon, ID 83467-4261
Draper Rehabilitation and Care Center	Skilled Nursing, Assisted Living	12702 Fort Street Draper, UT 84020-9755
Elite Home Health & Hospice	Home Health & Hospice	PO Box 736 Clarkston, WA 99403-0376 (mailing) 1372 Bridge Street (delivery) Clarkston, WA 99403-2828
Emblem Home Health & Hospice	Home Health & Hospice	88 South San Marcos Place Chandler, AZ 85225
Englewood Post Acute and Rehabilitation	Skilled Nursing	3575 South Washington Street Englewood, CO 80110-3807
Falls City Nursing and Rehabilitation Center	Skilled Nursing	1720 Burton Drive Falls City, NE 68355-2438
Fort Dodge Health and Rehabilitation	Skilled Nursing	728 14th Avenue N Fort Dodge, IA 50501-7016
Gateway Home Health & Hospice	Home Health & Hospice	110 13th Avenue SW, Suite 399 Clarion, IA 50526-2004
Gateway Transitional Care Center	Skilled Nursing	527 Memorial Drive Pocatello, ID 83201-4063

Name	Provider Type	Address
Glenwood Care Center	Skilled Nursing	1300 North C Street Oxnard, CA 93030-4006
Golden Acres Living and Rehabilitation Center	Skilled Nursing	2525 Centerville Road Dallas, TX 75228-2634
Grand Court of Mesa	Assisted Living, Independent Living	262 East Brown Road Mesa, AZ 85201-3545
Grand Terrace Rehabilitation and Healthcare	Skilled Nursing	812 West Houston Avenue McAllen, TX 78501-2832
Granite Creek Health and Rehabilitation Center	Skilled Nursing	1045 Scott Drive Prescott, AZ 86301
Granite Mesa Health Center	Skilled Nursing	1404 Max Copeland Drive Marble Falls, TX 78654-4665
Greentree Health and Rehabilitation Center	Skilled Nursing	70 West Green Tree Road Clintonville, WI 54929
Grossmont Post Acute Care	Skilled Nursing	8787 Center Drive La Mesa, CA 91942
Harbor View Assisted Living	Skilled Nursing	2115 Cappaert Road Manitowoc, WI 54220
Harrison Pointe Healthcare and Rehabilitation	Skilled Nursing	3430 Harrison Boulevard Ogden, UT 84403
Heritage Assisted Living of Boise	Assisted Living	1777 South Curtis Road Boise, ID 83705
Heritage Assisted Living of Twin Falls	Assisted Living	622 Filer Avenue West Twin Falls, ID 83301
Heritage Court Post Acute of Scottsdale	Skilled Nursing	3339 North Drinkwater Blvd Scottsdale, AZ 85251-6452
Heritage Gardens Rehabilitation and Healthcare	Skilled Nursing	2135 North Denton Drive Carrollton, TX 75006-3103
Hillcrest Health Care Center	Skilled Nursing	2121 Avenue L Hawarden, IA 51023-1334
Holladay Healthcare Center	Skilled Nursing	4782 South Holladay Boulevard Salt Lake City, UT 84117-5464
Home Health & Hospice of the South Plains	Home Health & Hospice	4413 82nd Street, Suite 135 Lubbock, TX 79424

Name	Provider Type	Address
Horizon Home Health & Hospice	Home Health & Hospice	2311 Parke Avenue Burley, ID 83318-2170
Horizon Home Health & Hospice	Home Health & Hospice	315 East Elm Street, Suite 70 Caldwell, ID 83605-4881
Horizon Home Health & Hospice	Home Health & Hospice	312 East Main Street Emmett, ID 83617-3034
Horizon Home Health & Hospice	Home Health & Hospice	63 W. Willowbrook Drive Meridian, ID 83646-1656
Horizon Home Health & Hospice	Home Health & Hospice	560 North 6th East Street Mountain Home, ID 83647-2807
Horizon Home Health & Hospice	Home Health & Hospice	1411 Falls Avenue East, Suite 615 Twin Falls, ID 83301-3455
Horizon Home Health & Hospice	Home Health & Hospice	700 East Commercial Street Weiser, ID 83672-2318
Horizon Home Health & Hospice	Home Health & Hospice	527 Memorial Avenue, Suite B Pocatello, ID 83201-4063
Horizon Post Acute and Rehabilitation Center	Skilled Nursing	4704 West Diana Avenue Glendale, AZ 85302-5125
Hurricane Health and Rehabilitation	Skilled Nursing	416 North State Street Hurricane, UT 84737-1875
Julia Temple Healthcare Center	Skilled Nursing	3401 South Lafayette Street Englewood, CO 80113-2926
Kenosha Senior Living	Assisted Living	3109 30th Avenue Kenosha, WI 53140
Kinder Hearts Home Health & Hospice	Home Health & Hospice	842 North Mockingbird Lane Abilene, TX 79603
La Canada Care Center	Skilled Nursing	7970 North La Canada Drive Tucson, AZ 85704-2007
La Villa Rehabilitation and Healthcare Center	Skilled Nursing	3007 North Navarro Street Victoria, TX 77901-3921
Lake Pleasant Post Acute Rehabilitation Center	Skilled Nursing	20625 North Lake Pleasant Road Peoria, AZ 85382-9704
Lake Ridge Senior Living	Assisted Living, Independent Living	960 South Geneva Road Orem, UT 84058-5847
Lake Village Nursing & Rehabilitation Center	Skilled Nursing	169 Lake Park Road Lewisville, TX 75057-2303

Name	Provider Type	Address
Lakeland Hills Assisted Living	Assisted Living, Independent Living	3205 Dilido Road Dallas, TX 75228-5541
Las Fuentes Resort Village	Assisted Living	1035 Scott Drive Prescott, AZ 86301
Legacy Rehabilitation and Living	Skilled Nursing	4033 West 51st Avenue Amarillo, TX 79109-6129
Legend Healthcare and Rehabilitation of Euless	Skilled Nursing	900 Westpark Way Euless, TX 76040-3977
Legend Healthcare and Rehabilitation of Greenville	Skilled Nursing	2300 Jack Finney Boulevard Greenville, TX 75402-3763
Legend Healthcare and Rehabilitation of Paris	Skilled Nursing	520 SE 8th Street Paris, TX 75460-7330
Legend Oaks Healthcare and Rehabilitation - Fort Worth/Southlake	Skilled Nursing	4240 Golden Triangle Boulevard Fort Worth, TX 76244
Legend Oaks Healthcare and Rehabilitation - Garland	Skilled Nursing	2625 Belt Line Road Garland, TX 75044
Legend Oaks Healthcare and Rehabilitation - Katy	Skilled Nursing	21727 Provincial Boulevard Katy, TX 77450-6508
Legend Oaks Healthcare and Rehabilitation - New Braunfels	Skilled Nursing	2468 FM 1101 New Braunfels, TX 78130-2636
Legend Oaks Healthcare and Rehabilitation - Waxahachie	Skilled Nursing	151 Country Meadows Boulevard Waxahachie, TX 75165
Legend Oaks Healthcare and Rehabilitation of East Houston	Skilled Nursing	15880 Wallisville Road Houston, TX 77049-4606
Legend Oaks Healthcare and Rehabilitation of Ennis	Skilled Nursing	1400 Medical Center Drive Ennis, TX 75119-1587
Legend Oaks Healthcare and Rehabilitation of Gladewater	Skilled Nursing	1201 FM 2685 Gladewater, TX 75647

Name	Provider Type	Address
Legend Oaks Healthcare and Rehabilitation of Kyle	Skilled Nursing	1640 Fairway Kyle, TX 78640-8791
Legend Oaks Healthcare and Rehabilitation of North Austin	Skilled Nursing	11020 Dessau Road Austin, TX 78754-2053
Legend Oaks Healthcare and Rehabilitation of North Houston	Skilled Nursing	12921 Misty Willow Drive Houston, TX 77070-5287
Legend Oaks Healthcare and Rehabilitation of Northwest Houston	Skilled Nursing	8902 West Road Houston, TX 77064-8635
Legend Oaks Healthcare and Rehabilitation of South San Antonio	Skilled Nursing	2003 West Hutchins Place San Antonio, TX 78224-1368
Legend Oaks Healthcare and Rehabilitation of West Houston	Skilled Nursing	7107 Queenston Boulevard Houston, TX 77905-5339
Legend West Rehab - West San Antonio	Skilled Nursing	222 Bertetti Drive San Antonio, TX 78227-3950
Lemon Grove Care and Rehabilitation Center	Skilled Nursing	8351 Broadway Lemon Grove, CA 91945-2009
Lexington Assisted Living	Assisted Living	5440 Ralston Street Ventura, CA 93003-6002
Littleton Care and Rehabilitation Center	Skilled Nursing	5822 South Lowell Way Littleton, CO 80123-2849
Lo-Har Senior Living	Assisted Living	768 Dorothy Street El Cajon, CA 92019
Lynnwood Post Acute Rehabilitation Center	Skilled Nursing	5821 188th Street SW Lynnwood, WA 98037-4398
Madison Pointe Senior Living	Assisted Living	705 Ziegler Road Madison, WI 53714
Magnolia Post Acute Care	Skilled Nursing	635 South Magnolia Avenue El Cajon, CA 92020
McAllen Transitional Care Center	Skilled Nursing	2109 South K Street McAllen, TX 78503-5689
McFarland Villa Assisted Living	Assisted Living	5206 Paulson Court McFarland, WI 53558

Name	Provider Type	Address
Meadow View Assisted Living	Assisted Living	4606 Mishicot Road Two Rivers, WI 54241
Mesa Springs Healthcare Center	Independent Living	7171 Buffalo Gap Road Abilene, TX 79606-5450
Mesa Springs Retirement Village	Skilled Nursing	7171 Buffalo Gap Road Abilene, TX 79606-5450
Mica Hill Estates Assisted Living	Assisted Living	2121 Avenue L Hawarden, IA 51023-1334
Millennium Post Acute Rehabilitation	Skilled Nursing	2416 Sunset Blvd West Columbia, SC 29169
Mission Care Center	Skilled Nursing	4800 Delta Avenue Rosemead, CA 91770-1127
Mission Hills Post Acute Care	Skilled Nursing	3680 Reynard Way San Diego, CA 92103
Monte Vista Hills Healthcare Center	Skilled Nursing	1071 Renee Avenue Pocatello, ID 83201-2508
Montecito Post Acute Care and Rehabilitation	Skilled Nursing	51 South 48th Street Mesa, AZ 85206-1250
Mountain Terrace Senior Living CBRF	Assisted Living	3402 Terrace Court Wausau, WI 54401
Mountain Terrace Senior Living RCAC	Assisted Living	3312 Terrace Court Wausau, WI 54401
Mountain View Care Center	Skilled Nursing	1313 West Magee Road Tucson, AZ 85704-3326
Mountain View Rehabilitation & Care Center	Skilled Nursing	5925 47th Avenue NE Marysville, WA 98270
Mountain View Retirement Village	Assisted Living	7900 North La Cañada Drive Tucson, AZ 85704
Mt. Ogden Health and Rehabilitation Center	Skilled Nursing	375 East 5350 South Washington Terrace, UT 84405-6934
Namaste Home Health & Hospice	Home Health & Hospice	6000 East Evans Avenue, Bldg 3, Suite 111 Denver, CO 80222-5411
North Mountain Medical & Rehabilitation Center	Skilled Nursing	9155 North 3rd Street Phoenix, AZ 85020-2410
Northbrook Healthcare Center	Skilled Nursing	64 Northbrook Way Willits, CA 95490-3019
Northeast Rehabilitation and Healthcare Center	Skilled Nursing	603 Corinne Drive San Antonio, TX 78218-3303

Name	Provider Type	Address
Northern Oaks Living & Rehabilitation Center	Skilled Nursing	2722 Old Anson Road Abilene, TX 79603-1834
Oceanview Healthcare and Rehabilitation	Skilled Nursing	519 Ninth Avenue North Texas City, TX 77590-6316
Olympia Transitional Care and Rehabilitation	Skilled Nursing	430 Lilly Road NE Olympia, WA 98506
Omaha Nursing and Rehabilitation Center	Skilled Nursing	4835 South 49th Street Omaha, NE 68117-2002
Opus Post Acute Rehabilitation	Skilled Nursing	300 Agape Drive West Columbia, SC 29169
Orem Rehabilitation and Nursing Center	Skilled Nursing	575 East 1400 South Orem, UT 84097-7707
Osborn Health and Rehabilitation	Skilled Nursing	3333 North Civic Center Plaza Scottsdale, AZ 85251-6413
Owyhee Health and Rehabilitation Center	Skilled Nursing	108 East Owyhee Avenue Homedale, ID 83628-3206
Pacific Care and Rehabilitation	Skilled Nursing	3035 Cherry Street Hoquiam, WA 98550-3098
Palm Terrace Healthcare and Rehabilitation Center	Skilled Nursing	24962 Calle Aragon Laguna Hills, CA 92637-3883
Palomar Vista Healthcare Center	Skilled Nursing	201 North Fig Street Escondido, CA 92025-3416
Panorama Gardens Nursing & Rehabilitation Center	Skilled Nursing	9541 Van Nuys Boulevard Panorama City, CA 91402-1315
Paramount Health and Rehabilitation	Skilled Nursing	4035 South 500 East Salt Lake City, UT 84107-1867
Park Avenue Health and Rehabilitation	Skilled Nursing	2001 North Park Avenue Tucson, AZ 85719-3558
Park Manor Rehabilitation Center	Skilled Nursing	1710 Plaza Way Walla Walla, WA 99362-4362
Park Place Assisted Living	Assisted Living	2305 Ives Court Reno, NV 89503-1400
Park View Post Acute	Skilled Nursing	3751 Montgomery Drive Santa Rosa, CA 95405-5214
Parke View Rehabilitation & Care Center	Skilled Nursing	2303 Parke Avenue Burley, ID 83318-2106

Name	Provider Type	Address
Parkside Health and Wellness Center	Skilled Nursing	444 West Lexington Avenue El Cajon, CA 92020
Pine Manor Health and Rehabilitation	Skilled Nursing	1625 East Main Street Village of Embarrass Clintonville, WI 54929
Pinnacle Nursing and Rehabilitation Center	Skilled Nursing	1340 East 300 North Price, UT 84501-9755
Prairie Creek Assisted Living	Assisted Living	203 4th Street NW West Bend, IA 50597-5114
Premier Care Center for Palm Springs	Skilled Nursing	2990 East Ramon Road Palm Springs, CA 92264-7931
Presidio Home Health	Home Health & Hospice	830 Hillview Ct., Suite 225 Milpitas, CA 95035
Provo Rehabilitation and Nursing	Skilled Nursing	1001 North 500 West Provo, UT 84604-3305
Puget Sound Home Health	Home Health & Hospice	4002 Tacoma Mall Blvd., Ste 204 Tacoma, WA 98409
Racine Commons Assisted Living RCAC	Assisted Living	8500 Corporate Drive Racine, WI 53406
Rainier Rehabilitation	Skilled Nursing	920 12th Avenue SE Puyallup, WA 98372-4920
Redmond Care and Rehabilitation Center	Skilled Nursing	7900 Willows Road NE Redmond, WA 98052-6813
Redmond Heights Senior Living	Assisted Living	7950 Willows Road NE Redmond, WA 98502-6813
Richland Hills Rehabilitation and Healthcare Center	Skilled Nursing	3109 Kings Court Fort Worth, TX 76118-6366
River Valley Home Health & Hospice	Home Health & Hospice	3003 Hwy. 95, Ste 27 Bullhead City, AZ 86442
River's Edge Rehabilitation & Living Center	Skilled Nursing	714 North Butte Avenue Emmett, ID 83617-2725
Riverbend Post Acute Rehabilitation	Skilled Nursing & Assisted Living	7850 Freeman Ave. Kansas City, KS 66112-2133
Riverview Village Senior Living	Assisted Living	W176 N9430 Rivercrest Menomonee Falls, WI 53051
Riverwalk Post Acute and Rehabilitation	Skilled Nursing	1610 Scranton Ave Pueblo, CO 81004
Rock Canyon Respiratory and Rehabilitation Center	Skilled Nursing	2515 Pitman Place Pueblo, CO 81004

Name	Provider Type	Address
Rock Hill Post Acute Care Center	Skilled Nursing	159 Sedgewood Dr. Rock Hill, SC 29732
Rose Court Senior Living	Assisted Living	2935 North 18th Place Phoenix, AZ 85016-7726
Rose Manor	Independent Living	4825 Earle Avenue Rosemead, CA 91770
Rose Villa Healthcare Center	Skilled Nursing	9028 Rose Street Bellflower, CA 90706-6418
Rosewood Rehabilitation Center	Skilled Nursing	2045 Silverada Boulevard Reno, NV 89512-2051
Sabino Canyon Rehabilitation & Care Center	Skilled Nursing	5830 East Pima Street Tucson, AZ 85712-5611
Safe Harbor Home Care	Home Health & Hospice	1810 Gillespie Way #207A El Cajon, CA 92020
San Marcos Rehabilitation and Healthcare Center	Skilled Nursing	1600 North Interstate 35 San Marcos, TX 78666-6984
Santa Maria Terrace	Assisted Living	1405 East Main Street Santa Maria, CA 93454-4801
Scandinavian Court Assisted Living	Assisted Living	346 Scandinavian Court Denmark, WI 54208
Sea Cliff Healthcare Center	Skilled Nursing, Assisted Living	18811 Florida Street Huntington Beach, CA 92648-1920
Seaport Home Health & Hospice	Home Health & Hospice	1810 Gillespie Way, Suite 207 El Cajon, CA 92020
Shawnee PARC Post Acute & Rehabilitation	Skilled Nursing, Assisted Living, Independent Living	7600 Antioch Road Overland Park, KS 66204
Shea Post Acute Rehabilitation Center	Skilled Nursing	11150 North 92nd Street Scottsdale, AZ 85258
Sherwood Village Assisted Living and Memory Care	Assisted Living	102 South Sherwood Village Drive Tucson, AZ 85710
Shoreline Healthcare Center	Skilled Nursing	4029 East Anaheim Street Long Beach, CA 90804-4110
Skyline Assisted and Independent Living	Assisted Living	7350 Graceland Drive Omaha, NE 68134
Skyline Nursing and Rehabilitation	Skilled Nursing	7300 and 7350 Graceland Drive Omaha, NE 68134-4358

Name	Provider Type	Address
Sloan's Lake Rehabilitation Center	Skilled Nursing	1601 N. Lowell Boulevard Denver, CO 80204-1545
Somerset Subacute and Care	Skilled Nursing	151 Claydelle Avenue El Cajon, CA 92020
Sonterra Health Center	Skilled Nursing	18514 Sonterra Place San Antonio, TX 78258-4263
South Bay Post Acute Care	Skilled Nursing	553 F. Street Chula Vista, CA 91910
South Mountain Post Acute	Skilled Nursing	8008 South Jesse Owens Parkway Phoenix, AZ 85042-6515
Southland Care Center	Skilled Nursing	11701 Studebaker Road Norwalk, CA 90650-7544
Southland Home/Southland Assisted Living	Assisted Living	11701 Studebaker Road Norwalk, CA 90650-7544
Southland Rehabilitation and Healthcare Center	Skilled Nursing	501 North Medford Drive Lufkin, TX 75901-5219
Southland Rehabilitation and Healthcare Center UPL	Skilled Nursing	501 North Medford Drive Lufkin, TX 75901-5219
St. George Rehabilitation		1032 East 100 South St. George, UT 84770-3005
St. Joseph Assisted Living	Skilled Nursing	451 East Bishop Federal Lane Salt Lake City, UT 84115-2537
St. Joseph Villa	Skilled Nursing	451 East Bishop Federal Lane Salt Lake City, UT 84115-2537
St. Josephs Villa Marian Center	Skilled Nursing	451 East Bishop Federal Lane Salt Lake City, UT 84114-2537
Stillhouse Rehabilitation and Healthcare Center	Skilled Nursing	2900 Stillhouse Road Paris, TX 75462-2029
Stonebridge Care	Home Health & Hospice	420 East State Street, Suite 130 Eagle, ID 83616

Name	Provider Type	Address
Stonebridge Healthcare Solutions	Home Health & Hospice	5979 Overland Rd Boise, ID 83709
Stoughton Meadows Assisted Living	Assisted Living	2321 Jackson Street Stoughton, WI 53589
Summerfield HealthCare Center	Skilled Nursing	1280 Summerfield Road Santa Rosa, CA 95405-7313
Sunview Health and Rehabilitation Center	Skilled Nursing	12207 North 113th Avenue Youngtown, AZ 85363-1208
Symbii Home Health & Hospice at Layton	Home Health & Hospice	1916 North 700 West #210 Layton, UT 84041-5688
Symbii Home Health & Hospice at Orem	Home Health & Hospice	552 East 1400 South Orem, UT 84097
Symbii Home Health & Hospice at Price	Home Health & Hospice	248 East Main Street Price, UT 84501-3036
Symbii Home Health & Hospice at SLC	Home Health & Hospice	451 East Bishop Federal Lane Salt Lake City, UT 84115
The Citadel Assisted Living Facility	Assisted Living	520 South Higley Road Mesa, AZ 85206
The Cottages at Golden Acres	Independent Living	2649 Centerville Road Dallas, TX 75228
The Courtyard Rehabilitation and Healthcare Center	Skilled Nursing	3401 East Airline Road Victoria, TX 77901-3921
The Cove at La Jolla	Skilled Nursing	7160 Fay Avenue La Jolla, CA 92037
The Grove Care and Wellness	Skilled Nursing, Assisted Living	3401 Lemon Street Riverside, CA 92501-2861
The Healthcare Resort of Colorado Springs	Skilled Nursing, Assisted Living, Independent Living	2818 Grand Vista Circle Colorado Springs, CO 80904
The Healthcare Resort of Kansas City	Skilled Nursing, Assisted Living, Independent Living	8900 Parallel Parkway Kansas City, KS 66112
The Healthcare Resort of Olathe	Skilled Nursing, Assisted Living, Independent Living	21250 W. 151st Street Olathe, KS 66061
The Healthcare Resort of Plano Assisted Living	Assisted Living	3325 W Plano Parkway Plano, TX 75075
The Healthcare Resort of Plano Skilled Nursing	Skilled Nursing	3325 W Plano Parkway Plano, TX 75075

Name	Provider Type	Address
The Healthcare Resort of Topeka	Skilled Nursing, Assisted Living, Independent Living	6300 Southwest 6th Ave Topeka, KS 66615
The Mildred & Shirley L. Garrison Geriatric Education and Care Center	Skilled Nursing	3710 4th Street Lubbock, TX 79415-5346
The Orchard Post Acute Care	Skilled Nursing	12385 Washington Boulevard Whittier, CA 90606-2502
The Shores of Sheboygan Assisted Living I	Assisted Living	3315 Superior Drive Sheboygan, WI 53081
The Shores of Sheboygan Assisted Living II	Assisted Living	3319 Superior Drive Sheboygan, WI 53081
The Springs at Pacific Regent La Jolla	Skilled Nursing	3884 Nobel Drive San Diego, CA 92122-5700
The Villas at Rock Canyon Assisted Living	Assisted Living	1611 Alma Avenue Pueblo, CO 81004
The Villas at Rock Canyon Independent Living	Independent Living	1611 Alma Avenue Pueblo, CO 81004
Timberwood Nursing & Rehabilitation Center	Skilled Nursing	4001 Highway 59 North Livingston, TX 77351-4663
Timberwood Nursing & Rehabilitation Center	Skilled Nursing	4001 Highway 59 North Livingston, TX 77351-4663
Ukiah Post Acute	Skilled Nursing	1349 South Dora Street Ukiah, CA 95482-6512
Upland Rehabilitation and Care Center	Skilled Nursing	1221 East Arrow Highway Upland, CA 91786-4911
Veranda Rehabilitation and Healthcare	Skilled Nursing	4301 South Expressway 83 Harlingen, TX 78550-7948
Vesper Home Health & Hospice	Home Health & Hospice	6345 Balboa Boulevard, Suite 210 Encino, CA 91316
Victoria Care Center	Skilled Nursing	5445 Everglades Street Ventura, CA 93003-6523
Victoria Healthcare and Rehabilitation Center	Skilled Nursing	340 Victoria Street Costa Mesa, CA 92627-1914

Name	Provider Type	Address
Victoria Post Acute Care	Skilled Nursing	654 South Anza Street El Cajon, CA 92020
Village Healthcare and Rehabilitation	Skilled Nursing	615 North Ware Road McAllen, TX 78501-8097
Vista Knoll Specialized Care Facility	Skilled Nursing	2000 Westwood Road Vista, CA 92083-5123
Wellington Rehabilitation and Healthcare	Skilled Nursing	1802 South 31st Street Temple, TX 76504-6712
West Bend Health and Rehabilitation	Skilled Nursing	203 4th Street NW West Bend, IA 50597-5114
Whittier Glen Assisted Living	Assisted Living	10615 Jordan Road Whittier, CA 90603
Whittier Hills Healthcare Center	Skilled Nursing	10426 Bogardus Avenue Whittier, CA 90602-2642
Willow Brooke Senior Living CBRF	Assisted Living	1800 Bluebell Lane Stevens Point, WI 54481
Willow Brooke Senior Living RCAC	Assisted Living	1801 Lilac Lane Stevens Point, WI 54481
Willowbend Nursing & Rehabilitation Center	Skilled Nursing	2231 Highway 80 East Mesquite, TX 75150-5510
Wisteria Place Assisted Living & Cottages	Assisted Living, Independent Living	3917 Wisteria Way Abilene, TX 79605-6650
Wisteria Place Independent Living	Independent Living	3917 Wisteria Way Abilene, TX 79605-6650
Wisteria Place Skilled Nursing	Skilled Nursing	3202 South Willis Street Abilene, TX 79605-6650
Woodstone Assisted Living	Assisted Living	491 Caswell Avenue West Twin Falls, ID 83301
Zion's Way Home Health & Hospice & Home Health at Cedar City	Home Health & Hospice	2002 North Main Street Cedar City, UT 84721-9812
Zion's Way Home Health & Hospice & Home Health at Kenab	Home Health & Hospice	217 East 300 South #204 Kenab, UT 84741-3608
Zion's Way Home Health & Hospice & Home Health at Page	Home Health & Hospice	47 6th Avenue Page, AZ 86040
Zion's Way Home Health & Hospice & Home Health at St. George	Home Health & Hospice	1664 South Dixie Dr., Suite E102 St. George, UT 84770-7329

Exhibit 3: Medical Director Agreement

HOSPICE
MEDICAL DIRECTOR SERVICE AGREEMENT

AGREEMENT EFFECTIVE DATE:	
HOSPICE AGENCY:	EMERALD HEALTHCARE, INC., D/B/A PUGET SOUND HOSPICE OF KING COUNTY **Address**:
MEDICAL DIRECTOR:	**Address:**

THIS HOSPICE MEDICAL DIRECTOR SERVICE AGREEMENT ("Agreement") is made and entered into as of the above-listed Agreement Effective Date ("Effective Date") by and between the above-listed Agency and Medical Director, (each a "Party" and collectively the "Parties").

R E C I T A L S

WHEREAS, Agency is engaged in the provision of a comprehensive set of services, identified and coordinated by an interdisciplinary group, for the palliation and management of the terminal illness and related conditions of its patients;

WHEREAS, Medical Director is a doctor of medicine or osteopathy legally authorized to practice medicine and surgery by the state in which he or she performs that function or action; and

WHEREAS, Agency desires to engage the services of Medical Director to serve as Medical Director for its Hospice Agency services.

NOW THEREFORE, IN CONSIDERATION OF THE PREMISES and for other good and valuable consideration, the receipt and sufficiency of which the parties hereby mutually acknowledge, the parties agree:

T E R M S A N D C O N D I T I O N S

Section 1. Medical Director's Duties

The Medical Director agrees to serve as the Medical Director for the Agency during the term of this Agreement, and to perform the duties set forth in **Exhibit A** in a good, professional and workmanlike manner.

Section 2. Agency's Duties

Agency shall:

2.1 Organize, manage, and administer its resources to provide the hospice care and services to patients, caregivers and families necessary for the palliation and management of the terminal illness and related condition. Agency shall provide hospice care that (a) optimizes comfort and

dignity; and (b) is consistent with patient and family needs and goals, with patient needs and goals as priority.

2.2 Assume and maintain full legal authority and responsibility for the management of the Agency, the provision of all hospice services, its fiscal operations, and continuous quality assessment and performance improvement. Agency shall be responsible for the day-to-day operation of the Agency.

2.3 Not restrict or limit the Medical Director's right to exercise his or her independent professional judgment, including his or her right to recommend services to be rendered and the manner to be used in performing those services.

2.4 Furnish the Medical Director with such supplies and materials as might ordinarily be expected for the preparation of reports, remarks and consultations.

2.5 Indemnify and hold harmless Medical Director from any claims arising out of the acts or omissions of Agency or its employees; provided, however, that Agency shall have no obligation to indemnify or hold harmless Medical Director for any claims alleging medical malpractice.

Section 3. Compensation

For and in consideration for all Services to be provided under this Agreement, Agency shall compensate Medical Director as follows:

3.1 Agency shall pay Medical Director an all-inclusive hourly rate of _____ **Dollars ($**_____**)**, which the Parties agree will apply to and cover all administrative and operational functions required by Agency, all face-to-face services, and all travel time necessary to perform Medical Director's required duties ("Administrative Services").

3.2 For each month during the Term of this Agreement, Medical Director shall keep an accurate record of all time spent performing Administrative Services for Agency by completing a copy of **Exhibit B** ("Physician Services Log/Invoice"), attached hereto. Medical Director shall submit a completed copy of **Exhibit B** to the Agency by the fifth (5th) day of the month following the month of service. All amounts due under this contract for Administrative Services will be due and payable by the fifteenth (15th) day of the month following the month of service by the Medical Director.

3.3 *Direct Patient Care Services*. In the event Medical Director renders direct patient care services ("Direct Patient Care Services") in his or her capacity as an Agency Patient's attending physician, Medical Director shall keep accurate record of all time spent performing Direct Patient Care Services and shall complete the "Direct Patient Care Services Worksheet" or other form provided by the Agency Administrator to receive reimbursement according to the terms of this Agreement. Agency shall reimburse Medical Director at a rate equal to 92% of the Medicare or Medicaid rate received by the Agency for all Direct Patient Care Services. Medical Director shall submit a completed copy of Direct Patient Care Services Worksheet to the Agency by the fifth (5th) day of the month following the month of service. All amounts due under this contract for Direct Patient Care Services will be due and payable by the fifteenth (15th) day of the month following the month of service by the Medical Director.

Section 4. Insurance

4.1 Medical Director agrees to maintain general and professional liability and errors & omissions (malpractice) insurance during the term of this agreement in an amount not less than one million dollars ($1,000,000) per claim and three million dollars ($3,000,000) in the aggregate.

4.2 Agency agrees to maintain general and professional liability insurance or a plan of self-insurance in an amount not less than one million dollars ($1,000,000) per occurrence and three million dollars ($3,000,000) in the aggregate.

4.3 All insurance policies shall: (i) be issued by insurance companies with a policyholder rating of at least "B+" in the most recent version of Best's Key Rating Guide; and (ii) be written by companies authorized to do so in the state where the Agency Premises are located.

4.4 Medical Director's policies shall additionally: (i) name Agency as an "additional insured"; and (ii) provide that the policies will not be cancelled or modified as to limits on less than thirty (30) days' prior written notice to Agency. A current certificate or other acceptable evidence of Medical Director's insurance shall be provided upon written request and kept on file with Agency during the Term.

Section 5. Term and Termination

5.1 The Term of this Agreement shall commence on the date referenced in the first paragraph of this Agreement and continue thereafter for a period of one (1) year (the "Initial Term"). Upon expiration of the Initial Term and each extension term thereafter, this Agreement shall automatically extend for an additional term of one (1) year unless, not less than thirty (30) days prior to the end of the term, either party gives written notice of termination to the other, in which case this Agreement shall terminate as of the end of the term.

5.2 Notwithstanding anything herein to the contrary, either party may cancel this Agreement for any reason or no reason, and without penalty, upon thirty (30) days written notice to the other party.

5.3 The Agency shall have the right to summarily and immediately terminate this Agreement for cause upon Medical Director's receipt of written notice documenting the breach and decision. For purposes of this Section, "for cause" shall include the following: (i) Medical Director's breach of any material term or condition of this Agreement; (ii) limitation, suspension or revocation of Medical Director's license to practice medicine or to prescribe controlled substances; (iii) Medical Director's violation of the eligibility requirements for reimbursement under any government program; (iv) the occurrence or existence of any condition, practice, procedure, action, inaction or omission of, by, or involving, Medical Director which, in the reasonable opinion of Agency constitutes a threat to the health, safety and welfare of any patient, Agency, or Agency employee; or (v) violation of any law, regulation, requirement, license, eligibility or material agreement governing Agency's operation or Medical Director's ability to practice medicine.

5.4 The Medical Director shall have the right to summarily and immediately terminate this Agreement for cause upon Agency's receipt of written notice documenting the breach and decision. Termination by the Medical Director shall be considered "for cause" under either of the following circumstances: (i) breach of any material term or condition of this Agreement by the Agency; or (ii) loss of the Agency's licensure to operate as a Home Health and Hospice Agency.

Section 6. Regulatory Changes

Agency and Medical Director mutually agree that in the event local, state or federal government agencies promulgate regulations which materially affect the terms of this Agreement, this Agreement shall be immediately subject to renegotiation upon the initiative of either Party.

Section 7. Licensure, Eligibility and Compliance

7.1 Medical Director and any employee of Medical Director rendering services hereunder shall at all times during the term of this Agreement be duly licensed to practice medicine in the state in which the Medical Director will perform the services contemplated herein, and shall provide satisfactory evidence of continuing licensure to the Agency upon the execution of this Agreement and thereafter upon request by Agency from time to time.

7.2 Medical Director acknowledges that its activities under this Agreement are governed by, *inter alia*, the United States Department of Health and Human Services' Office of the Inspector General's Compliance Program Guidelines for Home Health and Hospice Agencies. Upon request, Medical Director shall provide documentation that Medical Director is not and at no time has been an excluded party on the Office of Inspector General's List of Excluded Individuals/Entities or otherwise excluded from participating in any federally funded healthcare program including Medicare and Medicaid, with printed search results to be maintained on file and conducted annually. Medical Director represents and warrants that neither Medical Director nor any individual or entity with a direct or indirect ownership or control interest of five percent (5%) or more in Medical Director, nor any director, officer, agent or employee of such party, is debarred, suspended or excluded under any state or federal healthcare program it is currently eligible to participate in Medicare, Medicaid, and all other federally funded health care programs and is not subject to any sanction or exclusion by any of those programs.

7.3 Medical Director agrees to immediately disclose to Agency any actual or threatened federal, state or local investigations or imposed sanctions of any kind, in progress or initiated subsequent to the date of entering into this Agreement. Medical Director further represents and warrants that it is not currently sanctioned under any applicable state or federal fraud and abuse statutes, including exclusion from any state or federal health care program.

7.4 If, during the term of this Agreement, Medical Director, its parent, or any officer, director or owner receives such a sanction, or notice of proposed sanction, Medical Director shall provide notice of and a full explanation of such sanction or proposed sanction and the period of its duration within ten (10) days of receipt. Agency reserves the right to terminate the Agreement immediately upon receipt of notice that Medical Director has been sanctioned under fraud and abuse statutes and/or any other federal, state or local regulation.

7.5 Medical Director acknowledges that it has received and reviewed a copy of Agency's Code of Conduct, available online at www.ensigngroup.net or upon request to Agency, and agrees to abide by the provisions thereof.

7.6 Medical Director shall participate in EnsignU/compliance training and activities as required by Agency or Agency's compliance partners.

Section 8. Medical Director's Schedule and Availability

8.1 Nothing in this Agreement shall be construed as limiting or restricting in any manner Medical Director's right to render the same or similar services to other individuals or entities, including

but not limited to, nursing homes and acute care facilities or home health and hospice agencies during or subsequent to the Term of this Agreement.

8.2 The Agency recognizes that Medical Director is a licensed and actively practicing physician who will continue the active practice of medicine. Nothing in the Agreement shall be construed to prevent or limit that practice.

8.3 Medical Director is entitled to be reasonably absent for annual vacations, sick leave, continuing education, and personal reasons; provided that in the event of any absence Medical Director shall make reasonable efforts to first consult with the Agency concerning the impending absence and cooperate with the Agency in providing a qualified physician acceptable to Agency to temporarily serve as acting Medical Director of the Agency during the period of absence.

Section 9. Contractual Relationship

9.1 *Independent Contractor*. It is expressly acknowledged by both parties that Medical Director is an independent contractor. Nothing herein is intended to be construed to create an employer-employee, partnership, joint-venture or other relationship between Medical Director and the Agency. No provision of this Agreement shall create any right in Agency to exercise control or direction over the manner or method by which Medical Director performs its duties, renders services or practices medicine in the Agency as the Medical Director hereunder; provided always, that those services shall be provided in a manner consistent with all applicable laws, rules and regulations of all governmental authorities, and Agency's Corporate Compliance Program. Agency will not withhold from compensation payable to Medical Director hereunder, or be in any way responsible for, any sums for income tax, employment insurance, Social Security, or any other agency, and Medical Director agrees that the payment of all such amounts as may be required by law are and shall be the sole responsibility of Medical Director.

9.2 *Fair Market Value*. The amounts to be paid to Medical Director hereunder have been determined by the parties through good faith and arms-length bargaining to be the fair market value of the services to be rendered hereunder. No amount paid or to be paid hereunder is intended to be, nor will it be construed as, an offer, inducement or payment, whether directly or indirectly, overtly or covertly, for the referral of patients by Medical Director to Agency, or by Agency to Medical Director, or for the recommending or arranging of the purchase, lease or order of any item or service or any other business generated between the parties. The services contracted for in this Agreement do not exceed what is reasonable and necessary to carry out the legitimate business purpose of the Agency. For purposes of this section, Medical Director and Agency will include each such person or entity and any affiliate thereof. No referrals are required under this Agreement.

Section 10. Indemnification.

10.1 Except as set forth in Subsection 2.5 above with regard to Medical Director's acts and omissions, Agency agrees to defend, indemnify, and hold Medical Director, its corporate parent, subsidiaries, affiliated and related companies, directors, officers, employees, and agents, wholly harmless for, from and against any and all costs (including reasonable attorney's fees) liabilities, claims, losses, lawsuits, settlements, demands, causes, judgments and expenses arising from or connected with the performance of this Agreement to the extent that such costs and liabilities are alleged to result from the negligence or willful misconduct of Agency.

10.2 Medical Director agrees to defend, indemnify, and hold Agency, its corporate parent, subsidiaries, affiliated and related companies, directors, officers, employees, and agents, wholly harmless for, from and against any and all costs (including reasonable attorney's fees), liabilities, claims, losses, lawsuits, settlements, demands, causes, judgments and expenses arising from or connected with the performance of this Agreement, to the extent that such costs and liabilities are alleged to result from the negligence or willful misconduct of Medical Director.

10.3 A party receiving notice of a claim or potential claim shall send written notice to the other within ten (10) business days, and shall fully cooperate in the defense thereof by counsel mutually acceptable to the parties. The parties' rights to indemnification set forth in this Article are non-exclusive and are not intended to affect in any way any other rights of the parties to indemnification under applicable federal, state or local laws and regulations.

Section 11. Access to Books and Records

Pursuant to 42 U.S.C. 1395x(V)(1)(I), during the four (4) year period after completion of services hereunder, Agency and Medical Director will, upon written request, make available to the Secretary of Health and Human Services or to the Comptroller General, or their duly authorized representatives, this Agreement and any books, documents, and records that are necessary to certify the nature and extent of costs incurred by the Agency under the provisions of this Agreement. This provision shall be in force for any twelve (12) month period during which the total value of services provided or goods delivered hereunder is ten thousand dollars ($10,000) or more. This paragraph shall have no effect unless Medical Director is deemed a "subcontractor" under any regulation adopted under the provision of the United States Code cited above.

Section 12. Privacy

12.1 *HIPAA Applicability and Compliance.* Agency may be a "Covered Entity" under, and may be required to comply with, the applicable provisions of the Health Insurance Portability and Accountability Act of 1996 as amended ("HIPAA") and the regulations and guidelines pertaining thereto (collectively with HIPAA the "HIPAA Rules"), and to obtain sufficient assurances that its contracting parties will appropriately safeguard patients' Protected Health Information ("PHI") as defined in the HIPAA Rules. Medical Director acknowledges that in the course of performing Medical Director's services, duties and obligations herein, Medical Director may receive, create or obtain access to PHI. Medical Director agrees to maintain the security and confidentiality of all PHI, as required of Agency under the HIPAA Rules and other applicable laws and regulations.

12.2 *Additional Documentation and Assurances*. Medical Director agrees that, upon Agency's request from time to time as deemed necessary by Agency in order to ensure Agency's full and continuing compliance with HIPAA Rules and other legal and contractual requirements, Medical Director will execute and deliver to Agency information, documentation or agreements as may be necessary to maintain compliance with the HIPAA Rules and all laws, statutes, ordinances, regulations and orders now or hereafter applicable to Agency or Medical Director.

12.3 *Correlation of Record Handling Requirements.* In the event of any conflict between the requirements of this Article 12 and/or between the various laws, statutes, ordinances and regulations relating to or otherwise affecting the subject matter thereof, the requirement or applicable law that that presents the most stringent standard for compliance, as reasonably determined by Agency, shall be followed, such that compliance is achieved or maximized in all cases.

12.4 *Confidential Information*. Medical Director shall preserve the confidentiality of all private, confidential and/or proprietary information disclosed to or discovered by Medical Director in connection with this Agreement, including, without limitation, nonpublic financial information,

manuals, protocols, policies, procedures, marketing, and strategic information, Agency lists, computer software, training materials, resident/patient health information, resident/patient records, and resident/patient care and outcomes data ("Confidential Information") as required by law. Medical Director shall not use for its own benefit or disclose or otherwise disseminate to third parties, directly or indirectly, any Confidential Information without prior written consent from Agency. Upon termination of this Agreement, all Confidential Information and copies thereof shall be returned to Agency. Medical Director and Agency shall comply with applicable federal, state and local laws and regulations with respect to all Confidential Information, including, but not limited to, any disclosures thereof pursuant to this paragraph.

Section 13. Notices

All notices, demands, and communications called for in this Agreement will be given by registered or certified United States mail or available express mail carrier (Federal Express, UPS, Airbourne, etc.) return receipt requested, to the following address or to such other address as Agency or Medical Director may designate by written notice to the other pursuant to this Section. Such notice or other communication will be deemed given when received by the addressee, or on the date that the addressee refused delivery. For a notice from Medical Director to Agency to be effective, a true and complete copy of such notice shall be simultaneously delivered by Medical Director to Cornerstone Service Center, Inc., Attn: General Counsel, 27101 Puerta Real, Suite 450, Mission Viejo, CA 92691, as well as the respective addresses for the Parties, listed above.

Section 14. Dispute Resolution/Arbitration

14.1 The Parties agree to meet and confer in good faith to resolve any dispute(s) that may arise out of and/or relate to this Agreement. If such dispute(s) remain unresolved, the Parties mutually agree that such disputes shall be resolved exclusively by arbitration in accordance with the provisions of this Section. Notwithstanding anything contained in this Agreement to the contrary, any controversy, dispute or claim of whatsoever nature arising out of, in connection with, or in relation to the interpretation, performance or breach of this Agreement, including any claim based on contract, tort or statute, shall be determined by final and binding, confidential arbitration in accordance with the then current American Health Lawyers Association dispute resolution rules ("AHLA"), by a sole arbitrator selected from among the AHLA panel of certified arbitrators; provided, however, that if AHLA (or any successor organization thereto) no longer exists, then such arbitration shall be administered by the American Arbitration Association ("AAA") in accordance with its then-existing Commercial Arbitration Rules, and the sole arbitrator shall be selected in accordance with such AAA rules. Any arbitration hereunder shall be governed by the United States Arbitration Act, 9 U.S.C. 1-16 (or any successor legislation thereto), and judgment upon the award rendered by the arbitrator may be entered by any state or federal court having jurisdiction thereof. Neither Party nor the arbitrator shall disclose the existence, content or results of any arbitration hereunder without the prior written consent of all parties; provided, however, that either party may disclose the existence, content or results of any such arbitration to its partners, officers, directors, employees, agents, attorneys and accountants and to any other person or entity to whom disclosure is required by applicable law, including pursuant to an order of a court of competent jurisdiction. Unless otherwise agreed by the parties, any arbitration hereunder shall be held at a neutral location selected by the arbitrator in city where Agency's principal office is located. The cost of the arbitrator and the expenses relating to the arbitration (exclusive of legal fees) shall be borne equally by the Parties unless otherwise specified in the award of the arbitrator. Fees and costs paid or payable to the arbitrator shall be included in "costs and reasonable attorneys' fees" as used elsewhere in this Agreement and the arbitrator shall specifically have the power to award to the prevailing party such party's costs and expenses incurred in such arbitration, including fees and costs paid to the arbitrator.

14.2 Notwithstanding the foregoing, because time is of the essence in this Agreement, the Parties (i) specifically reserve the right to seek a judicial temporary restraining order, preliminary injunction, or other similar short term equitable relief, and grant the arbitrator the right to make a final determination of the Parties' rights, including whether to make permanent or dissolve such court order; (ii) any and all arbitration proceedings are conditional upon such proceedings being covered within the Parties' respective risk insurance policies; and (iii) the Parties shall not be required to arbitrate malpractice or any third party claims.

14.3 In the event of any dispute between the parties arising under or in relation to this Agreement, the prevailing party in such dispute or litigation shall have the right to receive from the non-prevailing party all of the prevailing party's reasonable costs and attorneys' fees incurred in connection with any such dispute and/or litigation. As used herein, the term "prevailing party" shall refer to that party to this Agreement for whom the result ultimately obtained most closely approximates such party's position in such dispute or litigation.

14.4 This Agreement shall be governed by the laws of the state in which Agency's principal office is physically located.

Section 15. Miscellaneous

15.1 This Agreement has been negotiated by and between Medical Director and Agency in arms-length negotiations, and both parties are responsible for its drafting. Both parties have reviewed this Agreement with appropriate counsel, or have waived their right to do so, and the parties hereby mutually and irrevocably agree that this Agreement shall be construed neither for nor against either party, but in accordance with the plain language and intent hereof. The invalidity or unenforceability of any provision of this Agreement shall not affect the other provision hereto, and this Agreement shall be construed in all respects as if such invalid or unenforceable provisions were omitted. Headings are used herein for convenience only, and shall play no part in the construction of any provision of this Agreement.

15.2 Medical Director and Agency hereby covenant that in performing their respective obligations under this Agreement, they will comply in all material respects with all applicable statutes, regulations, rules, orders, ordinances and other laws of any governmental entity to which this Agreement and the parties' obligations under this Agreement, are subject with respect to healthcare regulatory matters (including, without limitation, The Social Security Act, as amended, Sections 1128, 1128A and 1128B, 42 U.S.C. Sections 1320a-7, 7(a) and 7(b) including criminal penalties involving Medicare or state health care programs, commonly referred to as the "Federal Anti-Kickback Statute," and if applicable, the statute commonly referred to as the "Federal False Claims Act" and all statutes and regulations related to the possession, distribution, maintenance and documentation of controlled substances) ("Healthcare Laws"). Medical Director and Agency hereby represent and warrant that, to their best knowledge, no circumstances currently exist which can reasonably be expected to result in material violations of any Healthcare Laws by Medical Director or Agency in connection with, or which can reasonably be expected to affect, their respective performance under this Agreement.

15.3 Time is of the essence of this Agreement and every term and condition hereof.

15.4 The waiver by any party hereto of breach of any provision of this Agreement shall not operate as or be construed to be a waiver of any subsequent breach by any party.

15.5 This Agreement shall binding upon the parties hereto, their heirs, successors and assigns. Notwithstanding the foregoing, Medical Director acknowledges that a material and substantial

consideration in Agency's execution of this Agreement is the identity and reputation of Medical Director, and Agency's subjective perception of Medical Director's value to and compatibility with Agency and its officers, employees, facilities and patients. As such, notwithstanding anything contained herein to the contrary, this Agreement and the rights of Medical Director hereunder are personal to Medical Director and may not be assigned or subcontracted to, nor shall the duties and responsibilities of Medical Director hereunder be delegated to or rendered by, any other person or entity without the express prior written consent of Agency, which consent may be granted or denied, conditionally or unconditionally, by Agency in its sole, absolute and unfettered discretion.

15.6 *Notice Regarding the Elder Justice Act.* All individuals who are agents or contractors of the Agency are required to report suspicion of a crime against any individual who is a resident of, or is receiving care from, the Agency to the Secretary of the U.S. Department of Health and Human Services and one or more law enforcement entities for the political subdivision in which the Agency is located. If the events that cause the suspicion result in serious bodily injury, the report shall be made no later than two hours after forming the suspicion. If the events that cause the suspicion do not result in serious bodily injury, the report shall be made no later than twenty-four (24) hours after forming the suspicions.

15.7 This Agreement represents the entire agreement and understanding of the parties with respect to the subject matter hereof, and supersedes and negates any previous contracts between Agency and Medical Director. Agency and Medical Director mutually agree that this Agreement may not be modified unless such modification is in writing and signed by both parties.

[Signature Page to follow]

IN WITNESS WHEREOF, the parties have affixed their signatures hereto as of the dates set forth below.

_____	_____
MEDICAL DIRECTOR SIGNATURE	**AGENCY SIGNATURE**
Name: _____	By: _____
	Administrator/Authorized Agent
Date: _____	Date: _____

EXHIBIT A

MEDICAL DIRECTOR RESPONSIBILITIES:

ADMINISTRATIVE

a. Meets regularly with the Executive Director, Administrator, the Director of Nursing Services, and other decision makers in the Agency and provides leadership and direction in an effort to continuously improve the care delivered by the team to Agency patients.
b. Participates in, and helps respond to, regulatory surveys and interacts with outside regulatory bodies.
c. Participates in disciplinary actions of Agency employees and facilitates performance review of practitioners performing services for Agency, when appropriate.

PROFESSIONAL SERVICES

a. Reviews the clinical information for each hospice patient and provides written Certification of Terminal Illness, considering all facts and circumstances of the patient's condition, including: (a) diagnosis of the terminal condition of the patient; (b) other health conditions, whether related or unrelated to the terminal condition; and (c) current clinically relevant information supporting all diagnoses.
b. Ensures the adequacy and appropriateness of the medical services provided to Agency patients, including being responsible for (in conjunction with patient's attending physician) the palliation and management of Agency patients' terminal illness and conditions related to the terminal illness.
c. Works in concert with attending physician and interdisciplinary team (IDT) to establish and periodically review a plan of care for each patient to address the physical, medical, psychosocial, emotional, and spiritual needs of the hospice patients and families facing terminal illness and bereavement.
d. Regularly attends and helps lead IDT meetings, enters reports into Agency's electronic medical records system (if applicable), prepares orders for patient care, and reviews recertification and admission reports.
e. Performs and documents face-to-face evaluations, in accordance with hospice conditions of participation and other Federal and state requirements.
f. Serves as consulting physician on patient care issues and questions, including: (a) being on-call to field telephone calls from Agency nursing staff, as agreed upon with Agency and (b) responding to facsimile transmissions, telephone calls, and other communication relating to Agency patient care. Takes responsibility for the medical component of the Agency's patient care program and oversees the planning and rendering of care, including supervising all work conducted on behalf of the Agency by other Agency physicians (either contracted or employee).
g. Acts as liaison with attending physicians to oversee the rendition, and ensure the quality, of the collective professional services rendered within the Agency.
h. Ensures that proper orders are written and submitted promptly.
i. Helps develop, review, and updates, as necessary, written policies and procedures to guide Agency physicians in admitting and caring for their patients (including delineation of responsibility) at the Agency.
j. Evaluates and ensures the medical services rendered from or within the Agency are compliant with the Agency's current policies and procedures, including without limitation, the Agency's Code of Conduct and applicable state and Federal law.
k. Renders necessary medical care to Agency patients when the attending physician is not immediately available.
l. Assists Agency staff in addressing medical emergencies within the Agency.
m. Participates in the periodic evaluation of the adequacy and appropriateness of Agency professional and support staff services.
n. Assures medical coverage during emergencies, and helps develop policies and procedures relating thereto.
o. Organizes, coordinates, and monitors the activities of the physicians delivering care at the Agency, and ensures

that the quality and appropriateness of services meets community and regulatory standards.

QUALITY ASSURANCE

a. Participates in the monitoring of care within the Agency, serves as a member of the Agency's Quality Assurance Committee, and attends and participates in Quality Assurance Committee meetings.
b. Maintains knowledge of state and national standards for and regulations applicable to the rendering of hospice services, and ensures that the Agency meets the existing standards of care and conditions of participation.
c. Attends in QAPI meetings and participates in developing and reviewing Agency's QAPI Program in an effort to ensure Agency's policies, procedures, and practices regarding patient care comply with all applicable federal and state requirements.

EDUCATION

a. Participates in the education and training activities of hospice staff members, and identifies and suggests topics for in-service training through observation and evaluation of patient care.
b. Participates in the development, organization, and delivery of education programs for staff, patients, patient families, board members, and the community at large.
c. At the direction of Administrator, completes any required Agency education and training courses within the timeframe established by the Administrator.

COMMUNITY

a. Acts as an advocate for the Agency, encourages and facilitates community involvement in the activities of the Agency, and assists the community in understanding the Agency's capabilities and services.
b. Serves as a liaison on behalf of the Agency in the community, including, helping to create positive relationships between the Agency and other health care providers in the community.

SOCIAL, REGULATORY, AND FINANCIAL

a. Understands the mechanisms for hospice care reimbursement, and establishes relationship with other organizations involved in hospice care to assure that patients' needs are met across the continuum of care.

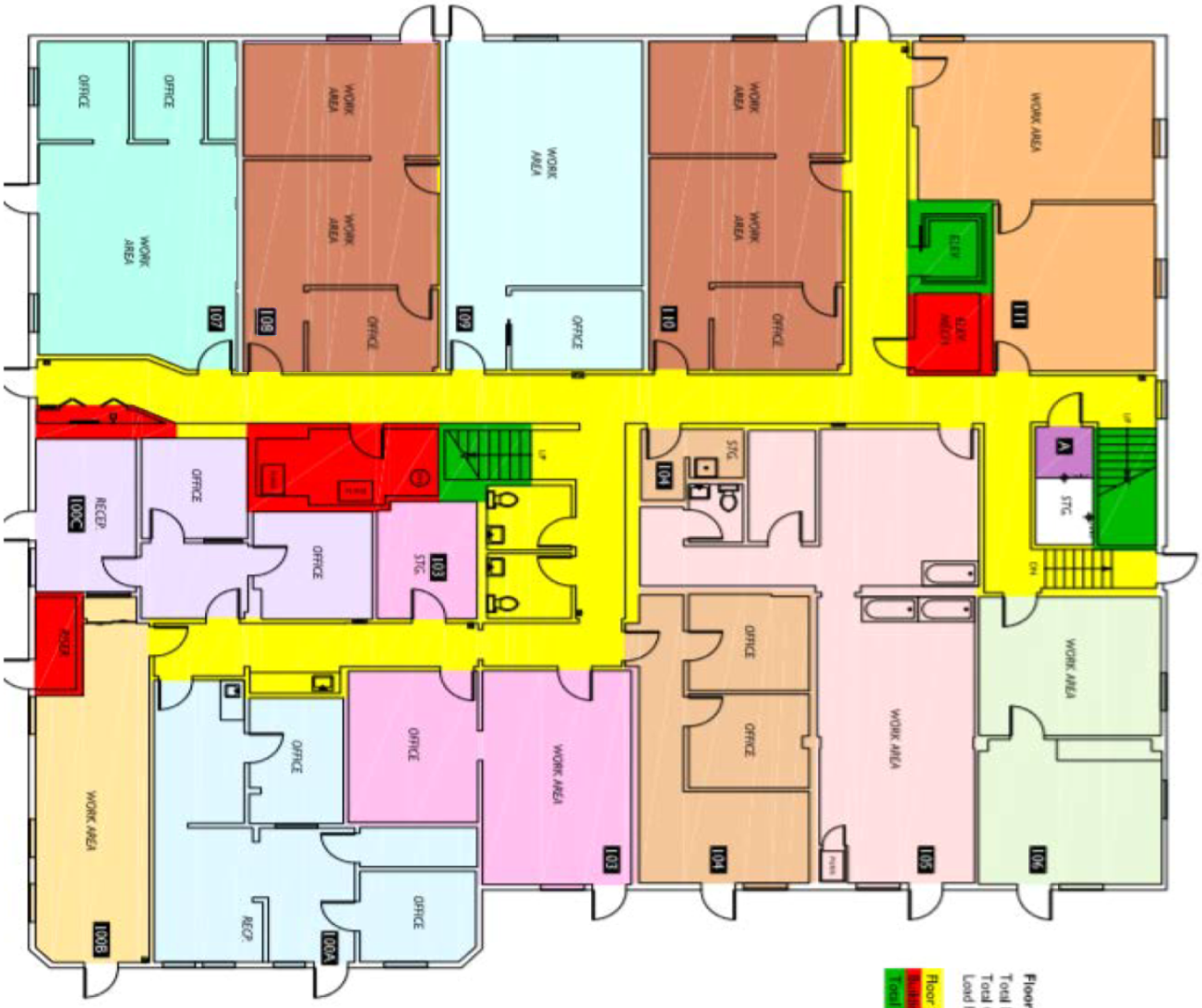
EXHIBIT B

[ATTACH PHYSICIAN SERVICES LOG/INVOICE]

Exhibit 4: Line Drawing

DCL North Bend Way

301 W North Bend Way, North Bend, WA, 98045



Floor Summary

	SQ. FT.
Total Rentable Area	8,570
Total Occupant Area	6,901
Load Factor	1.2419

Floor Service Area	1,421
Building Service Area	231
Total Vertical	197

Suite #	Occupant Area	Rentable Area
Suite 100A	644	800
Suite 100B	341	423
Suite 100C	446	554
Suite 103	486	604
Storage 103	107	133
Suite 104	475	590
Storage 104	58	72
Suite 105	862	1,071
Suite 106	482	599
Suite 107	582	723
Suite 108	603	749
Suite 109	603	749
Suite 110	588	730
Suite 111	597	741
Storage A	27	34

North Bend Way

VISTA PACIFIC GROUP
COMMERCIAL PROPERTIES

Exhibit 5: Lease Terms

December 20, 2019

Isaac Ricketts
Pennant Group
1675 E. Riverside Drive, Suite 150
Eagle, ID 83616

Via Email: Isaac.ricketts@pennantservices.com

Dear Isaac:

Thank you for your interest in the DCL North Bend Way Building. Following is an outline of the proposed terms and conditions to lease space:

1) Premises:	DCL North Bend 301 West North Bend Way, Suite 108 North Bend, WA 98045		
2) Size:	Approx. 749 RSF		
3) Term:	One (1) Year		
4) Early Possession:	Tenant may take possession of premises upon final lease execution. Tenant shall be responsible for proof of insurance and reimbursement of Utilities & Services during the early possession period.		
5) Commencement:	February 1, 2020		
6) Expiration:	January 31, 2021		
7) Rent Schedule:	Period	Annual Rate	Total Monthly Amount
	02/01/20 – 01/31/21	$18.00/SF	$1,123.50/mo. plus Utilities
8) Base Year:	2020 – Operating Expenses are included in the rent schedule stated above. Operating Expenses that exceed the 2020 Base Year shall be reconciled and passed through to tenant on a pro-rata basis.		
9) Utilities:	Tenant shall pay its pro-rata share of utilities estimated at $2.75/SF/Yr (or $171.65/Mo).		
10) Condition:	Landlord shall deliver the premises broom clean and in good working order. Tenant otherwise accepts the premises in "as is" condition and shall be responsible for additional improvements at it's sole cost and expense.		
11) Lease Extension(s):	The Lease shall automatically extend for three (3) successive one (1) year terms unless either party notifies the other ninety (90) days in advance of the current term lease expiration date. The base rental rate shall increase by three and one-half percent (3.5%) annually.		
12) Signage:	Subject to governing municipality sign codes & regulations and Landlords consent, Tenant may place signage on or above it's storefront. In addition,		

tenant may occupy exterior building signage facing east at a rate of $50.00/month.

13) Brokerage: It is expressed and understood that Josh Heyum of Vista Pacific Group Inc. represents Landlords.

14) Agency: "AGENCY PAMPHLET(CBA) 7-pg

15) Time: This proposal shall remain open through Friday, January 3, 2020.

This proposal is a non-binding agreement and only a fully executed lease document shall constitute a binding agreement. All space at DCL North Bend is subject to prior leasing and Landlord's review of Tenants complete financial statements.

We look forward to working with you.

Sincerely yours,

Josh Heyum – Principal & Broker
Vista Pacific Group Inc.
11251 120th Ave NE, Suite 206
Kirkland, WA 98033
(c) 425 445-5799
(o)425 202-7290
joshheyum@gmail.com
www.vistapacificgroupinc.com

Agreed and approved this _3rd _ day of December, 2019.

Tenant: Emerald Healthcare, Inc.

X_____

Lessor: ~~Vista Pacific Group Inc.~~ DCL North Bend Way, LLC

X_____

Exhibit 6: Charity Care, Admissions and Patient Referral Policies

ADMISSION CRITERIA AND PROCESS
Policy No. 4-021.1

PURPOSE
To establish standards and a process by which a patient can be evaluated and accepted for admission.
POLICY
Puget Sound Hospice will admit any patient with a life-limiting illness that meets the admission criteria.
Patients will be accepted for care without discrimination on the basis of race, color, religion, age, gender, sexual orientation, disability (mental or physical), communicable disease, or place of national origin.
Patients will be accepted for care based on meeting criteria for hospice services. Consideration will be given to the adequacy and suitability of hospice personnel, resources to provide the required services, and a reasonable expectation that the patient's hospice care needs can be adequately met in the patient's place of residence. (See Scope of Services" Policy No. 1-024.)
The patient's life limiting illness and prognosis of six (6) months or less will be determined by utilizing standard clinical prognosis criteria developed by the fiscal intermediary's Local Coverage Determinations (LCD's).

Puget Sound reserves the right not to accept any patient who does not meet the admission criteria.

A patient will be referred to other resources if Puget Sound Hospice cannot meet his/her needs.
Once a patient is admitted to service, the organization will be responsible for providing care and services within its financial and service capabilities, mission, and applicable law and regulations.

Admission Criteria Continued -

The patient must have a life limiting illness with an expectancy of six (6) months or less, as determined by the attending physician and/or hospice Medical Director, utilizing standard clinical prognosis criteria developed by LCD.
The focus of care must be palliative versus curative.
The patient and family/caregiver desire hospice care will be provided primarily in the patient's residence, which could be his/her private home, a family member's home, a skilled nursing facility, or other living arrangements.
The patient must reside within the geographical area that Puget Sound Hospice services.
Eligibility for participation will not be based on the patient's race, color, religion, age, gender, sexual orientation, disability (mental or physical), communicable disease, or place of national origin.
Eligibility criteria will be continually reviewed on an ongoing basis by the interdisciplinary team to assure appropriateness of hospice care.

PROCEDURE
The organization will utilize referral information provided by family/caregiver, healthcare clinicians from acute care facilities, skilled or intermediate nursing facilities, other agencies, and physician offices in the determination of eligibility for admission to the program. If the request for service is not made by the patient's physician, he/she will be consulted prior to the evaluation visit/initiation of services.

The Clinical Supervisor will assign hospice personnel to conduct initial assessments of eligibility for services within the time frame requested by the referral source, or based on the information regarding the patient's condition or as ordered by the physician (or other authorized independent practitioner).

Assignment of appropriate hospice personnel to conduct the initial assessments of patient's eligibility for admission will be based on:
A. Patient's geographical location
B. Complexity of patient's hospice care needs/ level of care required
C. Hospice personnel's education and experience
D. Hospice personnel's special training and/ or competence to meet patient's needs.
E. Urgency of identified need for assessment
4. In the event that the time frame for assessment cannot be met, the patient's physician and the referral source, as well as the patient, will be notified for approval of the delay.
A. Such notification and approval will be documented.
B. If approval is not obtained for the delay, the patient will be referred to another hospice for services.
5. A hospice representative will make an initial contact prior to the patient's hospital discharge, if possible or appropriate. The initial home visit will be made within the time frame requested by the referral source and according to organization policy, or as ordered by the physician (or other authorized independent practitioner). The purpose of the initial visit will be to:
A. Explain the hospice philosophy of palliative care with the patient and family/ caregiver as unit of care.
B. Provide a written copy and explain (verbally) the patient's right s and responsibilities and grievance procedure. (See "Patient Bill of Rights" Policy No. 2-002.)
C. Provide the patient with a copy of Puget Sound Hospice notice of privacy practices.
D. Assess the family/ caregiver's ability to provide care.
E. Evaluate physical facilities and equipment in the patient s home to determine if they are safe and effective f or care in the home.

G. Review appropriate forms and subsequently sign forms by the patient and family/caregiver once agreement for the hospice program has been decided.
H. Provide services as needed and ordered by physician (or other authorized independent practitioner), and incorporate additional needs into the hospice plan of care.
I. Give patient information about durable power of attorney for health care, if the patient has not already done so.
During the initial assessment visit, the admitting clinician will assess the patient's eligibility for hospice services according to the admission criteria and standard prognosis criteria to determine/ confirm further:
A. Collaborate with Medical Director on level of service required and frequency criteria.
B. Eligibility (according to organization admission criteria)
If eligibility criteria is met the patient and family/ caregiver will be provided with a hospice brochure and various educational materials providing sufficient information on:
A. Nature and goals of care and/ or service
B. Hours during which care or service are available (physician, nursing, drugs and biologicals are available 24 hours/ day. All other services are available to meet individual patient care needs)
C. Access to care after hours
D. Cost s/ charges to the patient, if any, for care, treatment or services
E. Hospice mission, objectives, and scope of care provided directly and those provided through contractual agreement
F. Safety information
G. Infection control information
H. Emergency preparedness plans
I. Available community resources
J. Complaint / grievance process

K. Advance Directives
L. Availability of spiritual counseling in accordance with religious preference
M. Hospice personnel to be involved in care
N. Mechanism for notifying the patient and family/ caregiver of changes in care and any related liability for payment as a result of those changes
8. The hospice registered nurse will document any pertinent information has been furnished to the patient and family/ caregiver and any information not understood by the patient and family/ caregiver.
9. The patient and family/ caregiver, after review, will be given the opportunity to either accept or refuse services.
10. The patient or his/ her represent at I've will sign the required forms indicating elect ion of hospice care and receipt of patient right s and privacy information.
11. Refusal of services will be documented in the clinical record. Notification of the Clinical Supervisor, attending physician, and referral source will be completed and documented in the clinical record.
12. The hospice registered nurse will assist the family in understanding changes in the patient's status related to the progression of an end-stage disease.
13. The hospice registered nurse will educate the family in techniques for providing care.
14. The hospice registered nurse will contact the physician for a physician's order to certify patient for hospice care.
15. The hospice registered nurse will complete an initial assessment during this visit within 48 hours after the election of the hospice care (unless the physician, patient or representative requests that the initial assessment be completed in less than 48 hours.) (See "Initial Assessment" Policy No. 4-041)
16. A comprehensive assessment is conducted at admission after the election of hospice care. A plan of care will be developed by the attending hospice physician, the Medical Director or physician designee, and the hospice team. It will then be submitted to the attending physician for signature. The patient's wishes/desires will be considered and respected in the development of plan of care. (See "Comprehensive Assessment" Policy No. 4-042.)
17. The time frames will apply for weekends and holidays, as well as weekday admissions.

18. A clinical record will be initiated for each patient admitted for hospice services.
19. If a patient does not meet the admission criteria or cannot be cared for by Puget Sound hospice, the Clinical Supervisor should be notified and appropriate referrals to other sources of care made on behalf of the patient.
21. The following individuals should be notified of non-admits:
A. Patient
B. Physician
C. Referral source (if not physician)
22. A record of non-admits will be kept for statistical purposes, with date of referral, date of assessment, patient name, services required, physician, reason for non-admit, referral to other hospice care facilities, etc.
23. In instances where continued care to a patient contradicts the recommendations of an external or internal entity performing a utilization review, the Executive Director/Administrator will be notified. All care, service, and discharge decisions must be made in response to the care required by the patient, regardless of the external or internal organization's recommendation. The patient and family/ caregiver, as appropriate, and physician will be involved in deliberations about the denial of care or conflict about care decisions.
24. A record of conflict of care issues and out comes will be kept for statistical purposes, referencing the date of the conflict of care issue, the patient name, the external or internal organization recommendations and reasons, and complete documentation of organization decision and patient care needs.

CHARITY CARE
Policy No. 3-007.1

PURPOSE
To identify the criteria to be applied when accepting patients for charity care.

POLICY
Patients without third-party payer coverage and who are unable to pay for medically necessary care will be accepted for charity care admission, provided the individual meets hospice criteria.

PROCEDURE
1. When it is identified that the patient has no source for payment of services and requires medically necessary care/ service, the hospice will decide if they are able to provide care using the hospice criteria.
2. A social worker, as available, will meet with the patient to determine potential eligibility for financial assistance from other community resources.
3. The Executive Director/ Administrator, with the appropriate Clinical director, will review all applicable patient information, including financial declarations, physician (or other authorized licensed independent practitioner) orders, initial assessment information, and social work notes to determine acceptance for charity care.
4. All documentation utilized in the determination for acceptance for charity care will be maintained in the patient's billing record.

5. When the organization is unable to admit the patient or to continue charity care, every effort will be made to refer the patient for appropriate care/ service with an alternate provider.
6. The referral source will be advised of acceptance or non-acceptance of charity care.

NONDISCRIMINATION POLICY AND GRIEVANCE PROCESS

Policy No. 2-037.1

PURPOSE

To prevent organization personnel from discriminating against other personnel, patients, or other organizations on the basis of race, color, religion, age, sex (an individual's sex, gender identity, sex stereotyping, pregnancy, childbirth and related conditions), sexual orientation, disability (mental or physical), communicable disease, or national origin.

POLICY

In accordance with Title VI of the Civil Rights Act of 1964, Section 1557 of the Affordable Care Act (ACA) of 2010 and its implementing regulation, Puget Sound Hospice will, directly or through contractual or other arrangement, admit and treat all persons without regard to race, color, or place of national origin in its provision of services and benefits, including assignments or transfers within facilities.

In accordance with Section 504 of the Rehabilitation Act of 1973, Section 1557 of the Affordable Care Act (ACA) of 2010 and its implementing regulations, Puget Sound Hospice will not, directly or through contractual or other arrangements, discriminate on the basis of disability (mental or physical) in admissions, access, treatment or employment.

In accordance with the Age Discrimination Act of 1975, Section 1557 of the Affordable Care Act (ACA) of 2010 and its implementing regulation, Puget Sound Hospice will not, directly or through contractual or other arrangements, discriminate on the basis of age in the provision of services unless age is a factor necessary to the normal operation or the achievement of any statutory objective.

In accordance with Title II of the Americans with Disabilities Act of 1990, Puget Sound Hospice will not, on the basis of disability, exclude or deny a qualified individual with a disability from participation in, or benefits of, the services, programs or activities of the organization.

In accordance with other regulations the organization will not discriminate in admissions, access, treatment, or employment on the basis of gender, sexual orientation, religion, or communicable disease.

PROCEDURE

1. The Sect ion 504/ ADA Compliance Coordinator and Sect ion 1557 Civil Right s Coordinator (can be same person) designated to coordinate the efforts of Puget Sound Hospice to comply with the regulations will be the Executive Director/ Administrator. Contact the Executive Director/ Administrator- at 425-357-1790.
2. Puget Sound Hospice will identify an organization or person in their service area who can interpret or translate for persons with limited English proficiency and who can disseminate information to and communicate with sensory impaired persons. These contact s will be listed and kept in the policy manual. (See "Facilitating Communication" Policy No. 2-038.)

3. A copy of this policy will be posted in the reception area of Puget Sound Hospice, given to each organization staff member, and sent to each referral source.
4. A nondiscrimination statement (See #5) will be posted in a conspicuous place, such as the reception area of the organization and will be printed on brochures, other printed public materials and in a conspicuous location on the organization's web site accessible from the home page, in English and at least the top 15 non-English languages spoken in the state.
5. The nondiscrimination statement will read: "Puget Sound Hospice complies with applicable Federal civil rights laws and does not discriminate on the basis of race, color, national origin, age, disability, or sex. Puget Sound Hospice does not exclude people or treat them differently because of race, color, national origin, age, disability, or sex. Puget Sound Hospice provides free aids and services to people with disabilities to communicate effectively with us, such as qualified sign language interpreters and written materials in other formats (e.g. large print, audio, accessible electronic formats). Puget Sound Hospice provides free language services to people whose primary language is not English such as qualified interpreters and information written in other languages. If you need these services, contact the Section 504/ADA Coordinator/Section 1557 Civil Rights Coordinator at _____ (insert phone number). If you believe that Puget Sound Hospice has failed to provide these services or discriminated in another way on the basis of race, color, national origin, age, disability, or sex you can file a grievance with _____ (insert name and title of ADA/Civil Rights Coordinator) _____ (insert mailing address) _____ (insert telephone number and TYY number if available) _____ (insert fax) _____ (insert email). You can file a grievance in person or by mail, fax, or email. If you need help filing a grievance, _____ (insert name and title of ADA/Civil Rights Coordinator) is available to help you. You can also file a civil rights complaint with the U.S. Department of Health and Human Services, Office for Civil Rights, electronically through the Office of Civil Rights Compliant Portal, available at https://ocrportal.hhs.gov/ocr/portal/lobby.jsf, or by mail or phone at: U.S. Department of Health and Human Services, 200 Independence Avenue SW, Room 509F, HHH Building, Washington, DC 2020; 1-800-368-1019, 800-537-7697(TDD)"
6. Any person who believes she or he has been subjected to discrimination or who believes he or she has witnessed discrimination, in contradiction of the policy stated above, may file a grievance under this procedure. It is against the law for Puget Sound Hospice to retaliate against anyone who files a grievance or cooperates in the investigation of a grievance.
7. Grievances must be submitted to the Section 504/ADA Compliance Coordinator/ Section 1557 Civil Rights Coordinator within 60 days of the date the person filing the grievance becomes aware of the alleged discriminatory action.
8. A complaint may be filed in writing, or verbally, containing the name and address of the person filing it ("the grievant"). The complaint must state the problem or action alleged to be discriminatory and the remedy or relief sought by the grievant.

9. The Section 504 Coordinator/Section 1557 Civil Rights Coordinator (or her/his representative) will conduct an investigation of the complaint to determine its validity. This investigation may be informal, but it must be thorough, affording all interested persons an opportunity to submit evidence relevant to the complaint.
10. The Section 504/ADA Compliance Coordinator/ Section 1557 Civil Rights Coordinator will issue a written decision on the grievance no later than 30 days after its filing.
11. The grievant may appeal the decision of the Section 504/ADA Compliance Coordinator/Section 1557 Civil Rights Coordinator by filing an appeal in writing to Puget Sound Hospice within 15 days of receiving the Section 504/ADA Compliance Coordinator/Section 1557 Civil Rights Coordinator's decision.
12. Puget Sound Hospice will issue a written decision in response to the appeal no later than 30 days after its filing.
13. The Section 504/ADA Compliance Coordinator/Section 1557 Civil Rights Coordinator will maintain the files and records of Puget Sound Hospice relating to such grievances.
14. The availability and use of this grievance procedure does not preclude a person from filing a complaint of discrimination on the basis of handicap with the regional office for Civil Rights of the U.S. Department of Health and Human Services.
15. All organization personnel will be informed of this process during their orientation process.
16. Puget Sound Hospice will make appropriate arrangements to assure that persons with disabilities can participate in or make use of this grievance process on the same basis as the nondisabled. Such arrangements may include, but will not be limited to, the providing interpreters for the deaf, providing taped cassettes of material for the blind, or assuring a barrier-free location for the proceedings. The Section 504 Coordinator will be responsible for providing such arrangements.

Exhibit 7: Pro Forma and Underlying Assumptions

Emerald Healthcare, Inc.
Hospice only Pro Forma
King County

Gross revenue by type of care **Thurston County**	**2020**	**2021**	**2022**	**2023**	
Routine Home Care	45,095	1,672,674	2,363,869	2,727,541	Days of Care x Per Diem Rates
Inpatient Respite	1,830	67,882	95,932	110,691	Days of Care x Per Diem Rates
Continuous Home Care	32	9,570	13,524	15,605	Days of Care x Per Diem Rates: Assumes one 8 hour shift per each unmet day
General InPatient	843	31,282	44,209	51,010	Days of Care x Per Diem Rates
Gross revenue subtotal	47,801	1,781,407	2,517,534	2,904,847	
Adjustments to revenue	**2020**	**2021**	**2022**	**2023**	
Contractual adjustments					
Medicare Managed Care, Medicaid Managed Care, Private Pay, Third Party Ins	(956)	(35,628)	(50,351)	(58,097)	Assumed 2%
Charity Care	(2,390)	(89,070)	(125,877)	(145,242)	Assumed 5%
Provisions for Bad Debt	(478)	(17,814)	(25,175)	(29,048)	Assumed 1%
Total Adjustments to Revenue	(3,824)	(142,513)	(201,403)	(232,388)	
Total Net Revenue	**43,977**	**1,638,894**	**2,316,131**	**2,672,459**	
EXPENSES					
PATIENT CARE COSTS					
Compensation and Benefits					
Registered Nurse	56,250	321,328	454,110	523,973	FTE x Annual Compensation

Certified Nursing Assistant	15,080	78,631	111,123	128,219	FTE x Annual Compensation
Licensed Clinical Social Worker	27,217	59,645	84,292	97,260	FTE x Annual Compensation
Spiritual Care Coordinator	9,800	47,044	66,484	76,712	FTE x Annual Compensation
Director of Patient Services	18,000	57,335	81,027	93,493	FTE x Annual Compensation
Payroll Taxes & Benefits	37,904	169,195	239,111	275,897	30% of Base Compensation
Total	**164,251**	**733,178**	**1,036,147**	**1,195,555**	

Contracted Patient Care	**2020**	**2021**	**2022**	**2023**	**Note**	
Medical Director	3,650	21,548	30,452	35,137	MD rate of $190/hr. per contract. Assumption of .75hrs/ADC	
Physical Therapist	163	961	1,358	1,567	$42.38/hr	1.5 hours/20 ADC/Month
Occupational Therapist	151	890	1,258	1,452	$39.26/hr	1.5 hours/20 ADC/Month
Speech Therapist	137	806	1,140	1,315	$35.55/hr	1.5 hours/20 ADC/Month
Dietitian	128	755	1,067	1,231	$33.29/hr	1.5 hours/20 ADC/Month
Total	**4,228**	**24,961**	**35,276**	**40,703**		

Direct Patient Care Costs	**2020**	**2021**	**2022**	**2023**	**Note**
DME	3,919	55,561	78,520	90,600	$6.04/PPD based on Cornerstone averages
Pharmacy	4,601	65,219	92,170	106,350	$7.09/PPD based on Cornerstone averages
General Inpatient Costs	2,207	31,282	44,209	51,010	$841.05 per General Inpatient DOC
Medical Supplies	1,681	23,825	33,670	38,850	$2.59/PPD based on Cornerstone averages
Inpatient Respite	4,788	67,882	95,932	110,691	$192.30 per Inpatient Respite DOC
Room and Board	292	4,139	5,850	6,750	$.45/PPD based on Cornerstone averages
Mileage	2,336	33,116	46,800	54,000	Estimate 8 miles/DOC reimbursed at $.45/mile based on existing local agency

Subtotal	**19,824**	**281,024**	**397,151**	**458,251**	
Total Direct Patient Care Costs	**188,303**	**1,039,163**	**1,468,574**	**1,694,509**	
ADMINISTRATIVE COSTS					
Administrative Compensation and Benefits	**2020**	**2021**	**2022**	**2023**	**Note**
Administrator	18,000	50,000	50,000	50,000	FTE x Annual Compensation, represents 50% of Puget Sound Administrator
Business Office Manager, Medical Records, Scheduling	9,500	25,000	50,000	100,000	FTE x Annual Compensation
Intake	9,000	52,000	130,000	156,000	FTE x Annual Compensation
Community Liaison	10,800	97,500	130,000	130,000	FTE x Annual Compensation
Payroll Taxes & Benefits	14,190	67,350	108,000	130,800	30% of Base Compensation
Total	**61,490**	**291,850**	**468,000**	**566,800**	
Administration Costs	**2020**	**2021**	**2022**	**2023**	**Note**
Advertising	4,100	16,389	23,161	26,725	$10,000 launch plus 1% of revenue
Allocated Costs	2,390	89,070	125,877	145,242	5% Allocation to Cornerstone Service Center for supporting functions; Legal, HR, Accounting, IT, and Clinical support
B & O Taxes	717	26,721	37,763	43,573	1.5% of Gross Revenue
Dues & Subscriptions	1,875	4,500	4,500	4,500	$375/month, primarily Medbridge
Education and trainings	7,000	10,000	10,000	10,000	$10,000/year, Continuing education including Clinical education and compliance
Information Technology/Computer/Software Maintenance	6,250	15,000	15,000	15,000	$1250/month
Insurance	600	1,200	1,200	1,200	Liability and property content
Legal and professional	-	-	-	-	Included in Allocated Costs to Cornerstone Service Center
Licenses and Fees	13,600	3,000	3,000	3,000	First year Accredidation $3,100, Survey $7,500, Annual State License 3,000

Postage	2,000	6,000	6,000	6,000	$500/month
Purchased services	4,000	12,000	12,000	12,000	$1000/month; bank fees, system access: HCHB, SHP, Workday
Repairs and Maintenance	600	1,800	1,800	1,800	$150/month
Cleaning	1,050	1,050	1,050	1,050	$210/month
Office supplies	3,000	3,000	3,000	3,000	$250/month
Equipment lease & maintenance	3,000	6,000	6,000	6,000	$500/month, copier and postage machines
Building rent or lease	12,364	13,960	14,457	14,966	lease rate increases 3.5% annually
Utilities	1,892	2,136	2,211	2,285	$172 utilities per month, rate increases 3.5% annually
Recruitment	6,000	3,000	3,000	3,000	$5,000 startup and $250/month following
Telephones	6,068	10,993	14,992	17,217	$55/FTE/month + $250/month for landlines
Travel	7,500	7,500	7,500	7,500	First year $15,000 support and launch, $7,500 thereafter
Subtotal	**84,006**	**233,320**	**292,510**	**324,058**	
Total Administrative Expense	**145,496**	**525,170**	**760,510**	**890,858**	
TOTAL COSTS	**333,799**	**1,564,333**	**2,229,084**	**2,585,367**	
EBITDA	(289,822)	74,562	87,047	87,092	
EBITDA Margin %	-659.0%	4.5%	3.8%	3.3%	
Depreciation	-	894	1,925	(19,653)	
Amortization	-	-	-	-	

EBIT	(289,822)	73,668	85,122	106,746
Interest Expense	-	-	-	-
Earnings before Taxes	(289,822)	73,668	85,122	106,746

Exhibit 8: Letter of Funds Commitment

PENNANT
GROUP

December 30, 2019

Janis Sigman, Program Manager
Certificate of Need Program
Department of Health
P.O. Box 47852
Olympia, WA 98504-7852

Dear Ms. Sigman

As the Corporate Controller for Pennant Group, the ultimate parent company of Emerald Healthcare, Inc., I am writing to affirm a commitment to fully finance the establishment of Puget Sound Hospice in King County, Washington. As the ultimate parent of Emerald Healthcare, we have provided a copy of Pennant's 10-Q in conjunction with this filing that demonstrates the necessary capital reserves to meet the funding requirements.

Please do not hesitate to contact me if you have any questions or require additional information.

Sincerely,

Nate Schrandt
Corporate Controller
Pennant Group
1675 E. Riverside Dr., Ste 200
Eagle, ID 83616

Exhibit 9: Historical Financials

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

FORM 10-Q

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

For the quarterly period ended September 30, 2019.

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

For the transition period from _____ to _____.

Commission file number: 001-38900

THE PENNANT GROUP, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**83-3349931**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

1675 E Riverside Drive, Suite 150
Eagle, ID 83616
(Address of Principal Executive Offices and Zip Code)
(208) 506-6100
(Registrant's Telephone Number, Including Area Code)

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

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

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

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

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

As of November 12, 2019, 27,846,772 shares of the registrant's common stock were outstanding.

EXPLANATORY NOTE

The separation of The Pennant Group, Inc. from The Ensign Group, Inc. became effective at 12:01 a.m. Eastern Standard time on October 1, 2019. As a result of this separation, the home health and hospice agencies and substantially all of the senior living businesses separated from The Ensign Group, Inc. that were referred to as "New Ventures" in the registration statement of Form 10 are referred to as the The Pennant Group, Inc. within this report.

THE PENNANT GROUP, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019
TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

The financial statements and related footnotes as of September 30, 2019 should be read in conjunction with the New Ventures financial statements for the year ended December 31, 2018 contained in Exhibit 99.1 to Amendment No. 3 to the Company's Registration Statement on Form 10 as filed with the U.S. Securities and Exchange Commission on September 3, 2019, which became effective on September 9, 2019 (the "Information Statement" or "Form 10").

Item 1. ***Financial Statements***

THE PENNANT GROUP, INC.
CONDENSED COMBINED BALANCE SHEETS
(In thousands)
(Unaudited)

	September 30, 2019	December 31, 2018
Assets		
Current assets:		
Cash	$ 47	$ 41
Accounts receivable—less allowance for doubtful accounts of $1,045 and $616, respectively	30,249	24,469
Prepaid expenses and other current assets	3,605	4,613
Total current assets	33,901	29,123
Property and equipment, net	13,719	10,458
Right-of-use assets (Note 13)	239,101	—
Restricted and other assets	1,559	2,464
Intangible assets, net	53	78
Goodwill	41,233	30,892
Other indefinite-lived intangibles	33,462	25,136
Total assets	$ 363,028	$ 98,151
Liabilities and equity		
Current liabilities:		
Accounts payable	$ 4,744	$ 4,390
Accrued wages and related liabilities	14,579	12,786
Lease liabilities—current (Note 13)	13,611	—
Other accrued liabilities	17,659	12,371
Total current liabilities	50,593	29,547
Long-term lease liabilities—less current portion (Note 13)	227,388	—
Other long-term liabilities	691	3,316
Total liabilities	278,672	32,863
Commitments and contingencies		
Equity:		
Net parent investment	71,104	55,856
Noncontrolling interest	13,252	9,432
Total equity	84,356	65,288
Total liabilities and equity	$ 363,028	$ 98,151

See accompanying notes to condensed combined financial statements.

THE PENNANT GROUP, INC.
CONDENSED COMBINED STATEMENTS OF INCOME
(In thousands, except for per-share amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenue	$ 88,398	$ 72,953	$ 249,039	$ 210,721
Expense				
Cost of services	68,286	54,167	190,053	156,108
Rent—cost of services (Note 13)	8,538	7,776	25,368	23,065
General and administrative expense	8,577	4,465	23,710	13,456
Depreciation and amortization	1,071	742	2,843	2,177
Total expenses	86,472	67,150	241,974	194,806
Income from operations	1,926	5,803	7,065	15,915
Provision for income taxes	123	1,388	91	3,588
Net income	1,803	4,415	6,974	12,327
Less: net income attributable to noncontrolling interest	279	43	629	413
Net income attributable to The Pennant Group, Inc.	$ 1,524	$ 4,372	$ 6,345	$ 11,914
Earnings per share (Note 5):				
Basic and diluted	$ 0.06	$ 0.16	$ 0.25	$ 0.44
Weighted average common shares outstanding:				
Basic and diluted	27,834	27,834	27,834	27,834

See accompanying notes to condensed combined financial statements.

THE PENNANT GROUP, INC.
CONDENSED COMBINED STATEMENTS OF CHANGES IN EQUITY
(Unaudited)

	Net Parent Investment	Non-Controlling Interest	Total
		(In thousands)	
Total Equity as of December 31, 2018	$ 55,856	$ 9,432	$ 65,288
Noncontrolling interest attributable to subsidiary equity plan	(317)	658	341
Net income attributable to noncontrolling interest		150	150
Net transfer from parent	4,411		4,411
Net income attributable to The Pennant Group, Inc.	1,334		1,334
Total Equity as of March 31, 2019	61,284	10,240	71,524
Noncontrolling interest attributable to subsidiary equity plan	(2,497)	2,733	236
Net income attributable to noncontrolling interest		200	200
Net transfer from parent	11,041		11,041
Net income attributable to The Pennant Group, Inc.	3,487		3,487
Total Equity as of June 30, 2019	73,315	13,173	86,488
Noncontrolling interest attributable to subsidiary equity plan	(177)	194	17
Stock repurchase related to subsidiary equity plan		(394)	(394)
Net income attributable to noncontrolling interest		279	279
Net transfer from parent	(3,558)		(3,558)
Net income attributable to The Pennant Group, Inc.	1,524		1,524
Total Equity as of September 30, 2019	$ 71,104	$ 13,252	$ 84,356

	Net Parent Investment	Non-Controlling Interest	Total
		(In thousands)	
Total Equity as of December 31, 2017	$ 54,996	$ 4,920	$ 59,916
Noncontrolling interest attributable to subsidiary equity plan	(79)	417	338
Net income attributable to noncontrolling interest		89	89
Net transfer to parent	(941)		(941)
Net income attributable to The Pennant Group, Inc.	3,381		3,381
Total Equity as of March 31, 2018	$ 57,357	$ 5,426	$ 62,783
Noncontrolling interest attributable to subsidiary equity plan	(1,884)	2,228	344
Net income attributable to noncontrolling interest		281	281
Net transfer to parent	(5,065)		(5,065)
Net income attributable to The Pennant Group, Inc.	4,161		4,161
Total Equity as of June 30, 2018	$ 54,569	$ 7,935	$ 62,504
Noncontrolling interest attributable to subsidiary equity plan	(193)	541	348
Net income attributable to noncontrolling interest		43	43
Net transfer to parent	(3,576)		(3,576)
Net income attributable to The Pennant Group, Inc.	4,372		4,372
Total Equity as of September 30, 2018	$ 55,172	$ 8,519	$ 63,691

See accompanying notes to condensed combined financial statements.

THE PENNANT GROUP, INC.
CONDENSED COMBINED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30,	
	2019	**2018**
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 6,974	$ 12,327
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,843	2,177
Provision for doubtful accounts	630	167
Share-based compensation	1,395	1,790
Non-cash leasing arrangement (Note 13)	175	—
Change in operating assets and liabilities		
Accounts receivable	(6,410)	(2,440)
Prepaid expenses and other assets	(254)	377
Operating lease obligations	(141)	—
Accounts payable	(97)	678
Accrued wages and related liabilities	1,793	(2)
Other accrued liabilities	5,288	201
Other long-term liabilities	—	927
Net cash provided by operating activities	12,196	16,202
Cash flows from investing activities:		
Purchase of property and equipment	(4,635)	(3,005)
Cash payments for business acquisitions, net of cash received	(18,760)	(1,625)
Cash payments for asset acquisitions	(20)	(398)
Escrow deposits	—	(13)
Restricted and other assets	909	(504)
Net cash used in investing activities	(22,506)	(5,545)
Cash flows from financing activities:		
Proceeds from sale of subsidiary shares	2,293	1,972
Repurchase of subsidiary shares	(2,687)	(1,972)
Net investment from/(to) parent	10,710	(10,652)
Net cash provided by/(used in) financing activities	10,316	(10,652)
Net increase in cash	6	5
Cash beginning of period	41	36
Cash end of period	$ 47	$ 41
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Lease liabilities	$ 25,369	$ —
Non-cash financing and investing activity:		
Capital expenditures	$ 701	$ 801
Right-of-use assets obtained in exchange for new operating lease obligations	$ 8,665	$ —

See accompanying notes to condensed combined financial statements.

THE PENNANT GROUP, INC.
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS
(Dollars and shares in thousands, except per share data)
(Unaudited)

1. DESCRIPTION OF BUSINESS

The Pennant Group, Inc. ("Pennant," the "Company," "it," or "its"), is comprised of the home health and hospice agencies and substantially all of the senior living businesses of The Ensign Group, Inc. (NASDAQ: ENSG) ("Ensign" or the "Parent"). As of September 30, 2019, the Company's subsidiaries operated 63 home health, hospice and home care agencies and 52 senior living communities located in Arizona, California, Colorado, Idaho, Iowa, Nevada, Oklahoma, Oregon, Texas, Utah, Washington, Wisconsin, and Wyoming.

On October 1, 2019, Ensign completed the separation of Pennant (the "Spin-Off"). To accomplish the Spin-Off, Ensign contributed the Company's assets and liabilities into Pennant and distributed to Ensign's stockholders all of the outstanding shares of Pennant common stock. Each Ensign stockholder received a distribution of one share of Pennant common stock for every two shares of Ensign's common stock plus cash in lieu of fractional shares. Additionally, the noncontrolling interest was converted into shares of Pennant at the established conversion ratio. As a result of the Spin-Off on October 1, 2019, Pennant began trading as an independent company on the NASDAQ under the symbol "PNTG."

Certain of the Company's subsidiaries, collectively referred to as the Service Center, provide accounting, payroll, human resources, information technology, legal, risk management, and other services to the operations through contractual relationships.

Each of the Company's affiliated operations are operated by separate, independent subsidiaries that have their own management, employees and assets. Each of Ensign's affiliated operations are operated by separate, independent subsidiaries that have their own management, employees, and assets. References herein to the consolidated "Company," "Parent" and "its" assets and activities is not meant to imply, nor should it be construed as meaning, that The Pennant Group, Inc. or The Ensign Group, Inc. has direct operating assets, employees or revenue, or that any of the subsidiaries, are operated by The Pennant Group, Inc. or The Ensign Group, Inc.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying unaudited condensed combined financial statements of the Company (the "Interim Financial Statements") have been prepared on a stand-alone basis and are derived from the consolidated financial statements and accounting records of Ensign. The Interim Financial Statements reflect the Company's financial position, results of operations and cash flows as the business was operated as part of Ensign prior to the Spin-Off, and have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") and pursuant to the regulations of the SEC. Management believes that the Interim Financial Statements reflect, in all material respects, all adjustments which are of a normal and recurring nature necessary to present fairly the Company's financial position, results of operations, and cash flows for the periods presented in conformity with U.S. GAAP applicable to interim periods. The results of operations for the three and nine months ended September 30, 2019 and the cash flows for the nine months ended September 30, 2019 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2019.

The Condensed Combined Balance Sheet as of December 31, 2018 is derived from the Company's annual audited combined Financial Statements for the fiscal year ended December 31, 2018 which should be read in conjunction with these Condensed Combined Financial Statements and which are included in the Company's Registration Statement on Form 10, as amended and filed with the SEC on September 3, 2019. Certain information in the accompanying footnote disclosures normally included in annual financial statements was condensed or omitted for the interim periods presented in accordance with GAAP.

All intercompany transactions and balances between the various legal entities comprising the Company have been eliminated in the Interim Financial Statements. The condensed combined statements of income reflect income that is attributable to the Company and the noncontrolling interest.

The Company consists of various limited liability companies and corporations established to operate home health, hospice, home care, and senior living operations. The condensed combined balance sheets of the Company include assets and liabilities of Ensign that are specifically identifiable or otherwise attributable to the Company. Revenue was derived from transactional information specific to the Company's services provided. The costs in the condensed combined statements of income reflect direct and allocated costs.

The financial information included herein may not reflect the condensed combined financial position, results of operations, changes in equity, and cash flows of the Company in the future, and does not reflect what they would have been had the Company been operated as a separate, stand-alone entity during the periods presented.

Cost Allocation - The Interim Financial Statements include allocations of costs for certain shared services provided to the Company by Ensign subsidiaries. Such allocations include, but are not limited to, executive management, accounting, human resources, information technology, compliance, legal, payroll, insurance, tax, treasury, and other general and administrative items. These costs were allocated to the Company on a basis of revenue, location, employee count, or other measures. These cost allocations are reflected within general and administrative expense in the condensed combined statements of income, including for share-based compensation expenses disclosed in Note 12*, Options and Awards*. The amount of general and administrative costs allocated for the three and nine months ended September 30, 2019, inclusive of share-based compensation expense were $8,577 and $23,710, respectively, and for the three and nine months ended September 30, 2018 were $4,465 and $13,456, respectively. Management believes the basis on which the expenses have been allocated to be a reasonable reflection of the services provided to us during the periods presented.

Ensign is partially self-insured for healthcare, general and professional liability, and workers' compensation, and historically allocated premium expense to all subsidiaries of Ensign in its accounting records. To reflect all of the insurance costs, quarterly actuary determined adjustments were allocated to the Company based on the proportional historical premium expense. No self-insurance accruals have been allocated to the Company as these accruals represent the obligations of Ensign.

Ensign's external debt and related interest expense have not been allocated to the Company for any of the periods presented as no portion of the borrowings is being assumed by the Company as part of the Spin-Off.

Employees of the Company's subsidiaries participate in Ensign's equity-based incentive plans (the "Ensign Plans") and the Cornerstone Subsidiary Equity plan (the "Subsidiary Equity Plan"). Share-based compensation includes the expense attributable to employees of the Company's subsidiaries participating in the Ensign Plans, as well as the allocated cost related to Ensign subsidiaries' employees that participate in the Ensign Plans. Share-based compensation related to Ensign subsidiaries' employees that participate in the Ensign Plans were allocated on the basis of revenue. All share-based compensation related to the Subsidiary Equity Plan was recognized in the Interim Financial Statements and, therefore, no cost allocation was necessary.

The share-based compensation costs associated with the Subsidiary Equity Plan awards is initially measured at fair value at the grant date and is expensed as non-cash compensation over the vesting term. Historically, these awards have been granted once per year and the fair value has been determined by an independent valuation of the subsidiary shares. The valuation incorporated a discounted cash flow analysis combined with a market-based approach to determine the fair value of the subsidiary equity.

Cash presented in the condensed combined balance sheets represents cash located at our operations. The Company participates in the Parent's cash management program. Accordingly, no cash for this business was allocated to the Company in the Interim Financial Statements. The net activity of cash due to (from) Ensign is reflected in the net investment from Ensign.

Estimates and Assumptions - The preparation of Interim Financial Statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Interim Financial Statements and the reported amounts of revenue and expenses during the reporting periods. The most significant estimates in the Company's Interim Financial Statements relate to revenue, cost allocations, intangible assets and goodwill, impairment of long-lived assets, right-of-use assets and lease liabilities for leases greater than 12 months, and income taxes. Actual results could differ from those estimates.

Fair Value of Financial Instruments - The Company's financial instruments consist principally of cash, accounts receivable, accounts payable and accrued liabilities. The Company believes all of the financial instruments' recorded values approximate fair values because of their nature or respective short durations. Fair value measurements are based on a three-tier hierarchy that prioritizes the inputs used to measure fair value. These tiers include: Level 1, defined as observable inputs such as quoted market prices in active markets; Level 2, defined as inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3, defined as unobservable inputs for which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Revenue Recognition - On January 1, 2018, the Company adopted Accounting Standards Codification ("ASC") Topic 606, Revenue from Contracts with Customers ("Topic 606") applying the modified retrospective method. The adoption of Topic 606 did not have a material impact on the measurement nor on the recognition of revenue of contracts, for which all revenue had not been recognized, as of January 1, 2018, therefore no cumulative adjustment has been made to the opening balance of retained earnings at the beginning of 2018. See Note 4*, Revenue and Accounts Receivable*.

Accounts Receivable and Allowance for Doubtful Accounts - Accounts receivable consist primarily of amounts due from Medicare and Medicaid programs, other government programs, managed care health plans and private payor sources, net of estimates for variable consideration. The allowance for doubtful accounts reflects the Company's best estimate of probable losses inherent in the accounts receivable balance.

Property and Equipment - Property and equipment are initially recorded at their historical cost. Repairs and maintenance are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the depreciable assets (ranging from three to 15 years). Leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful lives or the remaining lease term.

Impairment of Long-Lived Assets - The Company reviews the carrying value of long-lived assets that are held and used in the operating subsidiaries for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of these assets is determined based upon expected undiscounted future net cash flows from the operating subsidiary to which the assets relate, utilizing management's best estimate, appropriate assumptions, and projections at the time. If the carrying value is determined to be unrecoverable from future operating cash flows, the asset is deemed impaired and an impairment loss would be recognized to the extent the carrying value exceeded the estimated fair value of the asset. The Company estimates the fair value of assets based on the estimated future discounted cash flows of the asset. Management has evaluated its long-lived assets and the Company did not identify any asset impairment during the three and nine months ended September 30, 2019 and 2018.

Intangible Assets and Goodwill - Definite-lived intangible assets consist primarily of patient base and customer relationships. Patient base is amortized over a period of four to eight months, depending on the classification of the patients and the level of occupancy in a new acquisition when acquired. Customer relationships are amortized between one to seven years depending on the significance of the relationships.

The Company's indefinite-lived intangible assets consist of trade names and Medicare and Medicaid licenses. The Company tests indefinite-lived intangible assets for impairment on an annual basis or more frequently if events or changes in circumstances indicate that the carrying amount of the intangible asset may not be recoverable. The Company did not identify any asset impairment during the three and nine months ended September 30, 2019 and 2018.

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations. Given the time it takes to obtain pertinent information, the initial fair value might not be finalized at the time of the reported period. Accordingly, it is not uncommon for the initial estimates to be subsequently revised. The Company recorded goodwill and other intangible assets at the operation level when acquired, and as such, these assets are identifiable specifically to the subsidiaries of Pennant. Goodwill is subject to annual testing for impairment. In addition, goodwill is tested for impairment if events occur or circumstances change that would reduce the fair value of a reporting unit below its carrying amount. The Company performs its annual test for impairment during the fourth quarter of each year. The Company did not identify any impairment charge during the three and nine months ended September 30, 2019 and 2018. See further discussion at Note 9, *Goodwill and Intangible Assets, Net*.

Income Taxes - The Company's operations have been included in Ensign's U.S. federal and state income tax returns and all income taxes have been paid by subsidiaries of Ensign. Income tax expense and other income tax related information contained in these Interim Financial Statements are presented using a separate tax return approach. Under this approach, the provision for income taxes represents income tax paid or payable for the current year plus the change in deferred taxes during the year calculated as if the Company was a stand-alone taxpayer filing hypothetical income tax returns. Management believes that the assumptions and estimates used to determine these tax amounts are reasonable. However, the Company's Interim Financial Statements may not necessarily reflect its income tax expense or tax payments in the future, or what tax amounts would have been if the Company had been a stand-alone company during the periods presented.

Deferred tax assets and liabilities are established for temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities at tax rates in effect when such temporary differences are expected to reverse. The Company generally expects to fully utilize its deferred tax assets; however, when necessary, the Company records a valuation allowance to reduce its net deferred tax assets to the amount that is more likely than not to be realized.

In determining the need for a valuation allowance or the need for and magnitude of liabilities for uncertain tax positions, the Company makes certain estimates and assumptions. These estimates and assumptions are based on, among other things, knowledge of operations, markets, historical trends and likely future changes and, when appropriate, the opinions of advisors with knowledge and expertise in certain fields. Due to certain risks associated with the Company's estimates and assumptions, actual results could differ.

Noncontrolling Interest - As grants related to the Subsidiary Equity Plan are vested and exercised, the Company's membership interest in its home health and hospice subsidiary is reduced based on the number of shares vested and exercised. The Company presents the noncontrolling interest and the amount of combined net income attributable to the Company in its Interim Financial Statements. The carrying amount of the noncontrolling interest is adjusted based on an allocation of subsidiary earnings based on ownership interest.

Share-Based Compensation -The Company measures and recognizes compensation expense for all share-based payment awards, including employee stock options, made to employees and Ensign's directors based on estimated fair values, ratably over the requisite service period of the award. Net income has been reduced as a result of the recognition of the fair value of all stock options and restricted stock awards issued, the amount of which is contingent upon the number of future grants and other variables. The total amount of share-based compensation was $268 and $1,395 for the three and nine months ended September 30, 2019, respectively, of which $155 and $1,058, respectively, was recorded in general and administrative expense. The total amount of share-based compensation was $613 and $1,790 for the three and nine months ended September 30, 2018, of which $492 and $1,424, respectively, was recorded in general and administrative expense.

Invested Capital - The net parent investment on the condensed combined balance sheets represents Ensign's historical investment in the Company, the net effect of transactions with, and allocations from, Ensign and the Company's accumulated earnings.

Earnings Per Share - For all periods presented, the earnings per share included on the accompanying Condensed Combined Statements of Income was calculated based on the 27,834 shares of Pennant common stock distributed on October 1, 2019 in conjunction with the Spin-Off, including shares related to the conversion of the noncontrolling interest. Prior to October 1, 2019, Pennant did not have any issued and outstanding common stock. The same number of shares was used to calculate basic and diluted earnings per share since no Pennant employee equity awards were outstanding prior to the Spin-Off. In connection with the Spin-Off, shares of existing equity awards were replaced with shares under the new Pennant awards. For further discussion see Note 5, *Computation of Net Income Per Common Share.*

Recent Accounting Pronouncements - Except for rules and interpretive releases of the SEC under authority of federal securities laws and a limited number of grandfathered standards, the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) is the sole source of authoritative GAAP literature recognized by the FASB and applicable to the Company. For any new pronouncements, the Company considers whether the new pronouncements could alter previous generally accepted accounting principles and determines whether any new or modified principles will have a material impact on the Company's reported financial position or operations in the near term. The applicability of any standard is subject to the formal review of the Company's financial management and certain standards are under consideration.

Recent Accounting Standards Adopted by the Company

Leases and Leasehold Improvements - The Company leases senior living communities and commercial office space. In February 2016, the FASB established Topic 842, which requires lessees to recognize leases with terms longer than 12 months on the balance sheets and disclose key information about leasing arrangements. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The classification criteria for distinguishing between operating and finance (previously capital) leases are substantially similar to the previous lease guidance, but with no explicit bright lines.

On January 1, 2019, the Company adopted ASC Topic 842, *Leases* ("Topic 842"), using the modified retrospective transition method. Leases for reporting periods beginning after January 1, 2019 are presented under Topic 842, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under ASC Topic 840, *Leases* ("Topic 840"). The Company has elected the package of practical expedients permitted under the transition guidance which allows us to not reassess (1) initial direct costs, (2) lease classification for existing or expired leases, and (3) lease definition for existing or expired contracts as of the effective date of January 1, 2019. The new standard also provides practical expedients for an entity's ongoing accounting. The Company has made an accounting policy election to keep leases with an initial term of 12 months or less off of the balance sheets and recognize those lease payments in the condensed combined statements of income on a straight-line basis over the lease term. The lease agreements do not contain any material residual value guarantees or material restrictive covenants. The Company does not have material subleases.

At the inception of each lease, the Company performs an evaluation to determine whether the lease should be classified as an operating or finance lease. Operating leases are included in operating lease assets, current operating lease liabilities and noncurrent operating lease liabilities on the Company's condensed combined balance sheet. As the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at lease commencement date in determining the present value of future lease payments. The Company records rent expense for operating leases on a straight-line basis over the term of the lease. The lease term used for straight-line rent expense is calculated from the date the Company is given control of the leased premises through the end of the lease term. The lease term excludes lease renewals because the renewal rents are not at a bargain, there are no economic penalties for the Company not to renew the lease, and it is not reasonably assured that the Company will exercise the extension options. The lease term used for this evaluation also provides the basis for establishing depreciable lives for buildings subject to lease and leasehold improvements.

The adoption of this standard resulted in recognition of right-of-use assets and lease liabilities of $238,573 and $241,453, respectively, on the Company's combined balance sheet as of January 1, 2019. Neither net deferred tax assets nor equity were impacted as a result of the adoption of this standard. The standard did not materially affect its combined net earnings or have a notable impact on liquidity or debt covenant compliance under Ensign's current agreements. See further discussion at Note 13, *Leases*.

Prior to the adoption of Topic 842, the Company recognized revenue related to its senior living residency agreements in accordance with the provisions of Topic 840. Subsequent to the adoption of Topic 842, lessors are required to separately recognize and measure the lease component of a contract with a customer utilizing the provisions of Topic 842 and the non-lease components utilizing the provisions of Topic 606, Revenue from Contracts with Customers. To separately account for the components, the transaction price is allocated among the components based upon the estimated stand alone selling prices of the components. Additionally, certain components of a contract which were previously included within the lease element recognized in accordance with Topic 842 prior to the adoption of Topic 842 (such as common area maintenance services, other basic services, and executory costs) are recognized as non-lease components subject to the provisions of Topic 606 subsequent to the adoption of Topic 842. Entities are required to recognize a cumulative effect adjustment to beginning retained earnings as of the initial application date of Topic 842 for changes to amounts recognized for these certain components for the transition from Topic 840 to Topic 606. However, entities are permitted to elect the practical expedient under ASU 2018-11, *Leases* ("ASU 2018-11"), allowing lessors to not separate non-lease components from the associated lease components when certain criteria are met. Entities that elect to utilize the lease/non-lease component combination practical expedient under ASU 2018-11 upon initial application of Topic 842 are required to apply the practical expedient to all new and existing transactions within a class of underlying assets that qualify for the expedient as of the initial application date with a cumulative effect adjustment to beginning retained earnings as of the initial application date for any changes recognized related to existing transactions.

Upon adoption of Topic 842, the Company elected the lessor practical expedient within ASU 2018-11. The Company recognizes revenue under resident agreements based upon the predominant component, either the lease or non-lease component, of the contracts rather than allocating the consideration and separately accounting for it under Topic 842 and Topic 606. The Company has concluded that the non-lease components of the agreements governing its senior living communities are the predominant component of the contract; therefore, the Company recognizes revenue for these agreements under Topic 606. The timing and pattern of revenue recognition is substantially the same as that in effect prior to the adoption of Topics 606 and 842.

Stock Compensation - In June 2018, the FASB issued ASU 2018-07, *Compensation-Stock Compensation* ("ASU 2018-07"), which simplifies several aspects of the accounting for nonemployee share-based payment transactions resulting from expanding the scope of ASC Topic 718, *Compensation-Stock Compensation* ("Topic 718"), to include share-based payment transactions for acquiring goods and services from nonemployees. ASU 2018-07 specifies that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor's own operations by issuing share-based payment awards. ASU 2018-07 also clarifies that Topic 718 does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under Topic 606. The Company adopted ASU 2018-07 effective January 1, 2019. The adoption of ASU 2018-07 did not have a material impact on Interim Financial Statements and related disclosures.

Accounting Standards Recently Issued but Not Yet Adopted by the Company

Financial Accounting Standards Board, or FASB, Accounting Standards Update, or ASU, 2018-13 "Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement" or ASU 2018-13 - In August 2018, the FASB issued amended guidance to simplify fair value measurement disclosure requirements. The new provisions eliminate the requirements to disclose (1) transfers between Level 1 and Level 2 of the fair value hierarchy, (2) policies related to valuation processes and the timing of transfers between levels of the fair value hierarchy, and (3) net asset value disclosure of estimates of timing of future liquidity events. The FASB also modified disclosure requirements of Level 3 fair

value measurements. This guidance is effective for annual periods beginning after December 15, 2019, which will be the Company's fiscal year 2020, with early adoption permitted. The adoption of this standard is not expected to have a material impact on our condensed combined financial statements.

FASB ASU, 2017-04 "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment" or ASU 2017-04 - In January 2017, the FASB issued amended authoritative guidance to simplify and reduce the cost and complexity of the goodwill impairment test. The new guidance eliminates "Step 2" from the traditional two-step goodwill impairment test and redefines the concept of impairment from a measure of loss when comparing the implied fair value of goodwill to its carrying amount, to a measure comparing the fair value of a reporting unit with its carrying amount. The FASB also eliminated the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment or "Step 2" of the goodwill impairment test. The new guidance does not amend the optional qualitative assessment of goodwill impairment. This guidance is effective for annual periods beginning after December 15, 2019, which will be the Company's fiscal year 2020, with early adoption permitted. The adoption of this standard is not expected to have a material impact on our condensed combined financial statements.

FASB ASU 2016-13 "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" or ASU 2016-13 - In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (*"Topic 326"), which replaces the existing incurred loss impairment model with an expected credit loss model and requires a financial asset measured at amortized cost to be presented at the net amount expected to be collected. Topic 326 will be effective for fiscal years beginning after December 15, 2019, which will be the Company's fiscal year 2020, and early adoption is permitted. The Company has not yet determined the effect the Topic 326 will have on its results of operations, financial condition or cash flows.

3. RELATED PARTY TRANSACTIONS AND NET PARENT INVESTMENT

The Interim Financial Statements include a combination of stand-alone and combined business functions between Ensign and the Company's subsidiaries. The Company leases 29 of its senior living communities from subsidiaries of Ensign, each of the leases have a term of 15 years from the lease commencement date. The total amount of rent expense included in rent - cost of services paid to related parties was $2,942 and $8,409 and for the three and nine months ended September 30, 2019, respectively, and $2,568 and $7,670 for the three and nine months ended September 30, 2018, respectively. For further discussion on the modification of these leases subsequent the the Spin-Off on October 1, 2019, see Note 13, *Leases*.

Certain related party activity occurs as the Company's subsidiaries receive services from Ensign's subsidiaries. Services included in cost of services were $998 and $2,493 for the three and nine months ended September 30, 2019, respectively, and $857 and $2,191 for the three and nine months ended September 30, 2018.

The condensed combined balance sheets of the Company include Ensign assets and liabilities that are specifically identifiable or otherwise attributable to the Company and were transferred to the Company in connection with the Spin-Off. Transactions that have occurred between subsidiaries of the Company and subsidiaries of Ensign are considered to be effectively settled at the time the transaction is recorded. The net effect of these transactions, including the cash management, is included in the condensed combined statements of cash flows as "Net investment from/(to) Parent".

For further discussion on the agreements governing the relationship between Pennant and Ensign in connection with the Spin-Off, please refer to Note 15, *Subsequent Events*.

4. REVENUE AND ACCOUNTS RECEIVABLE

Revenues are recognized when services are provided to the patients at the amount that reflects the consideration to which the Company expects to be entitled from patients and third-party payors, including Medicaid, Medicare and insurers (private and Medicare replacement plans), in exchange for providing patient care. The healthcare services in home health and hospice patient contracts include routine services in exchange for a contractual agreed-upon amount or rate. Routine services are treated as a single performance obligation satisfied over time as services are rendered. As such, patient care services represent a bundle of services that are not capable of being distinct within the context of the contract. Additionally, there may be ancillary services which are not included in the rates for routine services, but instead are treated as separate performance obligations satisfied at a point in time, if and when those services are rendered.

Revenue recognized from healthcare services are adjusted for estimates of variable consideration to arrive at the transaction price. The Company determines the transaction price based on contractually agreed-upon amounts or rate, adjusted for estimates

of variable consideration. The Company uses the expected value method in determining the variable component that should be used to arrive at the transaction price, using contractual agreements and historical reimbursement experience within each payor type. The amount of variable consideration which is included in the transaction price may be constrained, and is included in the net revenue only to the extent that it is probable that a significant reversal in the amount of the cumulative revenue recognized will not occur in a future period. If actual amounts of consideration ultimately received differ from the Company's estimates, the Company adjusts these estimates, which would affect net service revenue in the period such variances become known.

Revenue from the Medicare and Medicaid programs accounted for 56.8% and 55.1% of the Company's revenue for the three and nine months ended September 30, 2019, respectively, and 54.0% and 53.2% of the Company's revenue for the three and nine months ended September 30, 2018, respectively. The Company records revenue from these governmental and managed care programs as services are performed at their expected net realizable amounts under these programs. The Company's revenue from governmental and managed care programs is subject to audit and retroactive adjustment by governmental and third-party agencies. Consistent with healthcare industry accounting practices, any changes to these governmental revenue estimates are recorded in the period the change or adjustment becomes known based on final settlement.

Disaggregation of Revenue

The Company disaggregates revenue from contracts with its patients by reportable operating segments and payors. The Company has determined that disaggregating revenue into these categories achieves the disclosure objectives to depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. A reconciliation of disaggregated revenue to segment revenue as well as revenue by payor is provided in Note 6, *Business Segments*.

The Company's service specific revenue recognition policies are as follows:

Home Health Revenue

Medicare Revenue

Net service revenue is recorded under the Medicare prospective payment system based on a 60-day episode payment rate that is subject to adjustment based on certain variables including, but not limited to: (a) an outlier payment if the patient's care was unusually costly; (b) a low utilization adjustment if the number of visits was fewer than five; (c) a partial payment if the patient transferred to another provider or transferred from another provider before completing the episode; (d) a payment adjustment based upon the level of covered therapy services; (e) the number of episodes of care provided to a patient, regardless of whether the same home health provider provided care for the entire series of episodes; (f) changes in the base episode payments established by the Medicare program; (g) adjustments to the base episode payments for case mix and geographic wages; and (h) recoveries of overpayments.

The Company makes adjustments to Medicare revenue on completed episodes to reflect differences between estimated and actual payment amounts, an inability to obtain appropriate billing documentation and other reasons unrelated to credit risk. Therefore, the Company believes that its reported net service revenue and patient accounts receivable will be the net amounts to be realized from Medicare for services rendered.

In addition to revenue recognized on completed episodes, the Company also recognizes a portion of revenue associated with episodes in progress. Episodes in progress are 60-day episodes of care that begin during the reporting period, but were not completed as of the end of the period. As such, the Company estimates revenue and recognizes it on a daily basis. The primary factors underlying this estimate are the number of episodes in progress at the end of the reporting period, expected Medicare revenue per episode and the Company's estimate of the average percentage complete based on visits performed.

Non-Medicare Revenue

Episodic Based Revenue - The Company recognizes revenue in a similar manner as it recognizes Medicare revenue for episodic-based rates that are paid by other insurance carriers, including Medicare Advantage programs; however, these rates can vary based upon the negotiated terms.

Non-episodic Based Revenue - Revenue is recognized on an accrual basis based upon the date of service at amounts equal to its established or estimated per visit rates, as applicable.

Hospice Revenue

Revenue is recognized on an accrual basis based upon the date of service at amounts equal to the estimated payment rates. The estimated payment rates are daily rates for each of the levels of care the Company delivers. Revenue is adjusted for an inability to obtain appropriate billing documentation or authorizations acceptable to the payor and other reasons unrelated to credit risk. Additionally, as Medicare hospice revenue is subject to an inpatient cap and an overall payment cap, the Company monitors its provider numbers and estimates amounts due back to Medicare if a cap has been exceeded. The Company records these adjustments as a reduction to revenue and an increase to other accrued liabilities.

Senior Living Revenue

The Company has elected the lessor practical expedient within Topic 842 and recognizes, measures, presents, and discloses the revenue for services rendered under the Company's senior living residency agreements based upon the predominant component, either the lease or non-lease component, of the contracts. The Company has determined that the services included under the Company's senior living residency agreements each have the same timing and pattern of transfer. The Company recognizes revenue under Topic 606 for its senior residency agreements, for which it has determined that the non-lease components of such residency agreements are the predominant component of each such contract.

The Company's senior living revenue consists of fees for basic housing and assisted living care. Accordingly, we record revenue when services are rendered on the date services are provided at amounts billable to individual residents. Residency agreements are generally for a term of 30 days, with resident fees billed monthly in advance. For residents under reimbursement arrangements with Medicaid, revenue is recorded based on contractually agreed-upon amounts or rates on a per resident, daily basis or as services are rendered.

Revenue for the three months ended September 30, 2019 and 2018, is summarized in the following tables:

	Three Months Ended September 30,			
	2019		2018	
	Revenue	% of Revenue	Revenue	% of Revenue
Medicare	$ 37,413	42.3%	$ 30,048	41.2%
Medicaid	12,780	14.5	9,371	12.8
Total Medicaid and Medicare	50,193	56.8	39,419	54.0
Managed care	7,553	8.5	6,299	8.6
Private and other[(a)]	30,652	34.7	27,235	37.4
Revenue	$ 88,398	100.0%	$ 72,953	100.0%

(a) Private and other payors also includes revenue from all payors generated in home care operations for the three months ended September 30, 2019 and 2018.

Revenue for the nine months ended September 30, 2019 and 2018, is summarized in the following tables:

	Nine Months Ended September 30,			
	2019		2018	
	Revenue	% of Revenue	Revenue	% of Revenue
Medicare	$ 102,812	41.3%	$ 85,985	40.8%
Medicaid	34,317	13.8	26,062	12.4
Total Medicaid and Medicare	137,129	55.1	112,047	53.2
Managed care	21,428	8.6	18,197	8.6
Private and other[(a)]	90,482	36.3	80,477	38.2
Revenue	$ 249,039	100.0%	$ 210,721	100.0%

(a) Private and other payors also includes revenue from all payors generated in home care operations for the nine months ended September 30, 2019 and 2018.

Balance Sheet Impact

Included in the Company's condensed combined balance sheets are contract assets, comprised of billed accounts receivable and unbilled receivables, which are the result of the timing of revenue recognition, billings and cash collections, as well as, contract liabilities, which primarily represent payments the Company receives in advance of services provided. The Company had no

material contract liabilities as of September 30, 2019 and December 31, 2018, or activity during three and nine months ended September 30, 2019 and 2018.

Accounts receivable as of September 30, 2019 and December 31, 2018 is summarized in the following table:

	September 30, 2019	December 31, 2018
Medicare	$ 16,526	$ 11,457
Medicaid	7,172	6,692
Managed care	3,551	3,079
Private and other	4,045	3,857
Accounts receivable, gross	31,294	25,085
Less: allowance for doubtful accounts	(1,045)	(616)
Accounts receivable, net	$ 30,249	$ 24,469

Practical Expedients and Exemptions

As the Company's contracts with its patients have an original duration of one year or less, the Company uses the practical expedient applicable to its contracts and does not consider the time value of money. Further, because of the short duration of these contracts, the Company has not disclosed the transaction price for the remaining performance obligations as of the end of each reporting period or when the Company expects to recognize this revenue. In addition, the Company has applied the practical expedient provided by ASC 340, *Other Assets and Deferred Costs* ("Topic 340"), and all incremental customer contract acquisition costs are expensed as they are incurred because the amortization period would have been one year or less.

5. COMPUTATION OF NET INCOME PER COMMON SHARE

Basic and diluted net income per share are computed by dividing net income by the weighted average number of outstanding common shares during the period. Net income is equal to net income attributable to The Pennant Group, Inc. adjusted to include net income attributable to noncontrolling interest. Net income attributable to the noncontrolling interest has been included in the numerator for the historical periods prior to the spin-off as the non-controlling subsidiary interest included in the condensed combined financial statements was converted into common shares of Pennant concurrent with the distribution to Ensign stockholders at the date of the spin-off.

The weighted average common shares outstanding for basic and diluted net income per share for the periods presented is based on the number of shares of Pennant common stock outstanding on the distribution date. On October 1, 2019, the distribution date, Ensign stockholders received one share of Pennant common stock for every two shares of Ensign's common stock held as of the record date. The total shares distributed to the Ensign Group shareholders was 26,674. Additionally, concurrent with the Spin-Off the noncontrolling subsidiary interest converted into 1,160 shares of Pennant. The total number of common shares distributed on October 1, 2019 of 27,834 is being utilized for the calculation of basic and diluted earnings per share for all periods presented, as no common stock was outstanding prior to the date of the Spin-Off.

In conjunction with the spin-off, outstanding options and unvested restricted stock awards held by employees of the Company under the Ensign stock plans ("2007 Omnibus Incentive Plan" and "2017 Omnibus Incentive Plan" or collectively the "Ensign Plans") and the Company Subsidiary Equity Plan (together with the Ensign Plans the "Plans") were modified and replaced with Pennant awards. Additionally, the Company issued new options and restricted stock awards to Pennant and Ensign employees under the 2019 Omnibus Incentive Plan (the "OIP") and Long-Term Incentive Plan (the "LTIP") which were not included in the computation of basic and diluted earnings per share for any periods presented. Beginning in the fourth quarter, the dilutive impact of the outstanding options and equity incentive awards will be reflected in diluted net income per share using the treasury stock method. See further discussion at Note 15, *Subsequent Events*.

The following table sets forth the computation of basic and diluted net income per share for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Numerator:				
Net income attributable to The Pennant Group, Inc.	$ 1,524	$ 4,372	$ 6,345	$ 11,914
Add: net income attributable to noncontrolling interests	279	43	629	413
Net Income	$ 1,803	$ 4,415	$ 6,974	$ 12,327
Denominator:				
Adjusted weighted average common shares	27,834	27,834	27,834	27,834
Earnings Per Share:				
Basic and diluted net income per common share	$ 0.06	$ 0.16	$ 0.25	$ 0.44

6. BUSINESS SEGMENTS

The Company classifies its operations into the following reportable operating segments: (1) home health and hospice services, which includes the Company's home health, hospice and home care businesses; and (2) senior living services, which includes the operation of assisted living, independent living and memory care communities. The reporting segments are business units that offer different services and are managed separately to provide greater visibility into those operations.

As of September 30, 2019, the Company provided services through 63 affiliated home health, hospice and home care agencies, and 52 affiliated senior living operations.

The Company evaluates performance and allocates capital resources to each segment based on an operating model that is designed to maximize the quality of care provided and profitability. The Company's Service Center provides various services to all lines of business. The accounting policies of the reporting segments are the same as those described in Note 2*, Summary of Significant Accounting Policies.* The Company does not review assets by segment and therefore assets by segment are not disclosed below.

Beginning in the third quarter of 2019, in anticipation of the Spin-Off, the GAAP segment measure of profit and loss was changed from segment income (loss) before provision for income taxes to Adjusted Segment EBITDAR from Operations. Prior period presentation has been revised to reflect the new measurement.

Adjusted EBITDAR from Operations is Net Income attributable to the Company's reportable segments excluding the interest expense; provision for income taxes; depreciation and amortization expense; rent; start-up costs; acquisitions costs; and stock-based compensation expense. General and administrative expenses are not allocated to the reportable segments, accordingly the segment earnings measure reported is before allocation of corporate general and administrative expenses. The Company's CODM uses Adjusted EBITDAR from Operations as the primary measure of profit and loss for the Company's reportable segments and to compare the performance of its operations with those of its competitors. In order to view the operations performance on a comparable basis, the Company excludes from the EBITDAR calculations for the reportable segments the following: 1) costs at start-up operations, 2) share-based compensation, 3) acquisition related costs, and 4) transaction costs. Also, the Company's segment measures may be different from the calculation methods used by other companies and, therefore, comparability may be limited.

For the three and nine months ended September 30, 2019 and 2018, segment revenues by major payor source were as follows:

	Three Months Ended September 30, 2019			
	Home Health and Hospice Services	Senior Living Services	Total Revenue	Revenue %
Medicare	$ 37,413	$ —	$ 37,413	42.3%
Medicaid	5,156	7,624	12,780	14.5
Subtotal	42,569	7,624	50,193	56.8
Managed care	7,553	—	7,553	8.5
Private and other[(a)]	5,049	25,603	30,652	34.7
Total revenue	$ 55,171	$ 33,227	$ 88,398	100.0%

(a) Private and other payors in our home health and hospice services segment includes revenue from all payors generated in home care operations.

	Three Months Ended September 30, 2018			
	Home Health and Hospice Services	Senior Living Services	Total Revenue	Revenue %
Medicare	$ 30,048	$ —	$ 30,048	41.2%
Medicaid	3,193	6,178	9,371	12.8
Subtotal	33,241	6,178	39,419	54.0
Managed care	6,299	—	6,299	8.6
Private and other[(a)]	4,297	22,938	27,235	37.4
Total revenue	$ 43,837	$ 29,116	$ 72,953	100.0%

(a) Private and other payors in our home health and hospice services segment includes revenue from all payors generated in home care operations.

	Nine Months Ended September 30, 2019			
	Home Health and Hospice Services	Senior Living Services	Total Revenue	Revenue %
Medicare	$ 102,812	$ —	$ 102,812	41.3%
Medicaid	12,996	21,321	34,317	13.8
Subtotal	115,808	21,321	137,129	55.1
Managed care	21,428	—	21,428	8.6
Private and other[(a)]	14,260	76,222	90,482	36.3
Total revenue	$ 151,496	$ 97,543	$ 249,039	100.0%

(a) Private and other payors in our home health and hospice services segment includes revenue from all payors generated in home care operations.

	Nine Months Ended September 30, 2018			
	Home Health and Hospice Services	Senior Living Services	Total Revenue	Revenue %
Medicare	$ 85,985	$ —	$ 85,985	40.8%
Medicaid	8,951	17,111	26,062	12.4
Subtotal	94,936	17,111	112,047	53.2
Managed care	18,197	—	18,197	8.6
Private and other[(a)]	11,711	68,766	80,477	38.2
Total revenue	$ 124,844	$ 85,877	$ 210,721	100.0%

(a) Private and other payors in our home health and hospice services segment includes revenue from all payors generated in home care operations.

The following table presents certain financial information regarding our reportable segments, general and administrative expenses are not allocated to the reportable segments and are included in "All Other" for the three and nine months ended September 30, 2019 and 2018:

	Home Health and Hospice Services	Senior Living Services	All Other	Total
Three Months Ended September 30, 2019				
Revenue	$ 55,171	$ 33,227	$ —	$ 88,398
Segment Adjusted EBITDAR from Operations	$ 8,499	$ 11,574	$ (5,045)	$ 15,028
Three Months Ended September 30, 2018				
Revenue	$ 43,837	$ 29,116	$ —	$ 72,953
Segment Adjusted EBITDAR from Operations	$ 7,423	$ 11,499	$ (3,975)	$ 14,947

	Home Health and Hospice Services	Senior Living Services	All Other	Total
Nine Months Ended September 30, 2019				
Revenue	$ 151,496	$ 97,543	$ —	$ 249,039
Segment Adjusted EBITDAR from Operations	$ 23,873	$ 35,703	$ (14,524)	$ 45,052
Nine Months Ended September 30, 2018				
Revenue	$ 124,844	$ 85,877	$ —	$ 210,721
Segment Adjusted EBITDAR from Operations	$ 19,886	$ 34,774	$ (12,034)	$ 42,626

The following table reconciles the total Combined Adjusted EBITDAR from Operations for our reportable segments to Combined Income from Operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Total Combined Adjusted EBITDAR from Operations	$ 15,028	$ 14,947	$ 45,052	$ 42,626
Less: Depreciation and amortization	1,071	742	2,843	2,177
Rent—cost of services	8,538	7,776	25,368	23,065
Adjustments to Combined EBITDAR from Operations:				
Less: Costs at start-up operations [(a)]	60	56	377	92
Share-based compensation expense [(b)]	268	613	1,395	1,790
Acquisition related costs [(c)]	72	—	613	—
Spin-off related transaction costs [(d)]	3,372	—	8,020	—
Add: Net income attributable to noncontrolling interest	279	43	629	413
Combined Income from Operations	$ 1,926	$ 5,803	$ 7,065	$ 15,915

(a) Represents results related to start-up operations. This amount excludes rent, depreciation and amortization expense.
(b) Share-based compensation expense incurred.
(c) Acquisition related costs that are not capitalizable.
(d) Costs incurred related to the Spin-Off are included in general and administrative expense.

7. ACQUISITIONS

The Company's acquisition focus is to purchase or lease operations that are complementary to the Company's current businesses, accretive to the Company's business or otherwise advance the Company's strategy. The results of all the Company's operating subsidiaries are included in the Interim Financial Statements subsequent to the date of acquisition. Acquisitions are accounted for using the acquisition method of accounting.

During the nine months ended September 30, 2019, the Company expanded its operations with the addition of two home health agencies, five hospice agencies, two home care agencies and two stand-alone senior living operations. In connection with the acquisitions of one of the senior living communities, the Company entered into a new long-term "triple-net" lease with a subsidiary of Ensign. The Company did not acquire any material assets or assume any liabilities. A subsidiary of the Company

entered into a separate operations transfer agreement with the prior operator of each acquired operation as part of each transaction. The addition of these operations added a total of 143 operational senior living units to be operated by the Company's operating subsidiaries. The aggregate purchase price for these acquisitions was $18,780.

The fair value of assets for all home health, hospice and home care acquisitions was concentrated in goodwill and as such, these transactions were classified as business combinations in accordance with ASC Topic 805, *Business Combinations* ("Topic 805"). The purchase price for the business combinations was $18,760, which mostly consisted of goodwill of $10,341 and indefinite-lived intangible assets of $8,326. The fair value of assets for the senior living acquisitions were concentrated in intangible assets and as such, these transactions were classified as an asset acquisition. The purchase price for the asset acquisitions was $20. The Company anticipates that the majority of total goodwill recognized will be fully deductible for tax purposes as of September 30, 2019.

During the nine months ended September 30, 2018, the Company expanded its operations with the addition of two home health agencies, one hospice agency, one home care agency and two stand-alone senior living operations. In connection with the acquisition of these senior living communities, the Company entered into new long-term "triple-net" leases with subsidiaries of Ensign. The Company did not acquire any material assets or assume any liabilities. A subsidiary of the Company entered into a separate operations transfer agreement with the prior operator of each acquired operation as part of each transaction. The addition of these operations added a total of 74 operational senior living units to be operated by the Company's operating subsidiaries.The aggregate purchase price for these acquisitions was $2,023.

The fair value of assets for most home health, hospice and home care acquisitions was concentrated in goodwill and as such, these transactions were classified as business combinations in accordance with Topic 805. The purchase price for the business combinations was $1,625, which mostly consisted of goodwill of $1,007 and indefinite-lived intangible assets of $602. The fair value of assets for the remaining home health, hospice, home care, and all senior living acquisitions were concentrated in intangible assets and as such, these transactions were classified as an asset acquisition. The purchase price for the asset acquisitions was $398.

The Company's acquisition strategy has been focused on identifying both opportunistic and strategic acquisitions within its target markets that offer strong opportunities for return. The operating subsidiaries acquired by the Company are frequently underperforming financially and can have regulatory and clinical challenges to overcome. From time to time, these acquisitions are more strategic in nature that may or may not have positive operational results. Financial information, especially with underperforming operating subsidiaries, is often inadequate, inaccurate or unavailable. Consequently, the Company believes that prior operating results are not a meaningful representation of the Company's current operating results or indicative of the integration potential of its newly acquired operating subsidiaries. Revenue and income before tax included in the condensed combined statement of income relating to the business combinations was $6,489 and $1,023 during the three months ended September 30, 2019, respectively, and $9,930 and $1,573 during the nine months ended September 30, 2019, respectively. Acquisition costs related to the business combinations were $72 and $560 during the three and nine months ended September 30, 2019, respectively.

Pro forma financial information has been included for the businesses combinations during the nine months ended September 30, 2019. Business combinations during the nine months ended September 30, 2018 were deemed immaterial and as such, no pro forma financial information has been included. The acquisitions during the nine months ended September 30, 2019 have been included in the September 30, 2019 condensed combined balance sheets of the Company, and the operating results have been included in the condensed combined statements of income of the Company since the dates the Company gained effective control.

Revenues and operating costs were based on actual results from the prior operator or from regulatory filings where available. If actual results were not available, revenues and operating costs were estimated based on available partial operating results of the prior operator of the operation, or if no information was available, estimates were derived from the Company's post-acquisition operating results for that particular operation.

The unaudited pro forma information is not indicative of what the results of operations would have been if the business combinations had actually occurred at the beginning of the periods presented, and is not intended as a projection of future results or trends.

The following tables represent unaudited pro forma results of condensed combined operations as if the business combinations to date in fiscal year 2019 had occurred at the beginning of 2018, after giving effect to certain adjustments. The unaudited pro forma information is not indicative of what the results of operations would have been if the acquisitions had actually occurred at the beginning of the periods presented, and is not intended as a projection of future results or trends.

	Three Months Ended September 30,	
	2019	2018
Revenue	$ 88,800	$ 80,220
Net income attributable to The Pennant Group, Inc.[(a)]	$ 1,535	$ 4,930

(a) Net income attributable to The Pennant Group, Inc. for each of the three months ended September 30, 2019 and 2018 includes a tax impact of 25.2% and 25.0%, which are the respective statutory tax rates.

	Nine Months Ended September 30,	
	2019	2018
Revenue	$ 260,389	$ 232,523
Net income attributable to The Pennant Group, Inc.[(a)]	$ 6,949	$ 13,586

(a) Net income attributable to The Pennant Group, Inc. for each of the nine months ended September 30, 2019 and 2018 includes a tax impact of 25.2% and 25.0%, which are the respective statutory tax rates.

8. PROPERTY AND EQUIPMENT—NET

Property and equipment, net consist of the following:

	September 30, 2019	December 31, 2018
Leasehold improvements	$ 5,859	$ 4,299
Equipment	18,041	14,436
Furniture and fixtures	919	583
	24,819	19,318
Less: accumulated depreciation	(11,100)	(8,860)
Property and equipment, net	$ 13,719	$ 10,458

See also Note 7, *Acquisitions* for information on acquisitions during the nine months ended September 30, 2019.

9. GOODWILL AND INTANGIBLE ASSETS—NET

The Company tests goodwill during the fourth quarter of each year or more often if events or circumstances indicate there may be impairment. The Company performs its goodwill impairment analysis for each reporting unit that constitutes a business for which (1) discrete financial information is produced and reviewed by operating segment management and (2) provides services that are distinct from the other components of the operating segment, in accordance with the provisions of ASC Topic 350, *Intangibles-Goodwill and Other* ("Topic 350"). Topic 350 provides the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value, a "Step 0" analysis. If, based on a review of qualitative factors, it is more likely than not that the fair value of a reporting unit is less than its carrying value, the Company performs "Step 1" of the traditional two-step goodwill impairment test by comparing the net assets of each reporting unit to their respective fair values. The Company determines the estimated fair value of each reporting unit using a discounted cash flow analysis. In the event a unit's net assets exceed its fair value, an implied fair value of goodwill must be determined by assigning the unit's fair value to each asset and liability of the unit. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. An impairment loss is measured by the difference between the goodwill carrying value and the implied fair value.

The following table represents activity in goodwill by segment as of and for the nine months ended September 30, 2019:

	Home Health and Hospice Services	Senior Living Services	Total
December 31, 2018	$ 27,250	$ 3,642	$ 30,892
Additions	10,341	—	10,341
September 30, 2019	$ 37,591	$ 3,642	$ 41,233

Other indefinite-lived intangible assets consist of the following:

	September 30, 2019	December 31, 2018
Trade name	$ 355	$ 328
Medicare and Medicaid licenses	33,107	24,808
Total	$ 33,462	$ 25,136

Definite-lived intangible assets consist of the following:

		September 30, 2019			December 31, 2018		
Intangible Assets	Weighted Average Life (Years)	Gross Carrying	Accumulated Amortization	Net	Gross Carrying	Accumulated Amortization	Net
Patient base	0.7	$ 611	$ (607)	$ 4	$ 591	$ (573)	$ 18
Customer relationships	2.6	470	(421)	49	470	(410)	60
Total		$ 1,081	$ (1,028)	$ 53	$ 1,061	$ (983)	$ 78

Amortization expense was $45 and $86 for the nine months ended September 30, 2019 and 2018, respectively.

Estimated amortization expense for each of the periods ending December 31 is as follows:

Year	Amount
2019 (remainder)	$ 8
2020	14
2021	14
2022	14
2023	3
	$ 53

10. OTHER ACCRUED LIABILITIES

Other accrued liabilities consist of the following:

	September 30, 2019	December 31, 2018
Refunds payable	$ 2,109	$ 1,905
Deferred revenue	1,892	1,542
Resident deposits	6,317	6,310
Property taxes	1,200	932
Transaction costs	3,861	—
Other	2,280	1,682
Other accrued liabilities	$ 17,659	$ 12,371

Refunds payable includes payables related to overpayments, duplicate payments and credit balances from various payor sources. Deferred revenue occurs when the Company receives payments in advance of services provided. Resident deposits include refundable deposits to residents and a small portion consists of non-refundable deposits recognized into revenue over a period of time. Property taxes include amounts owed on our various properties. Transaction costs consist of costs incurred related to the Spin-Off.

11. INCOME TAXES

The Company recorded income tax expense of $123 and $91 during the three and nine months ended September 30, 2019, respectively, or 6.4% and 1.3% of earnings before income taxes. The Company recorded income tax expense of $1,388 and

$3,588 during the three and nine months ended September 30, 2018, respectively, or 23.9% and 22.5% of earnings before income taxes. The effective tax rate includes excess tax benefits from stock-based compensation which is offset by non-deductible expenses including non-deductible compensation. The rate is further impacted by transaction costs related to the Spin-Off that were deductible prior to completing the transaction on October 1, 2019.

The Company is not currently under examination by any material income tax jurisdiction. During 2019, the statutes of limitations will lapse on the Company's 2015 federal tax year and certain 2014 and 2015 state tax years. The Company does not believe the federal or state statute lapses or any other event will significantly impact the balance of unrecognized tax benefits in the next 12 months. The net balance of unrecognized tax benefits was not material to the Interim Financial Statements for the three and nine months ended September 30, 2019 and 2018.

12. OPTIONS AND AWARDS

Stockholders have approved the the Ensign and Subsidiary Equity Plans, which provide for the granting of equity-based compensation. Under the Plans, stock-based payment awards, including employee stock options and restricted stock awards, are issued based on estimated fair value. The following disclosures represent share-based compensation expense relating to the Plans, including awards to employees of the Company's subsidiaries and an allocation of costs from employees in the Service Center. Total share-based compensation expense for all of the Plans for the three and nine months ended September 30, 2019 and 2018:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Ensign Plans direct expense	$ 113	$ 121	$ 337	$ 366
Ensign Plans allocated expense	138	144	464	394
Subsidiary Equity Plan	17	348	594	1,030
Total share-based compensation	$ 268	$ 613	$ 1,395	$ 1,790

As share-based compensation expense recognized in the Company's condensed combined statements of income for the three and nine months ended September 30, 2019 and 2018 was based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. The Company estimates forfeitures at the time of grant and, if necessary, revises the estimate in subsequent periods if actual forfeitures differ.

The Company uses the Black-Scholes option-pricing model to recognize the value of stock-based compensation expense for share-based payment awards under the Plans. Determining the appropriate fair-value model and calculating the fair value of stock-based awards at the grant date requires considerable judgment, including estimating stock price volatility, expected option life and forfeiture rates. The Company develops estimates based on historical data and market information, which can change significantly over time.

The Ensign Plans

Stock Options

Under the Ensign Plans, options granted to employees of the subsidiaries of Pennant generally vest over five years at 20% per year on the anniversary of the grant date. Options expire ten years after the date of grant. The fair value of each option is estimated on the grant date using a Black-Scholes option-pricing model with the following weighted average assumptions for stock options granted:

Grant Year	Options Granted	Weighted Average Risk-Free Rate	Expected Life	Weighted Average Volatility	Weighted Average Dividend Yield
2019	5	1.5%	6.2	34.0%	0.4%
2018	11	2.8%	6.3	32.0%	0.5%

The expected volatility is based on the historical market volatility of Ensign's stock price over the expected life of the stock options granted. The expected life represents the period of time that the awards are expected to be outstanding and is based on the contractual terms of each instrument, taking into account employees' historical exercise and termination behavior.

For the nine months ended September 30, 2019 and 2018, the following represents the exercise price and fair value displayed at grant date for stock option grants:

Grant Year	Granted	Weighted Average Exercise Price	Weighted Average Fair Value of Options
2019	5	$ 53.50	$ 19.16
2018	11	$ 36.61	$ 12.73

The weighted average exercise price equaled the weighted average fair value of common stock on the grant date for all options granted during the nine months ended September 30, 2019 and 2018 and therefore, the intrinsic value was $0 at date of grant.

The following table represents the employee stock option activity during the nine months ended September 30, 2019:

	Number of Options Outstanding	Weighted Average Exercise Price	Number of Options Vested	Weighted Average Exercise Price of Options Vested
December 31, 2018	297	$ 15.94	182	$ 13.28
Employees transferred[(a)]	30	17.43		
Granted	5	53.50		
Forfeited	(9)	21.13		
Exercised	(100)	12.66		
September 30, 2019	223	$ 18.67	150	$ 15.12

(a) Represents awards to employees who have transferred between the Company and Ensign during the nine months ended September 30, 2019.

The following summary information reflects stock options outstanding, vested and related details as of September 30, 2019:

	Stock Options Outstanding				Stock Options
Year of Grant	Exercise Price	Number Outstanding	Black-Scholes Fair Value	Remaining Contractual Life (Years)	Vested and Exercisable
2009	$ 4.06 - $ 4.56	—	$ —	0	—
2010	4.77 - 4.96	2	6	1	2
2011	5.90 - 7.99	8	26	2	8
2012	6.56 - 7.96	12	46	3	13
2013	7.98 - 11.49	11	51	4	11
2014	10.55 - 18.94	67	406	5	64
2015	21.47 - 25.24	36	325	6	25
2016	18.79 - 19.89	40	269	7	17
2017	18.64 - 22.90	24	164	8	8
2018	26.53 38.59	18	223	9	2
2019	$53.50 $53.99	5	96	10	—
Total		223	$ 1,612		150

Restricted Stock Awards

All awards were granted at an issued price of $0 and generally vest over five years. A summary of the status of Ensign's non-vested restricted stock awards as of September 30, 2019, and changes during the period ended September 30, 2019, is presented

below:

	Non-Vested Restricted Awards	Weighted Average Grant Date Fair Value
December 31, 2018	21	$ 22.59
Employees transferred[(a)]	6	24.88
Vested	(7)	23.55
Forfeited	(1)	19.61
September 30, 2019	19	$ 24.23

(a) Represents non-vested awards related to employees who have transferred between the Company and Ensign during the nine months ended September 30, 2019.

In future periods, the Company expects to recognize approximately $570 and $471 in share-based compensation expense for unvested options and unvested restricted stock awards, respectively, which were outstanding as of September 30, 2019. Future share-based compensation expense will be recognized over 2.9 and 2.8 weighted average years for unvested options and restricted stock awards, respectively. There were 73 unvested and outstanding options at September 30, 2019, of which 68 are expected to vest. The weighted average contractual life for options outstanding, vested and expected to vest at September 30, 2019 was 5.7 years.

The aggregate intrinsic value of options outstanding, vested, expected to vest and exercisable as of and for the period ended September 30, 2019 is as follows:

Options	September 30, 2019	December 31, 2018
Outstanding	$ 6,433	$ 6,545
Vested	4,848	4,604
Expected to vest	1,586	1,941
Exercisable	4,123	2,263

The intrinsic value is calculated as the difference between the market value of the underlying common stock and the exercise price of the options.

Subsidiary Equity Plan

On May 26, 2016, Ensign implemented a management equity plan and granted stock options and restricted stock awards of a subsidiary of Ensign. These awards generally vest over a period of three to five years or upon the occurrence of certain prescribed events. The value of the stock options and restricted stock awards is tied to the value of the common stock of the subsidiary. The awards can be put to the Company at various prescribed dates, which in no event may be earlier than six months after vesting of the restricted stock or exercise of the stock options. The Company can also call the awards at any time. The Company did not grant any additional options or restricted stock awards during the nine months ended September 30, 2019 and granted 221 options during the nine months ended September 30, 2018. During both the nine months ended September 30, 2019 and 2018, there were 976 restricted stock awards that vested.

The grant date fair value of the awards is recognized as compensation expense over the relevant vesting periods, with a corresponding adjustment to noncontrolling interest. The grant value was determined based on independent valuation of the subsidiary shares close to the grant date. The valuation incorporated a discounted cash flow analysis combined with a market-based approach to determine the fair value of the subsidiary equity.

The following table represents stock options and restricted stock awards activity during the period ended September 30, 2019:

	Number of Options Outstanding	Weighted Average Exercise Price	Non-Vested Restricted Awards	Weighted Average Grant Date Fair Value
December 31, 2018	483	$ 1.83	996	$ 1.37
Vested	—	—	(976)	1.37
Forfeited	(32)	1.91	—	—
September 30, 2019	451	$ 1.83	20	$ 1.37

In future periods, the Company expects to recognize approximately $179 and $23 in share-based compensation expense for unvested options and unvested restricted stock awards, respectively, which were outstanding as of September 30, 2019. Future share-based compensation expense will be recognized over 3.1 and 1.6 weighted average years for unvested options and restricted stock awards, respectively. There were 163 vested and exercisable options at September 30, 2019. There were 288 unvested and outstanding options at September 30, 2019, all of which are expected to vest. The weighted average contractual life for options outstanding, vested and expected to vest at September 30, 2019 was 7.5 years.

During the nine months ended September 30, 2019 and 2018, the Company repurchased 534 and 865 shares of common stock, respectively, under the Subsidiary Equity Plan for $2,687 and $1,972, respectively. The Company subsequently sold the shares and received net proceeds of $2,293 and $1,972, respectively. The Company repurchased 65 and 865 shares of common stock under the Subsidiary Equity Plan for a total of $394 and $1,972 during the three months ended September 30, 2019 and 2018, respectively.

13. LEASES

The Company's operating subsidiaries lease 52 senior living communities and its administrative offices under non-cancelable operating leases, most of which have initial lease terms ranging from five to 20 years. Most of these leases contain renewal options, most involve rent increases and none contain purchase options. The lease term excludes lease renewals because the renewal rents are not at a bargain, there are no economic penalties for the Company to renew the lease, and it is not reasonably assured that the Company will exercise the extension options. As of September 30, 2019, the Company's operating subsidiaries leased 29 communities from subsidiaries of Ensign ("Ensign Leases"). The existing leases with subsidiaries of Ensign are for initial terms of 15 years. In addition to rent, each of the operating companies are required to pay the following: (1) all impositions and taxes levied on or with respect to the leased properties (other than taxes on the income of the lessor); (2) all utilities and other services necessary or appropriate for the leased properties and the business conducted on the leased properties; (3) all insurance required in connection with the leased properties and the business conducted on the leased properties; (4) all community maintenance and repair costs; and (5) all fees in connection with any licenses or authorizations necessary or appropriate for the leased properties and the business conducted on the leased properties.

Fifteen of the Company's affiliated senior living communities, excluding the communities that are operated under the Ensign Leases (as defined herein), are operated under two separate master lease arrangements. Under these master leases, a breach at a single community could subject one or more of the other communities covered by the same master lease to the same default risk. Failure to comply with Medicare and Medicaid provider requirements is a default under several of the Company's leases and master leases. In addition, other potential defaults related to an individual community may cause a default of an entire master lease portfolio and could trigger cross-default provisions in Ensign's outstanding debt arrangements and other leases. With an indivisible lease, it is difficult to restructure the composition of the portfolio or economic terms of the master lease without the consent of the landlord.

Impact of New Leases Guidance

The adoption of Topic 842 did not result in adjustments to the Company's condensed combined statements of income. The components of operating lease cost, are as follows:

	Three Months Ended September 30,	Nine Months Ended September 30,
	2019	2019
Operating Lease Costs:		
Facility Rent—cost of services	$ 7,813	$ 23,229
Office Rent—cost of services	725	2,139
Rent—cost of services[a]	$ 8,538	$ 25,368
General and administrative expense	39	101
Variable lease cost [b]	1,204	3,402

(a) Rent—cost of services includes the amortization of deferred rent of $42 and $175 for the three and nine months ended September 30, 2019. Rent—cost of services includes short-term leases, which are immaterial.
(b) Represents variable lease cost for operating leases. Includes property and insurance, common area maintenance, and consumer price index increases, incurred as part of our triple net lease, and is included in cost of services for the three and nine months ended September 30, 2019.

Future minimum lease payments for all leases as of September 30, 2019:

Year	Amount
2019 (remainder)	$ 8,359
2020	33,411
2021	32,973
2022	32,291
2023	31,897
2024	31,449
Thereafter	222,225
Total lease payments	392,605
Less: present value adjustments	(151,606)
Present value of total lease liabilities	240,999
Less: current lease liabilities	(13,611)
Long-term operating lease liabilities	$ 227,388

Operating lease liabilities are based on the net present value of the remaining lease payments over the remaining lease term. In determining the present value of lease payments, the Company used its incremental borrowing rate based on the information available at each lease's commencement date to determine each lease's operating lease liability. As of September 30, 2019, the weighted average remaining lease term is 12.4 years and the weighted average discount rate is 8.6%.The Company implemented Topic 842 as described in Note 2, *Summary of Significant Accounting Policies*.

Future minimum lease payments for all leases as of December 31, 2018 were as follows:

Year	Amount
2019	$ 33,055
2020	32,181
2021	31,625
2022	31,241
2023	30,896
Thereafter	243,333
Total lease payments	$ 402,331

On October 1, 2019, in connection with the Spin-Off, the Company amended its master lease agreements with Ensign and certain other landlords. These amendments modify the rental payments, the initial term or both. In accordance with Topic 842, the amended lease agreements are considered to be modified and subjected to lease modification guidance. The ROU asset and lease liabilities related to these agreements will be remeasured based on the change in the lease conditions such as rent payment and lease terms. The incremental borrowing rate will also be adjusted to mirror the revised lease terms which become effective at the date of the modification, which is the date of the Spin-Off. The Ensign Leases and new third-party master lease agreements have initial terms ranging between 14 and 16 years, with extension options and annual rent escalators based on changes in the consumer price index. Annual future minimum lease payments are expected to initially increase by approximately $3,600 due to the modifications.

14. COMMITMENTS AND CONTINGENCIES

Regulatory Matters - The Company provides services in complex and highly regulated industries. The Company's compliance with applicable federal, state and local laws and regulations governing these industries may be subject to governmental review and adverse findings may result in significant regulatory action, which could include sanctions, damages, fines, penalties (many of which may not be covered by insurance), and even exclusion from government programs. The Company is a party to various regulatory and other governmental audits and investigations in the ordinary course of business and cannot predict the ultimate outcome of any federal or state regulatory survey, audit or investigation. While governmental audits and investigations are the subject of administrative appeals, the appeals process, even if successful, may take several years to resolve. The Department of Justice, The Centers for Medicare and Medicaid Services ("CMS"), or other federal and state enforcement and regulatory agencies may conduct additional investigations related to the Company's businesses. The Company believes that it is presently in compliance in all material respects with all applicable laws and regulations.

Cost-Containment Measures - Government and third party payors have instituted cost-containment measures designed to limit payments made to providers of healthcare services, and there can be no assurance that future measures designed to limit payments made to providers will not adversely affect the Company.

Indemnities - From time to time, the Company enters into certain types of contracts that contingently require the Company to indemnify parties against third-party claims. These contracts primarily include (i) certain real estate leases, under which the Company may be required to indemnify property owners or prior operators for post-transfer environmental or other liabilities and other claims arising from the Company's use of the applicable premises, (ii) operations transfer agreements, in which the Company agrees to indemnify past operators of agencies and communities the Company acquires against certain liabilities arising from the transfer of the operation and/or the operation thereof after the transfer, (iii) certain Ensign lending agreements, and (iv) certain agreements with management, directors and employees, under which the subsidiaries of the Company may be required to indemnify such persons for liabilities arising out of their employment relationships. The terms of such obligations vary by contract and, in most instances, a specific or maximum dollar amount is not explicitly stated therein. Generally, amounts under these contracts cannot be reasonably estimated until a specific claim is asserted. Consequently, because no claims have been asserted, no liabilities have been recorded for these obligations on the Company's combined balance sheets for any of the periods presented.

Litigation - The Company's businesses involve a significant risk of liability given the age and health of the patients and residents served by its operating subsidiaries. The Company, its operating companies, and others in the industry may be subject to a number of claims and lawsuits, including professional liability claims, alleging that services provided have resulted in personal injury, elder abuse, wrongful death or other related claims. Healthcare litigation (including class action litigation) is common and is filed based upon a wide variety of claims and theories, and the Company is routinely subjected to these claims in the ordinary course of business, including potential claims related to patient care and treatment, professional negligence and class actions, as well as employment related claims. If there were a significant increase in the number of these claims or an increase in amounts owing should plaintiffs be successful in their prosecution of these claims, this could materially adversely affect the Company's business, financial condition, results of operations and cash flows. In addition, the defense of these lawsuits may result in significant legal costs, regardless of the outcome, and can result in large settlement amounts or damage awards.

In addition to the potential lawsuits and claims described above, the Company is also subject to potential lawsuits under the False Claims Act (the "FCA") and comparable state laws alleging submission of fraudulent claims for services to any healthcare program (such as Medicare) or payor. A violation may provide the basis for exclusion from federally-funded healthcare programs. Such exclusions could have a correlative negative impact on the Company's financial performance. Some states, including California, Arizona and Texas, have enacted similar whistleblower and false claims laws and regulations. In addition, the Deficit Reduction Act of 2005 created incentives for states to enact anti-fraud legislation modeled on the FCA. As such, the Company could face increased scrutiny, potential liability and legal expenses and costs based on claims under state false claims acts in markets in which it does conduct business.

In May 2009, Congress passed the Fraud Enforcement and Recovery Act ("FERA") which made significant changes to the FCA, expanding the types of activities subject to prosecution and whistleblower liability. Following changes by FERA, healthcare providers face significant penalties for the knowing retention of government overpayments, even if no false claim was involved. Providers can now be liable for knowingly and improperly avoiding or decreasing an obligation to pay money or property to the government; including the retention of any government overpayment. The Patient Protection and Affordable Care Act of 2010 (the "ACA") supplemented FERA by imposing an affirmative obligation on healthcare providers to return an overpayment to CMS within 60 days of "identification" or the date any corresponding cost report is due, whichever is later. According to CMS's February 12, 2016, final rule with respect to Medicare Parts A and B, providers have an obligation to proactively exercise "reasonable diligence" to identify overpayments. The 60 day clock begins to run after the reasonable diligence period has concluded, which may take, at most, six months from the receipt of credible information. Retention of any overpayment beyond this period may create liability under the FCA. In addition, FERA extended protections against retaliation for whistleblowers, including protections not only for employees, but also contractors and agents. Thus, there is generally no need for an employment relationship in order to qualify for protection against retaliation for whistleblowing.

The Company cannot predict or provide any assurance as to the possible outcome of any litigation. If any litigation were to proceed, and the Company and its operating companies are subjected to, alleged to be liable for, or agree to a settlement of, claims or obligations under federal Medicare statutes, the FCA, or similar state and federal statutes and related regulations, the Company's business, financial condition and results of operations and cash flows could be materially and adversely affected. Among other things, any settlement or litigation could involve the payment of substantial sums to settle any alleged civil violations, and may also include the assumption of specific procedural and financial obligations by the Company or its operating subsidiaries going forward under a corporate integrity agreement and/or other arrangement with the government.

Medicare Revenue Recoupments - The Company is subject to probe reviews relating to Medicare services, billings and potential overpayments by Unified Program Integrity Contractors (UPIC), Recovery Audit Contractors (RAC), Zone Program Integrity Contractors (ZPIC), Program Safeguard Contractors (PSC), Supplemental Medical Review Contractors (SMRC) and Medicaid Integrity Contributors (MIC) programs, each of the foregoing collectively referred to as "Reviews." As of September 30, 2019, seven of the Company's independent operating subsidiaries had Reviews scheduled, on appeal or in dispute resolution process, both pre- and post-payment. The Company anticipates that these probe reviews will increase in frequency in the future. If an operation fails an initial or subsequent Review, the operation could then be subject to extended Review, suspension of payment, or extrapolation of the identified error rate to all billing in the same time period. As of September 30, 2019, and through the filing of this Quarterly Report on Form 10-Q, the Company's independent operating subsidiaries have responded to the Reviews that are currently ongoing, on appeal or in dispute resolution process.

Concentrations

Credit Risk - The Company has significant accounts receivable balances, the collectability of which is dependent on the availability of funds from certain governmental programs, primarily Medicare and Medicaid. These receivables represent the only significant concentration of credit risk for the Company. The Company does not believe there are significant credit risks associated with these governmental programs. The Company believes that an appropriate allowance has been recorded for the possibility of these receivables proving uncollectible, and continually monitors and adjusts these allowances as necessary. The Company's gross receivables from the Medicare and Medicaid programs accounted for approximately 75.7% and 72.4% of its total gross accounts receivable as of September 30, 2019 and December 31, 2018, respectively. Revenue from reimbursement under the Medicare and Medicaid programs accounted for 56.8% and 55.1% of the Company's revenue for the three and nine months ended September 30, 2019, respectively and 54.0% and 53.2% of the Company's revenue for the three and nine months ended September 30, 2018, respectively.

15. SUBSEQUENT EVENTS

New Credit Agreement

On October 1, 2019, Pennant entered into the Credit Agreement (the "Credit Agreement"), which provides for a revolving credit facility with a syndicate of banks with a borrowing capacity of $75,000 (the "Revolving Credit Facility"). The interest rates applicable to loans under the Revolving Credit Facility are, at the Company's election, either LIBOR ("Adjusted LIBOR" as defined in the Credit Agreement) plus a margin ranging from 2.5% to 3.5% per annum or base rate plus a margin ranging from 1.5% to 2.5% per annum, in each case calculatedbased on the ratio of Consolidated Total Net Debt to Consolidated EBITDA (each, as defined in the Credit Agreement). In addition, Pennant will pay a commitment fee on the undrawn portion of the commitments under the Revolving Credit Facility that is estimated to be 0.6% per annum.

On October 1, 2019, we borrowed $30,000 under the Revolving Credit Facility. The proceeds of $28,700 from the issuance of indebtedness, net of financing costs of $1,300, were used to pay a dividend of $11,600 to Ensign; the remainder was used to pay spin-off related transaction costs and for general working capital purposes.

Spin-Off Related Agreements

On October 1, 2019, in connection with the Spin-Off, Pennant entered into several agreements with Ensign that set forth the principal actions taken or to be taken in connection with the Spin-Off and govern the relationship of the parties following the Spin-Off, including the following:

- Master Separation Agreement: the Company entered into a Master Separation Agreement with Ensign prior to the distribution of shares of the Company's common stock to Ensign stockholders. The Master Separation Agreement provides for the allocation of assets and liabilities between the Company and Ensign and establishes certain rights and obligations between the parties following the Distribution (the "Master Separation Agreement");

- Transition Services Agreement: provides that for a limited time, Ensign is to provide the Company, and the Company is to provide Ensign, with certain services to ensure an orderly transition following the spin-off, including: human resources, accounting, legal and compliance, IT, office facilities, and other general support. Generally, the term for the provision of services under the agreement extends for no longer than two years after the spin-off, subject to certain rights of the parties to extend the term for an additional five months. To the extent transition services are utilized during the first two years after the spin-off, the charges paid by the recipient for the services are generally provided at their market value. Subject to certain conditions, the services may be terminated by the service-receiving party or by mutual written consent (the "Transition Services Agreement");

- Tax Matters Agreement: provides that Pennant is responsible for indemnifying Ensign for a percentage of tax liabilities related to the spin-off and adjustments to the combined entity in the pre-distribution period (the "Tax Matters Agreement)?

- Employee Matters Agreement: governs the parties' obligations with respect to certain employee-related liabilities and certain employee benefit plans, programs, policies and other related matters for employees of Pennant (the "Employee Matters Agreement");

- Master Lease Agreement: provides for the owned real property and leased space allocated to Ensign or us, or in certain cases shared by Ensign and us, as the case may be, in a manner that is consistent with the different business uses and needs of Ensign and us (the "Master Lease Agreement").

Certain Equity Incentive Plans

Prior to the Spin-Off, employees of the Company participated in the Plans, including by receiving stock options and restricted stock awards. A full description of the Company's equity plans is made in Note 12, *Options and Awards*.

- *Conversion of the Plans*: In connection with the Spin-Off, outstanding equity awards related to the Ensign Plans and the Subsidiary Equity Plan held by Pennant employees were modified and replaced with awards of Pennant common stock depending on the awards, and adjusted to maintain the economic value before and after the distribution date using the relative fair market value of the Ensign and Pennant common stock.

- *Issuance of new equity awards:* In connection with the Spin-Off, the Company adopted the OIP and the LTIP . Options and awards were granted to Pennant employees and directors under the OIP. On October 1, 2019, Daniel H Walker received a grant of 1,193 restricted stock units under the OIP, which will vest on the first to occur of (i) the third anniversary of the consummation of the distribution if the participant is then employed by the Company, (ii) a Change in Control if then employed by the Company, or (iii) the termination of the participant's employment by the Company due to death, Disability (as defined in the OIP), or by the Company for any reason other than Cause (as defined in the RSU agreement). Restricted stock awards were also granted to certain Ensign employees and directors under the LTIP.

New Insurance Coverage

In connection with the Spin-off, the Company obtained stand-alone insurance policies to cover general and professional liability, workers compensation, and Directors and Officers liability.

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

You should read the following discussion and analysis in conjunction with our unaudited condensed combined financial statements and the related notes thereto contained in Part I, Item 1 of this Report. The information contained in this Quarterly Report on Form 10-Q is not a complete description of our business or the risks associated with an investment in our common stock. We urge you to carefully review and consider the various disclosures made by us in this Report and in our other reports filed with the Securities and Exchange Commission (SEC), including our Information Statement on Form 10 ("Information Statement", "Form 10"), which discusses our business and related risks in greater detail, as well as subsequent reports we may file from time to time on Forms 10-K, 10-Q and 8-K, for additional information. The section entitled "Risk Factors" filed within the Information Statement, describes some of the important risk factors that may affect our business, financial condition, results of operations and/or liquidity. You should carefully consider those risks, in addition to the other information in this Report and in our other filings with the SEC, before deciding to purchase, hold or sell our common stock.

The Pennant Group, Inc. ("Pennant" or the "Company") was formed on January 24, 2019, as a wholly-owned subsidiary of The Ensign Group, Inc. ("Ensign"), which completed a spin-off of the Company effective October 1, 2019. Following the spin-off, the Company holds, directly or through its subsidiaries, the home health and hospice agencies and substantially all of the senior living businesses of Ensign.

Special Note About Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995, that are based on our management's beliefs and assumptions and on information currently available to our management. Forward-looking statements include, but are not limited to, statements related to our expectations regarding the performance of our business, our financial results, our liquidity and capital resources, the benefits resulting from the Spin-Off, the effects of competition and the effects of future legislation or regulations and other non-historical statements. Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as the words "outlook," "believes," "expects," "outlook," "potential," "continues," "may," "might," "will," "should," "could," "seeks," "approximately," "goals," "future," "projects," "predicts," "guidance," "target," "intends," "plans," "estimates," "anticipates" or the negative version of these words or other comparable words.

The risk factors discussed in the Form 10 under the heading "Risk Factors," could cause our results to differ materially from those expressed in forward-looking statements. Factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to:

- federal and state changes to, or delays receiving, reimbursement and other aspects of Medicaid and Medicare;
- changes in the regulation of the healthcare services industry;
- increased competition for, or a shortage of, skilled personnel;
- government reviews, audits and investigations of our business;
- changes in federal and state employment related laws;
- compliance with state and federal employment, immigration, licensing and other laws;
- competition from other healthcare providers;
- actions of national labor unions;
- the leases of our affiliated senior living communities;
- inability to complete future community or business acquisitions and failure to successfully integrate acquired communities and businesses into our operations;
- general economic conditions;
- security breaches and other cyber security incidents;
- the performance of the financial and credit markets;
- uncertainties related to our ability to realize the anticipated benefits of the Spin-Off; and
- uncertainties related to our ability to obtain financing or the terms of such financing.

Forward-looking statements involve risks, uncertainties and assumptions. Actual results may differ materially from those expressed in these forward-looking statements. You should not place undue reliance on any forward-looking statements in this Quarterly Report on Form 10-Q. We do not have any obligation to update forward-looking statements after we distribute this Quarterly Report on Form 10-Q except as required by law.

Overview

We are a leading provider of high quality healthcare services to the growing senior population in the United States. We strive to be the provider of choice in the communities we serve through our innovative operating model. We operate in multiple lines of businesses including home health, hospice and senior living services across Arizona, California, Colorado, Idaho, Iowa, Nevada, Oklahoma, Oregon, Texas, Utah, Washington, Wisconsin and Wyoming. As of September 30, 2019, our home health and hospice business provided home health, hospice and home care services from 63 agencies operating across 13 states, and our senior living business operated 52 senior living communities throughout six states.

The following table summarizes our affiliated home health and hospice agencies and senior living communities as of:

	December 31,								September 30,
	2011	2012	2013	2014	2015	2016	2017	2018	2019
Cumulative number of home health and hospice agencies	7	10	16	25	32	39	46	54	63
Cumulative number of senior living communities	8	10	12	15	36	36	43	50	52
Cumulative number of senior living units	887	1,034	1,256	1,587	3,184	3,184	3,434	3,820	3,963
Total number of home health, hospice, and senior living operations	15	20	28	40	68	75	89	104	115

The Spin-Off Transactions

On October 1, 2019, Ensign completed the separation of Pennant (the "Spin-Off"). To accomplish the Spin-Off, Ensign contributed the Company's assets and liabilities into Pennant and distributed to Ensign's stockholders substantially all of the outstanding shares of Pennant common stock. Each Ensign stockholder received a distribution of one share of Pennant common stock for every two shares of Ensign's common stock plus cash in lieu of fractional shares. As a result of the Spin-Off on October 1, 2019, Pennant began trading as an independent publicly traded company on the NASDAQ under the symbol "PNTG."

We expect to benefit from a continuing relationship with Ensign, which will continue to be a holding company comprised of various post-acute businesses, including its skilled nursing, senior living and other ancillary operations in Arizona, California, Colorado, Idaho, Iowa, Kansas, Nebraska, Nevada, South Carolina, Texas, Utah, Washington and Wisconsin.

In connection with the Spin-Off, Pennant and Ensign entered the Transition Services Agreement where we will be providing Ensign with certain services, and Ensign will provide Pennant with certain services, for a two year period, subject to extension upon the agreement of the parties, following the distribution to help ensure an orderly transition. The services that are under the transition services agreement may include certain finance, information technology, human resources, employee benefits and other services.

Effective October 1, 2019, the Company amended its master lease agreements with Ensign and certain other landlords. These amendments modify the rental payments, the initial term or both. In accordance with Topic 842, the amended lease agreements are considered to be modified and subjected to lease modification guidance. The ROU asset and lease liabilities related to these agreements will be remeasured based on the change in the lease conditions such as rent payment and lease terms. The incremental borrowing rate will also be adjusted to mirror the revised lease terms which become effective at the date of the modification, which is the date of the Spin-Off. The Ensign Leases and new third-party master lease agreements have initial terms ranging between 14 and 16 years, with extension options and annual rent escalators based on changes in the consumer price index. Annual future minimum lease payments are expected to initially increase approximately $3.6 million due to the modifications.

See "Certain Relationships and Related Party Transactions—Agreements with Ensign Related to the Spin-Off," contained within the Information Statement as well as the Form 8-K filed with the SEC on October 3, 2019 for further discussion of the agreements entered into with the Spin-Off.

Recent Activities

Acquisitions - From January 1, 2019 through September 30, 2019, we expanded our operations through the acquisition of two stand-alone senior living operations, two home health agencies, five hospice agencies, and two home care agencies. We did not assume any liabilities. The addition of these operations added a total of 143 senior living units to be operated by our operating subsidiaries. We entered into a separate operations transfer agreement with the prior operator as part of each transaction. The aggregate purchase price for these acquisitions was $18.8 million. For further discussion of our acquisitions, see Note 7, *Acquisitions*, in the Notes to Interim Financial Statements.

Trends

When we acquire turnaround or start-up operations, we expect that our combined metrics may be impacted. We expect these metrics to vary from period to period based upon the maturity of the operations within our portfolio. We have generally experienced lower occupancy rates at our senior living communities and lower census at our home health and hospice agencies for recently acquired operations; as a result, we generally anticipate lower consolidated and segment margins during years of acquisition growth.

Regulation

On October 31, 2019, CMS issued its 2020 HH PPS final rule. The final rule implements the Patient-Driven Groupings Model (PDGM), a revised case mix adjustment methodology, for all home health episodes that begin on or after January 1, 2020. PDGM changes the unit of home health payment from a 60-day episode to a 30-day period and refines case mix calculation by removing therapy thresholds and adjusting reimbursement based on patient characteristics such as principal diagnoses and clinical grouping, functional impairment levels, comorbidities, and admission source and timing. CMS estimates the final rule will result in a $250 million (1.3%) increase in payments to home health providers in 2020, including a negative 4.36% behavioral change assumption. The final rule confirms that Requests for Anticipated Payment ("RAPs") will be phased out partially in 2020 and fully eliminated in 2021. With the support of our professional resource team, our local clinical and operational leaders have been preparing for this reimbursement change. While we could experience revenue headwinds related to the included behavioral assumptions and payment disruptions, we anticipate that we will offset any negative impact from PDGM through a mix of behavioral changes and a continued focus on cost control while producing optimal clinical outcomes.

Segments

We have two reportable segments: (1) home health and hospice services, which includes our home health, hospice and home care businesses; and (2) senior living services, which includes the operation of assisted living, independent living and memory care communities. Our reporting segments are business units that offer different services and that are managed separately to provide greater visibility into those operations.

Key Performance Indicators

We manage the fiscal aspects of our business by monitoring key performance indicators that affect our financial performance. These indicators and their definitions include the following:

Home Health and Hospice

- *Total home health admissions*. The total admissions of home health patients, including new acquisitions, new admissions, and readmissions.
- *Average Medicare revenue per completed 60-day home health episode.* The average amount of revenue for each completed 60-day home health episode generated from patients who are receiving care under Medicare reimbursement programs.
- *Average daily census.* The average number of patients who are receiving hospice care during any measurement period divided by the number of days during such measurement period.
- *Hospice Medicare revenue per day*. The average daily Medicare revenue recorded during any measurement period for services provided to hospice patients.

The following table summarizes our overall home health and hospice statistics for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Home health services:				
Total home health admissions	5,556	4,523	16,723	13,496
Average Medicare revenue per 60-day completed episode	$ 3,173	$ 3,001	$ 3,072	$ 2,968
Hospice services:				
Average daily census	1,788	1,379	1,625	1,310
Hospice Medicare revenue per day	$ 163	$ 159	$ 164	$ 160

Senior Living Services

- *Occupancy.* The ratio of actual number of days our units are occupied during any measurement period to the number of units available for occupancy during such measurement period.

- *Average monthly revenue per occupied unit*. The revenue for senior living services during any measurement period divided by actual occupied senior living units for such measurement period.

The following table summarizes our senior living statistics for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Occupancy	79.6%	80.0%	79.9%	79.1%
Average monthly revenue per occupied unit	$ 3,111	$ 3,032	$ 3,110	$ 3,046

Critical Accounting Policies and Estimates

A discussion of our critical accounting policies and estimates can be found in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Information Statement on Form 10. There were no material changes to these critical accounting estimates since the filing of our Information Statement on Form 10.

New Accounting Pronouncements

Please refer to Note 2, *Basis of Presentation and Summary of Significant Accounting Policies,* of the Interim Financial Statements included elsewhere in the Quarterly Report on Form 10-Q for discussion of new accounting pronouncements.

Results of Operations

The following table sets forth details of our revenue, expenses and earnings as a percentage of total revenue for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Total revenue	100.0%	100.0%	100.0%	100.0%
Expense:				
Cost of services	77.2	74.2	76.3	74.1
Rent—cost of services	9.7	10.7	10.2	10.9
General and administrative expense	9.7	6.1	9.5	6.4
Depreciation and amortization	1.2	1.0	1.2	1.0
Total expenses	97.8	92.0	97.2	92.4
Income from operations	2.2	8.0	2.8	7.6
Interest expense	—	—	—	—
Income before provision for income taxes	2.2	8.0	2.8	7.6
Provision for income taxes	0.2	1.9	—	1.7
Net income	2.0	6.1	2.8	5.9
Less: net income attributable to noncontrolling interest	0.3	0.1	0.3	0.2
Net income attributable to Pennant	1.7%	6.0%	2.5%	5.7%

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(In thousands)			
Combined GAAP Financial Measures:				
Total revenue	$ 88,398	$ 72,953	$ 249,039	$ 210,721
Total expenses	$ 86,472	$ 67,150	$ 241,974	$ 194,806
Income from operations	$ 1,926	$ 5,803	$ 7,065	$ 15,915

	Home Health and Hospice Services	Senior Living Services	All Other	Total
Segment GAAP Financial Measures:		(In thousands)		
Three Months Ended September 30, 2019				
Revenue	$ 55,171	$ 33,227	$ —	$ 88,398
Segment Adjusted EBITDAR from Operations	$ 8,499	$ 11,574	$ (5,045)	$ 15,028
Three Months Ended September 30, 2018				
Revenue	$ 43,837	$ 29,116	$ —	$ 72,953
Segment Adjusted EBITDAR from Operations	$ 7,423	$ 11,499	$ (3,975)	$ 14,947

	Home Health and Hospice Services	Senior Living Services	All Other	Total
Segment GAAP Financial Measures:		(In thousands)		
Nine Months Ended September 30, 2019				
Revenue	$ 151,496	$ 97,543	$ —	$ 249,039
Segment Adjusted EBITDAR from Operations	$ 23,873	$ 35,703	$ (14,524)	$ 45,052
Nine Months Ended September 30, 2018				
Revenue	$ 124,844	$ 85,877	$ —	$ 210,721
Segment Adjusted EBITDAR from Operations	$ 19,886	$ 34,774	$ (12,034)	$ 42,626

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(In thousands)			
Total Combined Adjusted EBITDAR from Operations[a]	$ 15,028	$ 14,947	$ 45,052	$ 42,626
Less: Depreciation and amortization	1,071	742	2,843	2,177
Rent—cost of services	8,538	7,776	25,368	23,065
Adjustments to Combined EBITDAR from Operations:				
Less: Costs at start-up operations[b]	60	56	377	92
Share-based compensation expense[c]	268	613	1,395	1,790
Acquisition related costs[d]	72	—	613	—
Spin-off related transaction costs[e]	3,372	—	8,020	—
Add: Net income attributable to noncontrolling interest	279	43	629	413
Combined Income from Operations	$ 1,926	$ 5,803	$ 7,065	$ 15,915

(a) Adjusted EBITDAR from Operations is Net Income attributable to the Company's reportable segments excluding the interest expense; provision for income taxes; depreciation and amortization expense; rent; start-up costs; acquisitions costs; and stock-based compensation expense. General and administrative expenses are not allocated to the reportable segments, accordingly the segment earnings measure reported is before allocation of corporate general and administrative expenses. The Company's CODM uses Adjusted EBITDAR from Operations as the primary measure of profit and loss for the Company's reportable segments and to compare the performance of its operations with those of its competitors. In order to view the operations performance, the Company excludes from the EBITDAR calculations for the reportable segments the following: 1) costs at start-up operations, 2) share-based compensation, 3) acquisition related costs, and 4) transaction costs. Also, the Company's segment measures may be different from the calculation methods used by other companies and, therefore, comparability may be limited.
(b) Represents results related to start-up operations. This amount excludes rent, depreciation and amortization expense.
(c) Share-based compensation expense incurred and included in cost of services.
(d) Acquisition related costs that are not capitalizable.
(e) Costs incurred related to the Spin-Off are included in general and administrative expense.

Performance and Valuation Measures:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(In thousands)			
Combined Non-GAAP Financial Measures:				
Performance Metrics				
Combined EBITDA	$ 2,718	$ 6,502	$ 9,279	$ 17,679
Combined Adjusted EBITDA	$ 6,494	$ 7,180	$ 19,697	$ 19,583
Valuation Metric				
Combined Adjusted EBITDAR	$ 15,028		$ 45,052	

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(In thousands)			
Segment Non-GAAP Measures:[a]				
Segment Adjusted EBITDA				
Home health and hospice services	$ 7,778	$ 6,850	$ 21,747	$ 18,237
Senior living services	$ 3,761	$ 4,305	$ 12,474	$ 13,380

(a) General and administrative expenses are not allocated to any segment for purposes of determining segment profit or loss.

The tables below reconciles Combined Net Income to Combined EBITDA, and Combined Adjusted EBITDAR for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(In thousands)			
Combined Net income	$ 1,803	$ 4,415	$ 6,974	$ 12,327
Less: Net income attributable to noncontrolling interest	279	43	629	413
Add: Provision for income taxes (benefit)	123	1,388	91	3,588
Depreciation and amortization	1,071	742	2,843	2,177
Combined EBITDA	2,718	6,502	9,279	17,679
Adjustments to Combined EBITDA				
Add: Costs at start-up operations[(a)]	60	56	377	92
Share-based compensation expense[(b)]	268	613	1,395	1,790
Acquisition related costs[(c)]	72	—	613	—
Spin-off related transaction costs[(d)]	3,372	—	8,020	—
Rent related to items (a) above	4	9	13	22
Combined Adjusted EBITDA	6,494	7,180	19,697	19,583
Rent—cost of services	8,538	7,776	25,368	23,065
Rent related to items (a) above	(4)	(9)	(13)	(22)
Adjusted rent—cost of services	8,534	7,767	25,355	23,043
Combined Adjusted EBITDAR	$ 15,028		$ 45,052	

(a) Represents results related to start-up operations. This amount excludes rent, depreciation and amortization expense.
(b) Share-based compensation expense incurred.
(c) Acquisition related costs that are not capitalizable.
(d) Costs incurred related to the Spin-Off are included in general and administrative expense.

The tables below reconcile Segment Adjusted EBITDAR from Operations to Segment Adjusted EBITDA for the periods presented:

	Three Months Ended September 30,			
	Home Health and Hospice		Senior Living	
	2019	2018	2019	2018
	(In thousands)			
Segment Adjusted EBITDAR from Operations	$ 8,499	7,423	$ 11,574	$ 11,499
Less: Rent—cost of services	725	582	7,813	7,194
Rent related to start-up operations	(4)	(9)	—	—
Segment Adjusted EBITDA	$ 7,778	$ 6,850	$ 3,761	$ 4,305

	Nine Months Ended September 30,			
	Home Health and Hospice		Senior Living	
	2019	2018	2019	2018
	(In thousands)			
Segment Adjusted EBITDAR from Operations	$ 23,873	$ 19,886	$ 35,703	$ 34,774
Less: Rent—cost of services	2,139	1,671	23,229	21,394
Rent related to start-up operations	(13)	(22)	—	—
Segment Adjusted EBITDA	$ 21,747	$ 18,237	$ 12,474	$ 13,380

The following discussion includes references to certain performance and valuation measures, which are non-GAAP financial measures including Combined EBITDA, Combined and Segment Adjusted EBITDA, and Combined Adjusted EBITDAR

(collectively, "Non-GAAP Financial Measures"). Non-GAAP Financial Measures are used in addition to and in conjunction with results presented in accordance with GAAP, and should not be relied upon to the exclusion of GAAP financial measures. Non-GAAP Financial Measures reflect an additional way of viewing aspects of our operations and company that, when viewed with our GAAP results and the accompanying reconciliations to corresponding GAAP financial measures, we believe can provide can provide a more comprehensive understanding of factors and trends affecting our business.

We believe these Non-GAAP Financial Measures are useful to investors and other external users of our financial statements regarding our results of operations because:

- they are widely used by investors and analysts in our industry as a supplemental measure to evaluate the overall performance of companies in our industry without regard to items such as interest expense, rent expense and depreciation and amortization, which can vary substantially from company to company depending on the book value of assets and the method by which assets were acquired; and
- they help investors evaluate and compare the results of our operations from period to period by removing the impact of our asset base from our operating results.
- in the case of Combined Adjusted EBITDAR, the valuation metric is used by investors and analysts in our industry to value the companies in our industry without regard to capital structures.

We use Non-GAAP Financial Measures:

- as measurements of our operating performance to assist us in comparing our operating performance on a consistent basis;
- to allocate resources to enhance the financial performance of our business;
- to assess the value of a potential acquisition;
- to assess the value of a transformed operation's performance;
- to evaluate the effectiveness of our operational strategies; and
- to compare our operating performance to that of our competitors.

We typically use Non-GAAP Financial Measures to compare the operating performance of each operation. We find that Non-GAAP Financial Measures are useful for this purpose because they do not include such costs as interest expense, income taxes, depreciation and amortization expense, which may vary from period-to-period depending upon various factors, including the method used to finance operations, the date of acquisition of a community or business, and the tax law of the state in which a business unit operates.

We also establish compensation programs and bonuses for our leaders that are partially based upon the achievement of Combined Adjusted EBITDAR targets.

Non-GAAP Financial Measures have no standardized meaning defined by GAAP. Therefore, our Non-GAAP Financial Measures have limitations as analytical tools, and they should not be considered in isolation, or as a substitute for analysis of our results as reported in accordance with GAAP. Some of these limitations are:

- they do not reflect our current or future cash requirements for capital expenditures or contractual commitments;
- they do not reflect changes in, or cash requirements for, our working capital needs;
- they do not reflect the net interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;
- they do not reflect rent expenses, which are normal and recurring operating expenses that are necessary to operate our leased operations, in the case of Combined Adjusted EBITDAR;
- they do not reflect any income tax payments we may be required to make;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and do not reflect any cash requirements for such replacements; and
- other companies in our industry may calculate the same Non-GAAP Financial Measures differently than we do, which may limit their usefulness as comparative measures.

We compensate for these limitations by using Non-GAAP Financial Measures only to supplement net income on a basis prepared in accordance with GAAP in order to provide a more complete understanding of the factors and trends affecting our business.

Management strongly encourages investors to review our Interim Financial Statements in their entirety and to not rely on any single financial measure. Because these Non-GAAP Financial Measures are not standardized, it may not be possible to compare these financial measures with other companies' non-GAAP financial measures having the same or similar names. These Non-GAAP Financial Measures should not be considered a substitute for, nor superior to, financial results and measures determined

or calculated in accordance with GAAP. We strongly urge you to review the reconciliation of income from operations to the Non-GAAP Financial Measures in the table below, along with our Interim Financial Statements and related notes included elsewhere in this report.

We use the following Non-GAAP Financial Measures that we believe are useful to investors as key valuation and operating performance measures:

Performance Measures:

Combined EBITDA

We believe Combined EBITDA is useful to investors in evaluating our operating performance because it helps investors evaluate and compare the results of our operations from period to period by removing the impact of our asset base (depreciation and amortization expense) from our operating results.

We calculate Combined EBITDA as net income, adjusted for net income attributable to noncontrolling interest, before (a) interest expense (b) provision for income taxes and (c) depreciation and amortization.

Combined Adjusted EBITDA

We adjust Combined EBITDA when evaluating our performance because we believe that the exclusion of certain additional items described below provides useful supplemental information to investors regarding our ongoing operating performance. We believe that the presentation of Combined Adjusted EBITDA, when considered with Combined EBITDA and GAAP net income attributable to us is beneficial to an investor's complete understanding of our operating performance.

We calculate Combined Adjusted EBITDA by adjusting Combined EBITDA to exclude the effects of non-core business items, which for the reported periods includes, to the extent applicable:

- costs at start-up operations;
- share-based compensation expense;
- acquisition related costs; and
- spin-off related transaction costs.

Segment Adjusted EBITDA

We adjust Segment Adjusted EBITDAR when evaluating our performance because we believe that the inclusion of rent-cost of services provides useful supplemental information to investors regarding our ongoing operating performance.

We calculate Segment Adjusted EBITDA by adjusting Segment Adjusted EBITDAR to include rent-cost of services.

***Valuation Measure*:**

Combined Adjusted EBITDAR

We use Combined Adjusted EBITDAR as one measure in determining the value of prospective acquisitions. It is also a measure commonly used measure by our management, research analysts and investors, to compare the enterprise value of different companies in the healthcare industry, without regard to differences in capital structures and leasing arrangements. Additionally, we believe the use of Combined Adjusted EBITDAR allows management, research analysts and investors to compare operational results of companies that have operating and finance leases. A significant portion of finance lease expenditures are recorded in interest, whereas operating lease expenditures are recorded in rent expense.

This measure is not displayed as a performance measure as it excludes rent expense, which is a normal and recurring operating expense. This measure does not reflect our cash requirements for leasing commitments. As such, our presentation of Combined Adjusted EBITDAR, should not be construed as a financial performance measure.

The adjustments made and previously described in the computation of Combined Adjusted EBITDAR are also made when computing Combined Adjusted EBITDAR. We calculate Combined Adjusted EBITDAR by excluding rent-cost of services and rent related to start up operations from Combined Adjusted EBITDA.

Three Months Ended September 30, 2019 Compared to the Three Months Ended September 30, 2018

Revenue

	Three Months Ended September 30,			
	2019		2018	
	Revenue Dollars	Revenue Percentage	Revenue Dollars	Revenue Percentage
	(In thousands)			
Home health and hospice services				
Home health[(a)]	$ 21,307	24.1%	$ 18,323	25.1%
Hospice	29,188	33.0	21,577	29.6
Home care and other[(a)]	4,676	5.3	3,937	5.4
Total home health and hospice services	55,171	62.4	43,837	60.1
Senior living services	33,227	37.6	29,116	39.9
Total revenue	$ 88,398	100.0%	$ 72,953	100.0%

(a) Home care and other revenue is included with home health revenue in other disclosures in this report.

Our combined revenue increased $15.4 million, or 21.2%. Revenue from operations acquired on or subsequent to October 1, 2018 increased our combined revenue by $10.1 million or 13.8% during the three months ended September 30, 2019 when compared to the same period in 2018.

Home Health and Hospice Services

	Three Months Ended September 30,			
	2019	2018	Change	% Change
	(In thousands)			
Home health and hospice revenue:				
Home health services	$ 21,307	$ 18,323	$ 2,984	16.3%
Hospice services	29,188	21,577	7,611	35.3
Home care and other	4,676	3,937	739	18.8
Total home health and hospice revenue	$ 55,171	$ 43,837	$ 11,334	25.9%
Home health services:				
Total home health admissions	5,556	4,523	1,033	22.8%
Average Medicare revenue per 60-day completed episode	$ 3,173	$ 3,001	$ 172	5.7
Hospice services:				
Average daily census	1,788	1,379	409	29.7
Hospice Medicare revenue per day	$ 163	$ 159	$ 4	2.5
Number of agencies at period end	63	50	13	26.0%

Home health and hospice revenue increased $11.3 million, or 25.9%. Medicare and managed care revenue increased $8.6 million, or 23.7%. The increase in revenue is due to growth in all key metrics listed above, and primarily driven by increases in total home health admissions of 22.8% and average daily census of 29.7%. Further revenue growth from operations acquired on or subsequent to October 1, 2018 increased our revenue by $6.8 million or 15.6% during the three months ended September 30, 2019 from the addition of thirteen home health, hospice and home care operations.

Senior Living Services

	Three Months Ended September 30,			
	2019	2018	Change	% Change
	(In thousands)			
Revenue	$ 33,227	$ 29,116	$ 4,111	14.1%
Number of communities at period end	52	45	7	15.6%
Occupancy percentage (units)	79.6%	80.0%	(0.4)%	
Average monthly revenue per occupied unit	$ 3,111	$ 3,032	$ 79	2.6%

Senior living revenue increased $4.1 million, or 14.1%, for the three months ended September 30, 2019 when compared to the same period in the prior year. This is due primarily to an increase of $3.3 million or 11.5% in revenue from the addition of seven senior living operations acquired on or subsequent to October 1, 2018.

Cost of Services

The following table sets forth total cost of services by each of our reportable segments for the periods indicated:

	Cost of Services	
	Three Months Ended September 30, 2019	
	2019	2018
	(In thousands)	
Home Health and Hospice	$ 46,570	$ 36,478
Senior Living	21,716	17,689
Total cost of services	$ 68,286	$ 54,167

Combined cost of services increased $14.1 million or 26.1%. Combined cost of services as a percentage of revenue increased by 3.0% to 77.2% compared to the three months ended September 30, 2018.

Home Health and Hospice Services

	Three Months Ended September 30, 2019			
	2019	2018	Change	% Change
	(In thousands)			
Cost of service	$ 46,570	$ 36,478	$ 10,092	27.7%
Cost of services as a percentage of revenue	84.4%	83.2%	1.2%	

Cost of services related to our home health and hospice services segment increased $10.1 million, or 27.7%, primarily due to increased volume and higher operating costs related to acquisitions.

Senior Living Services

	Three Months Ended September 30,			
	2019	2018	Change	% Change
	(In thousands)			
Cost of service	$ 21,716	$ 17,689	$ 4,027	22.8%
Cost of services as a percentage of revenue	65.4%	60.8%	4.6%	

Cost of services related to our senior living services segment increased $4.0 million, or 22.8% and by 4.6% as a percent of revenue as a result of the increase in costs associated with newly acquired communities and additional field-based resources to support our growing infrastructure. Our acquisition focus is to opportunistically acquire underperforming operations. Historically, we generally experienced higher cost of services at newly acquired operations; and therefore, we anticipate fluctuation in cost of services as a percentage of revenue during years of acquisition growth.

Rent - Cost of Services. While actual rent increased from $7.8 million in the three months ended September 30, 2018 to $8.5 million in the three months ended September 30, 2019, rent as a percentage of total revenue decreased by 1.0% to 9.7% in the three months ended September 30, 2019 compared to the three months ended September 30, 2018, as the growth in revenue outpaced the increase in rent expense.

General and Administrative Expense. Our general and administrative expense increased from 6.1% to 9.7%, or from $4.5 million to $8.6 million in the three months ended September 30, 2019, primarily due to an increase in transaction related costs of $3.4 million or 3.8%. Without the transaction costs related to the Spin-Off, general and administrative expense as a percentage of revenue would have slightly decreased. Additionally, in the three months ended September 30, 2019, general and administrative expenses of $0.3 million were incurred as additions to the Company's ongoing cost structure in support of being a public company. The majority of general and administrative expenses relate to cost allocations for certain shared services provided to us by Ensign subsidiaries. Such allocations include, but are not limited to, executive management, accounting, human resources, information technology, compliance, legal, payroll, insurance, tax, treasury, and other general and administrative items. These costs were allocated to us on a basis of revenue, location, employee count, or other measures.

Depreciation and Amortization. Depreciation and amortization expense remained flat as a percentage of total revenue.

Provision for Income Taxes. Income tax expense recorded for the three months ended September 30, 2019 reflects tax benefits of approximately $0.4 million from share-based payment awards that were partially offset by non-deductible items. See *Note 11, Income Taxes*, to the Interim Financial Statements included elsewhere in this Quarterly Report on Form 10-Q for further discussion.

Nine Months Ended September 30, 2019 Compared to the Nine Months Ended September 30, 2018

Revenue

	Nine Months Ended September 30,			
	2019		2018	
	Revenue Dollars	Revenue Percentage	Revenue Dollars	Revenue Percentage
	(In thousands)			
Home health and hospice services				
Home health[(a)]	$ 61,532	24.7%	$ 53,196	25.2%
Hospice	76,866	30.8	61,079	29.0
Home care and other[(a)]	13,098	5.3	10,569	5.0
Total home health and hospice services	151,496	60.8	124,844	59.2
Senior living services	97,543	39.2	85,877	40.8
Total revenue	$ 249,039	100.0%	$ 210,721	100.0%

(a) Home care and other revenue is included with home health revenue in other disclosures in this report.

Our combined revenue increased $38.4 million, or 18.2%. Revenue from operations acquired on or subsequent to October 1, 2018 increased our combined revenue by $19.9 million or 9.4% during the nine months ended September 30, 2019 when compared to the same period in 2018.

Home Health and Hospice Services

	Nine Months Ended September 30,			
	2019	2018	Change	% Change
	(In thousands)			
Home health and hospice revenue				
Home health services	$ 61,532	$ 53,196	$ 8,336	15.7%
Hospice services	76,866	61,079	15,787	25.8
Home care and other	13,098	10,569	2,529	23.9
Total home health and hospice revenue	$ 151,496	$ 124,844	$ 26,652	21.3%
Home health services:				
Total home health admissions	16,723	13,496	3,227	23.9%
Average Medicare Revenue per 60-day Completed Episode	$ 3,072	$ 2,968	$ 104	3.5
Hospice services:				
Average daily census	1,625	1,310	315	24.0
Hospice Medicare revenue per day	$ 164	$ 160	$ 4	2.5
Number of agencies at period end	63	50	13	26.0%

Home health and hospice revenue increased $26.7 million, or 21.3%. Medicare and managed care revenue increased $20.1 million, or 19.3%. The increase in revenue is due to growth in all key metrics listed above, and primarily driven by increases in total home health admissions of 23.9% and average daily census of 24.0%. Further growth was driven by an increase of $11.1 million or 8.9% from the addition of thirteen home health, hospice and home care operations between October 1, 2018 and September 30, 2019.

Senior Living Services

	Nine Months Ended September 30,			
	2019	2018	Change	% Change
	(In thousands)			
Revenue	$ 97,543	$ 85,877	$ 11,666	13.6%
Number of communities at period end	52	45	7	15.6%
Occupancy percentage (units)	79.9%	79.1%	0.8%	
Average monthly revenue per occupied unit	$ 3,110	$ 3,046	$ 64	2.1%

Senior living revenue increased $11.7 million, or 13.6%, for the nine months ended September 30, 2019 when compared to the same period in the prior year. We experienced an increase in occupancy of 0.8%, coupled with an increase of $8.8 million or 10.3% in revenue from the addition of seven senior living operations acquired between October 1, 2018 and September 30, 2019.

Cost of Services

The following table sets forth total cost of services by each of our reportable segments for the periods indicated:

	Cost of Services	
	Nine Months Ended September 30,	
	2019	2018
	(In thousands)	
Home Health and Hospice	$ 128,013	$ 104,782
Senior Living	62,040	51,326
Total cost of services	$ 190,053	$ 156,108

Combined cost of services increased $33.9 million or 21.7%. Combined cost of services as a percentage of revenue increased by 2.2% to 76.3% compared to the nine months ended September 30, 2018.

Home Health and Hospice Services

	Nine Months Ended September 30,			
	2019	2018	Change	% Change
	(In thousands)			
Cost of service	$ 128,013	$ 104,782	$ 23,231	22.2%
Cost of services as a percentage of revenue	84.5%	83.9%	0.6%	

Cost of services related to our home health and hospice services segment increased $23.2 million, or 22.2%, primarily due to increased volume as well higher costs related to acquisitions. Included in cost of services is a one-time broker fee of $0.4 million related to new agencies acquired in the current period. Without this fee, cost of services would have been 84.2%, an increased of 0.3%.

Senior Living Services

	Nine Months Ended September 30,			
	2019	2018	Change	% Change
	(In thousands)			
Cost of service	$ 62,040	$ 51,326	$ 10,714	20.9%
Cost of services as a percentage of revenue	63.6%	59.8%	3.8%	

Cost of services related to our senior living services segment increased $10.7 million, or 20.9%, and by 3.8% as a percent of revenue as a result of the increase in costs associated with newly acquired communities and additional field-based resources to support our growing infrastructure. Our acquisition focus is to opportunistically acquire underperforming operations. Historically, we generally experienced higher cost of services at newly acquired operations; and therefore, we anticipate fluctuation in cost of services as a percentage of revenue during years of acquisition growth.

Rent - Cost of Services. While actual rent increased from $23.1 million in the nine months ended September 30, 2018 to $25.4 million in the nine months ended September 30, 2019, rent as a percentage of total revenue decreased by 0.7% to 10.2% in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018, as the growth in revenue outpaced the increase in rent expense.

General and Administrative Expense. Our general and administrative expense increased from 6.4% to 9.5%, or from $13.5 million to $23.7 million, primarily due to an increase in transaction related costs of $8.0 million or 3.2%. Without the transaction costs related to the Spin-Off, general and administrative expense as a percentage of revenue would have slightly

decreased. Additionally, in the nine months ended September 30, 2019, general and administrative expenses of $0.6 million were incurred as additions to the Company's ongoing cost structure in support of being a public company. The majority of general and administrative expenses relate to cost allocations for certain shared services provided to us by Ensign subsidiaries. Such allocations include, but are not limited to, executive management, accounting, human resources, information technology, compliance, legal, payroll, insurance, tax, treasury, and other general and administrative items. These costs were allocated to us on a basis of revenue, location, employee count, or other measures.

Depreciation and Amortization. Depreciation and amortization expense remained relatively flat as a percentage of total revenue.

Provision for Income Taxes. Income tax expense recorded for the nine months ended September 30, 2019 reflects tax benefits of approximately $1.7 million from share-based payment awards that were partially offset by non-deductible items. The rate is further impacted by transaction costs related to the Spin-Off that were deductible prior to completing the transaction on October 1, 2019.

See *Note 11, Income Taxes*, to the Interim Financial Statements included elsewhere in this report filed on Form 10-Q for further discussion.

The transaction costs related to the Spin-Off in general and administrative expense were deductible for tax purposes before the Spin-Off occurred. However, with the completion of the Spin-Off during the fourth quarter, a significant portion of those costs will likely be permanently nondeductible. We anticipate the nondeductible portion of the costs incurred in connection with the Spin-Off to date could increase the effective tax rate by between 15% and 25% in the fourth quarter.

Liquidity and Capital Resources

The cash presented in the combined balance sheets represents cash located at our operations. No cash was allocated to us in the Interim Financial Statements because the net activity of cash due to (from) Ensign is reflected in the net parent investment. Following the Spin-Off, we will no longer participate in a cash management arrangement with Ensign. Our principal sources of liquidity following the Spin-Off will be our cash on hand, our ability to generate cash through operations, and any available funding arrangements and financing facilities we enter into.

New Credit Agreement

Subsequent to the period ended September 30, 2019, on October 1, 2019, Pennant entered into a credit agreement (the "Credit Agreement"), which provides for a revolving credit facility with a syndicate of banks with a borrowing capacity of $75.0 million (the "Revolving Credit Facility"). The interest rates applicable to loans under the Revolving Credit Facility are, at the Company's election, either LIBOR ("Adjusted LIBOR" as defined in the Credit Agreement) plus a margin ranging from 2.5% to 3.5% per annum or Base Rate plus a margin ranging from 1.5% to 2.5% per annum, in each case based on the ratio of Consolidated Total Net Debt to Consolidated EBITDA (each, as defined in the Credit Agreement). In addition, Pennant will pay a commitment fee on the undrawn portion of the commitments under the Revolving Credit Facility that is estimated to be 0.6% per annum.

The Revolving Credit Facility will not be subject to interim amortization and the Company will not be required to repay any loans under the Revolving Credit Facility prior to maturity in 2024. The Company will be permitted to prepay all or any portion of the loans under the Revolving Credit Facility prior to maturity without premium or penalty, subject to reimbursement of any LIBOR breakage costs of the lenders.

In connection with the Spin-Off, we incurred outstanding indebtedness of $30.0 million. The amount reflects proceeds from issuance of indebtedness under the Revolving Credit Facility, including approximately $1.3 million in financing cost. The proceeds from the issuance of indebtedness were used to pay a dividend to Ensign of $11.6 million as well as spin-off related transaction costs and for general working capital purposes.

We believe that our existing cash, cash equivalents, cash generated through operations and our access to financing facilities, together with funding through third-party sources such as commercial banks, will be sufficient to fund our operating activities, anticipated capital expenditures and growth needs.

New Insurance Coverage

In connection with the Spin-off, the Company obtained stand-alone insurance policies to cover general and professional liability, workers compensation, and Directors and Officers liability. We believe the change in insurance coverage will not materially impact our cost of service or general and administrative cost structure.

The following table presents selected data from our combined statement of cash flows for the periods presented:

	Nine Months Ended September 30,	
	2019	2018
	(In thousands)	
Net cash provided by operating activities	$ 12,196	$ 16,202
Net cash used in investing activities	(22,506)	(5,545)
Net cash provided by/(used in) financing activities	10,316	(10,652)
Net increase in cash	6	5
Cash at beginning of year	41	36
Cash at end of year	$ 47	$ 41

Nine Months Ended September 30, 2019 Compared to Nine Months Ended September 30, 2018

Our net cash provided by operating activities for the nine months ended September 30, 2019 decreased by $4.0 million. The decrease was primarily due to a decrease in net income as a result of Spin-Off related transaction costs and cash used in support of newly acquired operations.

Our net cash used in investing activities for the nine months ended September 30, 2019 increased by $17.0 million. This use of cash is primarily attributable to our spending on business and asset acquisitions which increased by $16.8 million, and an increase in capital expenditure spending of $1.6 million.

Our net cash provided by/(used in) financing activities in all periods presented reflect net transactions with Ensign resulting from operating and investing activities discussed above.

Contractual Obligations, Commitments and Contingencies

The following table sets forth our lease obligations as of December 31, 2018, including the future periods in which payments are expected:

	2019	2020	2021	2022	2023	Thereafter	Total
	(In thousands)						
Operating lease obligations	$ 33,055	$ 32,181	$ 31,625	$ 31,241	$ 30,896	$ 243,333	$ 402,331

In connection with the Spin-Off, we amended our master lease agreements with Ensign and certain other landlords. Annual future minimum lease payments are expected to initially increase by approximately $3.6 million due to the modifications.

Inflation

We have historically derived a portion of our revenue from the Medicare program. We also derive revenue from state Medicaid and similar reimbursement programs. Payments under these programs generally provide for reimbursement levels that are adjusted for inflation annually based upon the state's fiscal year for the Medicaid programs and in October for the Medicare program. These adjustments may not continue in the future, and even if received, such adjustments may not reflect the actual increase in our costs for providing healthcare services.

Labor and supply expenses make up a substantial portion of our cost of services. Those expenses can be subject to increase in periods of rising inflation, increases to wage minimums, and when labor shortages occur in the marketplace. To date, we have

generally been able to implement cost control measures or obtain increases in reimbursement sufficient to offset increases in these expenses. We may not be successful in offsetting future cost increases.

Off-Balance Sheet Arrangements

We do not have any material off-balance sheet arrangements.

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

On October 1, 2019, in connection with the Spin-Off, we entered into a $75 million revolving credit facility which exposes us to market risk. Borrowings under the revolving credit facility are subject to variable interest rates. As a result, we will be exposed to fluctuations in interest rates to the extent of our borrowings under the revolving credit facility. See Note 15, *Subsequent Events* to our Interim Financial Statements presented herein and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" for a description of our current indebtedness. We manage our exposure to these risks by monitoring available financing alternatives, through pricing policies and potentially entering into derivative arrangements. We will evaluate our exposure to fluctuations in interest rates and how to manage such exposure on an ongoing basis.

Item 4. *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended), as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures were effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no material changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. ***Legal Proceedings***

The information provided in Note 14, *Commitments and Contingencies* included in Part 1, Item 1 of this Quarterly Report on Form 10-Q.

Item 1A. **Risk Factors**

We have disclosed under the heading "Risk Factors" in our Information Statement included as Exhibit 99.1 to our Registration Statement on Form 10 (File No. 001-38900), filed with the SEC on September 3, 2019, risk factors that materially affect our business, financial condition or results of operations.

Other than the item discussed below, there have been no material changes from the risk factors previously disclosed. You should carefully consider the risk factors set forth in the Information Statement and the other information set forth elsewhere in this Quarterly Report on Form 10-Q. You should be aware that these risk factors and other information may not describe every risk facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Our revenue could be impacted by federal and state changes to reimbursement and other aspects of Medicaid and Medicare.

On October 31, 2019, CMS issued its 2020 HH PPS final rule. The final rule implements the Patient-Driven Groupings Model (PDGM), a revised case mix adjustment methodology, for all home health episodes that begin on or after January 1, 2020. PDGM changes the unit of home health payment from a 60-day episode to a 30-day period and refines case mix calculation by removing therapy thresholds and adjusting reimbursement based on patient characteristics such as principal diagnoses and clinical grouping, functional impairment levels, comorbidities, and admission source and timing. CMS estimates the final rule will result in a $250 million (1.3%) increase in payments to home health providers in 2020, including a negative 4.36% behavioral change assumption. The final rule confirms that Requests for Anticipated Payment ("RAPs") will be phased out partially in 2020 and fully eliminated in 2021. The final rule also modifies the Home Health Value Based Purchasing model, updates Home Health Quality Reporting Program requirements, and finalizes home unfusion therapy payment provisions.

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

None.

Item 3. ***Defaults Upon Senior Securities***

None.

Item 4. ***Mine Safety Disclosures***

None.

Item 5. ***Other Information***

None.

Item 6. Exhibits

EXHIBIT INDEX

Exhibit	Description
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

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

The Pennant Group, Inc.

November 12, 2019

BY: /s/ JENNIFER L. FREEMAN

Jennifer L. Freeman

Chief Financial Officer (Principal Financial Officer and Duly Authorized Officer)

Exhibit 10: In Service Training Plan

PERSONNEL DEVELOPMENT
Policy No. 1-023.1

PURPOSE

To ensure ongoing training and development for all personnel to maintain competence in assigned duties.

POLICY

Puget Sound Hospice will provide for personnel development including, but not limited to, continuing education, inservices, training sessions, one-on-one mentoring, and continuing education. Documentation of attendance will be requested and filed in the personnel file.

PROCEDURE

1. The need for training and education is determined by:

   A. Requests of personnel

   B. Specific patient care/service needs

   C. New assignments

   D. New technology

   E. New care/service

2. Needs assessment forms will be distributed to personnel as appropriate to determine their interest for inservice planning. (See "Personnel Development/Inservice Needs Assessment" Addendum 1-023.A.)

3. At the discretion of Puget Sound Hospice, internal and external continuing education will be sponsored.

4. Continuing education provided internally by the organization may take the form of:

   A. Formal presentations

   B. Documented "on the job specialty training"

   C. Distance learning

5. Personnel will be encouraged to participate in self-development and learning through the following means, but not limited to:

A. Membership in professional organization

B. Self-directed learning modules

C. Attendance at continuing education seminars

D. Satellite learning

E. Formal courses of study

F. Mentoring

6. An attendance record of all inservice/organization personnel development programs offered will be maintained by the organization. The organization will also validate continuing education units (CEUs) per applicable state licensure law for direct care, independent contractor, and subcontract personnel.

7. Personnel will be requested to provide feedback using an inservice evaluation form regarding the content, value, and applicability of all inservice education offered by the organization. Personnel feedback will be used to evaluate the education provided by the organization and to assist in the development of future education programs.

8. Puget Sound Hospice requires that each staff member complete a minimum of the following programs each year. Any employee that fails to attend the annual mandatory training is subject to disciplinary action up to and including termination. These mandatory inservices include:

A. Standard Precautions and Infection Control

B. Safety Program including OSHA (Safety Data Sheet Elements) and Medical Device Reporting Compliance

C. Body Mechanics

D. Emergency Management Plan/Disaster Training

E. Corporate Compliance and Standards of Conduct

F. HIPAA

G. Complaints and Grievances

H. Cultural diversity and communication barriers

I. Patient rights and responsibilities

J. Ethics training

9. In addition, clinical personnel must attend a minimum of the following:

A. CPR (when appropriate).

B. All clinical staff and hospice aides will attend 12 hours of inservice education annually.

10. Non-clinical personnel are required to attend a minimum of eight (8) hours of ongoing education annually, which includes all mandatory inservices listed above.

11. When new information pertaining to discipline specific practice is received by the organization, it will be provided to personnel during the next regularly scheduled personnel meeting.

ADDENDUM 1-023.A

PERSONNEL DEVELOPMENT/INSERVICE NEEDS ASSESSMENT

PERSONNEL DEVELOPMENT/INSERVICE NEEDS ASSESSMENT PERSONNEL SURVEY

Date: _____

Your classification: _____

Year license/certification received (if applicable): _____

Approximately how many hours per week do you work? _____

Approximately how many continuing educational activities have you attended in the past 12 months?

_____

Were they accredited programs? _____

What type of inservices or personnel development programs would you like to see offered? Please list:

_____

_____

_____

_____

_____

Additional comments: _____

_____

Please return form to the Executive Director/Administrator.

Exhibit 11: Numeric Need Methodology Step by Step Process

Need Methodology Appendix

The need for additional hospice agencies is determined by the eight step methodology contained in WAC 246-310-290 (7). When applied to King County, a need for 2.68 additional providers by 2021 is indicated. In summary, the CN Program conducts an annual survey of hospice providers and then produces an estimate of numeric need of providers in the given county.

Summary of Results for DOH 260-028 November 2019 When Applied to King County

Step 8 -Numeric Need	**2.67**	Agencies Needed
Step 7 -Unmet ADC 2021	**93.6**	ADC unmet 2021
Step 6 -Unmet patient days	**34,159**	Days unmet 2021

Source: DOH 260-028 November 2019 Hospice Need Methodology

Methodology Step by Step (Summary)

Step 1 – Provides statewide hospice use rates by age cohort by dividing deaths into hospice admissions

Use Rate	Age Cohort
27.9%	0-64
61.6%	65+

Step 2 – Calculates the average number of deaths in King county, by age cohort

Avg Deaths	Age Cohort
3241	0-64
9907	65+

Step 3- Projects the number of unduplicated patients by multiplying use rate and average deaths

Avg Deaths	**Projected Patients**	Age Cohort
3241	**904**	0-64
9907	**6099**	65+

Step 4 - Estimates potential future patient volume (by age cohort) for King County by calculating a use rate for the county and multiplying that rate by the projected population

Projected Patients	**2020 potential volume**	**2021 potential volume**	Projected Population 2020
904	**936**	**942**	0-64
6099	**7011**	**7295**	65+

Step 5 – Projects combined potential admits (unmet) beyond capacity by subtracting current capacity from potential future volume

2020 potential volume	2021 potential volume	Current Capacity	**2020 Admits (Unmet)**	**2021 Admits (Unmet)**
7947	8236	7668	**279**	**568**

Step 6 - Determines unmet need in terms of patient days for the projection years by multiplying unmet admits with average length of stay

2021 Admits (Unmet)	2021 Admits (Unmet)	Statewide ALOS	**2020 Patient Days (unmet)**	**2021 Patient Days (unmet)**
279	568	60.13	**16787**	**34159**

Step 7 - Provides unmet need in terms of ADC for projection years in county by dividing 365(days) into unmet patient days

2020 Patient Days (unmet)	2021 Patient Days (unmet)	**2020 ADC (unmet)**	**2021 ADC (unmet)**
16787	34159	**46**	**94**

Step 8 – Determines the numeric need for hospice agencies that could support the unmet need with an ADC of 35 by dividing 35 into the unmet ADC

2020 ADC (unmet)	2021 ADC (unmet)	**Agencies Needed?**
46	94	**2.67**

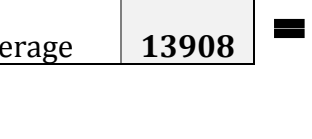
Methodology Step by Step (verbatim)

Step 1 Calculate Statewide Hospice Use Rates
Calculate the following two statewide predicted hospice use rates using department of health survey and vital statistics data:

WAC 246-310-290(8)(a)(i) The percentage of patients age sixty-five and over who will use hospice services. This percentage is calculated by dividing the average number of unduplicated admissions over the last three years for patients sixty five and over by the average number of past three years statewide total deaths age sixty-five and over. WAC246-310-290(8)(a)(ii) The percentage of patients under sixty-five who will use hospice services. This percentage is calculated by dividing the average number of unduplicated admissions over the last three years for patients under sixty-five by the average number of past three years statewide total of deaths under sixty-five.

Hospice admissions ages 0-64	
Year	Admissions
2016	3768
2017	3757
2018	4114
Average	**3880**

Deaths ages 0-64	
Year	Deaths
2016	13557
2017	14113
2018	14055
Average	**13908**



Use Rates	
0-64	**27.9%**

Hospice admissions ages 65+	
Year	Admissions
2016	24738
2017	26365
2018	26951
Average	**26018**

Deaths ages 65+	
Year	Deaths
2016	41104
2017	42918
2018	42773
Average	**42265**

65+ **61.6%**

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Step 2 Calculate average number of deaths:
Calculate the average number of total resident deaths over the last three years for each planning area by age cohort.

0-64				
County	**2016**	**2017**	**2018**	**2016-2018 Average Deaths**
Jefferson	69	69	64	67
King	**3204**	**3256**	**3264**	**3241**
Kitsap	518	485	515	506

65+				
County	**2016**	**2017**	**2018**	**2016-2018 Average Deaths**
Jefferson	293	308	336	312
King	**9766**	**10039**	**9917**	**9907**
Kitsap	1704	1780	1713	1732

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Step 3.
Multiply each hospice use rate determined in Step 1 by the planning areas' average total resident deaths determined in Step 2, separated by age cohort.

0-64		
County	**2016-2018 Average Deaths**	**Projected Patients: 27.90%**
Jefferson	67	19
King	**3241**	**904**
Kitsap	506	141

65+		
County	**2016-2018 Average Deaths**	**Projected Patients: 27.90%**
Jefferson	312	192
King	**9907**	**6099**
Kitsap	1732	1066

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Step 4: <u>Use Rate by Age Cohort</u>
Using the projected patients calculated in Step 3, calculate a use rate by dividing projected patients by the three-year historical average population by county.
Use this rate to determine the potential volume of hospice use by the projected population by age cohort using Office of Financial Management (OFM) data.

0-64

County	Projected Patients	2016-2018 Average Population	2019 projected population	2020 projected population	2021 projected population	2019 potential volume	2020 potential volume	2021 potential volume
Jefferson	19	20,670	20,705	20722	20636	19	19	19
King	**904**	**1,841,848**	**1,885,115**	**1906749**	**1918470**	**925**	**936**	**942**
Kitsap	141	215,543	218,538	220035	220614	143	144	144

0-64

Jefferson	Use Rate	0.09%
King	Use Rate	**0.05%**
Kitsap	Use Rate	0.07%

65+

County	Projected Patients	2016-2018 Average Population	2019 projected population	2020 projected population	2021 projected population	2019 potential volume	2020 potential volume	2021 potential volume
Jefferson	192	10,916	11,588	11924	12323	204	210	217
King	**6099**	**282,395**	**310,572**	**324660**	**337771**	**6,707**	**7,011**	**7,295**
Kitsap	1066	49,743	53,833	55878	58185	1,154	1,198	1,247

65+

Jefferson	Use Rate	1.76%
King	Use Rate	**2.16%**
Kitsap	Use Rate	2.14%

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Step 5:
Combine the two age cohorts. Subtract the average of the most recent three years hospice capacity in each planning area from the projected volumes calculated in Step 4 to determine the number of projected admissions beyond the planning area capacity.

County	2019 potential volume	2020 potential volume	2021 potential volume	Current Capacity	2019 Admits (Unmet)	2020 Admits (Unmet)	2021 Admits (Unmet)
Jefferson	223	229	235	164	59	65	71
King	**7,632**	**7,947**	**8,236**	**7668.17**	**(36)**	**279.2**	**568**
Kitsap	1297	1342	1392	1177	120	165	215

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Step 6:
Multiply the unmet need from Step 5 by the statewide average length of stay as determined by CMS to determine unmet need patient days in the projection years.

				Step 6 (Admits* ALOS)= Unmet Patient			
County	2019 Admits (Unmet)	2020 Admits (Unmet)	2021 Admits (Unmet)	Statewide ALOS	2019 Patient Days (unmet)	2020 Patient Days (unmet)	2021 Patient Days (unmet)
Jefferson	59	65	72	60.13	3,524	3,881	4,329
King	**(36)**	**279**	**568**	**60.13**	**(2,146)**	**16,787**	**34,159**
Kitsap	120	165	215	60.13	7,214	9,909	12,905

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Step 7:
Divide the unmet patient days from Step 6 by 365 to determine the unmet need ADC

				Step 7 (Patient Days/365)=Unmet ADC		
County	2019 Patient Days (unmet)	2020 Patient Days (unmet)	2021 Patient Days (unmet)	2019 ADC (unmet)	2020 ADC (unmet)	2021 ADC (unmet)
Jefferson	3,524	3,881	4,329	9.66	10.63	11.86
King	**(2,146)**	**16,787**	**34,159**	**(6)**	**46**	**94**
Kitsap	7,214	9,909	12,905	19.77	27.15	35.36

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Step 8:
Determine the number of hospice agencies in the planning area that could support the unmet need with an ADC of thirty-five.

Step 7 (Patient Days/365)=Unmet ADC				Step 8 -Numeric Need	
County	**2019 ADC (unmet)**	**2020 ADC (unmet)**	**2021 ADC (unmet)**	**Numeric Need?**	**Agencies Needed?**
Jefferson	9.66	10.63	11.86	FALSE	FALSE
King	**(5.88)**	**45.99**	**93.59**	**TRUE**	**2.67**
Kitsap	19.77	27.15	35.36	TRUE	1.01

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