# AMG 2.0 HOLDCO, INC.

## CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

AMG 2.0 HOLDCO, INC.
Lafayette, Louisiana

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 and 2021

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# INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors
AMG 2.0 Holdco, Inc.
Lafayette, Louisiana

## *Opinion*

We have audited the consolidated financial statements of AMG 2.0 Holdco, Inc, which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of income, changes in equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of AMG 2.0 Holdco, Inc. as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## *Basis for Opinion*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of AMG 2.0 Holdco, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## *Emphasis of Matter*

As discussed in Note 1 to the consolidated financial statements, on January 1, 2022, AMG 2.0 Holdco, Inc adopted Accounting Standards update (ASC) 842 - *Leases*. Our opinion is not modified with respect to this matter.

## *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about AMG 2.0 Holdco, Inc's ability to continue as a going concern for one year from the date the consolidated financial statements are available to be issued.

(Continued)

### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of AMG 2.0 Holdco, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about AMG 2.0 Holdco, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Crowe LLP

Crowe LLP

Franklin, Tennessee
July 17, 2023

AMG 2.0 HOLDCO, INC.

CONSOLIDATED BALANCE SHEETS

December 31, 2022 and 2021

| | 2022 | 2021 |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash and cash equivalents | $ 6,822,525 | $ 9,439,630 |
| Patient accounts receivable, net | 18,787,932 | 16,456,175 |
| Accounts receivable, other | 115,369 | 6,316 |
| Prepaids and other current assets | 2,828,599 | 2,444,259 |
| Total current assets | 28,554,425 | 28,346,380 |
| Operating lease right-of-use asset | 78,861,906 | - |
| Property and equipment, net | 8,665,526 | 7,181,913 |
| Other assets | 900,000 | - |
| Deposits | 391,655 | 338,437 |
| Intangibles, net | 268,946 | - |
| Goodwill, net | 15,475,963 | 8,543,416 |
| Total assets | $ 133,118,421 | $ 44,410,146 |
| **LIABILITIES AND DEFICIT** | | |
| Current liabilities | | |
| Accounts payable | $ 2,981,830 | $ 3,140,460 |
| Accrued expenses and other current liabilities | 2,193,096 | 1,127,465 |
| Accrued wages and other payroll liabilities | 3,959,486 | 3,318,375 |
| Current portion of operating lease obligation | 4,925,873 | - |
| Due to third-party payors, net | 1,277,823 | 2,948,079 |
| Notes payable, current | 3,921,402 | 3,979,471 |
| Total current liabilities | 19,259,510 | 14,513,850 |
| Due to related parties | - | 1,618,614 |
| ESOP notes payable | 6,619,360 | 21,953,424 |
| Notes payable - related parties | 23,600,000 | - |
| Warrant liability | 28,880,128 | 28,193,870 |
| Operating lease obligation, net of current | 74,780,489 | - |
| Notes payable, net of current portion | 7,910,717 | 9,971,449 |
| Total liabilities | 161,050,204 | 76,251,207 |
| Commitments and Contingencies | | |
| Equity (deficit) | | |
| Unallocated ESOP shares | (44,926,789) | (46,590,157) |
| Controlling interest | 17,528,993 | 15,533,878 |
| Non-controlling interest | (533,987) | (784,782) |
| Total deficit | (27,931,783) | (31,841,061) |
| Total liabilities and deficit | $ 133,118,421 | $ 44,410,146 |

See notes to consolidated financial statements

AMG 2.0 HOLDCO, INC.

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2022 and 2021

| | 2022 | 2021 |
|---|---|---|
| **Operating revenues** | | |
| Patient service revenues | $ 126,760,303 | $ 115,041,923 |
| Contractual services and other miscellaneous revenues | 159,446 | 1,134,412 |
| Grant revenue - provider relief funds | - | 1,881,918 |
| Net operating revenues | 126,919,749 | 118,058,253 |
| **Operating expenses** | | |
| Salaries and wages | 51,553,777 | 43,409,133 |
| General and administrative expenses | 52,881,054 | 46,143,948 |
| Depreciation of property and equipment | 1,197,261 | 918,377 |
| Amortization of goodwill and intangibles | 2,325,048 | 1,311,892 |
| Total operating expenses | 107,957,140 | 91,783,350 |
| **Operating income** | 18,962,609 | 26,274,903 |
| **Other expenses (income)** | | |
| Interest expense and bank charges | 4,418,171 | 2,789,377 |
| Change in fair value of warrant liability | 686,258 | 19,035,018 |
| Gain on loan forgiveness | - | (7,159,900) |
| Loss on disposal of property and equipment | - | 35,218 |
| Interest income | (119,155) | (152,085) |
| Total other expenses | 4,985,274 | 14,547,628 |
| **Net income** | 13,977,335 | 11,727,275 |
| Net income attributable to non-controlling interest | 250,795 | 334,550 |
| **Net income attributable to controlling interest** | $ 13,726,540 | $ 11,392,725 |

See notes to consolidated financial statements

AMG 2.0 HOLDCO, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2022 and 2021

| | Number of Shares Outstanding | Unallocated ESOP Shares | Controlling Interest | Non-controlling Interest | Total |
|---|---|---|---|---|---|
| **Balance, January 1, 2021** | 965,739 | $ (48,253,525) | $ 5,536,882 | $ (1,119,332) | $ (43,835,975) |
| Allocation of ESOP shares to participants for compensation | (33,301) | 1,663,368 | 179,195 | - | 1,842,563 |
| Distributions | - | - | (1,574,924) | - | (1,574,924) |
| Net income | - | - | 11,392,725 | 334,550 | 11,727,275 |
| **Balance, December 31, 2021** | 932,438 | (46,590,157) | 15,533,878 | (784,782) | (31,841,061) |
| Allocation of ESOP shares to participants for compensation | (33,301) | 1,663,368 | 1,105,971 | - | 2,769,339 |
| Distributions | - | - | (101,920) | - | (101,920) |
| Membership unit redemption - North Alabama - AMG Specialty Hospital, LLC | | | (12,735,476) | - | (12,735,476) |
| Net income | - | - | 13,726,540 | 250,795 | 13,977,335 |
| **Balance, December 31, 2022** | 899,137 | $ (44,926,789) | $ 17,528,993 | $ (533,987) | $ (27,931,783) |

See notes to consolidated financial statements

AMG 2.0 HOLDCO, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2022 and 2021

| | 2022 | 2021 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Net income | $ 13,977,335 | $ 11,727,275 |
| Adjustments to reconcile net loss to net cash from operating activities: | | |
| Depreciation and amortization | 1,197,261 | 918,377 |
| Gain on PPP loan forgiveness | - | (7,159,900) |
| Fair value adjustment of warrants | 686,258 | 19,035,018 |
| Amortization of debt issuance costs | 119,788 | 119,788 |
| Incremental difference between cash paid and lease expense recognized for operating leases | 262,557 | - |
| Loss on disposal of property and equipment | - | 35,218 |
| Stock-based compensation expense | 2,769,339 | 1,842,563 |
| Amortization of goodwill and intangibles | 2,608,446 | 1,311,892 |
| Amortization of discount on ESOP notes | 82,724 | 82,724 |
| Changes in operating assets and liabilities | | |
| Patient accounts receivable | (1,217,375) | 1,311,663 |
| Accounts receivable, other | (109,053) | 1,179,135 |
| Prepaids and other current assets | (133,376) | 6,712 |
| Deposits and other long-term assets | 251,880 | 55,873 |
| Accounts payable | (611,188) | (1,513,214) |
| Accrued expenses and other current liabilities | (814,531) | (684,955) |
| Deferred provider relief funds | - | (1,881,917) |
| Accrued wages and other payroll liabilities | 641,111 | 518,559 |
| Due to third-party payors | (1,670,256) | 318,454 |
| Due to related parties | 120,364 | (852,149) |
| Net cash from operating activities | 18,161,284 | 26,371,116 |
| **Cash flow from investing activities** | | |
| Proceeds from sale of property and equipment | 300,000 | - |
| Purchases of property and equipment | (1,643,207) | (1,743,230) |
| Net cash from investing activities | (1,343,207) | (1,743,230) |
| **Cash flow from financing activities** | | |
| Distributions | (101,920) | (1,574,924) |
| Payments on ESOP notes | (15,356,788) | (19,898,974) |
| Payment of debt issuance costs | (120,000) | - |
| Principal payments on notes payable | (3,856,474) | (3,341,110) |
| Net cash from financing activities | (19,435,182) | (24,815,008) |
| Net decrease in cash and cash equivalents | (2,617,105) | (187,122) |
| Cash and cash equivalents at beginning of year | 9,439,630 | 9,626,752 |
| **Cash and cash equivalents at end of year** | $ 6,822,525 | $ 9,439,630 |

See notes to consolidated financial statements

AMG 2.0 HOLDCO, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2022 and 2021

| | 2022 | 2021 |
|---|---|---|
| **Supplemental disclosure of cash flow information:** | | |
| Cash paid for interest | $ 4,418,171 | $ 2,586,865 |
| **Supplemental disclosures of non-cash financing activities:** | | |
| Allocation of ESOP shares to participants for compensation | $ 1,663,368 | $ 1,663,368 |
| Redemption of membership interest in exchange for promissory notes | $ 12,735,476 | $ - |
| Issuance of debt for membership interest in business combinations | $ 23,600,000 | $ 683,060 |
| Net assets acquired related to the acquisition of Lafayette Physical Rehabilitation Hospital, LLC and North Alabama - AMG Specialty Hospital, LLC | $ 10,335,476 | $ - |
| Fixed assets acquired through finance-type lease | $ 1,677,885 | $ - |

See notes to consolidated financial statements

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Description of Business: The accompanying consolidated financial statements reflect the operations of AMG 2.0 Holdco, Inc. ("the Company"), its wholly owned subsidiaries, and consolidated affiliates. All significant intercompany account balances and transactions have been eliminated in consolidation. The subsidiaries and affiliated entities included in these consolidated financial statements consist of ten healthcare facilities and one management services company.

The Company is a provider of post-acute health care services. The Company's long-term acute care hospitals provide a continued acute level of care for patients suffering complex medical conditions such as respiratory failure, ventilator dependence, complicated infections, chronic non-healing wounds, cardiac complications and surgical complications. The Company's inpatient rehabilitation facilities provide intensive physical rehabilitation to patients who have suffered traumatic injury.

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of the Company, which is comprised of the following entities:

- LTAC Hospital of Edmond, LLC
- Albuquerque – AMG Specialty Hospital, LLC
- Las Vegas – AMG Specialty Hospital, LLC
- Central Indiana – AMG Specialty Hospital, LLC
- Houma – AMG Specialty Hospital, LLC
- North Alabama – AMG Specialty Hospital, LLC ("NOA")
- LTAC of Louisiana, LLC
- Covington-AMG Rehabilitation Hospital, LLC
- LTAC Hospital of Feliciana, LLC ("Feliciana")
- Acadiana Management Group, LLC (management company)
- Lafayette Physical Rehabilitation Hospital, LLC ("LPRH") (acquired January 2, 2022)

For the year ended December 31, 2021, all of the aforementioned entities were wholly owned subsidiaries of the Company, with the exception of NOA, Feliciana, and LPRH. NOA and Feliciana were consolidated within the operations of the Company as variable interest entities ("VIE") under the provisions of Accounting Standards Codification ('ASC') 810, *Consolidation*. The Company determined that, through its management services agreements with these two VIE's, Acadiana Management Group, LLC, had the power to direct the activities that most significantly impact their economic performance. The management service agreements allowed the Company to provide management, administrative, billing, and other key services to the VIE's. Additionally, through the management services agreements, the Company has the obligation to absorb losses that could potentially be significant to the VIE's. Based on its assessment of these VIE's, the Company had determined that it was the primary beneficiary of these VIE's and, accordingly, their accounts have been included in the accompanying consolidated financial statements.

On January 2, 2022, AMG 2.0 entered into a membership interest purchase agreement and purchased all of the issued and outstanding interests of NOA. For the year ended December 31, 2022, NOA was consolidated as a wholly owned subsidiary. On December 31, 2022, NOA entered into an asset purchase and unwind agreement to sell the property and equipment and inventory assets to an aquirier for total consideration of $679,000.

(Continued)

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

There are no assets of the VIEs that were restricted to use as of December 31, 2022 and 2021. The financial statements include the following VIE information:

| | 2022 | 2021 | |
|---|---|---|---|
| | Feliciana | North Alabama | Feliciana |
| **ASSETS** | | | |
| Cash and cash equivalents | $ 1,803,794 | $ 999 | $ 2,058,712 |
| Patient accounts receivable, net | 1,015,718 | 1,525,367 | 870,268 |
| Prepaids and other current assets | 188,618 | 679,574 | 74,857 |
| Property and equipment, net | 243,513 | 413,048 | 227,753 |
| Total assets | 3,251,643 | 2,618,988 | 3,231,590 |
| **LIABILITIES AND EQUITY** | | | |
| Accounts payable | 233,721 | 404,593 | 230,374 |
| Accrued expenses and other current liabilities | 51,590 | 122,826 | 26,720 |
| Accrued wages and other payroll liabilities | 187,662 | 309,486 | 213,931 |
| Due to related party | - | 977,386 | - |
| Note payable | 277,838 | - | 481,634 |
| Due to third-party payors, net | 16,485 | 44,212 | 88,666 |
| Intercompany payables* | 41,649 | 2,313,674 | 33,560 |
| Total liabilities | 808,945 | 4,172,177 | 1,074,885 |
| Equity | 2,442,698 | (1,553,189) | 2,156,705 |
| Non-controlling interest | 348,329 | - | 307,546 |
| Net income (loss) | 1,791,393 | 3,029,048 | 2,389,646 |

*Eliminated in consolidation

For the year end December 31, 2021, the Company also had determined that Acadiana Management Group, LLC had a variable interest in LPRH, through its management services agreement; however, had concluded that it was not the primary beneficiary. Accordingly, the accounts of this entity had not been consolidated within the accompanying consolidated financial statements at December 31, 2021. Total management fee income recognized by Acadiana Management Group, LLC for the year end December 31, 2021 was approximately $783,000.

On January 2, 2022, the Company gained control of LPRH through an execution of a membership interest purchase agreement (Note 2).

Use of Estimates: The preparation of the consolidated financial statements conforming to accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and those differences could be material.

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Significant estimates included in the preparation of the consolidated financial statements relate to the establishment of the reserve for contractual allowances, general and professional liability claims in excess of insurance coverage, estimates for Medicare and Medicaid cost report settlements, and the recoverability of long-lived assets and goodwill. Additionally, the fair value of the Company's common stock held by the Employee Stock Ownership Plan (ESOP) is a significant estimate and is particularly subject to change.

Cash and Cash Equivalents: Cash and cash equivalents consists of deposits with financial institutions for which balances, from time to time, may exceed federally insured limits ("FDIC"). Management believes any other risk is managed by maintaining the deposits in high quality financial institutions.

Recently Adopted and Issued Accounting Guidance: Effective January 1, 2022, the Company adopted the new lease accounting guidance in Accounting Standards Update No. 2016-02, *Leases* (Topic 842). The Company has elected the package of practical expedients permitted in ASC Topic 842. Accordingly, the Company accounted for its existing operating lease as an operating lease under the new guidance, without reassessing (a) whether the contract contains a lease under ASC Topic 842, (b) whether classification of the operating lease would be different in accordance with ASC Topic 842, or (c) whether the unamortized initial direct costs before transition adjustments (as of December 31, 2021) would have met the definition of initial direct costs in ASC Topic 842 at lease commencement. As a result of the adoption of the new lease accounting guidance, the Company recognized on January 1, 2022 (a) a lease liability of approximately $62,952,000 which represents the present value of the remaining lease payments of approximately $76,964,100, discounted using risk free rates ranging from .87% to 2.10%, and (b) a right-of-use asset of approximately $61,939,000.

Revenue Recognition: Patient service revenue is reported at the amount that reflects the consideration to which the Company expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Company bills the patients and third-party payors several days after the services are performed and/or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied. Patients generally have 120 days to make acceptable payment arrangements.

Revenues from commercial and governmental payors and the transaction prices for the services provided are dependent upon the terms provided by governmental payors or negotiated with the commercial payors. The payment arrangements with third-party payors for the services the Company provides to the related patients typically specify payments at amounts less than the Company's standard charges. Management continually reviews the contractual estimation process to consider and incorporate updates to laws and regulations and the frequent changes in contractual terms resulting from contract renegotiations and renewals.

The Company records revenues based upon the estimated amounts to which it expects to be entitled from third-party payors and private pay patients. Estimates of contractual allowances related to amounts owed by commercial payors are based upon the payment terms specified in the related contractual arrangements. Revenues related to private pay patients and patient copayment and deductible amounts may have discounts applied. The Company also records estimated implicit price concessions, based primarily on historical collection experience, related to private pay accounts to record revenues at the estimated amounts the Company expects to collect.

Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care.

(Continued)

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Company's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known or as years are settled or are no longer subject to such audits, reviews, and investigations.

The table below shows the sources of net patient service revenues for the period ended December 31:

| | 2022 | 2021 |
|---|---|---|
| Medicare | $ 76,752,606 | $ 72,505,122 |
| Medicaid | 1,316,318 | 2,300,153 |
| Commercial/managed-care | 31,070,742 | 25,001,137 |
| Self-pay and other | 17,620,637 | 15,235,511 |
| | $ 126,760,303 | $ 115,041,923 |

Property and Equipment: Property and equipment are recorded at cost, or at fair value if acquired through a business combination. Expenditures that substantially increase values, change capacities, or extend useful lives are capitalized. The Company capitalizes interest cost incurred on funds used to construct property and equipment, which is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. Repairs and maintenance which do not improve or extend the useful lives of the respective assets are charged to operations as incurred. Upon the sale or retirement of property and equipment, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss is reflected in operations.

Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the assets, which range from three to forty years. Leasehold improvements and building and equipment under capital leases are amortized over the shorter of the term of the underlying lease, including probable renewal periods, or the estimated useful lives of the respective improvements. Amortization of building and equipment under capital leases are included in depreciation and amortization expense.

The useful lives of the major classes of assets are as follows:

| | |
|---|---|
| Building and leasehold improvements | 10-40 years |
| Building and equipment under capital lease | 5-40 years |
| Equipment, software, furniture and fixtures | 3-15 years |

Goodwill and Intangibles: The Company adopted the accounting alternative in Accounting Standards Update (ASU) No. 2014-18, *Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination*. This accounting alternative allows the Company to recognize the fair value of intangible assets as a result of any in-scope transactions as goodwill, unless they are capable of being sold or licensed independently from the other assets of the business.

The Company complies with ASU No. 2014-02, Intangibles – *Goodwill and Other (Topic 350): Accounting for Goodwill*. Under ASU 2014-02, the Company has elected to amortize goodwill on a straight-line basis over a ten-year period.

(Continued)

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Under ASU 2014-02, the Company is required to test goodwill for impairment when triggering events occur. There is no longer a requirement to test for impairment annually. Specifically, an impairment test is required whenever an event occurs or circumstances change that indicate the fair value of the entity may be below its carrying amount, including goodwill. The Company will test goodwill for impairment at the reporting entity level.

When a triggering event occurs, the Company has an option to first perform a qualitative assessment to determine whether it is more likely than not (i.e. 50% likely) that the fair value of the entity is less than its carrying amount. If the Company elects to use the qualitative option, it must decide whether it is more than 50% likely that the fair value of the entity is less than its carrying amount. If so, the one-step impairment test is required. But, if management concludes that fair value exceeds the carrying amount, further testing is unnecessary. Goodwill impairment is calculated as the amount by which the carrying amount of the entity including goodwill exceeds its fair value. Management determined that no such triggering events occurred during the years ended December 31, 2022 and 2021.

Impairment of Long-Lived Assets: The Company reviews long-lived assets (property and equipment, right-of-use assets, and intangibles) when changes in circumstances or events could impact the recoverability of the carrying value of the assets. Recoverability of long-lived assets is determined by comparing the estimated undiscounted cash flows related to the long-lived assets to their carrying value. Impairment is determined by comparing the present value of future net cash flows, or some other fair value measure, to the carrying value of the asset. No impairment was recorded for the years ended December 31, 2022 and 2021.

Fair Value of Financial Instruments: The Company discloses assets and liabilities that are recognized and measured at fair value, presented in a three-tier fair value hierarchy, as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Observable inputs other than Level 1, quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, and model-derived prices whose inputs are observable or whose significant value drivers are observable; and
- Level 3 – Assets and liabilities whose significant value drivers are unobservable.

The carrying value of cash, patient receivables, and accounts payable and accrued expenses, as reflected in the consolidated balance sheets, approximate fair value because of the short-term maturity of these instruments. The warrants issued in conjunction with the ESOP notes are categorized as Level 3 in the fair value hierarchy, as the inputs used to value the warrants, as described in Note 6, are Level 3 inputs. The fair value of the Company's term debt and notes approximates the carrying value based on market interest rates.

Deferred Finance Fees: The Company capitalizes costs incurred in connection with obtaining financing. These costs are presented in the consolidated balance sheet as a direct deduction from the carrying amount of the associated long-term debt and are amortized over the term of the related financing using the effective interest method. The Company has recorded deferred financing fees related to its term debt (Note 5) and ESOP notes (Note 6). The amortization expense is recorded as a component of interest expense in the consolidated statement of income. Total unamortized deferred finance fees were approximately $799,000 and $679,000 at December 31, 2022 and 2021, respectively.

(Continued)

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Income Taxes: The Company has elected, with the consent of its shareholders, to be taxed as an S corporation under Section 1362 of the Internal Revenue Code, and a similar section of the state income tax law which provides that, in lieu of corporate income taxes, the shareholders will be taxed on their proportionate share of the Company's taxable income. Therefore, no provision for federal or state income taxes is included in the financial statements.

A tax position is recognized as a benefit only if it is more-likely-than-not that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax benefit is recorded.

The Company recognizes any interest and penalties related to unrecognized tax benefits in interest and income tax expense, respectively. The Company has no amounts accrued for interest or penalties as of December 31, 2022 and 2021.

The Company does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months. The Company remains subject to examination by taxing authorities in the jurisdictions the Company has filed returns for years after 2017.

Coronavirus Pandemic and CARES Act Funding: COVID-19 Pandemic: In March 2020, the World Health Organization declared a pandemic related to the rapidly spreading coronavirus ("COVID-19") outbreak, which has led to a global health emergency. The extent to which the COVID-19 pandemic may impact the financial condition or results of the Company's operations is uncertain and cannot be predicted fully at this time. The nature and extent of the final impact may depend on a number of factors, including: the duration and extent of the pandemic; the nature and duration of the pandemic's impact on the Company's healthcare services, and the nature and duration of the pandemic's impact on the Company's business partners, vendors, and patients, all of which are uncertain and cannot be predicted fully. The Company continues to evaluate the impact of the COVID-19 pandemic on its business and to monitor pandemic-related developments.

The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") became law on March 27, 2020. This Federal response to the market volatility and instability resulting from the coronavirus pandemic includes provisions to support individuals and businesses in the form of loans, grants, and tax changes, among other types of relief. The CARES Act authorized $175 billion in payments to be distributed through the Public Health and Social Services Emergency Fund ("Provider Relief Funds" or "PRF"). Payments from the PRF are not loans; however, PRF funds are required to be paid back if not fully utilized. During the year ended December 31, 2020, the Company received payments of $5,485,587 from the Provider Relief Fund, respectively. No additional funds were received during fiscal 2022 and 2021.

The Company elected to account for the PRF proceeds received as a conditional contribution in accordance with Subtopic 958-605. Under Subtopic 958-605, the PRF proceeds are initially recorded as a deferred grant liability and subsequently recognized as grant revenue when the Organization has substantially met all terms and conditions of the grant. The Company's assessment of whether the terms and conditions for amounts received have been substantially met considers, among other things, the terms of the CARES Act and the Consolidation Appropriation Act of 2021 (CAA), and all other interpretive guidance issued by the U.S. Department of Human and Health Services. Such guidance sets forth the allowable methods for quantifying eligible healthcare related expenses and lost revenues. Only healthcare related expenses attributable to coronavirus that another source has not reimbursed and is not obligated to reimburse are eligible to be claimed. For the years ended December 31, 2022 and 2021, the Company recognized $0 and $1,881,918, respectively, as a result of the determination of eligible expense reimbursement, which is included in grant revenue in the consolidated statements of income.

(Continued)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

As a result of the economic uncertainty stemming from the impact of the COVID-19 pandemic, during April 2020, the Company received Paycheck Protection Program (PPP) loans in the principal amount of $7,159,900 from the US Small Business Administration (SBA). The PPP loans have a stated interest rate of 1% per annum and no payments of principal or interest are required until the end of a statutorily provided deferral period, which occurs when the SBA concludes on the amount of the loan that will be forgiven.

Under the terms of the Paycheck Protection Program, a PPP loan provides for conditional forgiveness if the Company utilizes the loan proceeds on admissible expenses, including qualifying payroll, rent, and utility expenses, and maintains employment and compensation levels for a specified period of time. Although the Company believes the conditions for full forgiveness of the PPP loan will be met, ultimate forgiveness is conditioned upon the SBA concurring with the Company's good-faith assessment that the current economic uncertainty made the loan request necessary to support ongoing operations and the loan proceeds were used for admissible expenses. If the Company is later determined to have violated the provisions of the Payroll Protection Program, the Company may be required to repay the PPP loan in its entirety and/or be subject to additional penalties.

The Company has elected to account for the loan proceeds as debt under Topic ASC 470. The Company initially recognized a liability for the full amount of the proceeds received. During September 2021, the Company received formal notifications that the PPP loans were forgiven by the SBA. For the years ended December 31, 2022 and 2021, the Company recorded a gain on loan forgiveness of $0 and $7,159,000, respectively, wthin the consolidated statements of income.

Reclassifications: Certain prior year amounts have been reclassified to conform with the current year presentation. These reclassifications had no material effect on net loss or the deficit.

**NOTE 2 – 2022 ACQUISITIONS**

*Layfaette Physical Rehabilitation Hospital ("LPRH")*

On January 2, 2022, the Company acquired 100% of the outstanding membership interests of LPRH for a total purchase price of $10,600,000, consisting of a seller note. The seller note has a face value of $10,600,000 which matures on January 2, 2032, and accrues interest at a rate of 10.5% per annum. The fair value of the seller note was determined to approximate the face value.

The Company incurred $10,350 in acquisition costs, which were recognized in general and administrative expense within the consolidated statements of operations. LPRH is a post-acute care hospital system that provides quality patient care and dedicated rehabilitation experts for complex medical conditions over an extended period of time for patients in the state of Louisiana. The acquisition expands the Company's existing markets and access to new customers and created revenue and cost synergies which management believes will contribute to future profits.

The acquisition has been accounted for as a purchase and, accordingly, the operating results of LPRH have been included in the Company's financial statements since the date of acquisition. The estimated fair value of the trade names was determined based on the relief from royalty method and will be amortized over its remaining useful life of 10 years. The contractual value of accounts receivable was $1,114,382.

(Continued)

**NOTE 2 – 2022 ACQUISITIONS** (Continued)

| | |
|---|---|
| **Consideration** | |
| Note payable to seller | $ 10,600,000 |
| | |
| **Recognized amounts of assets acquired and liabilities assumed** | |
| Cash and cash equivalents | $ 1,738,978 |
| Patient accounts receivable | 1,114,382 |
| Prepaid expenses and other current assets | 556,062 |
| Operating lease right-of-use asset | 16,171,733 |
| Property and equipment | 295,258 |
| Tradenames | 298,829 |
| Goodwill | 9,511,110 |
| Total assets | 29,686,352 |
| | |
| Accounts payable | 452,558 |
| Accrued expenses and other current liabilities | 1,880,162 |
| Operating lease liability | 16,753,632 |
| Total liabilities | 19,086,352 |
| | |
| Net assets acquired | $ 10,600,000 |

As part of the business combination transaction described above, the Company acquired noncompetition agreements, customer lists and certain customer contracts of LPRH. Based on the adoption of the intangible asset alternative as previously described in Note 1, the Company determined that the customer-related intangible assets acquired were not capable of being sold or licensed independently from the other assets of the acquired business. Therefore, neither the customer-related intangible assets nor the acquired non-competition agreements were recorded separately at the acquisition date. Goodwill arising from the acquisition largely consists of the expected synergies of combining operations, the customer-related intangible assets, and non-competition agreements along with an assembled workforce. Goodwill will be amortized over ten years. The total amount of goodwill is not deductible for tax purposes.

*North Alabama – AMG Specialty Hospital, LLC*

On January 2, 2022, the Company acquired 100% of the issued and outstanding interests of NOA for a total purchase price of $13,000,000, which consisted of a seller promissory note. The face value of the note was deemed to estimate its fair value. NOA is a rehabilitation hospital provding intensive physical rehabilitation to patients in the state of Alabama. The acquisition results in full ownership of NOA which was previously consolidated as a VIE with AMG determined to be the primary beneificiary.

(Continued)

**NOTE 2 – 2022 ACQUISITIONS** (Continued)

The transaction qualifies as a combination between businesses under common control, and accordingly, the Company recorded the acquired assets and assumed liabilities at their carrying values as of the beginning of the period (January 2, 2022), pursuant to the requirements of FASB ASC Topic 805-50, *Business Combinations - Related Issues*. The carrying value of the assets and liabilities transferred as of January 2, 2022 related to this transaction were $2,854,045 and $2,589,521, respectively. Total net assets acquired was $264,524. The excess of the purchase price over the net assets acquired totaled $12,735,476, and is reflected in equity pursuant to FASB ASC Topic 805-50.

**NOTE 3 – GOODWILL AND INTANGIBLES**

Goodwill and intangible assets as of December 31, 2022 were as follows:

| 2022 | Gross Amount | Accumulated Amortization | Net Carrying Value | Amortization Period |
|---|---|---|---|---|
| Goodwill | $ 22,953,201 | $ (7,477,238) | $ 15,475,963 | 10 years |
| Tradenames | $ 298,829 | $ (29,883) | $ 268,946 | 10 years |

Goodwill as of December 31, 2021 was as follows:

| 2021 | Gross Amount | Accumulated Amortization | Net Carrying Value | Amortization Period |
|---|---|---|---|---|
| Goodwill | $ 13,442,091 | $ (4,898,675) | $ 8,543,416 | 10 years |

For the years ended December 31, 2022 and 2021, amortization expense related to goodwill and intangibles totaled approximately $2,608,000 and $1,312,000, respectively.

Estimated future amortization of goodwill and intangibles is as follows:

| Year ending December 31, | |
|---|---|
| 2023 | $ 2,608,446 |
| 2024 | 2,608,446 |
| 2025 | 2,608,446 |
| 2026 | 2,608,446 |
| 2027 | 2,608,446 |
| Thereafter | 2,702,679 |
| | $ 15,744,909 |

(Continued)

**NOTE 4 - PROPERTY AND EQUIPMENT**

Property and equipment as of December 31, consists of the following:

| | 2022 | 2021 |
|---|---|---|
| Leasehold improvements | $ 5,742,034 | $ 4,813,562 |
| Furniture and fixtures | 1,163,668 | 1,011,498 |
| Computer equipment and software | 2,830,713 | 2,220,590 |
| Hospital equipment | 10,750,336 | 8,074,070 |
| Automobiles | 95,919 | 5,000 |
| | 20,582,670 | 16,124,720 |
| Less: accumulated depreciation | (11,917,144) | (8,942,807) |
| Property and equipment, net | $ 8,665,526 | $ 7,181,913 |

Depreciation and amortization expense of property and equipment for the years ended December 31, 2022 and 2021 totaled approximately $1,197,000 and $918,000, respectively.

**NOTE 5 - NOTES PAYABLE**

The Company's notes payable at December 31, 2022 and 2021 are as follows:

| | 2022 | 2021 |
|---|---|---|
| On December 28, 2020, the Company entered a Amended and Restated Loan agreement. The new term loan principal balance totals $15,000,000. Interest accrues at 9% per annum. The note matures December 2025. Principal payments commenced January 2021 amounted to $250,000 per month. | $ 9,000,000 | $ 12,000,000 |
| On December 6, 2022, the Company entered into an equipment finance-type lease. Interest accrues at 5.9%. The line matures December 2027. Principal payments amount to $19,000 per month. | 900,000 | - |
| On January 1, 2020, the Company entered into a membership interest redemption agreement with an existing member of North Alabama - AMG Specialty Hospital, LLC. The new loan principal balance totals $1,500,000. Interest accrues at 5% per annum. The note matures January 2025 and will amount to $28,306 per | 679,916 | 977,386 |
| On November 11, 2020, the Company entered into a membership interest redemption agreement with a member of LTAC Hospital of Feliciana, LLC to redeem its membership interest. The amount due is based on Section 6.6 and 6.7 of the LTAC Hospital of Feliciana, LLC operating agreement, and resulted in a balance that totals approximately $1,100,000. | 280,840 | 478,632 |
| During fiscal year 2022, the Company entered into equipment financing arrangements with various counterparties, which have been accounted for as finance lease liabilities. The terms range from 12 to 60 months and have maturities that extend through December 2026. Monthly minimum payments on these notes for the next year will total approximately $36,000. The leases accrue interest at rates ranging from 2% to 4.36%. | 1,239,365 | 706,902 |
| Unamortized deferred financing fees | (268,002) | (212,000) |
| Total long-term debt | 11,832,119 | 13,950,920 |
| Less: current portion of obligations | (3,921,402) | (3,979,471) |
| Long-term debt, net of current portion | $ 7,910,717 | $ 9,971,449 |

(Continued)

**NOTE 5 - NOTES PAYABLE** (Continued)

Approximate future maturities of long-term debt are as follows:

| December 31, | |
|---|---|
| 2023 | $ 3,921,402 |
| 2024 | 3,978,845 |
| 2025 | 3,471,036 |
| 2026 | 438,232 |
| 2027 | 290,606 |
| Total | $ 12,100,121 |

**NOTE 6 - EMPLOYEE STOCK OWNERSHIP PLAN (ESOP) AND WARRANTS**

The Company sponsors a leveraged employee stock ownership plan ("ESOP") that covers substantially all employees who are over twenty-one (21) years of age and have completed one year of service. On December 27, 2019, the ESOP purchased 1,000,0000 shares of the Company's common stock from the Company's former members for approximately $49,949,000. The purchase of these shares was funded by notes payable ("ESOP notes payable") to the former shareholders from the ESOP in the amount of approximately $49,949,000. The ESOP notes payable between the ESOP and the Company's former shareholders are a direct obligation of the Company as the employer and the sponsor of the ESOP and, accordingly, are classified as a reduction of equity on the Company's financial statements.

The ESOP provides for discretionary contributions by the Company that are at least equal to the ESOP's debt service. As the debt is repaid, shares are released from the suspense account based on the proportion of the principal and interest paid in the year on the outstanding balance of principal plus interest due on the debt and allocated to active employees. Contributions were $1,663,368 for both years ended December 31, 2022 and 2021. The fair value of the ESOP shares is determined on an annual basis by an independent appraisal.

As of December 31, 2022 and 2021, the valuation of the shares in the ESOP was $83.93 and $82.39 per share, respectively.

For the years ended December 31, 2022 and 2021, the Company allocated 33,301 shares for both years, respectively, to ESOP participants. During the years ended December 31, 2022 and 2021, the Company recorded compensation expense of approximately $2,769,000 and $1,843,000, respectively.

(Continued)

**NOTE 6 - EMPLOYEE STOCK OWNERSHIP PLAN (ESOP) AND WARRANTS** (Continued)

The ESOP investments included the following at December 31:

| | 2022 | 2021 |
|---|---|---|
| Allocated and released shares | 100,863 | 67,562 |
| Unreleased shares | 899,137 | 932,438 |
| Total ESOP shares | 1,000,000 | 1,000,000 |
| Fair value of allocated and release shares | $ 8,387,851 | $ 3,738,205 |
| Fair value of unreleased shares | $ 74,772,985 | $ 51,591,795 |

Upon separation from the Company, or at any other time, a participant of the ESOP is entitled to receive a distribution from the ESOP. Such distribution is to be made in the form of a lump-sum payment if the participant's balance is less than $5,000. Otherwise, the distribution is made over a five-year distribution period.

The ESOP notes payable, along with all accrued and unpaid interest, are payable in full at the December 2028 maturity date. The ESOP notes payable accrue interest at 3% per annum. The aggregate amount of the principal on these notes totaled $7,000,000 and $23,000,000 at December 31, 2022 and 2021, respectively. The carrying value of the ESOP notes on the consolidated balance sheets are reduced by deferred financing fees and a debt discount (which relates to the grant date fair value of the warrants, as subsequently discussed) totaling approximately $1,030,000 and $1,047,000, at December 31, 2022 and 2021, respectively.

On December 27, 2019, in connection with the ESOP transaction, the Company granted freestanding warrants to the former members, (now "the ESOP Noteholders"). The warrants allow the ESOP Noteholders to purchase an aggregate of 351,350 shares of the Company's common stock. The warrants can be exercised in whole or in part beginning at the earliest of: a) upon change of control; b) the one-year anniversary of full payment of the ESOP Notes; c) 12 years from close of ESOP transaction (December 27, 2031); d) death of the warrant holder. The warrants have an exercise price of $2.50 per share. At the option of the holder, the warrants can be settled in common shares by paying the per-share exercise price or on a net basis in common shares, cash or other property. As a result, the warrants are measured at fair value and classified as liabilities in the consolidated balance sheets. The Company measures the fair value of the warrants at the end of each reporting period with the change in fair value recorded through earnings. As the warrants were issued in connection with the ESOP Notes, proceeds of the note issuance were allocated on a residual basis between the warrants at fair value and the notes. As of December 31, 2022 and 2021, there are 351,350 warrants issued and outstanding, for both years.

The Company determines its common stock price using the guideline public company, merger and acquisition, and discounted cash flow approaches. At December 31, 2022, the fair value of the warrants was approximately $82.20 per warrant, or approximately $28,880,127 in aggregate, using the following assumptions: (i) contractual life of 10 years, (ii) volatility of 40%, (iii) risk-free rate of 4.06%, and (iv) dividend rate of zero. As of December 31, 2022, the Company recognized a fair value of warrant liability adjustment totaling approximately $686,000, which is recorded within the statements of income.

(Continued)

**NOTE 6 - EMPLOYEE STOCK OWNERSHIP PLAN (ESOP) AND WARRANTS** (Continued)

At December 31, 2021, the fair value of the warrants was approximately $80.24 per warrant, or approximately $28,194,000 in aggregate, using the following assumptions: (i) contractual life of 10 years, (ii) volatility of 35%, (iii) risk-free rate of 1.52%, and (iv) dividend rate of zero. As of December 31, 2021, the Company recognized a fair value of warrant liability adjustment totaling approximately $19,035,000, which is recorded within the statements of income.

**NOTE 7 - COMMITMENTS AND CONTINGENCIES**

Litigation/Judgments/Settlements and Disputed Claims: To cover claims arising out of the operations of the Company's facilities, the Company maintains general and professional liability insurance subject to certain deductibles. The Company also maintains umbrella liability insurance covering claims which, due to their nature or amount, are not covered by or not fully covered by the Company's other insurance policies.

These insurance policies also do not generally cover punitive damages and are subject to various deductibles and policy limits. The coverage is further limited to an aggregate amount for all the facilities. Significant legal actions as well as the cost and possible lack of available insurance could subject the Company to substantial uninsured liabilities in the future.

The Company is subject to legal proceedings and claims that arise in the ordinary course of its business, which include general and professional liability claims covered under insurance policies. In the Company's opinion, the outcome of these actions will not have a material adverse effect on the consolidated financial position or results of operations of the Company.

Insurance: The Company has entered into a policy that covers its general and professional liability exposure. The policies include a per occurrence limit of $1,000,000 to an aggregate limit of $3,000,000. The Company's umbrella coverage addresses claim exposure up to a maximum amount of $7,000,000. At December 31, 2022 and 2021, there were no accrued general or professional liability losses recorded by the Company.

Operating Leases: The Company leases its business office, hospital buildings, and office and medical equipment under various non-cancelable agreements which expire through December 31, 2045 and require various minimum annual rentals.

At December 31, 2022, the right-of-use asset related to the operating lease was $78,861,906 and recorded in the accompanying consolidated balance sheets.

Lease expense is recognized on a straight-line basis over the term of the lease and presented as a single charge in the statements of operations and changes in partners' equity. During the year ended December 31, 2022, the Company recorded $7,503,836 in lease expense, which is included in general and administrative expenses in the consolidated statements of income.

A summary of remaining lease terms and discount rates at December 31, 2022 is as follows:

| | |
|---|---|
| Weighted-average remaining lease term (years): | 18.92 |
| Weighted-average discount rate: | 1.90% |

**NOTE 7 - COMMITMENTS AND CONTINGENCIES**

Future minimum lease payments under operating leases in each of the following years ended, is as follows:

| | |
|---|---|
| Year ending December 31, | |
| 2023 | $ 6,375,242 |
| 2024 | 6,332,982 |
| 2025 | 5,965,111 |
| 2026 | 6,096,205 |
| 2027 | 5,942,982 |
| Thereafter | 66,825,642 |
| Total undiscounted lease liabilities | 97,538,164 |
| Less interest | (17,831,802) |
| Total present value of minimum lease payments | 79,706,362 |
| Lease liabilities - current portion | 4,925,873 |
| Lease liabilities - long term portion | $ 74,780,489 |

**NOTE 8 - RELATED PARTY**

Before the acquisition of LPRH on January 2, 2022, the Company had a treasury management process in which each consolidated entity's cash is swept into a concentration account at AMG 2.0 LLC. LPRH, which was previously an unconsolidated related party entity, and was a guarantor of the Company debt, was subject to the same process through a deposit account control agreement. At December 31, 2021, the cash balance due to the related party totaled approximately $1,619,000.

The Company entered into membership interest purchase agreements with R&H of LPRH, LLC, a related party, to obtain the issued and outstanding membership interests of NOA and LPRH. As part of the agreements, the Company entered into promissory notes equal to the purchase price with principal installments of $737,500 payable quarterly commencing in 2024 with a 10.5% interest rate. At December 31 2022, the outstanding note payables are $23,600,000.

**NOTE 9 - SUBSEQUENT EVENTS**

The Company has evaluated subsequent events through July 17, 2023, which is the date the consolidated financial statements were available to be issued.