
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K/A

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of report (Date of earliest event reported): **July 1, 2025**

ASTRANA HEALTH, INC.
(Exact Name of Registrant as Specified in Charter)

Delaware
(State or Other Jurisdiction
of Incorporation)

001-37392
(Commission
File Number)

95-4472349
(I.R.S. Employer
Identification No.)

1668 S. Garfield Avenue, 2nd Floor, Alhambra, California 91801
(Address of Principal Executive Offices) (Zip Code)

(626) 282-0288
Registrant's Telephone Number, Including Area Code

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, \$0.001 par value per share	ASTH	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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.

Explanatory Note

On July 2, 2025, Astrana Health, Inc. (the “Company”) filed a [Current Report on Form 8-K](#) (the “Initial Form 8-K”) to report that it had completed the acquisition of all of the outstanding equity interests of Prospect Health Plan, Inc. and Alta Newport Hospital, LLC (d/b/a Foothill Regional Medical Center), and substantially all the assets of certain direct and indirect subsidiaries of PHP Holdings, LLC (“PHPH”), pursuant to the Asset and Equity Purchase Agreement, dated November 8, 2024, by and among the Company and certain direct and indirect subsidiaries party thereto, PHPH, PHS Holdings, LLC, Prospect Intermediate Holdings, LLC, Prospect Provider Group RI, LLC, certain other related entities party thereto and Prospect Medical Holdings, Inc., as Seller Representative (such acquisition, the “Transaction” and such acquired entities and assets, the “Acquired Business”).

This Current Report on Form 8-K/A amends the Initial Form 8-K to include the audited financial statements of business acquired required by Item 9.01(a) and unaudited pro forma consolidated financial information required by Item 9.01(b) of Form 8-K and to update certain disclosures under Item 9.01(a) and (b) of the Initial Form 8-K. Such information should be read in conjunction with the Initial Form 8-K. Except as provided herein, the disclosures made in the Initial Form 8-K remain unchanged.

Item 9.01 Financial Statements and Exhibits.

(a) Financial Statements of Business Acquired.

The audited financial statements of the Acquired Business as of and for the fiscal years ended September 30, 2024 and 2023, and the related Report of Independent Auditors, and the unaudited financial statements of the Acquired Business as of and for the six months ended March 31, 2025 and for the six months ended March 31, 2024, including, in each case, the accompanying notes, are filed as [Exhibit 99.1](#) and [Exhibit 99.2](#), respectively, to this Current Report on Form 8-K/A and are incorporated herein by reference.

(b) Pro Forma Financial Information.

The unaudited pro forma condensed combined balance sheet of the Company as of March 31, 2025 and the unaudited pro forma condensed combined statements of operations of the Company for the fiscal year ended December 31, 2024 and for the three months ended March 31, 2025 (collectively, the “Unaudited Pro Forma Financial Information”) are filed as [Exhibit 99.3](#) to this Current Report on Form 8-K/A and are incorporated herein by reference. The Unaudited Pro Forma Financial Statements give effect to the Transaction and related transactions.

The Unaudited Pro Forma Financial Information is presented for illustrative purposes only and is not intended to represent or be indicative of the Company’s consolidated results of operations or financial position that would have been reported had the Transaction and related transactions been completed as of the dates presented in the Unaudited Pro Forma Financial Information. The Unaudited Pro Forma Financial Information should not be taken as a representation of the Company’s future consolidated results of operations or financial condition. The pro forma adjustments in the Unaudited Pro Forma Financial Information are based on available information and certain assumptions that management believes are reasonable under the circumstances.

(d) Exhibits.

Exhibit No.	Description
23.1	Consent of BDO USA, P.C.
99.1	Audited financial statements of the Acquired Business as of and for the fiscal years ended September 30, 2024 and 2023 and the related Report of Independent Auditors, including the notes thereto.
99.2	Unaudited financial statements of the Acquired Business as of and for the six months ended March 31, 2025 and for the six months ended March 31, 2024, including the notes thereto.
99.3	Unaudited pro forma condensed combined balance sheet of Astrana Health, Inc. as of March 31, 2025 and unaudited pro forma condensed combined statements of operations of Astrana Health, Inc. for the fiscal year ended December 31, 2024 and for the three months ended March 31, 2025.
104	Cover Page Interactive Data File (the cover page XBRL tags are embedded within the inline XBRL 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 hereunto duly authorized.

ASTRANA HEALTH, INC.

Date: September 11, 2025

By: /s/ Brandon K. Sim
Name: Brandon K. Sim
Title: Chief Executive Officer and President

Consent of Independent Auditor

We hereby consent to the incorporation by reference in the Registration Statements of Forms S-3 (No. 333-229895, No. 333-228432, No. 333-274013, and No. 333-274021) and Forms S-8 (No. 333-153138, No. 333-217719, No. 333-221900, No. 333-221915, No. 333-275289, No. 333-275642, No. 333-288054 and No. 333-280143) of Astrana Health, Inc. of our report dated February 12, 2025, relating to the combined and consolidated financial statements of PHP Holdings, LLC & Rhode Island Market, which appears in this Form 8-K.

/s/ BDO USA, P.C.
Costa Mesa, California

September 11, 2025



PHP Holdings, LLC & Rhode Island Market

Combined and Consolidated Financial Statements

As of and for the Years Ended
September 30, 2024 and 2023

The report accompanying these financial statements was issued by
BDO USA, P.C., a Virginia professional corporation, and the U.S. member
of BDO International Limited, a UK company limited by guarantee.



PHP Holdings, LLC & Rhode Island Market

Combined and Consolidated Financial Statements

As of and for the Years Ended September 30, 2024 and 2023

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Independent Auditor's Report

Board of Directors
PHP Holdings, LLC
Orange, California

Opinion

We have audited the combined and consolidated financial statements of PHP Holdings, LLC and Rhode Island Market (the Company), which comprise the combined and consolidated balance sheets as of September 30, 2024 and 2023, and the related combined and consolidated statements of operations, members' deficit and mezzanine equity, and cash flows for the years then ended, and the related notes to the combined and consolidated financial statements.

In our opinion, the accompanying combined and consolidated financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2024 and 2023, 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 the Company 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the combined and 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 combined and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the combined and consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the combined and consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined and 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 combined and consolidated financial statements.

BDO USA, P.C., a Virginia professional corporation, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO is the brand name for the BDO network and for each of the BDO Member Firms.



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 combined and 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 combined and 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 the Company'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 combined and consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company'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.

/s/ BDO USA, P.C.
February 12, 2025

Combined and Consolidated Financial Statements

PHP Holdings, LLC & Rhode Island Market

Combined and Consolidated Balance Sheets
(In thousands, except share amounts)

September 30,	2024	2023
Assets		
Current assets:		
Cash and cash equivalents	\$ 151,255	\$ 88,854
Hospital fee program receivable	18,385	21,884
Patient accounts receivable, net of allowance for credit losses of \$39,468 and \$73,439	16,043	18,628
Due from government payers	228	861
Risk pool and other receivables, net	39,934	52,062
Prepaid expenses and other current assets	9,244	8,451
Note receivable	1,375	-
Total current assets	236,464	190,740
Property, improvements and equipment, net	22,720	24,388
Operating lease right-of use assets	5,577	7,381
Deferred income taxes, net	-	16,646
Deposits and other assets	374	4,543
Goodwill	29,587	29,374
Restricted cash	1,385	1,815
Note receivable, net of current portion	500	-
Total assets *	\$ 296,607	\$ 274,887
Liabilities and members' equity		
Current liabilities:		
Accrued medical claims and other healthcare costs payable	\$ 131,182	\$ 116,655
Accounts payable and other accrued liabilities	106,666	104,795
Accrued salaries, wages and benefits	24,960	19,259
Hospital fee program liability	7,330	6,373
Due to government payers	5,073	7,354
Income taxes payable	18,468	46,730
Current portion of long-term debt	47,579	119
Current portion of finance lease liabilities	702	513
Current portion of operating lease liabilities	2,461	2,603
Other current liabilities	194	1,575
Total current liabilities	344,615	305,976
Long-term debt, net of current portion	1,129,595	1,062,097
Finance lease liabilities, net of current portion	1,723	1,346
Operating lease liabilities, net of current portion	3,933	5,881
Malpractice reserves	2,269	1,640
Other long-term liabilities	6,764	5,910
Total liabilities *	\$ 1,488,899	\$ 1,382,850

PHP Holdings, LLC & Rhode Island Market

Combined and Consolidated Balance Sheets (Continued)
(In thousands, except share amounts)

September 30,	2024	2023
Commitments and Contingencies (Note 7)		
Mezzanine equity:		
Redeemable convertible preferred stock	\$ 75,295	\$ 75,295
Members' deficit:		
Common stock	-	-
Additional paid-in capital	151,433	151,370
Accumulated deficit	(1,400,560)	(1,321,871)
Due from related party	(18,605)	(12,902)
Total PHP Holdings, LLC's & RI Market members' deficit	(1,267,732)	(1,183,403)
Non-controlling interests	145	145
Total members' deficit	(1,267,587)	(1,183,258)
Total liabilities, mezzanine equity and members' deficit	\$ 296,607	\$ 274,887

See accompanying notes to the combined and consolidated financial statements.

* The Company's combined consolidated balance sheets include the assets and liabilities of its consolidated VIEs. The combined consolidated balance sheets include total assets that can be used only to settle obligations of the Company's consolidated VIEs totaling approximately \$131,505 and \$133,871 as of September 30, 2024 and 2023, respectively, and total liabilities of the Company's consolidated VIEs for which creditors do not have recourse to the general credit of the primary beneficiary of approximately \$98,009 and \$103,050 as of September 30, 2024 and 2023, respectively.

PHP Holdings, LLC & Rhode Island Market

Combined and Consolidated Statements of Operations
(In thousands)

Years Ended September 30,	2024	2023
Operating revenues:		
Capitation	\$ 1,044,463	\$ 889,180
Patient services, net	109,811	95,721
Management fees	25,392	25,664
Other operating revenues	14,934	32,636
Total net revenue	1,194,600	1,043,201
Cost of revenues:		
Claims expense	560,434	505,770
Capitation expense	240,061	191,637
Other cost of revenues	69,479	73,310
Total cost of revenues	869,974	770,717
Gross margin	324,626	272,484
Operating expenses:		
Salary and benefits	140,105	120,388
Outside services	26,424	20,884
Management fees	11,736	18,794
Professional fees	5,388	5,649
Marketing	3,138	3,730
Lease and rental expense	3,425	2,992
Repair, maintenance and utilities	4,511	4,168
Software licensing	8,205	4,911
Taxes, licenses and fees	6,997	5,842
Insurance	2,901	1,154
Depreciation and amortization	3,953	3,250
Other operating expenses	4,000	4,221
Total operating expenses	220,783	195,983
Operating income	103,843	76,501
Gain on purchased receivables from affiliate companies	-	25,770
Operating gain (loss) from unconsolidated joint venture	348	(102)
Interest expense	(138,251)	(58,401)
Other	(2,739)	95
(Loss) income before income taxes	(36,799)	43,863
Income tax expense	41,890	13,338
Net (loss) income attributable to PHP Holdings, LLC & RI Market	\$ (78,689)	\$ 30,525

See accompanying notes to the combined and consolidated financial statements.

PHP Holdings, LLC & Rhode Island Market

Combined and Consolidated Statements of Members' and Mezzanine Equity
(In thousands, except unit amounts)

	Mezzanine Equity	Additional Paid-in Capital	Accumulated Deficit	Due from related party	Members' (Deficit) Equity	Non- controlling Interests	Total Members' (Deficit) Equity
Balance at October 1, 2022	\$ -	\$ 17,467	\$ 496,857	\$ (564,354)	\$ (50,030)	\$ 147	\$ (49,883)
Reversal of goodwill amortization	-	-	9,007	-	9,007	-	9,007
Adjusted Balance at October 1, 2022	-	17,467	505,864	(564,354)	(41,023)	147	(40,876)
Issuance of 69,494 Series A-1 Preferred Units	75,295	-	-	-	-	-	-
Contribution of net assets due to restructuring transactions	-	133,913	-	-	133,913	-	133,913
Repurchase Nuestra NCI shares	-	(10)	-	-	(10)	(2)	(12)
Intercompany receivable write off due to restructuring and financing transactions	-	-	(845,059)	551,452	(293,607)	-	(293,607)
Note receivable write off	-	-	(69,967)	-	(69,967)	-	(69,967)
Collateralize affiliate LOCs	-	-	(24,110)	-	(24,110)	-	(24,110)
Issuance of convertible note	-	-	(721,631)	-	(721,631)	-	(721,631)
Payment of dividends	-	-	(197,493)	-	(197,493)	-	(197,493)
Net income	-	-	30,525	-	30,525	-	30,525
Balance at September 30, 2023	75,295	151,370	(1,321,871)	(12,902)	(1,183,403)	145	(1,183,258)
Contribution of net assets due to restructuring transactions	-	63	-	-	63	-	63
Due from related party	-	-	-	(5,703)	(5,703)	-	(5,703)
Net loss	-	-	(78,689)	-	(78,689)	-	(78,689)
Balance at September 30, 2024	\$ 75,295	\$ 151,433	\$ (1,400,560)	\$ (18,605)	\$ (1,267,732)	\$ 145	\$ (1,267,587)

See accompanying notes to the combined and consolidated financial statements.

PHP Holdings, LLC & Rhode Island Market

Combined and Consolidated Statements of Cash Flows
(in thousands)

Years Ended September 30,	2024	2023
Operating activities:		
Net (loss) income	\$ (78,689)	\$ 30,525
Adjustments to reconcile net (loss) income to net cash and restricted cash provided by operating activities:		
Depreciation and amortization	3,953	3,250
Amortization of deferred financing costs, net	(2,836)	(1,984)
Loan interest on Physician Co Term Loan PIK option	19,204	-
Loan interest on Bridge Loan PIK option	1,001	-
Gain on purchased receivables from affiliate companies	-	(25,770)
Gain on sale of assets, net	(11)	(94)
Gain on disposal of Amvi JV	(348)	-
Deferred income taxes, net	16,646	(20,567)
Changes in operating assets and liabilities:		
Patient accounts receivable	2,585	(7,546)
Due from government payers	633	772
Hospital fee program receivable	3,499	(6,371)
Risk pool and other receivables	12,128	(18,617)
Prepaid expenses and other current assets	2,677	(2,160)
Operating lease right-of-use asset, net	-	(145)
Accrued medical claims and other healthcare costs payable	14,527	33,491
Accounts payable and other accrued liabilities	57,404	89,551
Accrued salaries, wages and benefits	5,701	5,820
Hospital fee program liability	957	2,143
Due from government payers	(2,281)	3,172
Income taxes payable, net	10,505	22,277
Net cash and restricted cash provided by operating activities	67,255	107,747
Investing activities:		
Purchased receivables from affiliated companies, net	-	67,726
Proceeds from sale of occupational medicine	-	1,000
Purchases of property, improvements and equipment	(1,217)	(1,098)
Issuance of short-term notes receivable	(1,375)	-
Issuance of long-term notes receivable	(500)	-
Investment in Gateway Medicor – Rancho Cucamonga	(150)	-
Net cash and restricted cash (used in) provided by investing activities	(3,242)	67,628
Financing activities:		
Due from affiliated companies, net	(43,607)	(271,079)
Proceeds from long term debt	-	406,250
Proceeds from short term debt	48,311	-
Payment of debt issuance costs	(5,534)	(24,570)
Redeem preferred units	-	(34,563)
Repayment of debt	(119)	(101)
Repayment of finance leases	(578)	(475)
Collateralize affiliate letters of credit	-	(24,110)
Line of credit on restricted cash	(515)	-
Payment of dividends	-	(197,493)
Repurchase Nuestra NCI shares	-	(12)
Net cash and restricted cash used in financing activities	(2,042)	(146,153)

PHP Holdings, LLC & Rhode Island Market

Combined and Consolidated Statements of Cash Flows (Continued)
(In thousands)

Years Ended September 30,	2024	2023
Increase in cash and restricted cash	61,971	29,222
Cash and restricted cash, beginning of year	90,669	61,447
Cash and restricted cash, end of year	\$ 152,640	\$ 90,669
Supplemental disclosure of cash flow information:		
Interest paid	\$ 66,776	\$ 5,586
Supplemental disclosure of non-cash financing activities:		
Conversion of MPT note to equity	\$ -	\$ 721,631
Write off note receivable	-	69,967
Contribution of net assets due to restructuring transactions	63	133,913
Issuance of Series A-1 Preferred Units	-	75,295
Intercompany receivable write off due to restructuring and financing transactions	-	845,059

See accompanying notes to the combined and consolidated financial statements.

1. Organization

Business

PHP Holdings, LLC (the “Company” or “PHPH”) is a Delaware company formed on March 25, 2013. The Company was originally formed as a Delaware corporation and converted to a limited liability company on October 12, 2022. The Company is owned by Prospect Medical Holdings, Inc. (“PMH”), a Delaware corporation, and MPT Picasso Investors TRS, LLC, a Delaware limited liability company (“MPT”). PHPH’s subsidiaries consist of four primary reportable segments: Medical Group, Global Risk, Hospital Services and Holding companies’ segments. Prospect Health Services RI, Inc. (“PHSRI”) is a wholly owned subsidiary of PHS Holdings, Inc. (“PHSH”). PHSH is a wholly owned subsidiary of Coordinated Regional Care Group, Inc. (“CRCG”), which in turn is a wholly owned subsidiary of Prospect Medical Holdings, Inc. (“PMH” or “Holdings”). Prospect Provider Group RI, LLC (“PPGRI”) is a wholly owned subsidiary of Prospect Provider Groups, LLC, which is a wholly owned subsidiary of PMH. PHSRI and PPGRI, which are collectively referred to herein as the “Rhode Island Market” are the combined portion within these combined and consolidated financial statements.

Medical Group

Certain of the Company’s subsidiaries (collectively, the “Prospect Network”) contract with licensed physicians and other health care providers, and contract with managed care payers. PHPH’s subsidiaries include management services organizations that provide medical management systems and services to the Prospect Network and other third-party clients.

A. California

Prospect Medical Group, Inc. (“PMG”) is a California professional medical corporation and is an affiliated physician organization of PHPH. Pursuant to the restructuring described under “Holding Companies” below, PMG became an indirect subsidiary (through the nominee physician shareholder arrangement discussed below) effective March 30, 2023. PHPH controls PMG through means other than direct ownership of PMG’s voting common stock. As discussed below, control is effectuated through a nominee physician shareholder.

i. Organizational Structure

In addition to PMG itself, the California part of the Prospect Network consists of the following (each, an “Affiliate”):

Nuestra Familia Medical Group, Inc.
Prospect Health Source Medical Group, Inc.
AMVI/Prospect Medical Group (“AMVI/Prospect”)
Prospect Professional Care Medical Group, Inc.
Prospect NWOC Medical Group, Inc.
StarCare Medical Group, Inc.
Genesis HealthCare of Southern California, Inc., a Medical Group
Pomona Valley Medical Group, Inc. (“PVMG”)
Upland Medical Group, a Professional Medical Corporation (“UMG”)

The Affiliates are managed by Prospect Medical Systems, LLC (“PMS”) and, prior to March 31, 2023, ProMed Healthcare Administrators (“PHCA”), which are indirect wholly-owned subsidiaries of PHPH. All of the Affiliates are wholly owned by PMG, with the exception of AMVI/Prospect (“AMVI” or “JV”), which was a 50/50 Joint Venture between AMVI Care Health Network, Inc. and PMG that was terminated and dissolved effective September 30, 2024 as noted in Note 9. PMG is owned by Prospect Intermediate Physician Holdings, Inc. (“PIPH”), a California professional medical corporation that is owned by Prospect Physician Holdings, Inc., another California professional medical corporation (“PPH”). PPH is owned by a nominee physician shareholder pursuant to an assignable option agreement described below. The results of the entire Prospect Network, with the exception of AMVI/Prospect, are consolidated in the accompanying combined and consolidated financial statements.

PMS has entered into an assignable option agreement with PPH and a nominee physician shareholder. Under the assignable option agreement, PMS acquired an assignable option for a nominal amount from PPH and the nominee shareholder to designate the purchaser (successor physician) for all or part of PPH's issued and outstanding stock held by the nominee physician shareholder (the "Stock Option") in its sole discretion. PMS may also assign the assignable option agreement to any California licensed physician. The assignable option agreement has a term of 30 years. The Stock Option may be exercised for a purchase price of \$1,000. PMS has the unilateral right to establish or effect a change of the nominee, at will, and without the consent of the nominee, on an unlimited basis and at nominal cost.

PMG's Affiliates have each entered into a MSA and each Affiliate has agreed to pay a management fee to PMS or previously to PHCA, as applicable (each of which is a wholly-owned subsidiary of PHPH), which is based in part on the costs to the management company and on a percentage of revenues the Affiliate receives for (i) arranging for the provision of medical services by the Affiliate's independent contractor physicians and other licensed healthcare providers, and (ii) other services requested by its contracted health plans. The revenue from which this fee is determined includes medical capitation, sums earned from participation in risk pools, and other performance fees paid by the health plans. In return for payment of the management fee, PMS, and previously PHCA have agreed to provide financial management, information systems, marketing, advertising, public relations, risk management, utilization review, quality of care, and administrative support. The Company and its subsidiaries underwent a restructuring described under "Holding Companies" below. For tax consolidation purposes, effective March 31, 2023, the rights and obligations of PMS and PHCA under each MSA with PMG and its Affiliates were assigned to their new parent company, Prospect Intermediate Physician Holdings, Inc. ("PIPH"), and then subcontracted first to PIPH's parent company, Prospect Physician Holdings, Inc. ("PPH"), and then back to PMS. Pursuant to such assignments, PCA assigned to PMS its management for PVMG and UMG and PHCA no longer has any operations.

ii. Global Risk

Prospect Health Plan, Inc. ("PHP") is a Delaware corporation and is licensed by the California Department of Managed Health Care ("DMHC") under the provisions of the Knox-Keene Health Care Service Plan Act of 1975 (the "Act") to operate as a health care service plan in California. PHP was initially restricted to providing and arranging for health care services to Medicare Advantage members through plan-to-plan contracts with fully-licensed health care service plans licensed under the Act. Later, PHP began providing services to Medicare Advantage ("MA") enrollees. PHP has entered into global capitation arrangements with certain third-party health plans (the "Global Capitation Agreements") and manages the provision of care for MA enrollees of those plans ("Capitated MA Enrollees") in coordination with certain subsidiaries and affiliates of PMH. PHP also received notice from the DMHC approving a material modification of its Knox-Keene application to expand the scope of its license to serve Medi-Cal and Cal MediConnect members. DMHC further granted additional modification to the Knox-Keene license to include Commercial enrollees effective November 30, 2020. PHP began accepting Commercial enrollees effective January 1, 2021.

Under the terms of the Global Capitation Agreements, PHP furnishes global risk services to the third-party health plans, including the assumption of responsibility for arranging medically necessary covered services by hospitals, physicians and other providers to capitated enrollees in a specific geographic area and the payment for such services. PHP receives global capitation payments from each health plan as payment for all such medically necessary covered services. PHP enters into agreements with healthcare providers to arrange for such services. The global capitation payments received by PHP are utilized to pay such providers in accordance with their respective agreements.

iii. Other Operations

Primary & Multi-Specialty Clinics of Anaheim Inc. (“PMCA”), dba Gateway Medical Center, is an indirect Company subsidiary owned under the nominee physician shareholder arrangement discussed above. PMCA owns and operates three primary care physician offices located in Anaheim and Santa Ana, California.

On December 1, 2023, Gateway Medicor - Rancho Cucamonga, Inc. (“GMRC”), a California professional medical corporation, purchased substantially all of the assets of the primary care medical practice of Abraham Chen, D.O. located in Rancho Cucamonga, California. The aggregate purchase price was \$300,000 with one remaining payment of \$150,000 due on December 1, 2024. GMRC is owned 51% by PIPH and the remaining 49% by Medicor Medical Group, Inc., a California professional medical corporation wholly-owned by Mark Shiu, D.O., the lead primary care physician providing care for the acquired practice.

The Company also owns and operates RightRX, a mail order specialty pharmacy dedicated to providing personalized care to patients with complex, chronic health conditions.

The Company’s Residential Care Program (“RCP”) is operated through New Genesis Medical Associates, Inc., an indirect Company subsidiary owned under the nominee physician shareholder arrangement. The RCP improves patient access through a care-at-home option and management of patients with chronic conditions.

B. Rhode Island

Prospect Health Services RI, Inc. (“PHSRI”) is a Delaware corporation and Prospect Provider Group RI, LLC (“PPGRI”) is a Delaware limited liability company. Both entities are duly qualified to do business in Rhode Island where they have entered into global capitation arrangements with certain third-party health plans and manage the provision of care for enrollees in coordination with PMS. PMS provides management services to both PHSRI and PPGRI under an administrative services agreement with a current term extending until July 2028 and with 1-year auto-renewals thereafter.

Effective February 16, 2024, PHSRI acquired a 10% membership interest in a newly formed primary care group in Rhode Island called HealthAdvisors, LLC, dba Breakwater Primary Care (“HealthAdvisors”). The interest is held through a nominee physician member pursuant to an assignable option agreement under which PHSRI acquired an assignable option for a nominal amount from HealthAdvisors and the nominee member to designate the purchaser (successor physician) for all or part of PHSRI’s 10% membership interest. PHSRI may also assign the assignable option agreement to any Rhode Island licensed physician. The assignable option agreement has an initial term of 30 years. The remaining 90% membership interests in HealthAdvisors are owned equally by four other Rhode Island primary care physicians.

C. Texas

Prospect Health Services TX, Inc. (“PHSTX”) and Prospect Provider Group TX, Inc. (“PPGTX”) are both Texas 501(a) non-profit health organizations. Pursuant to the restructuring described under “Holding Companies” below, beginning on March 30, 2023, both PHSTX and PPGTX became wholly-owned direct subsidiaries of the Company. Effective on May 23, 2023, with the inclusion of PIH (defined below) which became their direct parent company, PHSTX and PPGTX are now wholly-owned indirect subsidiaries of the Company.

PHSTX has entered into global capitation arrangements with certain third-party health plans and manages the provision of care for enrollees in coordination with PMS as described above. PMS provides management services to both PHSTX and PPGTX under management services agreements with current terms extending into 2029 with 5-year auto-renewals thereafter.

D. Arizona

Prospect Medical Group AZ, Inc. (“PMGAZ”) is an Arizona limited liability company. As with the Texas entities described above, PMGAZ initially became a wholly-owned direct subsidiary of the Company effective March 30, 2023 and a wholly-owned indirect subsidiary effective May 23, 2023 (after the inclusion of PIH). By amendment effective January 1, 2022, PMGAZ was added as a managed entity under the MSA between PMG and certain of its Affiliates and PMS described above.

Hospital Services

Alta Newport Hospital, LLC, dba Foothill Regional Medical Center (“Alta Newport”) operates an acute care hospital facility in Tustin, California.

Holding Companies

Prior to fiscal year 2023, PHP was the only direct or indirect subsidiary of the Company. During fiscal year 2023, PMH completed an internal restructuring that moved all of the Company’s other direct and indirect subsidiaries under a new direct subsidiary of the Company, Prospect Intermediate Holdings, LLC (“PIH”). At the time of the restructuring, the Company was wholly owned by PMH. PMG, which was wholly owned by a physician nominee, was moved under Prospect Intermediate Physician Holdings, Inc. (“PIPH”). PIPH is wholly owned by Prospect Physician Holdings, Inc. (“PPHI”), which is wholly owned by PMG’s prior physician nominee shareholder subject to the nominee physician shareholder arrangement described above.

2. Significant Accounting Policies

Principles of Combination and Consolidation and Basis of Presentation

The combined and consolidated financial statements herein have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The combined and consolidated financial statements include all the accounts of PHPH and Rhode Island Market Affiliates in which it has a controlling financial interest. The results of the entire Prospect Network, with the exception of AMVI/Prospect, are combined in the accompanying combined and consolidated financial statements. Operating results for acquisitions are combined and consolidated with the Company’s combined and consolidated financial statements from their acquisition dates. All significant intercompany transactions have been eliminated in consolidation.

Prior period revisions

In connection with the acquisition of the Company (see Note 10) and filing of these combined and consolidated financial statements with the Securities and Exchange Commission (“SEC”), the Company has changed certain of its accounting policies to conform to the public business entity requirements. The Company had previously elected the accounting alternative to amortize goodwill on a straight-line basis over 10 years. The Company has changed this policy with retrospective effect and will no longer amortize goodwill but test goodwill at least annually for impairment. In conjunction therewith, the Company reversed previously recorded goodwill amortization of \$9,007,000 and adjusted retained earnings by the same amount as of October 1, 2022.

The Company has also reclassified its presentation of contingently redeemable preferred stock (see Note “Mezzanine equity” below for further information) of \$75,295,000 from member’s equity to mezzanine equity.

Use of Estimates

The preparation of combined and consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the combined and consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Principal areas requiring the use of estimates include settlements under risk-sharing programs, valuation of patient receivables, assets under operating and finance leases, medical claims and other healthcare costs payable, professional and general liability claims, reserves for potential absorption of claims unpaid by insolvent providers, impairment of goodwill, lease liabilities, debt, reserves for the outcome of litigation and valuation allowances against deferred tax assets.

Revenues

The Company recognizes net revenues in the period in which performance obligations to customers are satisfied under contracts by transferring our services. Net revenues are recognized in the amounts to which the Company expects to be entitled, which are the transaction prices allocated to the distinct services.

PHP Holdings, LLC & Rhode Island Market

Notes to Combined and Consolidated Statements

Revenues by reportable segment are comprised of the following amounts (in thousands):

<i>For the Years Ended September 30,</i>	2024	2023
Medical Group		
Capitation	\$ 377,571	\$ 348,031
Management fees	22,920	23,200
Patient Services, net	1,464	1,032
Other	1,325	10,954
Total Medical Group revenues	403,280	383,217
Global Risk		
Capitation	666,892	540,953
Management fees	2,472	2,464
Other	13,349	21,380
Total Global Risk revenues	682,713	564,797
Net Hospital Services		
Patient Services, net	108,347	94,689
Capitation	-	196
Other	260	302
Total Hospital Services revenues	108,607	95,187
Total net revenues, net	\$ 1,194,600	\$ 1,043,201

Medical Group and Global Risk Revenues

Managed care revenues consist primarily of payments for medical services procured by the Affiliates under capitated contracts with various managed care providers including health maintenance organizations ("HMOs"). Capitation revenue is paid monthly to the Company based on the number of enrollees under the capitated contracts on a per member per month ("PMPM") basis.

Capitation Revenues

Capitation revenue is recognized in the month in which the providers are obligated to provide services (stand-ready obligation). Minor ongoing adjustments to prior months' capitation, primarily arising from contracted HMOs' finalizing of monthly patient eligibility data for additions or subtractions of enrollees, are recognized in the month they are communicated to the Company. Additionally, Medicare pays capitation using a "Risk Adjustment" model, which compensates managed care organizations and providers based on the health status (acuity) of each enrollee. Under Risk Adjustment, capitation is determined based on health severity, measured using patient encounter data. Capitation is paid on an interim basis based on data submitted for the enrollee for the preceding year and is adjusted in subsequent periods the final data is compiled. Positive or negative capitation adjustments are made for Medicare enrollees with conditions requiring more or less healthcare services than assumed in the interim payments. Since the Company cannot reliably predict these adjustments, periodic changes in capitation amounts earned as a result of Risk Adjustment are recognized generally in the fourth quarter when those changes are communicated by the health plans to the Company. The Company did not accrue or recognize a reduction in revenue as a result of the final Hierarchical Condition Category ("HCC") reconciliation during the year ended September 30, 2024. The Company accrued and recognized as a reduction in revenue, approximately \$3,881,000 as a result of the final Hierarchical Conditional Category reconciliation during the year ended September 30, 2023. Additionally, the Company received and recorded as additional Risk Adjustment revenue of approximately \$22,256,000 and \$24,527,000 in positive capitation risk adjustments during the years ended September 30, 2024 and 2023, respectively.

Per Member Per Month (“PMPM”) managed care contracts generally have a term of one year or longer. All managed care contracts have a single performance obligation that constitutes a series for the provision of managed healthcare services for a population of enrolled members for the duration of the contract. The transaction price for PMPM contracts is variable as it primarily includes PMPM fees associated with unspecified membership that fluctuates throughout the contract. In certain contracts, PMPM fees also include additional awards such as performance incentives, performance guarantees and risk sharing. The Company generally estimates the transaction price using the most likely amount methodology and amounts are only included in the net transaction price to the extent that it is probable that a significant reversal of cumulative revenue will not occur once any uncertainty is resolved. The majority of the Company’s net PMPM transaction price relates specifically to the Company’s efforts to transfer the service for a distinct increment of the series (e.g. month) and is recognized as revenue in the month in which members are entitled to service.

Risk Pool Revenues

HMO contracts also include provisions to share in the risk for hospitalization (the “Risk Pool”), whereby the physician organization can earn additional incentive revenue or incur penalties based upon the utilization of hospital services. Typically, Risk Pool deficits are not payable until and unless the Company generates future surpluses. At the termination of the HMO contract, any accumulated deficit is typically extinguished. Due to the lack of access to information necessary to estimate the related costs, Risk Pool amounts receivable from the HMOs are only recognized, using the most likely methodology, and only included in revenue to the extent that it is probable that a significant reversal of cumulative revenue will not occur. Risk Pool for the prior contract years are generally final settled in the third or fourth quarter of the following fiscal year. For the years ended September 30, 2024 and 2023, Medical Group revenues included approximately \$1,554,000 and \$1,454,000, respectively, relating to Risk Pool profit included in other revenues. At September 30, 2024 and 2023, contingent liabilities for carry-forward risk-pool deficits expected to be forgiven, or offset against future surpluses, were approximately \$20,091,000 and \$23,980,000, respectively, based on the available information from the health plans.

The Company also receives incentives under “pay-for-performance” programs for quality medical care, based on various criteria. The incentive programs track specific performance measures and calculate payments to the Company based on the performance measures. The Company’s incentives under “pay-for-performance” programs are recognized using the most likely methodology. However, as the Company does not have sufficient insight from the health plans on the amount and timing of the shared risk pool and incentive payments these amounts are considered to be fully constrained and only recorded when such payments are known and/or received. Performance and incentive revenues recorded during the years ended September 30, 2024 and 2023 were approximately \$9,629,000 and \$6,125,000, respectively, included in other revenues.

Medical Group Management Fees

The Company enters into distinct explicit contracts with affiliated and unaffiliated customers to provide management services. The management fee is charged in exchange for the management, administrative, and non-medical services provided by the Company to its customers. The Company's customers benefit from all of these services together and they are not separable under the various contracts. For the unaffiliated customers the Company recognizes management fee revenues for the period in which the performance obligations under the contracts are satisfied using the as invoiced practical expedient. For affiliated customers the Company recognizes management fee revenues for the period in which the performance obligations under the contracts are satisfied over time. Since the period over time represents a single month of services and is of such short duration, this approximates to a point in time.

Management fee arrangements with affiliated and unaffiliated entities is variable in nature because the majority of the fees are generally based on revenue, which can vary from period to period. The Company has control over pricing. Contractual fees are invoiced to the Company's clients generally monthly and payment terms are typically due within 30 days. The variable consideration in the Company's management contracts meets the criteria to be allocated to the distinct period of time to which it relates because (i) it is due to the activities performed to satisfy the performance obligation during that period and (ii) it represents the consideration to which the Company expects to be entitled. The Company uses the expected value method to determine the variable consideration. The Company received approximately \$17,978,000 or 71% and \$17,762,000 or 70% during the years ended September 30, 2024 and 2023, respectively, of its management services revenue from unaffiliated entities. See Note 5 for the management fees earned from affiliated entities (related parties).

Contract assets represent rights to payment for performance contingent on something other than the passage of time, and accounts receivable are rights to payment for performance without contingencies. Contract liabilities represent cash that has been received for contracts, but for which performance is still unsatisfied. As of September 30, 2024, the Company does not have any contract assets or contract liabilities.

Out of state networks earn infrastructure revenues, a fixed fee arrangement based on per member per month ("PMPM"), is prepaid monthly to the Company based on the number of enrollees under contracts. The transaction price for PMPM contracts is variable as it primarily includes PMPM fees associated with unspecified membership that fluctuates throughout the contract. The Company earned \$2,472,000 and \$2,464,000 during the years ended September 30, 2024 and 2023, respectively, which is reported as part of management fee revenues. In certain contracts, PMPM fees also include additional awards such as performance incentives, performance guarantees and risk sharing. The Company generally estimates the transaction price using the most likely amount methodology and amounts are only included in the net transaction price to the extent that it is probable that a significant reversal of cumulative revenue will not occur once any uncertainty is resolved. The majority of the Company's net PMPM transaction price relates specifically to the Company's efforts to transfer the service for a distinct increment of the series (e.g. month) and is recognized as revenue in the month in which members are entitled to service.

Global Risk Management Fees

The revenues consist primarily of payments for medical services procured under global capitation arrangements from third-party health plans. Capitation revenue under these global capitation contracts is prepaid monthly to the Global Risk Management segment based on the number of enrollees.

Management fee arrangements with unaffiliated entities provide for compensation ranging from 6.5% to 10% of revenues. Consideration from management contracts is variable in nature because the majority of the fees are generally based on revenue or collections, which can vary from period to period. The Company has control over pricing. Contractual fees are invoiced to the Company's clients generally monthly and payment terms are typically due within 30 days. The variable consideration in the Company's management contracts meets the criteria to be allocated to the distinct period of time to which it relates because (i) it is due to the activities performed to satisfy the performance obligation during that period and (ii) it represents the consideration to which the Company expects to be entitled.

Hospital Services Revenues

The Company reports Fee-For-Service ("FFS") net patient service revenues at the amounts that reflect the consideration it expects to be entitled to in exchange for providing patient care. These amounts are due from patients, third-party payers (including managed care payers and government programs) and others, and they include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations. Generally, the Company bills patients and third-party payers several days after the services are performed or shortly after discharge. Revenues are recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided and revenues are recognized when performance obligations are satisfied over time based on actual charges incurred in relation to total expected charges. This method provides a faithful depiction of the transfer of services over the term of performance obligations based on the inputs needed to satisfy the obligations. Generally, performance obligations satisfied over time relate to patients in the Company's hospitals receiving inpatient acute care services. The Company measures the performance obligation from admission into the hospital, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. Patient encounters and related episodes of care and procedures qualify as distinct goods and services, provided simultaneously together with other readily available resources, in a single instance of service, and thereby constitute a single performance obligation for each patient encounter and, in most instances, occur at readily determinable transaction prices. All services provided are expected to result in cash flows and are therefore reflected as net revenue in the combined and consolidated financial statements.

The transaction price is determined based on gross charges for services provided, reduced by contractual adjustments provided to third-party payers, discounts provided to uninsured patients, and implicit price concessions provided primarily to uninsured patients. The estimates of contractual adjustments and discounts are based on contractual agreements, discount policies and historical cash collection experience. As a practical expedient, the Company adopted a portfolio approach for the FFS revenue stream to group together contracts with similar characteristics and analyze historical cash collections trends. The contracts within the portfolio share the characteristics conducive to ensuring that the results do not materially differ if it were to be applied to individual patient contracts related to each patient encounter.

Gross charges are retail charges. They are not the same as actual pricing, and they generally do not reflect what a hospital is ultimately paid and, therefore, are not displayed in our combined and consolidated statements of operations. Hospitals are typically paid amounts that are negotiated with insurance companies or are set by the government. Gross charges are used to calculate Medicare outlier payments and to determine certain elements of payment under managed care contracts (such as stop-loss payments). Because Medicare requires that a hospital's gross charges be the same for all patients (regardless of payer category), gross charges are what hospitals charge all patients prior to the application of discounts and allowances.

Notes to Combined and Consolidated Statements

The Company is responsible for confirming member eligibility, performing program utilization review, potentially directing payment to the provider and accepting the financial risk of loss associated with services rendered, as specified within the Company's patient contracts. The Company has the ability to adjust contractual fees with patients and possess the financial risk of loss in certain contractual obligations. These factors indicate the Company is the principal and, as such, the Company records gross fees contracted with patient in revenues.

Revenues under the traditional FFS service Medicare and Medicaid programs are based primarily on prospective payment systems. Retrospectively determined cost-based revenues under these programs, which were more prevalent in earlier periods, and certain other payments, such as disproportionate share hospital and bad debt expense reimbursement, which are based on our hospitals' cost reports, are estimated using historical trends and current factors. Cost report settlements under these programs are subject to audit by Medicare and Medicaid auditors and administrative and judicial review, and it can take several years until final settlement of such matters is determined and completely resolved. The Company records accruals to reflect the expected final settlements on cost reports. For filed cost reports, the accrual is recorded based on those cost reports and subsequent activity. The accrual for periods for which a cost report is yet to be filed is recorded based on estimates of what the Company expects to report on the filed cost reports. After the cost report is filed, the accrual may need to be adjusted in future periods as they become known.

Hospital Services revenues primarily consist of net patient service revenues, principally for patients covered by Medicare, Medicaid, managed care and other health plans, as well as certain uninsured patients and other uninsured discount and charity programs. Additionally, Hospital Services revenues include revenues from capitation arrangements that are made directly made with various managed care providers.

Patients who are covered by third-party payers are responsible for related co-pays, co-insurance and deductibles, which vary in amount. The Company estimates the transaction price for patients with co-pays, co-insurance and deductibles and for those who are uninsured based on historical collection experience and current market conditions. The discount offered to certain uninsured patients is recognized as a contractual allowance, which reduces net revenues at the time the self-pay accounts are recorded. The uninsured patient accounts, net of contractual allowances recorded, are further reduced to their net realizable value at the time they are recorded through implicit price concessions based on historical collection trends for self-pay accounts and other factors that affect the estimation process. Although outcomes vary, the Company's policy is to attempt to collect amounts due from patients, including co-pays, co-insurance and deductibles due from patients with insurance, at the time of service while complying with all federal and state statutes and regulations. All of the Company's hospital facilities are subject to Emergency Medical Treatment and Active Labor Act ("EMTALA"). This federal law and accompanying regulations require any hospital that participates in the Medicare program to conduct an appropriate medical screening examination of every person who comes to the hospital's emergency department for treatment and, if the patient is suffering from an emergency medical condition, to either stabilize that condition or make an appropriate transfer of the patient to a facility that can treat the condition. The obligation to screen and stabilize emergency medical conditions exists regardless of a patient's ability to pay for treatment. There are severe penalties under EMTALA for violations of the law and regulations, including if a hospital fails to screen or appropriately stabilize or transfer a patient, or if the hospital delays appropriate treatment in order to first inquire about the patient's ability to pay. Penalties for violations of EMTALA include civil monetary penalties and exclusion from participation in the Medicare program.

The Company provides charity care to patients who lack financial resources and are deemed to be medically indigent based on criteria established under the Company's charity care policy. This care is provided without charge or at amounts less than the Company's established rates. Because the Company does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as net revenues. Direct and indirect costs for providing charity care are estimated by calculating a ratio of cost to gross charges and then multiplying that ratio by the gross uncompensated charges associated with providing care to charity patients.

The Company recognizes revenues related to supplemental Medi-Cal payments under California provider fee programs (applicable to medical facilities serving a disproportionate number of low-income patients) using the most likely outcome method, which is based on formulas contained in the legislation as well as modeling performed by the California Hospital Association ("CHA"). The estimates also consider whether it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. These programs are funded by quality assurance fees paid by participating hospitals and matching federal funds.

Cost of Revenues

The cost of healthcare services consists primarily of capitation and claims payments, pharmacy costs and incentive payments to contracted providers. These costs are recognized in the period incurred, or when the services are provided. Claims costs also include an estimate of the cost of services which have been incurred but not yet reported to the Company. The estimate for accrued medical costs is based on projections of costs using historical studies of claims paid and adjusted for seasonality, utilization and cost trends. These estimates are subject to trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management records its best estimate of the amount of medical claims incurred at each reporting period. Estimates are continually monitored and reviewed and, as settlements are made or estimates adjusted, differences are reflected in the current period. See Note 8 for changes in accrued medical claims payable estimates during the years ended September 30, 2024 and 2023.

The Company has contractual reimbursement obligations to providers and discretionary incentive payment obligations to physicians. These incentive payments are in large part predicated on the pay-for-performance, shared risk revenues, and favorable senior capitation risk adjustment payments received by the Company from the health plans. The Company records these revenues generally in the third or fourth quarter of each fiscal year when the incentives and capitation adjustments due from the health plans are known. During this period, the Company also finalizes the physician discretionary incentive.

During the years ended September 30, 2024 and 2023, the Company recorded physician incentive bonus expenses totaling approximately \$28,100,000 and \$30,155,000, respectively, and is included in cost of revenues in the combined and consolidated statements of operations. As of September 30, 2024 and 2023, physician incentive bonus accruals were approximately \$36,156,000 and \$37,808,000, and were included in accounts payable and other accrued liabilities in the accompanying combined and consolidated balance sheets.

The Company also periodically evaluates the need to establish premium deficiency reserves for the probability that anticipated future health care costs could exceed future capitation payments from HMOs under capitated contracts and, where appropriate, records a premium deficiency reserve. There were no such premium deficiencies recorded at September 30, 2024 and 2023, respectively.

Cash and Cash Equivalents

Cash is primarily comprised of deposits with banks. The Company maintains its cash and cash equivalents at banks with high credit-quality ratings.

Restricted Cash

The Company is required by certain health plans to maintain a restricted cash balance in the form of a letter of credit restricted by the bank. Restricted cash was \$1,085,000 and \$1,515,000 as of September 30, 2024 and 2023, respectively. The Company is also required to keep \$300,000 restricted deposits by the DMHC for the payment of claims. Such restricted deposits, consisting of certificates of deposits with maturity dates of more than 90 days when purchased, are classified as a non-current asset in the accompanying combined and consolidated balance sheets as they are required by the DMHC in order to continue to operate under the Act. Restricted cash totaled \$1,385,000 and \$1,815,000 as of September 30, 2024 and 2023, respectively.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the balance sheets that sum to the total of the same amount shown in the statements of cash flows (in thousands):

	2024	2023
September 30,		
Cash	\$ 151,255	\$ 88,854
Restricted cash	<u>1,385</u>	<u>1,815</u>
	\$ 152,640	\$ 90,669

Patient Accounts Receivable, Net

Patient accounts receivable, include billed accounts and unbilled accounts for which there is the unconditional right to payment. Estimated amounts due from third-party payers for retroactive adjustments, are receivables if the right to consideration is unconditional and only the passage of time is required before payment of that consideration is due.

Receivables from government agencies are significant to our operations, but are not a significant credit risk. We do not believe there are any other significant concentrations of revenues from any particular payer that would subject us to any significant credit risks in the collection of our accounts receivable.

Changes in general economic conditions, patient accounting service center operations, payer mix, or federal or state governmental health care coverage could affect our collection of accounts receivable, cash flows and results of operations.

Estimated uncollectable amounts are generally considered implicit price concessions that are a direct reduction to patient accounts receivable. Such implicit price concessions may be caused by denials for payments for services due to issues over patient eligibility for medical coverage, the Company's ability to demonstrate medical necessity for services rendered and payer authorization of hospitalization.

Risk Pool Receivable

Risk pool receivable consist of risk revenues due from non-related parties. The Company continuously monitors its collections of receivables, and its policy is to write off receivables when they are determined to be uncollectible. As of September 30, 2024 and 2023, the Company does not have an allowance for doubtful accounts for risk pool receivable.

Contract Assets and Contract Liabilities

The receivables and payables related to California Hospital Fee Program are the significant contract assets and liabilities in the Company's financial statements. As of September 30, 2024 and 2023, the Company had receivables related to the California Hospital Fee Program of approximately \$18,385,000 and \$21,884,000, respectively, and had liabilities related to the California Hospital Fee Program of approximately \$7,330,000 and \$6,373,000, respectively, in the accompanying balance sheets.

Purchased Receivables

Prior to the termination of the RPA referenced in Note 5 below, the purchased receivables were acquired by the Company from hospital subsidiaries of PMH at current net carrying value on a non-recourse basis at a discount of 10%, which has been determined as a commercially reasonable rate for an "arm's length" third-party transaction and reflects the uncertainty of collections and time value of money. The Company accounted for its purchased receivables in accordance with the applicable accounting literature, which prescribes the accounting for the purchased receivables using either the interest method or the cost recovery method. The interest method applies an effective interest rate, or internal rate of return ("IRR"), to the cost basis of the receivables, which is to remain level, or unchanged throughout the life of the receivable unless there is an increase in subsequent expected cash flows. Recognition of revenue under the interest method is dependent on having a reasonable expectation about both the timing and the amount of cash flows expected to be collected. If the amount and timing of future cash flows is not reasonably estimable, the purchased receivable is accounted for under the cost recovery method. Application of the cost recovery method requires that any amounts received be applied first against the basis of the receivables until such time as the basis is fully recovered. Any additional amounts received are recognized as revenue. The Company accounted for all its purchased receivables under the cost recovery method. Purchased receivables are reported at the lower of carrying value or market value, and are reduced by any payment received. The Company monitored historical collection rates, as well as changes in applicable laws, rules and regulations and contract terms, as well as other information such as age of the receivables, to assure the purchased receivables were appropriately reserved using the most accurate information available, and based on that information recorded adjustments to reserves as needed. The Company recognized \$25,770,000 gain upon the termination of the purchased receivables arrangement during the year ended September 30, 2023.

Promissory Note Receivable

A note receivable for the Foothill Note referenced in Note 7 below is recorded at net realizable value and is due in less than a year. See Note 7 for a further description of the Foothill Note.

Property, Improvements and Equipment

Property, improvements and equipment are stated on the basis of cost or, in the case of acquisitions, at their acquisition date fair values. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, and amortization of leasehold improvements is provided using the straight-line basis over the shorter of the remaining lease period or the estimated useful lives of the leasehold improvements. Leasehold improvements are generally depreciated over 5 to 40 years, buildings and improvements are depreciated over 5 to 40 years, equipment is depreciated over 2 to 15 years and furniture and fixtures are depreciated over 2 to 20 years. Equipment capitalized under finance lease obligations are amortized over the lesser of the life of the lease or the useful life of the asset.

Leases

Leases with an initial term of greater than one month and less than 12 months (short-term leases) are not recorded on the Combined balance sheet and are expensed on a straight-line basis over the lease term. The majority of the Company's short-term leases relate to equipment and real estate. See Note 7 – "Commitments and Contingencies" for further information.

Income Taxes

Deferred income tax assets and liabilities are recognized for differences between financial and income tax reporting bases of assets and liabilities based on enacted tax rates and laws. To the extent a deferred tax asset cannot be recognized under the preceding criteria, allowances must be established. The impact on deferred taxes of changes in tax rates and laws, if any, are applied to the years during which temporary differences are expected to be settled and reflected in the combined and consolidated financial statements in the period of enactment. The Company recognizes interest and penalties associated with income tax matters in interest income, net and general and administrative expenses, respectively, on the combined and consolidated statements of operations.

An entity is required to evaluate its tax positions using a two-step process. First, the entity should evaluate the position for recognition. An entity should recognize the financial statement benefit of a tax position if it determines that it is more likely than not that the position will be sustained on examination. Next, the entity should measure the amount of benefit that should be recognized for those tax positions that meet the more-likely-than-not test.

Applicable accounting literature requires that the combined amount of current and deferred tax expense for a group that files a combined tax return, be allocated among the group members when those members issue separate financial statements. The Company is a member of combined and consolidated groups for federal and state, respectively, which file returns with its ultimate parent company. The Company adopts the separate return method modified for benefits-for-loss in provisioning for current and deferred income taxes. Under this method, the subsidiary is assumed to file a separate return with the taxing authority, thereby reporting its taxable income or loss and paying the applicable tax to or receiving the appropriate refund from the parent. However, when the benefit of the net operating loss and other tax attribute is recognized in the combined and consolidated financial statements, the subsidiary would generally reflect a benefit in its financial statements.

Under the separate return method, the carve-out entity calculates its tax provision as if it were filing its own separate tax return based on the pre-tax accounts included in the carve-out entity. This can result in perceived inconsistencies between the tax provision of the carve-out entity and the tax provision of the Combined group. This is acceptable, as the relevant literature acknowledges that if the separate return method is used, the sum of the amounts allocated to individual members of the group may not equal the consolidated amount.

Goodwill

Goodwill is measured as the excess of consideration transferred over the net amount of the acquisition date fair value of assets acquired, and liabilities assumed in a business acquisition.

The Company evaluates goodwill annually or whenever triggering events or circumstances at the entity level indicate that the fair value of the entity may be below its carrying amount. The Company first assesses qualitative factors to determine whether the quantitative impairment test is necessary. If that qualitative assessment indicates that it is more likely than not that goodwill is impaired, the Company performs the quantitative test to compare the entity's fair value with its carrying amount, including goodwill.

The goodwill impairment loss, if any, represents the excess of the carrying amount of the entity over its fair value. There was no goodwill impairment recorded during the years ended September 30, 2024 and 2023.

Medical Malpractice Reserves

The individual physicians who contract with the physician organizations carry their own medical malpractice insurance, some of which may be purchased from RRG or CHIC. In the Hospital Services segment, the Company's hospitals carry professional and general liability insurance to cover medical malpractice claims under claims-made policies. Under the policies, insurance premiums cover only those claims actually reported during the policy term. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims related to occurrences during the policy term and not reported prior to the termination may be uninsured. The Company's hospitals have a consolidated policy for professional and general liability insurance with a retention that applies per claim.

Concentrations of Credit Risk

Cash is maintained at financial institutions and, at times, balances may exceed federally insured limits of \$250,000 per depositor of each financial institution. The Company has not experienced any losses to date related to these balances.

The Company's credit risk with respect to health plan receivables is limited since amounts are generally due from large HMOs. Amounts due from affiliated companies and the Company are unsecured and non-interest bearing but are settled periodically. The Company periodically reviews the stand-alone financial performance and financial condition of the affiliated companies (see Note 5).

PHP Holdings, LLC & Rhode Island Market

Notes to Combined and Consolidated Statements

For the years ended September 30, 2024 and 2023, the Company received a total of approximately 59% and 51%, respectively, of its capitation revenue from its five largest Health Plan partners, as follows (in thousands):

<i>Years Ended September 30,</i>	<i>2024</i>	<i>% of Capitation Revenue</i>	<i>2023</i>	<i>% of Capitation Revenue</i>
Health Plan D	\$ 165,728	16%	Health Plan A	\$ 139,609
Health Plan A	144,454	14%	Health Plan F	90,823
Health Plan F	134,615	13%	Health Plan B	75,644
Health Plan G	87,060	8%	Health Plan C	72,535
Health Plan C	85,683	8%	Health Plan E	71,936
Total	\$ 617,540	59%		
				51%

Reserve Methodology

The claims reserve is based on the best data available to the Company. The estimate, however, is subject to a significant degree of inherent variability. The estimate is continually monitored and reviewed, and as the reserve is adjusted, the difference is reflected in current operations. While the ultimate amount of the medical malpractice and workers' compensation claims liability is dependent on future developments, management is of the opinion that the associated liabilities recognized in the accompanying combined and consolidated financial statements are adequate to cover such claims. Management is not aware of any potential claims whose settlement, if any, would have a material adverse effect on the Company's combined and consolidated financial position, results of operations or cash flows.

Mezzanine Equity

On May 23, 2023, the Company entered into the Third Amended and Restated Limited Liability Company Agreement (the "Agreement"). As a result, the Company issued 69,494 Series A-1 Preferred Units to MPT.

The Series A-1 Preferred Units holders are entitled to an annual preferred return of 8.00%, compounded annually, on the average daily balance of their unrecovered capital. This preferred return will accrue from the Agreement date until the holder's unrecovered capital is fully repaid. In the event of the Company's dissolution or liquidation, holders of Series A-1 Preferred Units are entitled to receive distributions before any distributions are made to common equity holders. After the payment of the preferred return and full recovery of unrecovered capital, holders of Series A-1 Preferred Units are entitled to participate in further distributions. This participation is, however, subject to the approval of the requisite Series A-1 Holders. The value of a membership interest in such a transaction is determined by the amount the holder would receive if the Company sold all its assets at fair market value, less liabilities. As of the reporting date, this price cannot be determined and will be calculated in a future period when the necessary information becomes available. Holders of the Series A-1 Preferred Units do not have voting rights, except as required by the Delaware Limited Liability Company Act (the "Delaware Act") or the LLC Agreement. However, the holder of the Phase I Convertible Note is treated as a holder of Series A-1 Preferred Units for purposes of exercising consent or approval rights tied to these units.

PHP Holdings, LLC & Rhode Island Market

Notes to Combined and Consolidated Statements

As of the reporting date, no additional Series A-1 Preferred Units have been issued upon conversion, exercise, or satisfaction of required conditions. Additionally, no changes were made to the conversion or exercise prices during the reporting period.

The Company's preferred stock is classified as mezzanine equity due to the buy/sell provision in the Company's LLC agreement. Under this provision, the holder has the right to initiate a buy/sell process, where the Company may either purchase the preferred stock or sell its units to the holder.

Recently Adopted Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments". The amendments in this standard require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. In addition, this standard amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendment is effective for nonpublic entities for annual reporting periods beginning after December 15, 2022. The Company has adopted ASU 2016-13 as of October 1, 2023, using the modified retrospective approach. This adoption did not have a material impact on combined and consolidated financial statements or notes to the combined and consolidated financial statements.

3. Property, Improvements and Equipment

Property, improvements and equipment, consisted of the following (in thousands):

<i>September 30,</i>	2024	2023
Land	\$ 5,800	\$ 5,800
Land improvements	5	5
Buildings and improvements	10,430	9,405
Leasehold improvements	3,457	3,487
Equipment and software	30,135	28,765
Furniture and fixtures	1,616	1,815
Less: accumulated depreciation	51,443 (31,363)	49,277 (28,122)
Construction in Progress	20,080 2,640	21,155 3,233
Property, improvements and equipment, net	\$ 22,720	\$ 24,388

Depreciation expense was approximately \$3,953,000 and \$3,250,000 for the years ended September 30, 2024 and 2023, respectively.

PHP Holdings, LLC & Rhode Island Market

Notes to Combined and Consolidated Statements

4. Goodwill

The changes in the carrying amount of goodwill for the years ended September 30 are as follows (in thousands):

<i>September 30,</i>	2024	2023
Balance, beginning of year	\$ 29,374	\$ 30,722
Addition of goodwill	213	-
Disposal of goodwill	-	(1,348)
Balance, end of year	\$ 29,587	\$ 29,374

5. Related Party Transactions

As discussed further under Note 7 below, PMH, the Company and another PMH subsidiary, Prospect Healthcare Facilities Management, LLC, are parties to an Amended and Restated Master Restructuring Agreement pursuant to which various financial obligations owed to MPT were restructured.

The Company and its subsidiaries underwent certain internal restructuring transactions for the purposes of the satisfaction of the intercompany accounts which is memorialized in the writing in an Intercompany Agreement effective May 22, 2023. The Company completed \$845,059,000 of intercompany receivable write off due to restructuring and finance transactions during the year ended September 30, 2023.

Receivables Purchase Agreement

As referenced in Note 2 (Purchased Receivables), on December 31, 2020, PMG entered into a Receivables Purchase Agreement (the “RPA”) with hospital subsidiaries of PMH in Pennsylvania, Rhode Island and Connecticut (collectively, the “Selling Hospitals”). Under the RPA, on the last calendar day of each month (“Purchase Date”), commencing in June 2020, the Selling Hospitals sold certain of their commercial patient accounts receivable to PMG on a non-recourse basis. Effective December 1, 2020, the Selling Hospitals in Rhode Island ceased selling receivables to PMG. The purchase price reflected a discount of 10% from the current net carrying value. On each Purchase Date, PMG paid 85% of the purchase price to the Selling Hospitals, and the remaining amount was paid within seven business days. The Selling Hospitals continued to collect the patient accounts receivable on behalf of PMG and remit weekly funds collected to PMG. The Selling Hospitals had no liability to PMG after the sale, except for the remittance of cash collected on such accounts, for which the Selling Hospitals charged an administrative fee. PMG had no receivables balance as of September 30, 2024 and 2023. The total service fees incurred during the years ended September 30, 2023 were approximately \$9,572,000 and are reflected in management fees to related party management companies in the accompanying combined and consolidated statements of operations.

PMG monitored historical collection rates, as well as changes in applicable laws, rules and regulations and contract terms, as well as other information such as age of the receivables, to assure the purchased receivables were appropriately reserved using the most accurate information available, and based on this information recorded adjustments to reserves as needed. PMG recognized \$25,770,000 gain upon termination of the purchased receivables arrangement during the year ended September 30, 2023.

Other Arrangements

PMG is a party to a risk pool sharing agreement with Southern California Healthcare System, Inc., dba Southern California Hospital at Culver City (“SCHS”), an affiliated entity wholly owned by PMH. Under the agreement, PMG and SCHS agreed to establish a Hospital Control Program (as defined) to serve HMO enrollees and earn incentive revenue or incur penalties by sharing in the risk for hospitalization based on inpatient services utilized. Risk pools are generally settled in the following year.

Alta Hospitals System, LLC (a wholly owned subsidiary of PMH) and/or its subsidiaries (collectively, “Alta”) has entered into agreements with several HMOs, pursuant to which, Alta’s hospitals provide hospital, medical, and other healthcare services to senior and Medi-Cal HMO enrollees under a fixed capitation arrangement (“Capitation Arrangement”). Alta has also entered into a risk pool sharing agreement with PMG and a management services agreement with PMS. Under the risk pool sharing agreement, Alta, PMG and PMS agreed to establish a Hospital Control Program (as defined) to serve the HMO enrollees, pursuant to which, PMG is allocated a 90% residual interest in the profit or loss, after deductions for costs to Alta’s hospitals. In August 2013, Alta entered into a similar arrangement with a new medical group pursuant to which, Alta, PMG and the medical group are allocated 10%, 30% and 60% residual interest, respectively, in the profit or loss, after deductions for costs to Alta’s hospitals. Under the management services agreement, PMS provides non-hospital and non-physician support activities that are required under the agreement with the HMO, in return for a monthly management fee of 10% of earned revenue (as defined). As of September 30, 2024 and 2023, approximately 5,600 and 6,300 HMO enrollees were covered under such Capitation Arrangements, respectively.

PMG has a Participating Physician Group Services Agreement (“PPGSA”) with Prospect Health Plan, Inc. (“PHP”). Effective March 31, 2023, PHP became a wholly-owned subsidiary of PHPH. Under the terms of the PPGSA, PHP retains a percentage of gross capitation received from health plans for members assigned to a Prospect Network provider and transfers a pre-determined percentage of remaining gross capitation to PMG for all professional and outpatient ancillary services, subject to the terms of the PPGSA. Approximately 111,300 and 75,700 enrollees were covered under the PPGSA as of September 30, 2024 and 2023 respectively.

PMG is also party to a Hospital Control Agreement (“HCA”) with PHP. Under the HCA, PHP and PMG agreed to share in the risk of providing medical services to enrollees. The profit or loss associated with providing such services to enrollees, including the management fee due PMS, is allocated 90% to PMG and 10% to PHP. PMG is also party to a risk sharing agreement with PHP and a third-party effective July 1, 2017. The profit or loss associated with providing such services to enrollees, including the management fee due PMS, is allocated 30% to PMG, 60% to a third party and 10% to PHP. Approximately 71,200 and 71,100 enrollees were covered under the HCA as of September 30, 2024 and 2023, respectively.

PMS has entered into various Management Service Agreements (each, an “MSA”), Administrative Service Agreements (each, an “ASA”) and Management Services Arrangements with related parties. PMS provides administrative services including network management, contracting, medical management, claims processing, eligibility services, financial management, information systems, marketing, advertising, and public relations (collectively, “Management Services”) for a management fee based on a percentage of capitation revenue earned by the related parties or fixed member per month amount dependent on membership composition defined in each MSA or ASA. The various MSA and ASA have various term lengths up to 30 years and subsequently automatically renew for additional terms unless notice is given by either party.

PHP Holdings, LLC & Rhode Island Market

Notes to Combined and Consolidated Statements

Management fees (in thousands) earned from related parties are as follows:

<i>For the Years Ended September 30,</i>	2024	2023
Alta Hospitals Systems, LLC	\$ 3,930	\$ 4,406
Southern California Healthcare Systems, Inc.	862	822
Prospect Health Services CT, Inc.	60	60
Prospect ACO NE, LLC	-	60
Prospect Health Services PA, Inc.	60	60
Coordinated Regional Care, Inc.	30	30
Total Management fees earned from related parties	\$ 4,942	\$ 5,438

The Company also incurred additional \$8,513,000 and \$7,300,000 management fees to CRCG during the years ended September 30, 2024 and 2023, respectively.

PHP also entered into Hospital Services Agreements (“HSAs”) separately with Alta Los Angeles Hospitals, Inc. (“Alta”), Southern California Healthcare System, Inc. (“SCH”), and Alta Newport, each of Alta and SCH are subsidiaries of PMH. Pursuant to the HSAs, Alta, SCH, and Alta Newport are responsible for providing all inpatient and outpatient hospital services to Capitated MA Enrollees assigned to them. PHP retains 2% of gross capitation received from health plans for capitated enrollees assigned to each of Alta, Alta Newport, and SCH and transfers 54% of the remaining gross capitation to Alta, SCH, and/or Alta Newport as applicable, to cover such inpatient and outpatient services. The 46% of the remaining gross capitation revenue is transferred for professional services to PMG and subs. PHP incurred \$182,574,000 and \$123,896,000 of such expenses during the years ended September 30, 2024 and 2023. These amounts are included in capitation expense, net in the accompanying combined and consolidated statements of operations.

Balances included in due from affiliated companies, net in the accompanying combined and consolidated balance sheets as of September 30, 2024 and 2023 are as follows (*in thousands*):

<i>For the Years Ended September 30,</i>	2024	2023
PMH and subsidiaries	\$ 18,605	\$ 12,902
Due from affiliated companies, net	\$ 18,605	\$ 12,902

The settlement of these balances is dependent upon the ability of the affiliated companies to repay the amounts due.

Promissory Note

As noted above, on May 23, 2023, PMG loaned \$75 million to PIH’s subsidiary, FRMC Hospital Property, LLC (Trustor) pursuant to the Foothill Note further described in Note 7 below. As also set forth in Note 7, effective November 17, 2023, the borrower made a prepayment in the amount of \$48,311,000 leaving a remaining principal balance at September 30, 2024 of \$26,689,000. This amount is eliminated during the preparation of the combined and consolidated financial statements.

PHP Holdings, LLC & Rhode Island Market

Notes to Combined and Consolidated Statements

6. Income Taxes

The components of the income tax expense are as follows (in thousands):

<i>Years Ended September 30,</i>	2024	2023
Current:		
Federal	\$ 23,182	\$ 17,074
State	2,062	5,204
	<hr/> 25,244	<hr/> 22,278
Deferred:		
Federal	13,011	(7,703)
State	3,635	(1,237)
	<hr/> 16,646	<hr/> (8,940)
Total:		
Federal	36,193	9,371
State	5,697	3,967
Total income tax expense	<hr/> \$ 41,890	<hr/> \$ 13,338

The Company's income tax expense differs from the amount that would have resulted from applying the federal statutory rate of 21% to income (loss) before income taxes because of the effect of the following items:

<i>Years Ended September 30,</i>	2024	2023
Tax provision at statutory rate	21.00%	21.00%
State taxes, net of federal benefit	(0.42)%	9.59%
Return to provision adjustments	(25.23)%	-%
Non-deductible permanent items	(0.43)%	(0.18)%
Valuation allowance	(111.59)%	-%
Rate differential	2.84%	-%
	<hr/> (113.83)%	<hr/> 30.41%

PHP Holdings, LLC & Rhode Island Market

Notes to Combined and Consolidated Statements

Temporary differences and carry-forwards that result in deferred income tax balances are as follows (in thousands):

<i>September 30,</i>	2024	2023
Deferred income tax assets:		
Accrued expenses	\$ 9,129	\$ 6,607
Charitable contribution	-	-
Deferred expense	338	340
Deferred revenue	1,473	1,245
Interest	28,330	5,553
Net operating losses	1,768	1,703
Investments	169	-
Reserves	30	45
State Tax	1,135	1,186
Property, plant & equipment	428	982
Other	9	10
Deferred tax assets	<u>42,809</u>	<u>17,671</u>
Valuation allowance	(42,098)	-
Deferred tax assets	<u>711</u>	<u>17,671</u>
Deferred tax liabilities:		
Investments	-	(324)
Prepaid expenses	(711)	(701)
Deferred tax liabilities	<u>(711)</u>	<u>(1,025)</u>
Total deferred income taxes, net	\$ -	\$ 16,646

Deferred income taxes are based on the estimated future tax effects of differences between the financial statement and tax bases of assets and liabilities under the provisions of the enacted tax laws. The differences between statutory and effective tax rates is primarily a result of state taxes.

Pursuant to the terms of the assignable option agreement and each MSA described in Note 1 above, the Company (via PMS, as a disregarded entity) is entitled to the economic rights and interest of Prospect Physician Holdings, Inc and subsidiaries.

A consolidated federal income tax return is filed for Prospect Physician Holdings, Inc. Separate federal income tax returns are filed for ProMed Health Care Administrators; Prospect Health Plan, Inc; Prospect Health Services, TX; Prospect Holdings, LLC; Prospect Provider Groups, TX; RIGHT RX.

Prospect Physician Holdings, Inc files a combined state income tax return in California. Separate California income tax returns are filed for ProMed Health Care Administrators; Prospect Health Plan, Inc; RIGHT RX. Separate Texas income tax returns are filed for Prospect Health Services, TX and Prospect Provider Groups, TX. Prospect Holdings, LLC files separate income tax returns in Arizona, California and Connecticut.

Income tax payable of \$18,467,646 and \$46,730,000 are included within the balance sheets, as of September 30, 2024, and 2023, respectively.

As of September 30, 2024, The Company has approximately \$4.5 million of gross federal and approximately \$9.1 million of gross state net operating loss carryforwards which expire in various years beginning in 2025 or carry forward indefinitely. We believe that it is more likely that the benefit from federal and state net operating loss carryforwards will not be realized. In recognition of this assessment, we have provided a full valuation allowance on the deferred tax assets related to net operating loss carryforwards. The annual benefit of net operating losses could be subject to limitation.

PHP Holdings, LLC & Rhode Island Market

Notes to Combined and Consolidated Statements

Management assesses the available positive and negative evidence to estimate whether sufficient future pretax income will be generated to permit use of the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the forecasted projected book loss over the five-year period ending September 30, 2029. Such objective evidence limits the ability to consider other positive subjective evidence. A valuation allowance of approximately \$42 million, was recorded for the period ending September 30, 2024. The amount of the deferred tax asset considered realizable, however, could be adjusted if negative objective evidence in the form of a three-year cumulative loss is no longer present and additional weight is given to subjective positive evidence.

Tax years for fiscal years ended September 30, 2020, to September 30, 2024, remain subject to future examination by taxing authorities in jurisdictions in which we are subject to tax.

7. Commitments and Contingencies

Debt

Debt consists of the following (in thousands):

<i>September 30,</i>	2024	2023
PhysicianCo Term Loan	\$ 398,370	\$ 379,166
The Phase I Convertible Note	717,839	664,613
Bridge Loan	51,001	-
Other	1,194	1,277
Total debt	<u>1,168,404</u>	<u>1,045,056</u>
Less: Debt, current portion	(51,186)	(119)
Long-term debt, net of current portion	<u>\$ 1,117,218</u>	<u>\$ 1,044,937</u>

PhysicianCo Term Loan

On May 23, 2023, a Financing Agreement (the “PhysicianCo Loan Agreement”) was executed by and among (1) the Company, PIH, PPHI, and the Company’s other subsidiaries (excluding PHP) as guarantors (the “PhysicianCo Loan Parties”), (2) PMH and its California hospital subsidiaries as guarantors, (the “HospitalCo Loan Parties” and together with the PhysicianCo Loan Parties, the “Loan Parties”), (3) Wilmington Trust, National Association, as administrative agent and collateral agent, (the “Agent”) and (4) funds managed or advised by each Centerbridge Entity, as a lender, and (5) each Blue Torch entity, as a lender (the “Lenders”), pursuant to which the Lenders made loans (collectively, the “Initial Term Loan”) in an aggregate initial principal amount of the PhysicianCo Loan is \$375 million. The Initial Term Loan bears interest at a rate determined through an adjusted secured overnight financing rate (SOFR) calculation set forth in the PhysicianCo Loan Agreement plus 13.00% per annum, of which up to 3.00% per annum may, at the Company’s opinion, be paid in kind. The maturity date of the Initial Term Loan is May 23, 2026. The Loan Agreement contains certain affirmative and negative covenants, including limitations on indebtedness, corporate transactions, investments, dispositions, and dividends. Refer to discussion of compliance with these covenants as of September 30, 2024 below.

Immediately following the closing of the PhysicianCo Loan Agreement financing, PIH loaned a total of \$125 million to PPHI. Thereafter, PPHI contributed a total of \$125 million to PMG as additional paid in capital.

Also on May 23, 2023, PMG loaned \$75,000,000 to PIH's subsidiary, FRMC Hospital Property, LLC (Trustor) (the "Foothill Note"). As set forth under Note 5, a prepayment in the amount of \$48,311,000 was made on November 17, 2023, leaving a remaining principal balance of \$26,889,000. Interest accrues on the remaining balance of the Foothill Note at the prime rate and the obligations of Trustor are secured by Deed of Trust with Assignment of Rents recorded for the hospital property located at 14662 Newport Ave, Tustin, CA 92780. PMG may demand repayment of the remaining indebtedness under the Foothill Note at any time.

The Phase I Convertible Note

On May 23, 2023, PMH, the Company and another PMH subsidiary, Prospect Healthcare Facilities Management, LLC, entered into an Amended and Restated Master Restructuring Agreement (the "MRA") with a subsidiary of Medical Properties Trust, Inc. (MPT), MPT Picasso Investors TRS, LLC ("MPT Picasso"), that provides for the restructuring of rights and obligations of the parties. In accordance with the terms of the MRA, in exchange for the corresponding cancellation of certain debt obligations, including the Foothill Mortgage Loan and the TRS Note, discussed below, and accrued and outstanding rent for the MPT Leased Properties, MPT Picasso was issued non-voting Series A-1 Preferred Units ("Preferred Units") by PHPH, representing a 49% ownership interest in PHPH and its subsidiaries, and a Convertible Promissory Note (the "MPT Convertible Note") convertible into additional Preferred Units. By two written Orders issued on April 18, 2024, the California Department of Managed Health Care (the "DMHC") approved the changes in the indirect ownership of PHP effected by the issuance of the Preferred Units.

The initial principal amount of The Phase I Convertible Note was \$646,338,000. The note is convertible into shares of PHPH Series A-1 Preferred Units at any time at the election of the holder at a conversion price per unit equal to the quotient obtained by dividing \$153,662,000, the PHPH Net Equity Value, by the aggregate number of all Units outstanding as of immediately prior to closing of the conversion. The balance of the convertible amount not converted will be due in a single lump sum on the November 20, 2026 maturity date. Interest accrues at an 8.00% per annum rate. The MPT Convertible Note is collateralized by the issued and outstanding capital stock or other equity interests of each of PHP and PIH.

Bridge Loan

On October 24, 2023, an amendment was executed by and among PMH, and PIH and PPHI, as borrowers, and Centerbridge Entity and Blue Torch Entity, as lenders, to the PhysicianCo Loan Agreement. Borrowers requested and the lenders agreed to make available to the borrowers delayed draw term loan commitments. The Loan Parties, the Lenders party thereto and the Agent entered into a limited waiver, consent and amendment number one to the PhysicianCo Loan Agreement, which, among other things, granted temporary waivers in connection with noncompliance with certain covenants and contemplated additional funding of additional loans in an aggregate principal amount of \$50.0 million (collectively the "2023 Bridge Loan Commitments" or "2023 Bridge Loan") subject to certain conditions precedent.

On November 14, 2023, the Loan Parties, the Lenders party thereto and the Agent entered into a permanent waiver and amendment number two to the PhysicianCo Loan Agreement, which, among other things, permanently waived events of default in connection with noncompliance with certain covenants and provided for the funding of the 2023 Bridge Loan in an aggregate initial principal amount of \$50.0 million. The 2023 Bridge Loan bears interest at a rate determined through an adjusted secured overnight financing rate (SOFR) calculation set forth in the Loan Agreement plus 13.00% per annum. The maturity date of the 2023 Bridge Loan was December 31, 2024, subject to extension to June 30, 2025 upon the satisfaction of certain conditions, including the payment of an extension fee. The proceeds of the 2023 Bridge Loan were used to provide cash required for compliance with certain minimum regulatory capital requirements by funding the prepayment described above on the Foothill Note.

PHP Holdings, LLC & Rhode Island Market

Notes to Combined and Consolidated Statements

On February 27, 2024, the Loan Parties, the Lenders party thereto and the Agent entered into amendment number three to the PhysicianCo Loan Agreement, providing for the extension of the deadline to deliver audited financial statements of the Company and of PMH for the fiscal year ended September 30, 2023.

On April 30, 2024, the Loan Parties, the Lenders party thereto and the Agent entered into amendment number four to the PhysicianCo Loan Agreement, providing for a limited waiver of certain events of default related to the Foothill merger, a further extension of the deadline to deliver audited financial statements of the Company and of PMH for the fiscal year ended September 30, 2023 and certain covenants around maintenance of the Foothill bank accounts and the consummation of the Foothill merger.

On June 5, 2024, the Loan Parties, the Lenders party thereto and the Agent entered into amendment number five to the PhysicianCo Loan Agreement, whereby, to facilitate the execution of an eCapital ABL Facility of PMH, Lenders agreed to certain amendments to the Deposit Account Control Agreement.

The foregoing PhysicianCo Loan Agreement and 2023 Bridge Loan contain certain customary covenants and restrictions and financial covenants based on EBITDAR performance. The Company was in compliance with all such covenants at September 30, 2024.

On August 15, 2024, as a result of the Loan Parties' failure to satisfy a milestone set forth therein, an \$8.5 million fee payable to the Lenders was earned in respect of the PhysicianCo Loan and 2023 Bridge Loan, discussed below, which fee was paid in kind on such date and, subject to certain limited exceptions, will be forgiven in the event that the Loan Parties consummate a sale of the PhysicianCo Loan Parties prior to the deadline therefor set forth in the PhysicianCo Loan Agreement.

On September 14, 2024, certain events of default occurred under the PhysicianCo Loan Agreement as a result of which the Lenders exercised the right to impose interest at the default rate on the PhysicianCo Loan and the 2023 Bridge Loan, equating to an additional 3.00% per annum, payable in cash on each interest payment date. Additional events of default occurred and were continuing as of September 30, 2024, as it relates to failure of certain affiliates of the HospitalCo Loan Parties to make required pension contributions and of certain HospitalCo Loan Parties to pay certain obligations owing to MPT. With respect to the financial covenants applicable to the Company under the PhysicianCo Loan Agreement, the Company was in compliance with such covenants at September 30, 2024. Subsequent to September 30, 2024, the Bridge Loan maturity date was extended to March 31, 2026 (see Note 10).

PHP Holdings, LLC & Rhode Island Market

Notes to Combined and Consolidated Statements

Other

In or about December 15, 2021, FRMC acquired a Mako Robot Loan. The original cost was \$1,295,000. The balance as of September 30, 2024 is \$1,194,000.

The aggregate scheduled maturities of our total debt outstanding as of September 30, 2024 are as follows (in thousands):

<i>Years ending September 30.</i>	
2025	\$ 51,186
2026	398,590
2027	718,082
2028	275
2029	271
Thereafter	-
	<hr/>
	\$ 1,168,404

Debt Issuance Costs and Debt Discount/Premium

As of September 30, 2024 and 2023, remaining debt discount and debt premium for the debt under the Loan Agreement (the “PhysicianCo Term Loan”) and the MPT Convertible Note (“The Phase I Convertible Note”), are as follows (in thousands, except interest rates):

<i>As of September 30, 2024</i>	Debt Discount	Debt Premium	Effective Interest Rate
PhysicianCo Term Loan	\$ 20,346	\$ -	21.99%
The Phase I Convertible Note	15,448	48,171	5.49%
Bridge Loan	3,607	-	18.56%
	<hr/>	<hr/>	<hr/>
	\$ 39,401	\$ 48,171	

<i>As of September 30, 2023</i>	Debt Discount	Debt Premium	Effective Interest Rate
PhysicianCo Term Loan	\$ 29,596	\$ -	21.99%
The Phase I Convertible Note	22,073	68,829	5.49%
	<hr/>	<hr/>	<hr/>
	\$ 51,669	\$ 68,829	

The above debt discount and debt premium are recorded as a reduction of the debt and are amortized into interest expense using an effective interest rate over the duration of the debt.

PMH Debt Restructuring

On February 22, 2018, PMH entered into an ABL Credit Agreement (the “ABL Agreement”), by and among PMH (as the borrower), the lenders party thereto and JPMorgan Chase Bank, N.A. (“JPMC”), as administrative agent and collateral agent. Under the ABL Agreement, the initial maximum revolving commitment was \$250.0 million with an ability to expand the facility to \$325.0 million (the “ABL Facility”). The Company and virtually all of its direct and indirect wholly-owned subsidiaries, including the Company but excluding PHP, were guarantors of the obligations of PMH under the ABL Agreement.

The ABL Facility matured on February 22, 2023. However, PMH and JPMC entered into Forbearance Agreements that provided that JPMC, as the Administrative Agent, and other lender parties agreed to forbear from exercising any rights and remedies arising from or related to the occurrence and continuation of certain defaults until May 31, 2023 and effectively extended the ABL Facility's required repayment date to May 31, 2023. As noted below, the outstanding ABL Facility balance of \$170,800,000 was paid off in full on May 23, 2023.

On August 23, 2019, PMH closed a series of transactions with affiliates of Medical Properties Trust, Inc. ("MPT"), a publicly traded Real Estate Investment Trust. PMH sold to MPT certain hospital buildings in California, Connecticut and Pennsylvania. Concurrent with the sale transactions, PMH entered into two master lease agreements whereby the hospital properties and related medical office buildings were leased back (the "MPT Leased Properties"). On the same date, PMH entered into a promissory note (the "TRS Note"), under which MPT loaned to PMH \$112,937,000. Additionally on August 23, 2019, MPT provided PMH with a \$51,266,700 mortgage loan secured by the real property owned by Alta Newport (the "Foothill Mortgage Loan"). On May 2, 2022, an additional \$50,000,000 loan was made by MPT to PMH and added to the Foothill Mortgage Loan.

MPT Term Loan

The proceeds of the financing transaction PhysicianCo Term Loan, discussed above, together with the proceeds from a separate financing transaction at PMH that did not involve the Company or its direct or indirect subsidiaries, of a \$75.0 million term loan made by MPT TRS Lender PMH, LLC to PMH (the "MPT Term Loan"), were used to (1) refinance, and pay off in its entirety, an ABL Credit Agreement by and among PMH (as the borrower), the lenders party thereto and JPMorgan Chase Bank, N.A. as administrative agent and collateral agent, (2) to pay certain expenses associated with the refinancing, (3) to provide cash required for compliance with certain minimum regulatory capital requirements for PMG, and (4) to finance certain working capital and other operational needs of PMH and its subsidiaries (see "Debt Restructuring" discussion above).

As discussed above, on May 23, 2023, PMH obtained the MPT Term Loan. Each of PHSRI and PPGRI are guarantors of the MPT Term Loan. The MPT Term Loan bears interest at a rate determined through an adjusted secured overnight financing rate (SOFR) calculation set forth in the Loan Agreement plus, initially, 5.00% per annum and from and after June 5, 2024, pursuant to an amendment to the MPT Term Loan, 7.50% per annum. The maturity date of the MPT Term Loan is May 23, 2026. The MPT Term Loan contains certain affirmative and negative covenants, as well as a minimum liquidity covenant. As of September 30, 2024, PMH was in default under certain of these covenants under the MPT Term Loan, including failure to make certain payments owing thereunder.

Litigation

The Company is subject to a variety of claims and suits that arise from time to time in the ordinary course of its business, acquisitions, or other transactions. While the Company's management currently believes that resolving all of these matters, individually or in the aggregate, will not have a material adverse impact on the Company's financial position or results of operations, the litigation and other claims that the Company faces are subject to inherent uncertainties and management's view of these matters may change in the future. Should an unfavorable final outcome occur, there exists the possibility of a material adverse impact on the Company's financial position, results of operations and cash flows for the period in which the effect becomes probable and reasonably estimable.

PHP Holdings, LLC & Rhode Island Market

Notes to Combined and Consolidated Statements

Leases

As of October 1, 2022, the Company had recorded total operating and finance right-of-use (ROU) assets of \$9.5 million and \$7.4 million, respectively, total current operating and finance lease liabilities of \$2.6 million, and \$0.5 million, respectively, and total noncurrent operating and finance lease liabilities of \$5.9 million and \$1.3 million, respectively.

The Company evaluates whether an arrangement contains a lease by determining whether (1) there is an identified asset in the contract and (2) the customer has the right to control the use of the identified asset.

The Company's ROU assets and lease liabilities relate to real estate and equipment. The Company's leases have remaining lease terms of one year to 6 years. Certain of the Company's leases contain renewal, extension, or termination options. The Company assesses each option on an individual basis and has only included options reasonably certain of exercise in the lease term.

Long-term leases (leases with terms greater than 12 months) are recorded on the combined and consolidated balance sheet with a ROU asset and lease liability that are equal to the present value of the minimum lease payments not yet paid. Right-of-use assets additionally include any deferred rent that existed as of the adoption date. Variable lease payments, such as payments based on use and for property taxes, insurance, or common area maintenance that are based on actual assessments are excluded from the ROU asset and lease liability and are expensed as incurred.

The components of lease expense for the years ending September 30, 2024 are as follows:

<i>In thousands</i>	September 30, 2024	September 30, 2023
Finance lease cost:		
Amortization of right-of-use assets	\$ 442	\$ 737
Interest on lease liabilities	73	90
Operating lease cost	2,112	1,873
Variable lease cost	486	892
Total lease cost	\$ 3,113	\$ 3,592

PHP Holdings, LLC & Rhode Island Market

Notes to Combined and Consolidated Statements

The Company's right-of-use assets and lease liabilities at September 30, 2024 and 2023 are as follows:

<i>In thousands</i>	September 30, 2024	September 30, 2023
Assets		
Finance lease right-of-use assets (included in property, plant and equipment, net)	\$ 2,493	\$ 1,939
Operating lease right-of-use assets	<u>5,577</u>	<u>7,381</u>
Total lease assets	<u>\$ 8,070</u>	<u>\$ 9,320</u>

<i>In thousands</i>	September 30, 2024	September 30, 2023
Liabilities		
Lease liabilities, current:		
Finance lease liabilities	\$ 702	\$ 513
Operating lease liabilities	<u>2,461</u>	<u>2,603</u>
Total lease liabilities, current	<u>3,163</u>	<u>3,116</u>
Lease liabilities, noncurrent:		
Finance lease liabilities	1,723	1,346
Operating lease liabilities	<u>3,933</u>	<u>5,881</u>
Total lease liabilities, noncurrent	<u>5,656</u>	<u>7,227</u>
Total leased liabilities	<u>\$ 8,819</u>	<u>\$ 10,343</u>

The following table summarizes the Company's weighted average remaining lease term and weighted average discount rate as of September 30, 2024 and 2023:

<i>September 30,</i>	<i>2024</i>	<i>2023</i>
Weighted-average remaining lease term (years):		
Finance leases	3.64	3.55
Operating leases	<u>2.90</u>	<u>3.71</u>
Weighted-average discount rate:		
Finance leases	4.54%	4.20%
Operating leases	<u>4.10%</u>	<u>4.09%</u>

PHP Holdings, LLC & Rhode Island Market

Notes to Combined and Consolidated Statements

Supplemental information related to leases as of and for the year ended September 30, 2024 and 2023 are as follows:

<i>In thousands</i>	September 30, 2024	September 30, 2023
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from finance leases	\$ 67	\$ 86
Operating cash flows from operating leases	2,726	2,650
Financing cash flows from finance leases	578	475
 Total cash paid	 3,371	 3,211
Right-of-use assets obtained in exchange for new lease liabilities		
Right-of-use assets obtained in exchange for new finance lease liabilities	-	-
Right-of-use assets obtained in exchange for new operating lease liabilities	1,077	2,671
 Total right-of-use assets obtained	 \$ 1,077	 \$ 12,168

Total remaining lease payments for the Company's finance and operating leases is as follows (in thousands):

<i>For the Years ended September 30, 2024</i>	<i>Finance Leases</i>	<i>Operating Leases</i>
2025	\$ 803	\$ 2,505
2026	667	2,199
2027	722	1,290
2028	245	764
2029	211	23
 Thereafter	 -	 -
Total lease payments	2,648	6,781
Less: amounts representing interest	223	387
 Present value of lease liabilities	 \$ 2,425	 \$ 6,394

PACE financing

In August 2019, Alta Newport entered into an agreement with a third party that specializes in property assessed clean energy ("PACE") financing to finance qualifying renovations for the hospital property. The full amount of the funds was deposited into an escrow account managed by a third party administrator. The amount financed is subject to an annual interest rate of 6.0% and the financing has a maturity date of September 2, 2045. Payments are collected through property tax bills as a non-ad valorem assessment. Payments commenced in July 2020. At September 30, 2024, Alta Newport had a related financing liability of approximately \$5,578,000, of which \$172,000 and \$5,406,000 is classified within other current liabilities and other long-term liabilities, respectively, in the accompanying combined and consolidated balance sheets. At September 30, 2023, Alta Newport had a related financing liability of approximately \$5,354,000 of which \$163,000 and \$5,191,000 is classified within other current liabilities and other long-term liabilities, respectively, in the accompanying combined and consolidated balance sheets. At September 30, 2024 and 2023, there was approximately \$1,323 and \$1,384, respectively, left in escrow required to be spent on qualifying renovations.

Liability Insurance Coverage

The Company carries errors and omissions and directors' and officers' liability coverage for managed care companies (including affiliates which do not directly employ physicians). Errors and omissions are subject to an individual limit of \$7,000,000 per claim and aggregate of \$7,000,000 with a retention of \$250,000 per claim. Director's and officer's claims are covered at an aggregate of \$80,000,000. The individual physicians who contract with the Affiliates carry their own medical malpractice insurance.

Regulatory and Other Matters

Laws and regulations governing the third-party payor arrangements are extremely complex and subject to interpretation. The Company and its affiliates believe that they are in compliance with all applicable laws and regulations, and are not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the third-party payor arrangements.

PMG must comply with a minimum working capital requirement, Tangible Net Equity ("TNE") requirement, cash-to-claims ratio and claims payment requirements prescribed by the California Department of Managed Health Care ("DMHC"). TNE is defined as net assets less intangibles, less non-allowable assets (which include amounts due from affiliates), plus subordinated obligations. Following the direction of the DMHC to report the secured affiliate note (see Note 7) as an unsecured affiliate receivable, PMG was not in compliance with its TNE requirements. Thereafter, as set forth above, PMG collected partial repayment of the Foothill note receivable in November 2023 and submitted a corrective action plan that was approved by the DMHC to achieve required compliance with financial solvency criteria. PHP was in compliance with these regulatory requirements as of September 30, 2024.

Many of PMG's payer and provider contracts are complex in nature and may be subject to differing interpretations regarding amounts due for the provision of medical services. Such differing interpretations may not come to light until a substantial period of time has passed following contract implementation. Liabilities for claims disputes are recorded when the loss is probable and can be estimated. Any adjustments to reserves are reflected in current operations.

Seismic Standards

California hospitals, including Alta Newport's facility, are required to comply with laws that regulate the seismic performance of all aspects of hospital facilities in California and imposes near-term and long-term compliance deadlines for seismic safety assessment, submission of corrective plans, and retrofitting or replacement of medical facilities to comply with current seismic standards. These laws and regulations require hospitals to meet seismic performance standards to ensure that they are capable of providing medical services to the public after an earthquake.

These requirements can result in significant operational changes and capital outlays. Management is continuing to assess its options and the methods of financing the required retrofits. Based on management's evaluation, the costs of renovation needed to comply with the California seismic safety standards for its acute-care facilities, including asbestos abatement, are not estimable at this time.

Legislation and HIPAA

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

The Company believes that it is in compliance with fraud and abuse regulations as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

The Health Insurance Portability and Accountability Act ("HIPAA") assures health insurance portability, reduces healthcare fraud and abuse, guarantees security and privacy of health information, and enforces standards for health information. The Health Information Technology for Economic and Clinical Health Act ("HITECH Act") expanded upon HIPAA in a number of ways, including establishing notification requirements for certain breaches of protected health information. In addition to these federal rules, California has also developed strict standards for the privacy and security of health information as well as for reporting certain violations and breaches. The Company may be subject to significant fines and penalties if found not to be compliant with these state or federal provisions.

Provider Contracts

Many payer and provider contracts are complex in nature and may be subject to differing interpretations regarding amounts due for the provision of medical services. Such differing interpretations may not come to light until a substantial period of time has passed following contract implementation. Liabilities for claims disputes are recorded when the loss is probable and can be estimated. Any adjustments to reserves are reflected in current operations.

PHP Holdings, LLC & Rhode Island Market

Notes to Combined and Consolidated Statements

8. Accrued Medical Claims and Other Healthcare Costs Payable

The following table presents the roll-forward of accrued medical claims payable and other healthcare costs payable as of and for each of the years ended September 30, 2024 and 2023 (in thousands):

September 30,	2024	2023
Beginning of year	\$ 116,655	\$ 83,164
Healthcare claim expenses incurred during the year:		
Related to current year	469,396	400,964
Related to prior year	(30,411)	(15,374)
Total incurred	<u>438,985</u>	<u>385,590</u>
Healthcare claims paid during the year:		
Related to current year	(347,298)	(287,261)
Related to prior year	(81,381)	(64,838)
Total paid	<u>(428,679)</u>	<u>(352,099)</u>
End of year		
Risk Pool payable	\$ 126,961	\$ 116,655
	4,221	-
Accrued medical claims and other healthcare costs payable	<u>\$ 131,182</u>	<u>\$ 116,655</u>

9. Partnership

As discussed at Note 1, PMG and an unrelated third party, AMVI, operated a partnership to service Medi-Cal members under the CalOptima program in Orange County, California. PMG does not consolidate the partnership, rather the investment is accounted for as an equity method basis, and accordingly PMG includes in its combined and consolidated financial statements only the net results attributable to those enrollees specifically identified as assigned to it. As of September 30, 2023, the net balances of PMG's investment in the partnership venture under the equity method was approximately \$1,529,000 and was included in prepaid and other current assets in the accompanying combined balance sheet. The parties terminated the operations of this partnership in 2024 and dissolved it effective September 30, 2024.

PHP Holdings, LLC & Rhode Island Market

Notes to Combined and Consolidated Statements

Summarized unaudited financial information for the partnership as of and for the years ended September 30, 2023 is as follows (in thousands, unaudited):

<i>September 30,</i>	2024	2023
Cash	\$ -	\$ 823
Receivables	\$ 122	
Total assets	\$ -	\$ 945
Accrued medical claims	\$ -	\$ 36
Other payables	\$ -	\$ 519
Other partner's capital	\$ -	(17)
PMG's capital	\$ -	407
Total liabilities and partners' capital	\$ -	\$ 945
<i>Years Ended September 30,</i>	2024	2023
Revenues	\$ -	\$ 564
Loss before income taxes	\$ -	\$ (147)
PMG's equity gain (loss)	\$ 348	\$ (102)
Management fees earned by PMS	\$ -	\$ 37

10. Subsequent Events

The Company has evaluated subsequent events through February 12, 2025, the date PHPH combined and consolidated financial statements were available for issuance.

On November 8, 2024, PHPH, PMH and certain of their affiliates entered into an Asset and Equity Purchase Agreement (the "Sale Agreement") with Astrana Health, Inc. and certain of its affiliates (collectively, "Astrana"). Pursuant to the Sale Agreement, Astrana will purchase all of the outstanding equity of Alta Newport, PHP and PHSRI, and substantially all of the assets of the other entities included within these combined and consolidated financial statements. The consideration to be received by the Company is \$745,000,000, subject to certain adjustments set forth in the Sale Agreement. The transaction is expected to close in the middle of 2025, after receipt of regulatory approval and satisfaction of other customary closing conditions.

On January 11, 2025, PMH and certain of its wholly-owned subsidiaries, including both PHSRI and PPGRI ("Rhode Island Market") (collectively, the "Reorganization Entities"), filed for Chapter 11 bankruptcy reorganization under the United States Bankruptcy Code. None of PHPH or its direct or indirect subsidiaries were included in the reorganization filing as PHPH is only 51% owned by PMH. As of the date of this report, both PHSRI and PPGRI remain subject to the jurisdiction of the bankruptcy court. Through the appropriate bankruptcy court filings, PMH is requesting the court's approval for the sale of PHSRI and the assets of PPGRI to Astrana pursuant to the Sale Agreement.

The Reorganization Entities are borrowers under a \$100 million super-priority delayed draw term loan facility provided by JMB Capital LLC in connection with the bankruptcy reorganization. The proceeds of the loan facility are required to be used for the operation of the Reorganization Entities during the pendency of the reorganization.

On February 10, 2025, the Bridge Loan maturity date was extended to March 31, 2026.



PHP Holdings, LLC & Rhode Island Market

Condensed Combined and Consolidated Financial Statements (Unaudited)

As of March 31, 2025 and
September 30, 2024 and for the
Six Months Ended
March 31, 2025 and 2024

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PHP Holdings, LLC & Rhode Island Market

Condensed Combined and Consolidated Balance Sheets
(In thousands, except share amounts)
(Unaudited)

	March 31, 2025	September 30, 2024
Assets		
Current assets:		
Cash and cash equivalents	\$ 129,168	\$ 151,255
Hospital fee program receivable	21,550	18,385
Patient accounts receivable, net of allowance for credit losses of \$55,885 and \$39,468	16,118	16,043
Due from government payers	386	228
Risk pool and other receivables, net	31,200	39,934
Prepaid expenses and other current assets	13,241	9,244
Note receivable	1,355	1,375
Total current assets	213,018	236,464
Property, improvements and equipment, net	21,680	22,720
Operating lease right-of use assets	4,511	5,577
Deposits and other assets	4,143	374
Goodwill	29,666	29,587
Restricted cash	1,300	1,385
Note receivable, net of current portion	486	500
Total assets*	\$ 274,804	\$ 296,607
Liabilities and members' equity		
Current liabilities:		
Accrued medical claims and other healthcare costs payable	\$ 121,351	\$ 131,182
Accounts payable and other accrued liabilities	86,689	106,666
Accrued salaries, wages and benefits	26,525	24,960
Hospital fee program liability	8,625	7,330
Due to government payers	3,976	5,073
Income taxes payable	28,077	18,468
Current portion of long-term debt	219	47,579
Current portion of finance lease liabilities	722	702
Current portion of operating lease liabilities	2,354	2,461
Other current liabilities	2,291	194
Total current liabilities	280,829	344,615
Long-term debt, net of current portion	1,216,392	1,129,595
Finance lease liabilities, net of current portion	1,409	1,723
Operating lease liabilities, net of current portion	2,830	3,933
Malpractice reserves	2,572	2,269
Other long-term liabilities	5,587	6,764
Total liabilities*	1,509,619	1,488,899

PHP Holdings, LLC & Rhode Island Market

Condensed Combined and Consolidated Balance Sheets (Continued)
(In thousands, except share amounts)
(Unaudited)

	March 31, 2025	September 30, 2024
Commitments and Contingencies (Note 6)		
Mezzanine equity:		
Redeemable convertible preferred stock	75,295	75,295
Members' deficit:		
Additional paid-in capital	151,496	151,433
Accumulated deficit	(1,447,310)	(1,400,560)
Due from related parties	(14,441)	(18,605)
Total PHP Holdings, LLC's & RI Market members' deficit	<u>(1,310,255)</u>	<u>(1,267,732)</u>
Non-controlling interests	145	145
Total members' deficit	<u>(1,310,110)</u>	<u>(1,267,587)</u>
Total liabilities, mezzanine equity and members' deficit	<u><u>\$ 274,804</u></u>	<u><u>\$ 296,607</u></u>

See accompanying notes to the unaudited condensed combined and consolidated financial statements.

* The Company's combined consolidated balance sheets include the assets and liabilities of its consolidated VIEs. The combined consolidated balance sheets include total assets that can be used only to settle obligations of the Company's consolidated VIEs totaling approximately \$93,965 and \$131,505 as of March 31, 2025 and September 30, 2024, respectively, and total liabilities of the Company's consolidated VIEs for which creditors do not have recourse to the general credit of the primary beneficiary of approximately \$87,787 and \$98,009 as of March 31, 2025 and September 30, 2024, respectively.

PHP Holdings, LLC & Rhode Island Market

Condensed Combined and Consolidated Statements of Operations
(In thousands)
(Unaudited)

Six Months Ended March 31,	2025	2024
Operating revenues:		
Capitation	\$ 552,222	\$ 498,248
Patient services, net	54,556	53,634
Management fees	17,367	11,825
Other operating revenues	8,481	10,438
Total net revenue	632,626	574,145
Cost of revenues:		
Claims expense	315,507	254,426
Capitation expense	128,931	115,626
Other cost of revenues	28,217	37,685
Total cost of revenues	472,655	407,737
Gross margin	159,971	166,408
Operating expenses:		
Salary and benefits	73,252	68,749
Outside services	17,299	10,269
Management fees	7,831	5,269
Professional fees	2,686	2,674
Marketing	1,404	1,222
Lease and rental expense	1,536	1,663
Repair, maintenance and utilities	2,777	2,001
Software licensing	4,528	3,544
Taxes, licenses and fees	3,628	3,245
Insurance	2,502	1,214
Depreciation and amortization	1,752	965
Other operating expenses	3,006	2,973
Total operating expenses	122,201	103,788
Operating income	37,770	62,620
Operating gain from unconsolidated joint venture	-	51
Interest expense, net	(80,549)	(62,689)
Other expense	-	(2,499)
Loss before income tax provision	(42,779)	(2,517)
Income tax provision	3,971	29,560
Net loss attributable to PHP Holdings, LLC & RI Market	\$ (46,750)	\$ (32,077)

PHP Holdings, LLC & Rhode Island Market

Condensed Combined and Consolidated Statements of Members' and Mezzanine Equity
 (In thousands, except unit amounts)
 (Unaudited)

	Mezzanine Equity	Additional Paid-in Capital	Accumulated Deficit	Due from related parties	Members' Deficit	Non- controlling Interests	Total Members' Deficit
Balance at October 1, 2024	\$ 75,295	\$ 151,433	\$ (1,400,560)	\$ (18,605)	\$ (1,267,732)	\$ 145	\$ (1,267,587)
Contribution of net assets due to restructuring transactions	-	63	-	-	63	-	63
Due from related parties	-	-	-	4,164	4,164	-	4,164
Net loss	-	-	(46,750)	-	(46,750)	-	(46,750)
Balance at March 31, 2025	\$ 75,295	\$ 151,496	\$ (1,447,310)	\$ (14,441)	\$ (1,310,255)	\$ 145	\$ (1,310,110)
	Mezzanine Equity	Additional Paid-in Capital	Accumulated Deficit	Due from related parties	Members' Deficit	Non- controlling Interests	Total Members' Deficit
Balance at October 1, 2023	\$ 75,295	\$ 151,370	\$ (1,321,871)	\$ (12,902)	\$ (1,183,403)	\$ 145	\$ (1,183,258)
Contribution of net assets due to restructuring transactions	-	214	-	-	214	-	214
Due to related parties	-	-	-	12,902	12,902	-	12,902
Net loss	-	-	(32,077)	-	(32,077)	-	(32,077)
Balance at March 31, 2024	\$ 75,295	\$ 151,584	\$ (1,353,948)	\$ -	\$ (1,202,364)	\$ 145	\$ (1,202,219)

See accompanying notes to the unaudited condensed combined and consolidated financial statements.

PHP Holdings, LLC & Rhode Island Market

Condensed Combined and Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

Six Months Ended March 31,	2025	2024
Operating activities:		
Net loss	\$ (46,750)	\$ (32,077)
Adjustments to reconcile net loss to net cash, cash equivalents and restricted cash (used in) provided by operating activities:		
Depreciation and amortization	1,752	965
Amortization of deferred financing costs, net	517	(2,551)
Loan interest on Physician Co Term Loan PIK option and Phase I Convertible Note	38,068	31,766
Loan interest on Bridge Loan PIK option	1,022	-
Loan interest on Mako Robot	15	19
Deferred income taxes, net	-	(22,121)
Accrued interest on capital leases	46	37
Changes in operating assets and liabilities:		
Patient accounts receivable	(75)	1,167
Due from government payers	(158)	437
Hospital fee program receivable	(3,165)	1,531
Risk pool and other receivables	8,734	6,599
Prepaid expenses and other current assets	(7,766)	(2,119)
Accrued medical claims and other healthcare costs payable	(9,831)	5,615
Accounts payable and other accrued liabilities	(18,977)	6,974
Accrued salaries, wages and benefits	1,565	960
Hospital fee program liability	1,295	1,706
Due from government payers	(1,097)	(1,330)
Income taxes payable, net	9,609	2,987
Net cash, cash equivalents and restricted cash (used in) provided by operating activities	(25,196)	565
Investing activities:		
Purchases of property, improvements and equipment	(693)	(588)
Proceeds from short-term notes receivable	83	-
Proceeds from long-term note receivable	14	-
Net cash, cash equivalents and restricted cash used in investing activities	(596)	(588)
Financing activities:		
Due to related parties	4,164	13,222
Proceeds from short term debt	-	48,311
Payment of debt issuance costs	-	(3,108)
Repayment of debt	(185)	(119)
Repayment of finance leases	(359)	(297)
Net cash, cash equivalents and restricted cash provided by financing activities	3,620	58,009

PHP Holdings, LLC & Rhode Island Market

Condensed Combined and Consolidated Statements of Cash Flows (Continued)
(In thousands)
(Unaudited)

<i>Six Months Ended March 31,</i>	2025	2024
(Decrease) increase in cash, cash equivalents and restricted cash	\$ (22,172)	\$ 57,986
Cash, cash equivalents and restricted cash, beginning of the period	152,640	90,669
Cash, cash equivalents and restricted cash, end of the period	\$ 130,468	\$ 148,655
Supplemental disclosure of cash flow information:		
Interest paid	\$ 39,186	\$ 31,593
Taxes paid	764	-
Supplemental disclosure of non-cash financing activities:		
Contribution of net assets due to restructuring transactions	\$ 63	\$ 214

See accompanying notes to the unaudited condensed combined and consolidated financial statements.

PHP Holdings, LLC & Rhode Island Market

**Notes to Condensed Combined and Consolidated Statements
(Unaudited)**

1. Organization

Business

PHP Holdings, LLC (the “Company” or “PHPH”) is a Delaware company formed on March 25, 2013. The Company was originally formed as a Delaware corporation and converted to a limited liability company on October 12, 2022. The Company is owned by Prospect Medical Holdings, Inc. (“PMH”), a Delaware corporation, and MPT Picasso Investors TRS, LLC, a Delaware limited liability company (“MPT”). PHPH’s subsidiaries consist of four primary reportable segments: Medical Group, Global Risk, Hospital Services and Holding companies’ segments. Prospect Health Services RI, Inc. (“PHSRI”) is a wholly owned subsidiary of PHS Holdings, Inc. (“PHSH”). PHSH is a wholly owned subsidiary of Coordinated Regional Care Group, Inc. (“CRCG”), which in turn is a wholly owned subsidiary of Prospect Medical Holdings, Inc. (“PMH” or “Holdings”). Prospect Provider Group RI, LLC (“PPGRI”) is a wholly owned subsidiary of Prospect Provider Groups, LLC, which is a wholly owned subsidiary of PMH. PHSRI and PPGRI, which are collectively referred to herein as the “Rhode Island Market” are the combined portion within these condensed combined and consolidated financial statements.

The condensed combined and consolidated balance sheet as of September 30, 2024 was derived from the audited financial statements at that date, but does not include all the information and footnotes required by GAAP. These financial statements should be read in conjunction with the audited financial statements and notes thereto for the year ended September 30, 2024. The condensed combined and consolidated financial statements for the six months ended March 31, 2025 and 2024, in the opinion of management, include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the Company’s financial condition and results of operations. The results of operations for the six months ended March 31, 2025 and 2024, are not necessarily indicative of the results to be expected for any other interim period or for the entire year.

Medical Group

Certain of the Company’s subsidiaries (collectively, the “Prospect Network”) contract with licensed physicians and other health care providers, and contract with managed care payers. PHPH’s subsidiaries include management services organizations that provide medical management systems and services to the Prospect Network and other third-party clients.

A. California

Prospect Medical Group, Inc. (“PMG”) is a California professional medical corporation and is an affiliated physician organization of PHPH. Pursuant to the restructuring described under “Holding Companies” below, PMG became an indirect subsidiary (through the nominee physician shareholder arrangement discussed below) effective March 30, 2023. PHPH controls PMG through means other than direct ownership of PMG’s voting common stock. As discussed below, control is effectuated through a nominee physician shareholder.

i. Organizational Structure

In addition to PMG itself, the California part of the Prospect Network consists of the following (each, an “Affiliate”):

Nuestra Familia Medical Group, Inc.

Notes to Condensed Combined and Consolidated Statements (Continued)
(Unaudited)

Prospect Health Source Medical Group, Inc.
AMVI/Prospect Medical Group (“AMVI/Prospect”)
Prospect Professional Care Medical Group, Inc.
Prospect NWOC Medical Group, Inc.
StarCare Medical Group, Inc.
Genesis HealthCare of Southern California, Inc., a Medical Group
Pomona Valley Medical Group, Inc. (“PVMG”)
Upland Medical Group, a Professional Medical Corporation (“UMG”)

The Affiliates are managed by Prospect Medical Systems, LLC (“PMS”) and, prior to March 31, 2023, ProMed Healthcare Administrators (“PHCA”), which are indirect wholly-owned subsidiaries of PHPH. All of the Affiliates are wholly owned by PMG, with the exception of AMVI/Prospect (“AMVI” or “JV”), which was a 50/50 Joint Venture between AMVI Care Health Network, Inc. and PMG that was terminated and dissolved effective September 30, 2024 as noted in Note 8. PMG is owned by Prospect Intermediate Physician Holdings, Inc. (“PIPH”), a California professional medical corporation that is owned by Prospect Physician Holdings, Inc., another California professional medical corporation (“PPH”). PPH is owned by a nominee physician shareholder pursuant to an assignable option agreement described below. The results of the entire Prospect Network, with the exception of AMVI/Prospect, are consolidated in the accompanying condensed combined and consolidated financial statements.

PMS has entered into an assignable option agreement with PPH and a nominee physician shareholder. Under the assignable option agreement, PMS acquired an assignable option for a nominal amount from PPH and the nominee shareholder to designate the purchaser (successor physician) for all or part of PPH's issued and outstanding stock held by the nominee physician shareholder (the “Stock Option”) in its sole discretion. PMS may also assign the assignable option agreement to any California licensed physician. The assignable option agreement has a term of 30 years. The Stock Option may be exercised for a purchase price of \$1,000. PMS has the unilateral right to establish or effect a change of the nominee, at will, and without the consent of the nominee, on an unlimited basis and at nominal cost.

PMG's Affiliates have each entered into a MSA and each Affiliate has agreed to pay a management fee to PMS or previously to PHCA, as applicable (each of which is a wholly-owned subsidiary of PHPH), which is based in part on the costs to the management company and on a percentage of revenues the Affiliate receives for (i) arranging for the provision of medical services by the Affiliate's independent contractor physicians and other licensed healthcare providers, and (ii) other services requested by its contracted health plans. The revenue from which this fee is determined includes medical capitation, sums earned from participation in risk pools, and other performance fees paid by the health plans. In return for payment of the management fee, PMS, and previously PHCA have agreed to provide financial management, information systems, marketing, advertising, public relations, risk management, utilization review, quality of care, and administrative support. The Company and its subsidiaries underwent a restructuring described under “Holding Companies” below. For tax consolidation purposes, effective March 31, 2023, the rights and obligations of PMS and PHCA under each MSA with PMG and its Affiliates were assigned to their new parent company, Prospect Intermediate Physician Holdings, Inc. (“PIPH”), and then subcontracted first to PIPH's parent company, Prospect Physician Holdings, Inc. (“PPH”), and then back to PMS. Pursuant to such assignments, PCA assigned to PMS its management for PVMG and UMG and PHCA no longer has any operations.

ii. Global Risk

Prospect Health Plan, Inc. (“PHP”) is a Delaware corporation and is licensed by the California Department of Managed Health Care (“DMHC”) under the provisions of the Knox-Keene Health Care Service Plan Act of 1975 (the “Act”) to operate as a health care service plan in California. PHP was initially restricted to providing and arranging for health care services to Medicare Advantage members through plan-to-plan contracts with fully-licensed health care service plans licensed under the Act. Later, PHP began providing services to Medicare Advantage (“MA”) enrollees. PHP has entered into global capitation arrangements with certain third-party health plans (the “Global Capitation Agreements”) and manages the provision of care for MA enrollees of those plans (“Capitated MA Enrollees”) in coordination with certain subsidiaries and affiliates of PMH. PHP also received notice from the DMHC approving a material modification of its Knox-Keene application to expand the scope of its license to serve Medi-Cal and Cal MediConnect members. DMHC further granted additional modification to the Knox-Keene license to include Commercial enrollees effective November 30, 2020. PHP began accepting Commercial enrollees effective January 1, 2021.

Under the terms of the Global Capitation Agreements, PHP furnishes global risk services to the third-party health plans, including the assumption of responsibility for arranging medically necessary covered services by hospitals, physicians and other providers to capitated enrollees in a specific geographic area and the payment for such services. PHP receives global capitation payments from each health plan as payment for all such medically necessary covered services. PHP enters into agreements with healthcare providers to arrange for such services. The global capitation payments received by PHP are utilized to pay such providers in accordance with their respective agreements.

iii. Other Operations

Primary & Multi-Specialty Clinics of Anaheim Inc. (“PMCA”), dba Gateway Medical Center, is an indirect Company subsidiary owned under the nominee physician shareholder arrangement discussed above. PMCA owns and operates three primary care physician offices located in Anaheim and Santa Ana, California.

On December 1, 2023, Gateway Medicor – Rancho Cucamonga, Inc. (“GMRC”), a California professional medical corporation, purchased substantially all of the assets of the primary care medical practice of Abraham Chen, D.O. located in Rancho Cucamonga, California for an aggregate purchase price of \$300,000. GMRC is owned 51% by PIPH and the remaining 49% by Medicor Medical Group, Inc., a California professional medical corporation wholly-owned by Mark Shiu, D.O., the lead primary care physician providing care for the acquired practice. Goodwill in the amount of \$79,000 and \$214,000 was recorded for the six months ended March 31, 2025 and 2024, respectively, in connection with this acquisition.

The Company also owns and operates RightRX, a mail order specialty pharmacy dedicated to providing personalized care to patients with complex, chronic health conditions.

The Company’s Residential Care Program (“RCP”) is operated through New Genesis Medical Associates, Inc., an indirect Company subsidiary owned under the nominee physician shareholder arrangement. The RCP improves patient access through a care-at-home option and management of patients with chronic conditions.

B. Rhode Island

Prospect Health Services RI, Inc. (“PHSRI”) is a Delaware corporation and Prospect Provider Group RI, LLC (“PPGRI”) is a Delaware limited liability company. Both entities are duly qualified to do business in Rhode Island where they have entered into global capitation arrangements with certain third-party health plans and manage the provision of care for enrollees in coordination with PMS. PMS provides management services to both PHSRI and PPGRI under an administrative services agreement with a current term extending until July 2028 and with 1-year auto-renewals thereafter.

Effective February 16, 2024, PHSRI acquired a 10% membership interest in a newly formed primary care group in Rhode Island called HealthAdvisors, LLC, dba Breakwater Primary Care (“HealthAdvisors”). The interest is held through a nominee physician member pursuant to an assignable option agreement under which PHSRI acquired an assignable option for a nominal amount from HealthAdvisors and the nominee member to designate the purchaser (successor physician) for all or part of PHSRI’s 10% membership interest. PHSRI may also assign the assignable option agreement to any Rhode Island licensed physician. The assignable option agreement has an initial term of 30 years. The remaining 90% membership interests in HealthAdvisors are owned equally by four other Rhode Island primary care physicians.

On January 11, 2025, PMH and certain of its wholly-owned subsidiaries, including both PHSRI and PPGRI (“Rhode Island Market”) (collectively, the “Reorganization Entities”), filed for Chapter 11 bankruptcy reorganization under the United States Bankruptcy Code. None of PHPH or its direct or indirect subsidiaries were included in the reorganization filing as PHPH is only 51% owned by PMH. As of the date of this report, both PHSRI and PPGRI remain subject to the jurisdiction of the bankruptcy court. Through the appropriate bankruptcy court filings, PMH is requesting the court’s approval for the sale of PHSRI and the assets of PPGRI to Astrana pursuant to the Sale Agreement.

The Reorganization Entities are borrowers under a \$100 million super-priority delayed draw term loan facility provided by JMB Capital LLC in connection with the bankruptcy reorganization. The proceeds of the loan facility are required to be used for the operation of the Reorganization Entities during the pendency of the reorganization.

C. Texas

Prospect Health Services TX, Inc. (“PHSTX”) and Prospect Provider Group TX, Inc. (“PPGTX”) are both Texas 501(a) non-profit health organizations. Pursuant to the restructuring described under “Holding Companies” below, beginning on March 30, 2023, both PHSTX and PPGTX became wholly-owned direct subsidiaries of the Company. Effective on May 23, 2023, with the inclusion of PIH (defined below) which became their direct parent company, PHSTX and PPGTX are now wholly-owned indirect subsidiaries of the Company.

PHSTX has entered into global capitation arrangements with certain third-party health plans and manages the provision of care for enrollees in coordination with PMS as described above. PMS provides management services to both PHSTX and PPGTX under management services agreements with current terms extending into 2029 with 5-year auto-renewals thereafter.

D. Arizona

Prospect Medical Group AZ, Inc. (“PMGAZ”) is an Arizona limited liability company. As with the Texas entities described above, PMGAZ initially became a wholly-owned direct subsidiary of the Company effective March 30, 2023 and a wholly-owned indirect subsidiary effective May 23, 2023 (after the inclusion of PIH). By amendment effective January 1, 2022, PMGAZ was added as a managed entity under the MSA between PMG and certain of its Affiliates and PMS described above.

Hospital Services

Alta Newport Hospital, LLC, dba Foothill Regional Medical Center (“Alta Newport”) operates an acute care hospital facility in Tustin, California.

Holding Companies

Prior to fiscal year 2023, PHP was the only direct or indirect subsidiary of the Company. During fiscal year 2023, PMH completed an internal restructuring that moved all of the Company’s other direct and indirect subsidiaries under a new direct subsidiary of the Company, Prospect Intermediate Holdings, LLC (“PIH”). At the time of the restructuring, the Company was wholly owned by PMH. PMG, which was wholly owned by a physician nominee, was moved under Prospect Intermediate Physician Holdings, Inc. (“PIPH”). PIPH is wholly owned by Prospect Physician Holdings, Inc. (“PPHI”), which is wholly owned by PMG’s prior physician nominee shareholder subject to the nominee physician shareholder arrangement described above.

Acquisition by Astrana Health, Inc.

On November 8, 2024, PHPH, PMH and certain of their affiliates entered into an Asset and Equity Purchase Agreement (the “Sale Agreement”) with Astrana Health, Inc. and certain of its affiliates (collectively, “Astrana”). Pursuant to the Sale Agreement, Astrana will purchase all of the outstanding equity of Alta Newport, PHP, PPGRI and PHSRI, and substantially all of the assets of the other entities included within these condensed combined and consolidated financial statements. The consideration to be received by the Company is \$745,000,000, subject to certain adjustments set forth in the Sale Agreement. The transaction is expected to close in the middle of 2025, after receipt of regulatory approval and satisfaction of other customary closing conditions.

2. Significant Accounting Policies

Principles of Combination and Consolidation and Basis of Presentation

The condensed combined and consolidated financial statements herein have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The condensed combined and consolidated financial statements include all the accounts of PHPH and Rhode Island Market Affiliates in which it has a controlling financial interest. The results of the entire Prospect Network, with the exception of AMVI/Prospect, are combined in the accompanying condensed combined and consolidated financial statements. Operating results for acquisitions are combined and consolidated with the Company’s condensed combined and consolidated financial statements from their acquisition dates. All significant intercompany transactions have been eliminated in consolidation.

PHP Holdings, LLC & Rhode Island Market

Notes to Condensed Combined and Consolidated Statements (Continued)
(Unaudited)

Use of Estimates

The preparation of condensed combined and consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the condensed combined and consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Principal areas requiring the use of estimates include settlements under risk-sharing programs, valuation of patient receivables, assets under operating and finance leases, medical claims and other healthcare costs payable, professional and general liability claims, reserves for potential absorption of claims unpaid by insolvent providers, impairment of goodwill, lease liabilities, debt, reserves for the outcome of litigation and valuation allowances against deferred tax assets.

Revenues

The Company recognizes net revenues in the period in which performance obligations to customers are satisfied under contracts by transferring our services. Net revenues are recognized in the amounts to which the Company expects to be entitled, which are the transaction prices allocated to the distinct services.

Revenues by reportable segment are comprised of the following amounts (in thousands):

<i>For the six months ended March 31,</i>	2025	2024
Medical Group		
Capitation	\$ 186,196	\$ 186,097
Management fees	16,016	10,593
Patient Services, net	822	618
Other	5,931	3,778
Total Medical Group revenues	208,965	201,086
Global Risk		
Capitation	366,026	312,151
Management fees	1,351	1,232
Other	2,400	6,568
Total Global Risk revenues	369,777	319,951
Net Hospital Services		
Patient Services, net	53,734	53,016
Other	150	92
Total Hospital Services revenues	53,884	53,108
Total net revenues, net	\$ 632,626	\$ 574,145

Medical Group and Global Risk Revenues

Managed care revenues consist primarily of payments for medical services procured by the Affiliates under capitated contracts with various managed care providers including health maintenance organizations ("HMOs"). Capitation revenue is paid monthly to the Company based on the number of enrollees under the capitated contracts on a per member per month ("PMPM") basis.

Capitation Revenues

Capitation revenue is recognized in the month in which the providers are obligated to provide services (stand-ready obligation). Minor ongoing adjustments to prior months' capitation, primarily arising from contracted HMOs' finalizing of monthly patient eligibility data for additions or subtractions of enrollees, are recognized in the month they are communicated to the Company. Additionally, Medicare pays capitation using a "Risk Adjustment" model, which compensates managed care organizations and providers based on the health status (acuity) of each enrollee. Under Risk Adjustment, capitation is determined based on health severity, measured using patient encounter data. Capitation is paid on an interim basis based on data submitted for the enrollee for the preceding year and is adjusted in subsequent periods the final data is compiled. Positive or negative capitation adjustments are made for Medicare enrollees with conditions requiring more or less healthcare services than assumed in the interim payments. Since the Company cannot reliably predict these adjustments, periodic changes in capitation amounts earned as a result of Risk Adjustment are recognized generally in the fourth quarter when those changes are communicated by the health plans to the Company. The Company received and recorded as additional Risk Adjustment revenue of approximately \$7,908,000 and \$7,004,000 in positive capitation risk adjustments during the six months ended March 31, 2025 and 2024, respectively.

Per Member Per Month ("PMPM") managed care contracts generally have a term of one year or longer. All managed care contracts have a single performance obligation that constitutes a series for the provision of managed healthcare services for a population of enrolled members for the duration of the contract. The transaction price for PMPM contracts is variable as it primarily includes PMPM fees associated with unspecified membership that fluctuates throughout the contract. In certain contracts, PMPM fees also include additional awards such as performance incentives, performance guarantees and risk sharing. The Company generally estimates the transaction price using the most likely amount methodology and amounts are only included in the net transaction price to the extent that it is probable that a significant reversal of cumulative revenue will not occur once any uncertainty is resolved. The majority of the Company's net PMPM transaction price relates specifically to the Company's efforts to transfer the service for a distinct increment of the series (e.g. month) and is recognized as revenue in the month in which members are entitled to service.

Risk Pool Revenues

HMO contracts also include provisions to share in the risk for hospitalization (the "Risk Pool"), whereby the physician organization can earn additional incentive revenue or incur penalties based upon the utilization of hospital services. Typically, Risk Pool deficits are not payable until and unless the Company generates future surpluses. At the termination of the HMO contract, any accumulated deficit is typically extinguished. Due to the lack of access to information necessary to estimate the related costs, Risk Pool amounts receivable from the HMOs are only recognized, using the most likely methodology, and only included in revenue to the extent that it is probable that a significant reversal of cumulative revenue will not occur. The Risk Pool for prior contract years are generally final settled in the third or fourth quarter of the following fiscal year. For the six months ended March 31, 2025 and 2024, an amount of \$801,000 and \$2,769,000, respectively, in Risk Pool profit was included in other revenues. At March 31, 2025, contingent liabilities for carry-forward risk-pool deficits expected to be forgiven, or offset against future surpluses, were approximately \$30,236,000 based on the available information from the health plans.

The Company also receives incentives under “pay-for-performance” programs for quality medical care, based on various criteria. The incentive programs track specific performance measures and calculate payments to the Company based on the performance measures. The Company’s incentives under “pay-for-performance” programs are recognized using the most likely methodology. However, as the Company does not have sufficient insight from the health plans on the amount and timing of the shared risk pool and incentive payments these amounts are considered to be fully constrained and only recorded when such payments are known and/or received. Performance and incentive revenues recorded during the six months ended March 31, 2025 and 2024 were approximately \$8,333,000 and \$7,391,000, respectively, included in other revenues.

Medical Group Management Fees

The Company enters into distinct explicit contracts with affiliated and unaffiliated customers to provide management services. The management fee is charged in exchange for the management, administrative, and non-medical services provided by the Company to its customers. The Company’s customers benefit from all of these services together and they are not separable under the various contracts. For the unaffiliated customers the Company recognizes management fee revenues for the period in which the performance obligations under the contracts are satisfied using the as invoiced practical expedient. For affiliated customers the Company recognizes management fee revenues for the period in which the performance obligations under the contracts are satisfied over time. Since the period over time represents a single month of service and is of such short duration, this approximates to a point in time.

Management fee arrangements with affiliated and unaffiliated entities are variable in nature because the majority of the fees are generally based on revenue, which can vary from period to period. The Company has control over pricing. Contractual fees are invoiced to the Company’s clients generally monthly and payment terms are typically due within 30 days. The variable consideration in the Company’s management contracts meets the criteria to be allocated to the distinct period of time to which it relates because (i) it is due to the activities performed to satisfy the performance obligation during that period and (ii) it represents the consideration to which the Company expects to be entitled. The Company uses the expected value method to determine the variable consideration. The Company received approximately \$13,893,000 or 80% and \$8,394,000 or 71% during the six months ended March 31, 2025 and 2024, respectively, of its management services revenue from unaffiliated entities. See Note 5 for the management fees earned from related parties.

Contract assets represent rights to payment for performance contingent on something other than the passage of time, and accounts receivable are rights to payment for performance without contingencies. Contract liabilities represent cash that has been received for contracts, but for which performance is still unsatisfied. As of March 31, 2025 and September 30, 2024, the Company did not have any contract assets or contract liabilities.

Out of state networks earn infrastructure revenues, a fixed fee arrangement based on per member per month (“PMPM”), is prepaid monthly to the Company based on the number of enrollees under contracts. The transaction price for PMPM contracts is variable as it primarily includes PMPM fees associated with unspecified membership that fluctuates throughout the contract. The Company earned \$1,352,000 and \$1,173,000 during the six months ended March 31, 2025 and 2024, respectively, which is reported as part of management fee revenues. In certain contracts, PMPM fees also include additional awards such as performance incentives, performance guarantees and risk sharing. The Company generally estimates the transaction price using the most likely amount methodology and amounts are only included in the net transaction price to the extent that it is probable that a significant reversal of cumulative revenue will not occur once any uncertainty is resolved. The majority of the Company’s net PMPM transaction price relates specifically to the Company’s efforts to transfer the service for a distinct increment of the series (e.g. month) and is recognized as revenue in the month in which members are entitled to service.

Global Risk Management Fees

The revenues consist primarily of payments for medical services procured under global capitation arrangements from third-party health plans. Capitation revenue under these global capitation contracts is prepaid monthly to the Global Risk Management segment based on the number of enrollees.

Management fee arrangements with unaffiliated entities provide for compensation ranging from 6.5% to 10% of revenues. Consideration from management contracts is variable in nature because the majority of the fees are generally based on revenue or collections, which can vary from period to period. The Company has control over pricing. Contractual fees are invoiced to the Company's clients generally monthly and payment terms are typically due within 30 days. The variable consideration in the Company's management contracts meets the criteria to be allocated to the distinct period of time to which it relates because (i) it is due to the activities performed to satisfy the performance obligation during that period and (ii) it represents the consideration to which the Company expects to be entitled.

Hospital Services Revenues

The Company reports Fee-For-Service ("FFS") net patient service revenues at the amounts that reflect the consideration it expects to be entitled to in exchange for providing patient care. These amounts are due from patients, third-party payers (including managed care payers and government programs) and others, and they include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations. Generally, the Company bills patients and third-party payers several days after the services are performed or shortly after discharge. Revenues are recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided and revenues are recognized when performance obligations are satisfied over time based on actual charges incurred in relation to total expected charges. This method provides a faithful depiction of the transfer of services over the term of performance obligations based on the inputs needed to satisfy the obligations. Generally, performance obligations satisfied over time relate to patients in the Company's hospitals receiving inpatient acute care services. The Company measures the performance obligation from admission into the hospital, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. Patient encounters and related episodes of care and procedures qualify as distinct goods and services, provided simultaneously together with other readily available resources, in a single instance of service, and thereby constitute a single performance obligation for each patient encounter and, in most instances, occur at readily determinable transaction prices. All services provided are expected to result in cash flows and are therefore reflected as net revenue in the condensed combined and consolidated financial statements.

The transaction price is determined based on gross charges for services provided, reduced by contractual adjustments provided to third-party payers, discounts provided to uninsured patients, and implicit price concessions provided primarily to uninsured patients. The estimates of contractual adjustments and discounts are based on contractual agreements, discount policies and historical cash collection experience. As a practical expedient, the Company adopted a portfolio approach for the FFS revenue stream to group together contracts with similar characteristics and analyze historical cash collections trends. The contracts within the portfolio share the characteristics conducive to ensuring that the results do not materially differ if it were to be applied to individual patient contracts related to each patient encounter.

Notes to Condensed Combined and Consolidated Statements (Continued)
(Unaudited)

Gross charges are retail charges. They are not the same as actual pricing, and they generally do not reflect what a hospital is ultimately paid and, therefore, are not displayed in our condensed combined and consolidated statements of operations. Hospitals are typically paid amounts that are negotiated with insurance companies or are set by the government. Gross charges are used to calculate Medicare outlier payments and to determine certain elements of payment under managed care contracts (such as stop-loss payments). Because Medicare requires that a hospital's gross charges be the same for all patients (regardless of payer category), gross charges are what hospitals charge all patients prior to the application of discounts and allowances.

The Company is responsible for confirming member eligibility, performing program utilization review, potentially directing payment to the provider and accepting the financial risk of loss associated with services rendered, as specified within the Company's patient contracts. The Company has the ability to adjust contractual fees with patients and possess the financial risk of loss in certain contractual obligations. These factors indicate the Company is the principal and, as such, the Company records gross fees contracted with patient in revenues.

Revenues under the traditional FFS service Medicare and Medicaid programs are based primarily on prospective payment systems. Retrospectively determined cost-based revenues under these programs, which were more prevalent in earlier periods, and certain other payments, such as disproportionate share hospital and bad debt expense reimbursement, which are based on our hospitals' cost reports, are estimated using historical trends and current factors. Cost report settlements under these programs are subject to audit by Medicare and Medicaid auditors and administrative and judicial review, and it can take several years until final settlement of such matters is determined and completely resolved. The Company records accruals to reflect the expected final settlements on cost reports. For filed cost reports, the accrual is recorded based on those cost reports and subsequent activity. The accrual for periods for which a cost report is yet to be filed is recorded based on estimates of what the Company expects to report on the filed cost reports. After the cost report is filed, the accrual may need to be adjusted in future periods as they become known.

Hospital Services revenues primarily consist of net patient service revenues, principally for patients covered by Medicare, Medicaid, managed care and other health plans, as well as certain uninsured patients and other uninsured discount and charity programs. Additionally, Hospital Services revenues include revenues from capitation arrangements that are made directly made with various managed care providers.

Patients who are covered by third-party payers are responsible for related co-pays, co-insurance and deductibles, which vary in amount. The Company estimates the transaction price for patients with co-pays, co-insurance and deductibles and for those who are uninsured based on historical collection experience and current market conditions. The discount offered to certain uninsured patients is recognized as a contractual allowance, which reduces net revenues at the time the self-pay accounts are recorded. The uninsured patient accounts, net of contractual allowances recorded, are further reduced to their net realizable value at the time they are recorded through implicit price concessions based on historical collection trends for self-pay accounts and other factors that affect the estimation process. Although outcomes vary, the Company's policy is to attempt to collect amounts due from patients, including co-pays, co-insurance and deductibles due from patients with insurance, at the time of service while complying with all federal and state statutes and regulations. All of the Company's hospital facilities are subject to Emergency Medical Treatment and Active Labor Act ("EMTALA"). This federal law and accompanying regulations require any hospital that participates in the Medicare program to conduct an appropriate medical screening examination of every person who comes to the hospital's emergency department for treatment and, if the patient is suffering from an emergency medical condition, to either stabilize that condition or make an appropriate transfer of the patient to a facility that can treat the condition. The obligation to screen and stabilize emergency medical conditions exists regardless of a patient's ability to pay for treatment. There are severe penalties under EMTALA for violations of the law and regulations, including if a hospital fails to screen or appropriately stabilize or transfer a patient, or if the hospital delays appropriate treatment in order to first inquire about the patient's ability to pay. Penalties for violations of EMTALA include civil monetary penalties and exclusion from participation in the Medicare program.

The Company provides charity care to patients who lack financial resources and are deemed to be medically indigent based on criteria established under the Company's charity care policy. This care is provided without charge or at amounts less than the Company's established rates. Because the Company does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as net revenues. Direct and indirect costs for providing charity care are estimated by calculating a ratio of cost to gross charges and then multiplying that ratio by the gross uncompensated charges associated with providing care to charity patients.

The Company recognizes revenues related to supplemental Medi-Cal payments under California provider fee programs (applicable to medical facilities serving a disproportionate number of low-income patients) using the most likely outcome method, which is based on formulas contained in the legislation as well as modeling performed by the California Hospital Association ("CHA"). The estimates also consider whether it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. These programs are funded by quality assurance fees paid by participating hospitals and matching federal funds.

Cost of Revenues

The cost of healthcare services consists primarily of capitation and claims payments, pharmacy costs and incentive payments to contracted providers. These costs are recognized in the period incurred, or when the services are provided. Claims costs also include an estimate of the cost of services which have been incurred but not yet reported to the Company. The estimate for accrued medical costs is based on projections of costs using historical studies of claims paid and adjusted for seasonality, utilization and cost trends. These estimates are subject to trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management records its best estimate of the amount of medical claims incurred at each reporting period. Estimates are continually monitored and reviewed and, as settlements are made or estimates adjusted, differences are reflected in the current period. See Note 7 for changes in accrued medical claims payable estimates during the six months ended March 31, 2025 and 2024.

The Company has contractual reimbursement obligations to providers and discretionary incentive payment obligations to physicians. These incentive payments are in large part predicated on the pay-for-performance, shared risk revenues, and favorable senior capitation risk adjustment payments received by the Company from the health plans. The Company records these revenues generally in the third or fourth quarter of each fiscal year when the incentives and capitation adjustments due from the health plans are known. During this period, the Company also finalizes the physician discretionary incentive.

During the six months ended March 31, 2025 and 2024, the Company recorded physician incentive bonus expenses totaling approximately \$9,558,000 and \$16,291,000, respectively, and is included in cost of revenues in the condensed combined and consolidated statements of operations. As of March 31, 2025 and September 30, 2024, physician incentive bonus accruals were approximately \$17,157,000 and \$36,156,000, and were included in accounts payable and other accrued liabilities in the accompanying condensed combined and consolidated balance sheets.

The Company also periodically evaluates the need to establish premium deficiency reserves for the probability that anticipated future health care costs could exceed future capitation payments from HMOs under capitated contracts and, where appropriate, records a premium deficiency reserve. There were no such premium deficiencies recorded at March 31, 2025 and September 30, 2024, respectively.

Cash and Cash Equivalents

Cash is primarily comprised of deposits with banks. The Company maintains its cash and cash equivalents at banks with high credit-quality ratings.

Restricted Cash

The Company is required by certain health plans to maintain a restricted cash balance in the form of a letter of credit restricted by the bank. Restricted cash was \$1,000,000 and \$1,085,000 as of March 31, 2025 and September 30, 2024, respectively. The Company is also required to keep \$300,000 restricted deposits by the DMHC for the payment of claims. Such restricted deposits, consisting of certificates of deposits with maturity dates of more than 90 days when purchased, are classified as a non-current asset in the accompanying condensed combined and consolidated balance sheets as they are required by the DMHC in order to continue to operate under the Act. Restricted cash totaled \$1,300,000 and \$1,385,000 as of March 31, 2025 and September 30, 2024, respectively.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the balance sheets that sum to the total of the same amount shown in the statements of cash flows (in thousands):

	March 31, 2025	September 30, 2024
Cash	\$ 129,168	\$ 151,255
Restricted cash	1,300	1,385
	<hr/> \$ 130,468	<hr/> \$ 152,640

Patient Accounts Receivable, Net

Patient accounts receivable include billed accounts and unbilled accounts for which there is the unconditional right to payment. Estimated amounts due from third-party payers for retroactive adjustments are receivables if the right to consideration is unconditional and only the passage of time is required before payment of that consideration is due.

Receivables from government agencies are significant to our operations, but are not a significant credit risk. We do not believe there are any other significant concentrations of revenues from any particular payer that would subject us to any significant credit risks in the collection of our accounts receivable.

Changes in general economic conditions, patient accounting service center operations, payer mix, or federal or state governmental health care coverage could affect our collection of accounts receivable, cash flows and results of operations.

Estimated uncollectable amounts are generally considered implicit price concessions that are a direct reduction to patient accounts receivable. Such implicit price concessions may be caused by denials for payments for services due to issues over patient eligibility for medical coverage, the Company's ability to demonstrate medical necessity for services rendered and payer authorization of hospitalization.

Risk Pool Receivable

Risk pool receivable consist of risk revenues due from non-related parties. The Company continuously monitors its collections of receivables, and its policy is to write off receivables when they are determined to be uncollectible. As of March 31, 2025 and September 30, 2024, the Company does not have an allowance for doubtful accounts for risk pool receivable.

Contract Assets and Contract Liabilities

The receivables and payables related to California Hospital Fee Program are the significant contract assets and liabilities in the Company's financial statements. As of March 31, 2025 and September 30, 2024, the Company had receivables related to the California Hospital Fee Program of approximately \$21,550,000 and \$18,385,000, respectively, and had liabilities related to the California Hospital Fee Program of approximately \$8,625,000 and \$7,330,000, respectively, in the accompanying balance sheets.

Promissory Note Receivable

A note receivable for the Foothill Note referenced in Note 6 below is recorded at net realizable value and is due in less than a year. See Note 6 for a further description of the Foothill Note.

Property, Improvements and Equipment

Property, improvements and equipment are stated on the basis of cost or, in the case of acquisitions, at their acquisition date fair values. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, and amortization of leasehold improvements is provided using the straight-line basis over the shorter of the remaining lease period or the estimated useful lives of the leasehold improvements. Leasehold improvements are generally depreciated over 5 to 40 years, buildings and improvements are depreciated over 5 to 40 years, equipment is depreciated over 2 to 15 years and furniture and fixtures are depreciated over 2 to 20 years. Equipment capitalized under finance lease obligations is amortized over the lesser of the life of the lease or the useful life of the asset.

Leases

Leases with an initial term of greater than one month and less than 12 months (short-term leases) are not recorded on the Combined balance sheet and are expensed on a straight-line basis over the lease term. The majority of the Company's short-term leases relate to equipment and real estate. See Note 6 – "Commitments and Contingencies" for further information.

Income Taxes

In accordance with ASC Topic 740, "Income Taxes" ("ASC 740"), each interim reporting period is considered integral to the annual period, and tax expense is measured using an estimated annual effective tax rate. An entity is required to record income tax expense each quarter based on its annual effective tax rate estimated for the full fiscal year and use that rate to provide for income taxes on a current year-to-date basis, adjusted for discrete taxable events that occur during the interim period.

Management assesses the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the current year loss and forecasted losses over the next five-year period ending September 30, 2029. Such objective evidence limits the ability to consider other subjective evidence.

Based on this evaluation, as of March 31, 2024, a full valuation allowance of \$18,600,000 has been recorded to reduce the net deferred tax assets to zero. The amount of the deferred tax assets considered realizable, however, could be adjusted if estimates of future taxable income increased or if objective negative evidence in the form of cumulative losses is no longer present and additional weight is given to subjective evidence.

Our income tax returns are based on calculations and assumptions subject to audit by various tax authorities. In addition, the calculation of our tax liabilities involves dealing with uncertainties in the application of tax laws. We regularly assess the potential outcomes of examinations by tax authorities in determining the adequacy of our provision for income taxes. We are currently not under audit by any taxing authority. As of March 31, 2025 and September 30, 2024, the Company did not have any unrecognized tax benefits related to various federal and state income tax matters.

Our effective income tax rate for the six months ended March 31, 2025, was negative 9.28% as compared to 1,174.12% for the six months ended March 31, 2024. Our effective rate differs from the statutory rate of 21.0% primarily due to non-deductible permanent items. The decrease in our effective tax rate for the six months ended March 31, 2025, was primarily due to the establishment of a full valuation allowance as March 31, 2024.

As of March 31, 2025 and September 30, 2024, the Company had an income tax payable of approximately \$28,077,000 and \$18,468,000, respectively, which was recognized in current liabilities and is expected to be paid during the fiscal year ending September 30, 2025.

Goodwill

Goodwill is measured as the excess of consideration transferred over the net amount of the acquisition date fair value of assets acquired, and liabilities assumed in a business acquisition.

The Company evaluates goodwill annually or whenever triggering events or circumstances at the entity level indicate that the fair value of the entity may be below its carrying amount. The Company first assesses qualitative factors to determine whether the quantitative impairment test is necessary. If that qualitative assessment indicates that it is more likely than not that goodwill is impaired, the Company performs the quantitative test to compare the entity's fair value with its carrying amount, including goodwill.

The goodwill impairment loss, if any, represents the excess of the carrying amount of the entity over its fair value. There was no goodwill impairment recorded during the six months ended March 31, 2025 and 2024.

Medical Malpractice Reserves

The individual physicians who contract with the physician organizations carry their own medical malpractice insurance, some of which may be purchased from RRG or CHIC. In the Hospital Services segment, the Company's hospitals carry professional and general liability insurance to cover medical malpractice claims under claims-made policies. Under the policies, insurance premiums cover only those claims actually reported during the policy term. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims related to occurrences during the policy term and not reported prior to the termination may be uninsured. The Company's hospitals have a consolidated policy for professional and general liability insurance with a retention that applies per claim.

Concentrations of Credit Risk

Cash is maintained at financial institutions and, at times, balances may exceed federally insured limits of \$250,000 per depositor of each financial institution. The Company has not experienced any losses to date related to these balances.

The Company's credit risk with respect to health plan receivables is limited since amounts are generally due from large HMOs. Amounts due from affiliated companies and the Company are unsecured and non-interest bearing but are settled periodically. The Company periodically reviews the stand-alone financial performance and financial condition of the affiliated companies (see Note 5).

For the six months ended March 31, 2025 and 2024, the Company received a total of approximately 68% and 61%, respectively, of its capitation revenue from its five largest Health Plan partners, as follows (in thousands):

Six months ended March 31,	2025 (Unaudited)	% of Capitation Revenue	2024		% of Capitation Revenue
			(Unaudited)		
Health Plan A	\$ 23,643	17%	Health Plan A	\$ 20,451	14%
Health Plan B	21,260	15%	Health Plan B	18,227	13%
Health Plan C	21,204	15%	Health Plan C	18,177	13%
Health Plan F	15,953	11%	Health Plan D	15,610	11%
Health Plan E	13,794	10%	Health Plan E	14,381	10%
Total	\$ 95,854	68%		\$ 86,846	61%

Reserve Methodology

The claims reserve is based on the best data available to the Company. The estimate, however, is subject to a significant degree of inherent variability. The estimate is continually monitored and reviewed, and as the reserve is adjusted, the difference is reflected in current operations. While the ultimate amount of the medical malpractice and workers' compensation claims liability is dependent on future developments, management is of the opinion that the associated liabilities recognized in the accompanying condensed combined and consolidated financial statements are adequate to cover such claims. Management is not aware of any potential claims whose settlement, if any, would have a material adverse effect on the Company's combined and consolidated financial position, results of operations or cash flows.

Mezzanine Equity

On May 23, 2023, the Company entered into the Third Amended and Restated Limited Liability Company Agreement (the "Agreement"). As a result, the Company issued 69,494 Series A-1 Preferred Units to MPT.

The Series A-1 Preferred Units holders are entitled to an annual preferred return of 8.00%, compounded annually, on the average daily balance of their unrecovered capital. This preferred return will accrue from the Agreement date until the holder's unrecovered capital is fully repaid. In the event of the Company's dissolution or liquidation, holders of Series A-1 Preferred Units are entitled to receive distributions before any distributions are made to common equity holders. After the payment of the preferred return and full recovery of unrecovered capital, holders of Series A-1 Preferred Units are entitled to participate in further distributions. This participation is, however, subject to the approval of the requisite Series A-1 Holders. The value of a membership interest in such a transaction is determined by the amount the holder would receive if the Company sold all its assets at fair market value, less liabilities. As of the reporting date, this price cannot be determined and will be calculated in a future period when the necessary information becomes available. Holders of the Series A-1 Preferred Units do not have voting rights, except as required by the Delaware Limited Liability Company Act (the "Delaware Act") or the LLC Agreement. However, the holder of the Phase I Convertible Note is treated as a holder of Series A-1 Preferred Units for purposes of exercising consent or approval rights tied to these units.

As of the reporting date, no additional Series A-1 Preferred Units have been issued upon conversion, exercise, or satisfaction of required conditions. Additionally, no changes were made to the conversion or exercise prices during the reporting period.

The Company's preferred stock is classified as mezzanine equity due to the buy/sell provision in the Company's LLC agreement. Under this provision, the holder has the right to initiate a buy/sell process, where the Company may either purchase the preferred stock or sell its units to the holder.

3. Property, Improvements and Equipment

Property, improvements and equipment, consisted of the following (in thousands):

	March 31, 2025	September 30, 2024
Land	\$ 5,800	\$ 5,800
Land improvements	5	5
Buildings and improvements	10,736	10,430
Leasehold improvements	3,457	3,457
Equipment and software	30,486	30,135
Furniture and fixtures	1,616	1,616
	52,100	51,443
Less: accumulated depreciation	(33,115)	(31,363)
	18,985	20,080
Construction in Progress	2,695	2,640
Property, improvements and equipment, net	<u>\$ 21,680</u>	<u>\$ 22,720</u>

Depreciation expense was approximately \$1,752,000 and \$965,000 for the six months ended March 31, 2025 and 2024, respectively.

4. Goodwill

The changes in the carrying amount of goodwill for the six months ended March 31, 2025 are as follows (in thousands):

<i>Six months ended</i>	March 31, 2025
Balance, October 1	\$ 29,587
Addition of goodwill	79
Balance, March 31	\$ 29,666

5. Related Party Transactions

As discussed further under Note 6 below, PMH, the Company and another PMH subsidiary, Prospect Healthcare Facilities Management, LLC, are parties to an Amended and Restated Master Restructuring Agreement pursuant to which various financial obligations owed to MPT were restructured.

PMG is a party to a risk pool sharing agreement with Southern California Healthcare System, Inc., dba Southern California Hospital at Culver City ("SCHS"), an affiliated entity wholly owned by PMH. Under the agreement, PMG and SCHS agreed to establish a Hospital Control Program (as defined) to serve HMO enrollees and earn incentive revenue or incur penalties by sharing in the risk for hospitalization based on inpatient services utilized. Risk pools are generally settled in the following year.

Alta Hospitals System, LLC (a wholly owned subsidiary of PMH) and/or its subsidiaries (collectively, "Alta") has entered into agreements with several HMOs, pursuant to which, Alta's hospitals provide hospital, medical, and other healthcare services to senior and Medi-Cal HMO enrollees under a fixed capitation arrangement ("Capitation Arrangement"). Alta has also entered into a risk pool sharing agreement with PMG and a management services agreement with PMS. Under the risk pool sharing agreement, Alta, PMG and PMS agreed to establish a Hospital Control Program (as defined) to serve the HMO enrollees, pursuant to which, PMG is allocated a 90% residual interest in the profit or loss, after deductions for costs to Alta's hospitals. In August 2013, Alta entered into a similar arrangement with a new medical group pursuant to which, Alta, PMG and the medical group are allocated 10%, 30% and 60% residual interest, respectively, in the profit or loss, after deductions for costs to Alta's hospitals. Under the management services agreement, PMS provides non-hospital and non-physician support activities that are required under the agreement with the HMO, in return for a monthly management fee of 10% of earned revenue (as defined). As of March 31, 2025 and September 30, 2024, approximately 5,500 and 5,600 HMO enrollees were covered under such Capitation Arrangements, respectively.

PMG has a Participating Physician Group Services Agreement ("PPGSA") with Prospect Health Plan, Inc. ("PHP"). Effective March 31, 2023, PHP became a wholly-owned subsidiary of PHPH. Under the terms of the PPGSA, PHP retains a percentage of gross capitation received from health plans for members assigned to a Prospect Network provider and transfers a pre-determined percentage of remaining gross capitation to PMG for all professional and outpatient ancillary services, subject to the terms of the PPGSA. Approximately 99,000 and 111,300 enrollees were covered under the PPGSA as of March 31, 2025 and September 30, 2024 respectively.

Notes to Condensed Combined and Consolidated Statements (Continued)
(Unaudited)

PMG is also party to a Hospital Control Agreement (“HCA”) with PHP. Under the HCA, PHP and PMG agreed to share in the risk of providing medical services to enrollees. The profit or loss associated with providing such services to enrollees, including the management fee due PMS, is allocated 90% to PMG and 10% to PHP. PMG is also party to a risk sharing agreement with PHP and a third-party effective July 1, 2017. The profit or loss associated with providing such services to enrollees, including the management fee due PMS, is allocated 30% to PMG, 60% to a third party and 10% to PHP. Approximately 89,700 and 71,200 enrollees were covered under the HCA as of March 31, 2025 and September 30, 2024, respectively.

PMS has entered into various Management Service Agreements (each, an “MSA”), Administrative Service Agreements (each, an “ASA”) and Management Services Arrangements with related parties. PMS provides administrative services including network management, contracting, medical management, claims processing, eligibility services, financial management, information systems, marketing, advertising, and public relations (collectively, “Management Services”) for a management fee based on a percentage of capitation revenue earned by the related parties or fixed member per month amount dependent on membership composition defined in each MSA or ASA. The various MSA and ASA have various term lengths up to 30 years and subsequently automatically renew for additional terms unless notice is given by either party.

Management fees (in thousands) earned from related parties are as follows:

<i>Six months ended March 31,</i>	2025	2024
Alta Hospitals Systems, LLC	\$ 1,710	\$ 1,728
Southern California Healthcare Systems, Inc.	336	455
Prospect Health Services CT, Inc.	30	30
Prospect Health Services PA, Inc.	30	30
Coordinated Regional Care, Inc.	15	15
Total Management fees earned from related parties	\$ 2,121	\$ 2,258

The Company also incurred an additional \$4,463,000 and \$3,870,000 in management fees to CRCG during the six months ended March 31, 2025 and 2024, respectively.

PHP also entered into Hospital Services Agreements (“HSAs”) separately with Alta Los Angeles Hospitals, Inc. (“Alta”), Southern California Healthcare System, Inc. (“SCH”), and Alta Newport, each of Alta and SCH are subsidiaries of PMH. Pursuant to the HSAs, Alta, SCH, and Alta Newport are responsible for providing all inpatient and outpatient hospital services to Capitated MA Enrollees assigned to them. PHP retains 2% of gross capitation received from health plans for capitated enrollees assigned to each of Alta, Alta Newport, and SCH and transfers 54% of the remaining gross capitation to Alta, SCH, and/or Alta Newport as applicable, to cover such inpatient and outpatient services. The 46% of the remaining gross capitation revenue is transferred for professional services to PMG and subs. PHP incurred \$96,734,000 and \$88,668,000 of such expenses during the six months ended March 31, 2025 and 2024, respectively. These amounts are included in capitation expense, net in the accompanying condensed combined and consolidated statements of operations.

PHP Holdings, LLC & Rhode Island Market

Notes to Condensed Combined and Consolidated Statements (Continued)
(Unaudited)

Balances included in due from related parties in the accompanying condensed combined and consolidated balance sheets as of March 31, 2025 and September 30, 2024 are as follows (*in thousands*):

	March 31, 2025	September 30, 2024
PMH and subsidiaries	\$ <u>14,441</u>	\$ <u>18,605</u>
Due from related parties	<u>\$ 14,441</u>	<u>\$ 18,605</u>

The settlement of these balances is dependent upon the ability of the affiliated companies to repay the amounts due.

Promissory Note

As noted above, on May 23, 2023, PMG loaned \$75,000,000 to PIH's subsidiary, FRMC Hospital Property, LLC (Trustor) pursuant to the Foothill Note further described in Note 6 below. As also set forth in Note 6, effective November 17, 2023 and February 28, 2025, the borrower made a prepayment in the amount of \$48,311,000 and \$5,074,000, respectively, leaving a remaining principal balance at March 31, 2025 and September 30, 2024 of \$21,615,000 and \$26,689,000, respectively. This amount is eliminated during the preparation of the condensed combined and consolidated financial statements.

6. Commitments and Contingencies

Debt

Debt consists of the following (in thousands):

	March 31, 2025*	September 30, 2024*
PhysicianCo Term Loan	\$ <u>411,992</u>	\$ <u>398,370</u>
The Phase I Convertible Note	<u>742,283</u>	<u>717,839</u>
Bridge Loan	<u>52,024</u>	<u>51,001</u>
Other	<u>1,025</u>	<u>1,194</u>
 Total debt	 <u>1,207,324</u>	 <u>1,168,404</u>
Less: Debt, current portion	<u>(219)</u>	<u>(51,186)</u>
 Long-term debt, net of current portion	 <u>\$ 1,207,105</u>	 <u>\$ 1,117,218</u>

* These amounts do not include debt issuance costs, discounts or premiums.

PhysicianCo Term Loan

On May 23, 2023, a Financing Agreement (the "PhysicianCo Loan Agreement") was executed by and among (1) the Company, PIH, PPHI, and the Company's other subsidiaries (excluding PHP) as guarantors (the "PhysicianCo Loan Parties"), (2) PMH and its California hospital subsidiaries as guarantors, (the "HospitalCo Loan Parties" and together with the PhysicianCo Loan Parties, the "Loan Parties"), (3) Wilmington Trust, National Association, as administrative agent and collateral agent, (the "Agent") and (4) funds managed or advised by each Centerbridge Entity, as a lender, and (5) each Blue Torch entity, as a lender (the "Lenders"), pursuant to which the Lenders made loans (collectively, the "Initial Term Loan") in an aggregate initial principal amount of the PhysicianCo Loan is \$375 million. The Initial Term Loan bears interest at a rate determined through an adjusted secured overnight financing rate (SOFR) calculation set forth in the PhysicianCo Loan Agreement plus 13.00% per annum, of which up to 3.00% per annum may, at the Company's opinion, be paid in kind. The maturity date of the Initial Term Loan is May 23, 2026. The Loan Agreement contains certain affirmative and negative covenants, including limitations on indebtedness, corporate transactions, investments, dispositions, and dividends. Refer to discussion of compliance with these covenants as of March 31, 2025 below.

Immediately following the closing of the PhysicianCo Loan Agreement financing, PIH loaned a total of \$125 million to PIPH. Thereafter, PIPH contributed a total of \$125 million to PMG as additional paid in capital.

Also on May 23, 2023, PMG loaned \$75,000,000 to PIH's subsidiary, FRMC Hospital Property, LLC (Trustor) (the "Foothill Note"). As set forth under Note 5, prepayments in the amount of \$48,311,000 and \$5,074,000 were made on November 17, 2023 and February 28, 2025, respectively, leaving a remaining principal balance of \$21,615,000. Interest accrues on the remaining balance of the Foothill Note at the prime rate and the obligations of Trustor are secured by Deed of Trust with Assignment of Rents recorded for the hospital property located at 14662 Newport Ave, Tustin, CA 92780. PMG may demand repayment of the remaining indebtedness under the Foothill Note at any time.

The Phase I Convertible Note

On May 23, 2023, PMH, the Company and another PMH subsidiary, Prospect Healthcare Facilities Management, LLC, entered into an Amended and Restated Master Restructuring Agreement (the "MRA") with a subsidiary of Medical Properties Trust, Inc. (MPT), MPT Picasso Investors TRS, LLC ("MPT Picasso"), that provides for the restructuring of rights and obligations of the parties. In accordance with the terms of the MRA, in exchange for the corresponding cancelation of certain debt obligations, including the Foothill Mortgage Loan and the TRS Note, discussed below, and accrued and outstanding rent for the MPT Leased Properties, MPT Picasso was issued non-voting Series A-1 Preferred Units ("Preferred Units") by PHPH, representing a 49% ownership interest in PHPH and its subsidiaries, and a Convertible Promissory Note (the "MPT Convertible Note") convertible into additional Preferred Units. By two written Orders issued on April 18, 2024, the California Department of Managed Health Care (the "DMHC") approved the changes in the indirect ownership of PHP effected by the issuance of the Preferred Units.

The initial principal amount of The Phase I Convertible Note was \$646,338,000. The note is convertible into shares of PHPH Series A-1 Preferred Units at any time at the election of the holder at a conversion price per unit equal to the quotient obtained by dividing \$153,662,000, the PHPH Net Equity Value, by the aggregate number of all Units outstanding as of immediately prior to closing of the conversion. The balance of the convertible amount not converted will be due in a single lump sum on the November 20, 2026 maturity date. Interest accrues at an 8.00% per annum rate. The MPT Convertible Note is collateralized by the issued and outstanding capital stock or other equity interests of each of PHP and PIH.

Bridge Loan

On October 24, 2023, an amendment was executed by and among PMH, and PIH and PPHI, as borrowers, and Centerbridge Entity and Blue Torch Entity, as lenders, to the PhysicianCo Loan Agreement. Borrowers requested and the lenders agreed to make available to the borrowers delayed draw term loan commitments. The Loan Parties, the Lenders party thereto and the Agent entered into a limited waiver, consent and amendment number one to the PhysicianCo Loan Agreement, which, among other things, granted temporary waivers in connection with noncompliance with certain covenants and contemplated additional the funding of additional loans in an aggregate principal amount of \$50.0 million (collectively the "2023 Bridge Loan Commitments" or "2023 Bridge Loan") subject to certain conditions precedent.

On November 14, 2023, the Loan Parties, the Lenders party thereto and the Agent entered into a permanent waiver and amendment number two to the PhysicianCo Loan Agreement, which, among other things, permanently waived events of default in connection with noncompliance with certain covenants and provided for the funding of the 2023 Bridge Loan in an aggregate initial principal amount of \$50.0 million. The 2023 Bridge Loan bears interest at a rate determined through an adjusted secured overnight financing rate (SOFR) calculation set forth in the Loan Agreement plus 13.00% per annum. The maturity date of the 2023 Bridge Loan was December 31, 2024, subject to extension to June 30, 2025 upon the satisfaction of certain conditions, including the payment of an extension fee. The proceeds of the 2023 Bridge Loan were used to provide cash required for compliance with certain minimum regulatory capital requirements by funding the prepayment described above on the Foothill Note.

On December 31, 2024, the Loan Parties exercised their option to extend the maturity date of the 2023 Bridge Loan to June 30, 2025, by satisfying the extension conditions including, among other things, payment of an \$8.5 million fee to the Lenders, which fee was capitalized and added to the principal amount of the PhysicianCo Loan and the 2023 Bridge Loan, ratably based on the outstanding principal amount thereof.

On February 10, 2025, the Lenders extended the maturity date of the 2023 Bridge Loan to March 31, 2026. No fee or other consideration was payable in connection with such extension.

Additional PhysicianCo Term Loan and Bridge Loan Events

On February 27, 2024, the Loan Parties, the Lenders party thereto and the Agent entered into amendment number three to the PhysicianCo Loan Agreement, providing for the extension of the deadline to deliver audited financial statements of the Company and of PMH for the fiscal year ended September 30, 2023.

On April 30, 2024, the Loan Parties, the Lenders party thereto and the Agent entered into amendment number four to the PhysicianCo Loan Agreement, providing for a limited waiver of certain events of default related to the Foothill merger, a further extension of the deadline to deliver audited financial statements of the Company and of PMH for the fiscal year ended September 30, 2023 and certain covenants around maintenance of the Foothill bank accounts and the consummation of the Foothill merger.

On June 5, 2024, the Loan Parties, the Lenders party thereto and the Agent entered into amendment number five to the PhysicianCo Loan Agreement, whereby, to facilitate the execution of an eCapital ABL Facility of PMH, Lenders agreed to certain amendments to the Deposit Account Control Agreement.

The foregoing PhysicianCo Loan Agreement and 2023 Bridge Loan contain certain customary covenants and restrictions and financial covenants based on earnings before interest, taxes, depreciation, amortization, restructuring and rent costs ("EBITDAR") performance. The Company was in compliance with all such covenants at March 31, 2025.

On August 15, 2024, as a result of the Loan Parties' failure to satisfy a milestone set forth therein, an \$8.5 million fee payable to the Lenders was earned in respect of the PhysicianCo Loan and 2023 Bridge Loan, discussed below, which fee was paid in kind on such date and, subject to certain limited exceptions, will be forgiven in the event that the Loan Parties consummate a sale of the PhysicianCo Loan Parties prior to the deadline therefor set forth in the PhysicianCo Loan Agreement.

PHP Holdings, LLC & Rhode Island Market

Notes to Condensed Combined and Consolidated Statements (Continued)
(Unaudited)

On September 14, 2024, certain events of default occurred under the PhysicianCo Loan Agreement as a result of which the Lenders exercised the right to impose interest at the default rate on the PhysicianCo Loan and the 2023 Bridge Loan, equating to an additional 3.00% per annum, payable in cash on each interest payment date. Such events of default continue to exist as of March 31, 2025 and, accordingly, the PhysicianCo Loan and the 2023 Bridge Loan continue to accrue interest at the default rate, which additional 3.00% per annum continues to be payable in cash on each interest payment date.

On May 30, 2025, the Bridge Loan maturity date was extended to June 1, 2026.

Other

In or about March 15, 2021, FRMC acquired a Mako Robot Loan. The original cost was \$1,295,000. The balance as of March 31, 2025 and September 30, 2024 is \$1,025,000 and \$1,194,000, respectively.

The aggregate scheduled maturities of our total debt outstanding as of March 31, 2025 are as follows (in thousands):

<i>Fiscal Year</i>	\$	-
2025 (remaining six months)	\$	-
2026	464,237	
2027	742,526	
2028	275	
2029	286	
Thereafter	-	
	<hr/>	<hr/>
	\$	<u>1,207,324</u>

Debt Issuance Costs and Debt Discount/Premium

As of March 31, 2025 and September 30, 2024, remaining debt discount and debt premium for the debt under the Loan Agreement (the “PhysicianCo Term Loan”) and the MPT Convertible Note (“The Phase I Convertible Note”), and debt issuance cost (“DIC”) for the Bridge Loan are as follows (in thousands, except interest rates):

<i>As of March 31, 2025</i>	<i>Debt Discount</i>	<i>Debt Premium</i>	<i>Effective Interest Rate</i>
PhysicianCo Term Loan	\$ 14,925	\$ -	21.99%
The Phase I Convertible Note	11,997	37,410	5.49%
Bridge Loan	1,201	-	18.59%
	<hr/>	<hr/>	<hr/>
	\$ 28,123	\$ 37,410	<hr/>

PHP Holdings, LLC & Rhode Island Market

Notes to Condensed Combined and Consolidated Statements (Continued)
(Unaudited)

<i>As of September 30, 2024</i>	Debt Discount	Debt Premium	Effective Interest Rate
PhysicianCo Term Loan	\$ 20,346	\$ -	21.99%
The Phase I Convertible Note	15,448	48,171	5.49%
Bridge Loan	3,607	-	18.56%
	<hr/>	<hr/>	<hr/>
	\$ 39,401	\$ 48,171	<hr/>

The above debt discount and debt premium are recorded as a part of the debt and are amortized into interest expense using an effective interest rate over the duration of the debt.

PMH Debt Restructuring

On February 22, 2018, PMH entered into an ABL Credit Agreement (the “ABL Agreement”), by and among PMH (as the borrower), the lenders party thereto and JPMorgan Chase Bank, N.A. (“JPMC”), as administrative agent and collateral agent. Under the ABL Agreement, the initial maximum revolving commitment was \$250.0 million with an ability to expand the facility to \$325.0 million (the “ABL Facility”). The Company and virtually all of its direct and indirect wholly-owned subsidiaries, including the Company but excluding PHP, were guarantors of the obligations of PMH under the ABL Agreement.

The ABL Facility matured on February 22, 2023. However, PMH and JPMC entered into Forbearance Agreements that provided that JPMC, as the Administrative Agent, and other lender parties agreed to forbear from exercising any rights and remedies arising from or related to the occurrence and continuation of certain defaults until May 31, 2023 and effectively extended the ABL Facility’s required repayment date to May 31, 2023. As noted below, the outstanding ABL Facility balance of \$170,800,000 was paid off in full on May 23, 2023.

On August 23, 2019, PMH closed a series of transactions with affiliates of Medical Properties Trust, Inc. (“MPT”), a publicly traded Real Estate Investment Trust. PMH sold to MPT certain hospital buildings in California, Connecticut and Pennsylvania. Concurrent with the sale transactions, PMH entered into two master lease agreements whereby the hospital properties and related medical office buildings were leased back (the “MPT Leased Properties”). On the same date, PMH entered into a promissory note (the “TRS Note”), under which MPT loaned to PMH \$112,937,000. Additionally on August 23, 2019, MPT provided PMH with a \$51,266,700 mortgage loan secured by the real property owned by Alta Newport (the “Foothill Mortgage Loan”). On May 2, 2022, an additional \$50,000,000 loan was made by MPT to PMH and added to the Foothill Mortgage Loan.

MPT Term Loan

The proceeds of the financing transaction PhysicianCo Term Loan, discussed above, together with the proceeds from a separate financing transaction at PMH that did not involve the Company or its direct or indirect subsidiaries, of a \$75.0 million term loan made by MPT TRS Lender PMH, LLC to PMH (the “MPT Term Loan”), were used to (1) refinance, and pay off in its entirety, an ABL Credit Agreement by and among PMH (as the borrower), the lenders party thereto and JPMorgan Chase Bank, N.A. as administrative agent and collateral agent, (2) to pay certain expenses associated with the refinancing, (3) to provide cash required for compliance with certain minimum regulatory capital requirements for PMG, and (4) to finance certain working capital and other operational needs of PMH and its subsidiaries (see “Debt Restructuring” discussion above).

As discussed above, on May 23, 2023, PMH obtained the MPT Term Loan. Each of PHSRI and PPGRI are guarantors of the MPT Term Loan. The MPT Term Loan bears interest at a rate determined through an adjusted secured overnight financing rate (SOFR) calculation set forth in the Loan Agreement plus, initially, 5.00% per annum and from and after June 5, 2024, pursuant to an amendment to the MPT Term Loan, 7.50% per annum. The maturity date of the MPT Term Loan is May 23, 2026. The MPT Term Loan contains certain affirmative and negative covenants, as well as a minimum liquidity covenant. As of March 31, 2025, MPT Term Loan outstanding balance was approximately \$391,246,000. Further, as of March 31, 2025, PMH was in default under certain of the MPT Term Loan covenants, including failure to make certain payments owing thereunder.

Litigation

The Company is subject to a variety of claims and suits that arise from time to time in the ordinary course of its business, acquisitions, or other transactions. While the Company's management currently believes that resolving all of these matters, individually or in the aggregate, will not have a material adverse impact on the Company's financial position or results of operations, the litigation and other claims that the Company faces are subject to inherent uncertainties and management's view of these matters may change in the future. Should an unfavorable final outcome occur, there exists the possibility of a material adverse impact on the Company's financial position, results of operations and cash flows for the period in which the effect becomes probable and reasonably estimable.

Leases

The Company evaluates whether an arrangement contains a lease by determining whether (1) there is an identified asset in the contract and (2) the customer has the right to control the use of the identified asset.

The Company's ROU assets and lease liabilities relate to real estate and equipment. The Company's leases have remaining lease terms of one year to 6 years. Certain of the Company's leases contain renewal, extension, or termination options. The Company assesses each option on an individual basis and has only included options reasonably certain of exercise in the lease term.

Long-term leases (leases with terms greater than 12 months) are recorded on the condensed combined and consolidated balance sheet with a ROU asset and lease liability that are equal to the present value of the minimum lease payments not yet paid. Right-of-use assets also include any deferred rent that existed as of the adoption date. Variable lease payments, such as payments based on use and for property taxes, insurance, or common area maintenance that are based on actual assessments are excluded from the ROU asset and lease liability and are expensed as incurred.

The components of lease expense for the six months ending March 31, 2025 and 2024 are as follows (in thousands):

<i>Six months ended March 31,</i>	2025	2024
Finance lease cost:		
Amortization of right-of-use assets	\$ 158	\$ 93
Interest on lease liabilities	62	17
Operating lease cost	1,056	936
Variable lease cost	480	727
 Total lease cost	 \$ 1,756	 \$ 1,773

PHP Holdings, LLC & Rhode Island Market

Notes to Condensed Combined and Consolidated Statements (Continued)
(Unaudited)

The Company's right-of-use assets and lease liabilities at March 31, 2025 and September 30, 2024 as follows (in thousands):

	March 31, 2025	September 30, 2024
Assets		
Finance lease right-of-use assets (included in property, plant and equipment, net)	\$ 2,322	\$ 2,493
Operating lease right-of-use assets	<u>4,511</u>	<u>5,577</u>
Total lease assets	\$ 6,833	\$ 8,070
Liabilities		
Lease liabilities, current:		
Finance lease liabilities	\$ 722	\$ 702
Operating lease liabilities	<u>2,354</u>	<u>2,461</u>
Total lease liabilities, current	3,076	3,163
Lease liabilities, noncurrent:		
Finance lease liabilities	1,409	1,723
Operating lease liabilities	<u>2,830</u>	<u>3,933</u>
Total lease liabilities, noncurrent	4,239	5,656
Total leased liabilities	\$ 7,315	\$ 8,819

The following table summarizes the Company's weighted average remaining lease term and weighted average discount rate as of March 31, 2025 and September 30, 2024 (in thousands):

	March 31, 2025	September 30, 2024
Weighted-average remaining lease term (years):		
Finance leases	3.23	3.64
Operating leases	<u>2.17</u>	<u>2.90</u>
Weighted-average discount rate:		
Finance leases	4.48%	4.54%
Operating leases	<u>4.09%</u>	<u>4.10%</u>

PHP Holdings, LLC & Rhode Island Market

Notes to Condensed Combined and Consolidated Statements (Continued)
(Unaudited)

Supplemental information related to leases for the six months ended March 31, 2025 and 2024 are as follows (in thousands):

<i>Six months ended March 31,</i>	2025	2024
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$ 1,341	\$ 673
Financing cash flows from finance leases	<u>359</u>	<u>159</u>
 Total cash paid	\$ 1,700	\$ 832

Total remaining lease payments for the Company's finance and operating leases as of March 31, 2025 are as follows (in thousands):

<i>Fiscal Year</i>	<i>Finance Leases</i>	<i>Operating Leases</i>
2025 (remaining six months)	\$ 443	\$ 1,164
2026	671	2,199
2027	726	1,291
2028	249	763
2029	<u>216</u>	<u>23</u>
 Total lease payments	2,305	5,440
Less: amounts representing interest	<u>174</u>	<u>256</u>
 Present value of lease liabilities	\$ 2,131	\$ 5,184

PACE financing

In August 2019, Alta Newport entered into an agreement with a third party that specializes in property assessed clean energy ("PACE") financing to finance qualifying renovations for the hospital property. The full amount of the funds was deposited into an escrow account managed by a third-party administrator. The amount financed is subject to an annual interest rate of 6.0% and the financing has a maturity date of September 2, 2045. Payments are collected through property tax bills as a non-ad valorem assessment. Payments commenced in July 2020. At March 31, 2025, Alta Newport had a related financing liability of approximately \$5,710,000, of which \$173,000 and \$5,537,000 is classified within other current liabilities and other long-term liabilities, respectively, in the accompanying condensed combined and consolidated balance sheets. At September 30, 2024, Alta Newport had a related financing liability of approximately \$5,578,000 of which \$172,000 and \$5,406,000 is classified within other current liabilities and other long-term liabilities, respectively, in the accompanying condensed combined and consolidated balance sheets.

Liability Insurance Coverage

The Company carries errors and omissions and directors' and officers' liability coverage for managed care companies (including affiliates which do not directly employ physicians). Errors and omissions are subject to an individual limit of \$7,000,000 per claim and aggregate of \$7,000,000 with a retention of \$250,000 per claim. Director's and officer's claims are covered at an aggregate of \$80,000,000. The individual physicians who contract with the Affiliates carry their own medical malpractice insurance.

Regulatory and Other Matters

Laws and regulations governing the third-party payor arrangements are extremely complex and subject to interpretation. The Company and its affiliates believe that they are in compliance with all applicable laws and regulations, and are not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the third-party payor arrangements.

PMG must comply with a minimum working capital requirement, Tangible Net Equity (“TNE”) requirement, cash-to-claims ratio and claims payment requirements prescribed by the California Department of Managed Health Care (“DMHC”). TNE is defined as net assets less intangibles, less non-allowable assets (which include amounts due from affiliates), plus subordinated obligations. Following the direction of the DMHC to report the secured affiliate note (see Note 6) as an unsecured affiliate receivable, PMG was not in compliance with its TNE requirements. Thereafter, as set forth above, PMG collected partial repayment of the Foothill note receivable in November 2024 and submitted a corrective action plan that was approved by the DMHC to achieve required compliance with financial solvency criteria. PMG was out of compliance with tangible net equity and working capital requirements as of March 31, 2025. This non-compliance was remedied in April 2025 with additional \$34,000,000 funding. PHP was in compliance with these regulatory requirements as of March 31, 2025.

Many of PMG's payer and provider contracts are complex in nature and may be subject to differing interpretations regarding amounts due for the provision of medical services. Such differing interpretations may not come to light until a substantial period of time has passed following contract implementation. Liabilities for claims disputes are recorded when the loss is probable and can be estimated. Any adjustments to reserves are reflected in current operations.

Seismic Standards

California hospitals, including Alta Newport's facility, are required to comply with laws that regulate the seismic performance of all aspects of hospital facilities in California and imposes near-term and long-term compliance deadlines for seismic safety assessment, submission of corrective plans, and retrofitting or replacement of medical facilities to comply with current seismic standards. These laws and regulations require hospitals to meet seismic performance standards to ensure that they are capable of providing medical services to the public after an earthquake.

These requirements can result in significant operational changes and capital outlays. Management is continuing to assess its options and the methods of financing the required retrofits. Based on management's evaluation, the costs of renovation needed to comply with the California seismic safety standards for its acute-care facilities, including asbestos abatement, are not estimable at this time.

Legislation and HIPAA

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

The Company believes that it is in compliance with fraud and abuse regulations as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

The Health Insurance Portability and Accountability Act (“HIPAA”) assures health insurance portability, reduces healthcare fraud and abuse, guarantees security and privacy of health information, and enforces standards for health information. The Health Information Technology for Economic and Clinical Health Act (“HITECH Act”) expanded upon HIPAA in a number of ways, including establishing notification requirements for certain breaches of protected health information. In addition to these federal rules, California has also developed strict standards for the privacy and security of health information as well as for reporting certain violations and breaches. The Company may be subject to significant fines and penalties if found not to be compliant with these state or federal provisions.

Provider Contracts

Many payer and provider contracts are complex in nature and may be subject to differing interpretations regarding amounts due for the provision of medical services. Such differing interpretations may not come to light until a substantial period of time has passed following contract implementation. Liabilities for claims disputes are recorded when the loss is probable and can be estimated. Any adjustments to reserves are reflected in current operations.

7. Accrued Medical Claims and Other Healthcare Costs Payable

The following table presents the roll-forward of accrued medical claims payable and other healthcare costs payable as of and for each of the six months ended March 31, 2025 (in thousands):

<i>Six months ended</i>	<i>March 31, 2025</i>
Beginning of period	\$ 131,182
Healthcare claim expenses incurred during the period:	
Related to current period	262,430
Related to prior periods	<u>(29,679)</u>
Total incurred	232,751
Healthcare claims paid during the period:	
Related to current period	(155,051)
Related to prior periods	<u>(87,531)</u>
Total paid	(242,582)
End of period	\$ 121,351

8. Partnership

As discussed at Note 1, PMG and an unrelated third party, AMVI, operated a partnership to service Medi-Cal members under the CalOptima program in Orange County, California. PMG does not consolidate the partnership, rather the investment is accounted for as an equity method basis, and accordingly PMG includes in its combined and consolidated financial statements only the net results attributable to those enrollees specifically identified as assigned to it. The parties terminated the operations of this partnership during the fiscal year ended September 30, 2024.

Summarized unaudited financial information for the partnership for the six months ended March 31, 2025 and 2024 is as follows (in thousands):

<i>Six months ended March 31,</i>	2025	2024
Earnings before income taxes	\$ _____ -	\$ 45
PMG's equity gain	\$ _____ -	\$ 51

9. Subsequent Events

The Company has evaluated subsequent events through May 30, 2025, the date the condensed combined and consolidated financial statements were available for issuance.

On April 7, 2025, PIPH and PPH along with other Physician Co loan parties, entered into amendment No. 6 to the existing financing agreement dated May 23, 2023 (as previously amended, the "Financing Agreement"), with Wilmington Trust, National Association, as administrative and collateral agent. Pursuant to Amendment No. 6, the borrowers obtained incremental term loan commitments in the aggregate principal amount of \$34 million (the "Amendment No. 6 Incremental Term Loans"). The loan was fully funded on April 7, 2025 and matures on June 30, 2025.

On May 30, 2025, the Company entered into an agreement with all lenders under its existing Financing Agreement, originally dated May 23, 2023, to extend the maturities of certain outstanding loans. Specifically, the maturity dates of the 2023 Bridge Loan, the Amendment No. 6 Incremental Term Loan, and the Final Maturity Date under the Financing Agreement were each extended to June 1, 2026. No other terms of the Financing Agreement were amended, and all obligations of the Company and its affiliates remain in full force and effect. No fee or other consideration was payable in connection with such extension.

ASTRANA HEALTH, INC.
UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

On July 1, 2025 (the “Closing”), Astrana Health, Inc. (the “Company” or “Astrana”) completed the acquisition of all of the outstanding equity interests of Prospect Health Plan, Inc. (“PHP”) and Alta Newport Hospital, LLC (d/b/a Foothill Regional Medical Center) (“Alta”), and substantially all the assets of certain direct and indirect subsidiaries of PHP Holdings, LLC (“PHPH”), pursuant to the Asset and Equity Purchase Agreement (the “Purchase Agreement”), initially entered into on November 8, 2024, by and among the Company and certain of its direct and indirect subsidiaries, PHPH, PHS Holdings, LLC (“PHS”), Prospect Intermediate Holdings, LLC (“PIH” and, together with PHPH, Prospect Provider Group RI, LLC, and PHS, the “Prospect Equity Sellers”), certain other related entities party thereto (such entities, the “Prospect Asset Sellers” and, together with the Prospect Equity Sellers, the “Sellers”) and Prospect Medical Holdings, Inc. (“Prospect”), as Seller Representative (such transaction, the “Acquisition”). The aggregate purchase price for the Acquisition consisted of approximately \$678.2 million in cash transferred at Closing.

To finance the Acquisition, Company borrowed \$707.3 million from a five-year delayed draw term loan credit facility (the “DDTL A”) with an original available amount of up to \$745.0 million pursuant to the Second Amended and Restated Credit Agreement, dated as of February 26, 2025, by and among the Company, as borrower, the lenders from time to time party thereto, and Truist Bank, as administrative agent for the lenders, as issuing bank and as swingline lender (the “Financing”, and together with the Acquisition, the “Transactions”).

The following unaudited pro forma condensed combined financial information presents the financial information of Astrana, adjusted to give effect to the Transactions. The unaudited pro forma condensed combined financial information has been prepared in accordance with Article 11 of Regulation S-X.

The following unaudited pro forma condensed combined financial information combines the historical consolidated financial statements of Astrana and the historical combined and consolidated financial statements of PHP Holdings, LLC, Prospect Health Services RI, Inc., and Prospect Provider Group RI, LLC (which is substantially reflective of the assets and entities acquired in the Acquisition and are referred to hereinafter as the “Prospect Business”). Astrana’s fiscal year ends on December 31, and the fiscal year end of the Prospect Business is September 30. Although Astrana’s and the Prospect Business’s fiscal year ends differ by only one fiscal quarter, the Company has elected to prepare the unaudited pro forma condensed combined statements of income utilizing the historical statements of operations of the Prospect Business, adjusted to conform to the same calendar periods as Astrana’s fiscal year and interim period. The unaudited pro forma condensed combined balance sheet as of March 31, 2025 combines the historical balance sheets of Astrana and the Prospect Business as of March 31, 2025 on a pro forma basis as if the Transactions had been consummated on March 31, 2025. The unaudited pro forma condensed combined statements of income for the year ended December 31, 2024 and the three months ended March 31, 2025 combine Astrana’s historical statements of income and the Prospect Business’s historical statements of operations for such periods on a pro forma basis as if the Transactions had been consummated on January 1, 2024, the beginning of the earliest period presented.

Assumptions and estimates underlying the unaudited pro forma adjustments included in the unaudited pro forma condensed combined financial statements are described in the accompanying notes. The unaudited pro forma adjustments are based on available preliminary information and certain assumptions that the Company believes are reasonable under the circumstances. The unaudited pro forma condensed combined financial information is presented for illustrative purposes only and is not necessarily indicative of the operating results and financial position that would have been achieved had the Transactions occurred on the dates indicated. The actual financial position and results of operations may differ significantly from the pro forma amounts reflected herein due to a variety of factors.

ASTRANA HEALTH, INC.
UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The following unaudited pro forma condensed combined financial information gives effect to the following:

- The Acquisition, inclusive of the following:
 - reclassification of certain historical financial information of the Prospect Business to conform to Astrana's presentation of similar assets, liabilities, revenues and expenses;
 - the preliminary allocation of the estimated purchase price to the acquired assets and assumed liabilities, as well as other estimated adjustments including expense associated with the allocation of the purchase price to the acquired assets (i.e., depreciation and amortization expense);
 - the consummation of the Financing and incremental interest expense effects; and
 - the related income tax effects of the pro forma adjustments.

The Acquisition will be accounted for under the acquisition method of accounting in accordance with Accounting Standards Codification ("ASC") Topic 805, *Business Combinations* ("ASC 805"). Under the acquisition method of accounting, the total estimated purchase price has been allocated to the tangible and intangible assets acquired and liabilities assumed of the Prospect Business based on a preliminary estimate of their fair values. The preliminary allocation of the estimated purchase price is based upon management's estimates utilizing information currently available and is subject to revision as additional information on the fair value of the assets and liabilities become available and final appraisals and detailed analyses are completed. The Company is still evaluating the fair value of intangible assets and income taxes, in addition to ensuring all other assets and liabilities and contingencies have been identified and recorded. Differences between these preliminary estimates and the final purchase price allocation could occur, and these differences may be material. A change in the fair value of the net assets of the Prospect Business may change the amount of the purchase price allocable to goodwill, and could have a material impact on the accompanying unaudited pro forma condensed combined financial statements.

The unaudited pro forma condensed combined financial information was derived from, and should be read together with, the accompanying notes to the unaudited pro forma condensed combined financial information, Astrana's historical consolidated financial statements, accompanying notes, and Management's Discussion and Analysis of Financial Condition and Results of Operations included in its annual report on Form 10-K for the fiscal year ended December 31, 2024 as filed with the Securities and Exchange Commission (the "SEC") on March 14, 2025 and quarterly report on Form 10-Q as of and for the three months ended March 31, 2025 as filed with the SEC on May 9, 2025. The unaudited pro forma condensed combined financial information should also be read together with the Prospect Business's historical audited combined and consolidated financial statements as of and for the fiscal year ended September 30, 2024, the unaudited condensed combined and consolidated financial statements as of and for the six months ended March 31, 2025, and related notes, filed as Exhibits 99.1 and 99.2, respectively, to this Current Report on Form 8-K/A.

ASTRANA HEALTH, INC.
UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
AS OF MARCH 31, 2025
(in thousands, except share data)

	Historical		Pro Forma				
	Astrana As Reported	Prospect Business As Reclassified (Note 2)	Financing Adjustments (Note 4)	Transaction Adjustments (Note 4)		Pro Forma Combined	
				Note	Note		
Assets							
Current assets							
Cash and cash equivalents	\$ 258,517	\$ 129,168	\$ 705,335	4(b)	\$ (678,202) (16,950)	4(d) 4(h)	\$ 397,868
Investment in marketable securities	2,397	-	-				2,397
Receivables, net	241,078	66,945	-				308,023
Receivables, net – related parties	56,846	-	-				56,846
Income taxes receivable	15,802	-	-				15,802
Other receivables	14,919	-	-				14,919
Prepaid expenses and other current assets	23,711	14,596	-		(152)	4(c)	38,155
Total current assets	613,270	210,709	705,335		(695,304)		834,010
Non-current assets							
Property and equipment, net	16,849	21,680	-		22,543	4(f)	61,072
Intangible assets, net	111,916	-	-		193,500	4(g)	305,416
Goodwill	416,386	29,666	-		392,961	4(j)	839,013
Income taxes receivable	15,943	-	-		-		15,943
Loans receivable, non-current	48,134	486	-		-		48,620
Investments in other entities – equity method	38,005	-	-		-		38,005
Investments in privately held entities	8,896	-	-		-		8,896
Restricted cash	647	1,300	-		-		1,947
Operating lease right-of-use assets	30,698	4,511	-		-		35,209
Other assets	30,512	4,143	(426)	4(a)	-		26,231
			(7,998)	4(b)			
Total non-current assets	717,986	61,786	(8,424)		609,004		1,380,352
Total assets	\$ 1,331,256	\$ 272,495	\$ 696,911		(86,300)		\$ 2,214,362
Liabilities, Mezzanine Deficit, and Stockholders' Equity							
Current liabilities							
Accounts payable and accrued expenses	\$ 105,559	\$ 126,569	\$ -		\$ (44,671) (956)	4(c) 4(h)	\$ 186,501
Fiduciary accounts payable	4,840	-	-		-		4,840
Medical liabilities	204,101	108,857	-		-		312,958
Income taxes payable	-	28,077	-		(28,077)	4(c)	-
Dividend payable	638	-	-		-		638
Finance lease liabilities	471	722	-		(722)	4(c)	471
Operating lease liabilities	4,979	2,354	-		-		7,333
Current portion of long-term debt	12,500	219	35,365	4(b)	(219)	4(c)	47,865
Other liabilities	28,180	2,291	-		-		30,471
Total current liabilities	361,268	269,089	35,365		(74,645)		591,077
Non-current liabilities							
Deferred tax liability	4,197	-	-		4,865	4(i)	9,062
Finance lease liabilities, net of current portion	543	1,409	-		(1,409)	4(c)	543
Operating lease liabilities, net of current portion	28,963	2,830	-		-		31,793
Long-term debt, net of current portion and deferred financing costs	403,894	1,216,392	661,972	4(b)	(1,216,392)	4(c)	1,065,866
Other long-term liabilities	14,685	8,159	-		(8,109)	4(c)	14,735
Total non-current liabilities	452,282	1,228,790	661,972		(1,221,045)		1,121,999
Total liabilities	813,550	1,497,879	697,337		(1,295,690)		1,713,076
Mezzanine deficit:							
Noncontrolling interest in Allied Physicians of California, a Professional Medical Corporation ("APC")	(232,733)	-	-		-		(232,733)
Redeemable convertible preferred stock	-	75,295	-		(75,295)	4(e)	-
Total mezzanine deficit	(232,733)	75,295	-		(75,295)		(232,733)

Stockholders' equity

Preferred stock

Series A Preferred stock

Series B Preferred stock

Common stock

Additional paid-in capital

Retained earnings

Due from related parties

Total stockholders' equity

Non-controlling interest

Total equity

Total liabilities, mezzanine deficit, and stockholders' equity*See Notes to Unaudited Pro Forma Condensed Combined Financial Information*

Series A Preferred stock	-				-	-	-
Series B Preferred stock	-				-	-	-
Common stock	49	-	-	-	-	-	49
Additional paid-in capital	452,439	151,496	-	(151,496)	4(e)	452,439	
Retained earnings	292,880	(1,437,879)	(426)	4(a)	1,437,879	4(e)	276,460
					(15,994)	4(h)	
Due from related parties	-	(14,441)	-	-	14,441	4(c)	-
Total stockholders' equity	745,368	(1,300,824)	(426)		1,284,830		728,948
Non-controlling interest	5,071	145	-	(145)	4(e)	5,071	
Total equity	750,439	(1,300,679)	(426)		1,284,685		734,019
Total liabilities, mezzanine deficit, and stockholders' equity	\$ 1,331,256	\$ 272,495	\$ 696,911		\$ (86,300)		\$ 2,214,362

ASTRANA HEALTH, INC.
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 2024
(in thousands, except share data)

	Historical		Pro Forma					
	Astrana As Reported	Prospect Business As Reclassified (Note 2)	Financing Adjustments (Note 5)	Note	Transaction Adjustments (Note 5)	Note	Pro Forma Combined	Note
Revenue								
Capitation, net	\$ 1,856,785	\$ 1,087,465	\$ -	\$ -	\$ -	\$ 2,944,250		
Risk pool settlements and incentives	86,224	8,676	-	-	-	94,900		
Management fee income	13,979	26,340	-	-	-	40,319		
Fee-for-service, net	62,331	96,399	-	-	-	158,730		
Other revenue	15,221	21,334	-	-	-	36,555		
Total revenue	2,034,540	1,240,214	-	-	-	3,274,754		
Operating expenses								
Cost of services, excluding depreciation and amortization	1,763,152	1,052,062	-	-	-	2,815,214		
General and administrative expenses	154,111	81,577	-	15,994	5(f)	251,682		
Depreciation and amortization	27,927	4,336	-	31,108	5(d)	63,371		
Total expenses	1,945,190	1,137,975	-	47,102	-	3,130,267		
Income from operations	89,350	102,239	-	(47,102)	-	144,487		
Other income (expense)								
(Loss) income from equity method investments	4,451	336	-	-	-	4,787		
Interest expense	(33,097)	(164,597)	(43,010)	5(b)	164,597	5(e)	(76,107)	
Interest income	14,508	2,198	-	-	-	-	16,706	
Unrealized gain (loss) on investments	731	-	-	-	-	731		
Other (loss) income	4,875	104	(426)	5(a)	-	-	4,553	
Total other (expense) income, net	(8,532)	(161,959)	(43,436)	-	164,597	-	(49,330)	
Income (loss) before provision for income taxes	80,818	(59,720)	(43,436)	-	117,495	-	95,157	
Provision for income taxes	30,886	14,459	(13,248)	5(c)	35,836	5(g)	67,933	
Net income (loss)	49,932	(74,179)	(30,188)	-	81,659	-	27,224	
Net income (loss) attributable to noncontrolling interests	6,783	-	-	-	-	-	6,783	
Net income (loss) attributable to Astrana Health, Inc.	\$ 43,149	\$ (74,179)	\$ (30,188)	\$ 81,659	\$ 20,441	\$ 20,441		
Earnings per share - basic	\$ 0.91					\$ 0.43	Note 6	
Earnings per share - diluted	\$ 0.90					\$ 0.43	Note 6	
Weighted average shares of common stock outstanding:								
Basic	47,597,295					47,597,295	Note 6	
Diluted	47,974,334					47,974,334	Note 6	

See Notes to Unaudited Pro Forma Condensed Combined Financial Information

ASTRANA HEALTH, INC.
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME
THREE MONTHS ENDED MARCH 31, 2025
(in thousands, except share data)

	Historical		Prospect Business As Reclassified (Note 2)	Financing Adjustments (Note 5)	Pro Forma		
	Astrana As Reported	Note			Transaction Adjustments (Note 5)	Note	Pro Forma Combined
Revenue							
Capitation, net	\$ 583,963		\$ 269,116	\$ -	\$ -	\$ 853,079	
Risk pool settlements and incentives	14,491		1,969	-	-	16,460	
Management fee income	2,310		10,398	-	-	12,708	
Fee-for-service, net	14,890		22,487	-	-	37,377	
Other revenue	4,736		1,538	-	-	6,274	
Total revenue	620,390		305,508	-	-	925,898	
Operating expenses							
Cost of services, excluding depreciation and amortization	549,061		265,953	-	-	815,014	
General and administrative expenses	43,897		20,632	-	-	64,529	
Depreciation and amortization	6,849		940	-	8,259	5(d)	16,048
Total expenses	599,807		287,525	-	8,259		895,591
Income from operations	20,583		17,983	-	(8,259)		30,307
Other income (expense)							
(Loss) income from equity method investments	(867)		-	-	-		(867)
Interest expense	(7,308)		(37,647)	(10,279)	5(b)	37,647	5(e)
Interest income	2,312		522	-	-	-	2,834
Unrealized gain (loss) on investments	(44)		-	-	-	-	(44)
Other (loss) income	(5,072)		85	-	-	-	(4,987)
Total other (expense) income, net	(10,979)		(37,040)	(10,279)		37,647	(20,651)
Income (loss) before provision for income taxes	9,604		(19,057)	(10,279)		29,388	9,656
Provision for income taxes	3,383		1,706	(3,135)	5(c)	8,963	5(g)
Net income (loss)	6,221		(20,763)	(7,144)		20,425	(1,261)
Net income (loss) attributable to noncontrolling interests	(471)		-	-	-	-	(471)
Net income (loss) attributable to Astrana Health, Inc.	\$ 6,692		\$ (20,763)	\$ (7,144)		\$ 20,425	\$ (790)
Earnings per share - basic	\$ 0.14					\$ (0.02) Note 6	
Earnings per share - diluted	\$ 0.14					\$ (0.02) Note 6	
Weighted average shares of common stock outstanding:							
Basic	48,470,682					48,470,682	Note 6
Diluted	48,850,666					48,470,682	Note 6

See Notes to Unaudited Pro Forma Condensed Combined Financial Information

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

1. Basis of Presentation

The unaudited pro forma condensed combined financial information has been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and Article 11 of Regulation S-X. The accompanying pro forma financial information is based on the historical consolidated financial statements of Astrana and the historical combined and consolidated financial statements of the Prospect Business after giving effect to the Acquisition and the Financing, as well as certain reclassifications (see Note 2).

The pro forma financial information was prepared assuming the Acquisition will be accounted for under the acquisition method of accounting in accordance with ASC 805 with Astrana as the acquirer of the Prospect Business. In accordance with the acquisition method of accounting, Astrana will record the preliminary estimated fair value of assets acquired and liabilities assumed from the Prospect Business on the acquisition date, July 1, 2025. Fair value is defined in ASC 820, *Fair Value Measurements and Disclosures* (“ASC 820”) as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.” Fair value measurements can be highly subjective, and it is possible the application of reasonable judgment could result in different assumptions resulting in a range of alternative estimates using the same facts and circumstances. The preliminary allocation of the estimated purchase price is based upon management’s estimates utilizing information currently available and is subject to revision as additional information on the fair value of the assets and liabilities become available and final appraisals and detailed analyses are completed. The Company is still evaluating the fair value of intangible assets and income taxes, in addition to ensuring all other assets and liabilities and contingencies have been identified and recorded. Differences between these preliminary estimates and the final acquisition accounting could occur, and these differences may be material. A change in the fair value of the net assets of the Prospect Business may change the amount of the purchase price allocable to goodwill, and could have a material impact on the accompanying unaudited pro forma condensed combined financial statements.

The unaudited pro forma condensed combined balance sheet as of March 31, 2025 combines the historical balance sheets of Astrana and the Prospect Business as of March 31, 2025 on a pro forma basis as if the Transactions had been consummated on March 31, 2025. The unaudited pro forma condensed combined statements of income for the year ended December 31, 2024 and the three months ended March 31, 2025 combine Astrana’s historical statements of income and the Prospect Business’s historical statements of operations for such periods on a pro forma basis as if the Transactions had been consummated on January 1, 2024, the beginning of the earliest period presented.

The unaudited pro forma condensed combined balance sheet as of March 31, 2025 has been prepared using, and should be read in conjunction with, the following:

- Astrana’s unaudited condensed consolidated balance sheet as of March 31, 2025 and the related notes as included in Astrana’s quarterly report on Form 10-Q for the three month period ended March 31, 2025 as filed with the SEC on May 9, 2025; and
- The Prospect Business’s unaudited condensed combined and consolidated balance sheet data as of March 31, 2025 and the related notes as filed as Exhibit 99.2 to this Current Report on Form 8-K/A.

The unaudited pro forma condensed combined statement of income for the fiscal year ended December 31, 2024 has been prepared using, and should be read in conjunction with, the following:

- Astrana’s audited consolidated statement of income for the fiscal year ended December 31, 2024 and the related notes included in Astrana’s annual report on Form 10-K for the fiscal year ended December 31, 2024 as filed with the SEC on March 14, 2025; and
- The Prospect Business’s audited combined and consolidated statement of operations for the fiscal year ended September 30, 2024 and the related notes, filed as Exhibit 99.1 to this Current Report on Form 8-K/A.

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The unaudited pro forma condensed combined statement of income for the three months ended March 31, 2025 has been prepared using, and should be read in conjunction with, the following:

- Astrana's unaudited condensed consolidated statement of income for the three months ended March 31, 2025 and the related notes as included in Astrana's quarterly report on Form 10-Q for the three month period ended March 31, 2025 as filed with the SEC on May 9, 2025; and
- The Prospect Business's unaudited condensed combined and consolidated statement of operations data for the six months ended March 31, 2025 and the related notes, filed as Exhibit 99.2 to this Current Report on Form 8-K/A.

The foregoing historical financial statements have been prepared in accordance with GAAP. The unaudited pro forma condensed combined financial information has been prepared based on the aforementioned historical financial statements and the assumptions and adjustments as described in the notes to the unaudited pro forma condensed combined financial information. Management has made significant estimates and assumptions in its determination of the pro forma adjustments. As the unaudited pro forma condensed combined financial information has been prepared based on these preliminary estimates, the final amounts recorded may differ materially from the information presented.

The unaudited pro forma condensed combined financial information is not necessarily indicative of what the actual results of operations would have been had the Transactions taken place on the date indicated, nor are they indicative of the future consolidated results of operations or financial position of the post-combination company. The unaudited pro forma condensed combined financial information does not give effect to any synergies, operating efficiencies, tax savings or cost savings that may be associated with the Transactions.

2. Accounting Policies and Reclassifications

During the preparation of the unaudited pro forma condensed combined financial information, Astrana performed a preliminary analysis to identify differences in Astrana's and the Prospect Business's historical financial statement presentation and significant accounting policies. Based on its initial analysis, Astrana has identified certain adjustments required to the unaudited pro forma condensed combined financial information to conform the Prospect Business's significant accounting policies to Astrana's. Additionally, certain reclassification adjustments have been made to conform the Prospect Business's historical financial statement captions to Astrana's financial statement captions in the unaudited pro forma condensed combined financial statements.

Following the completion of the Acquisition, or as more information becomes available, Astrana will finalize its comprehensive review of financial statement presentation and accounting policies. Therefore, the pro forma financial information may not reflect all reclassifications necessary to conform the Prospect Business's presentation to that of Astrana due to limitations on the availability of information as of the date of this Current Report on Form 8-K/A. Additional accounting policy differences and reclassification adjustments may be identified as more information becomes available.

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The following sets forth the accounting policy and reclassification adjustments made to conform the Prospect Business's presentation to Astrana's presentation in the unaudited pro forma condensed combined balance sheet as of March 31, 2025 (in thousands):

Prospect Business caption	Astrana caption	Historical		Prospect Business As Reclassified
		Prospect Business As Reported	Reclassification Adjustments	
Assets	Assets			
Current assets:	Current assets			
Cash and cash equivalents	Cash and cash equivalents	\$ 129,168	\$ -	\$ 129,168
Hospital fee program receivable		21,550	(21,550)	2(a)
Patient accounts receivable, net of allowance for credit losses		16,118	(16,118)	2(a)
Due from government payers		386	(386)	2(a)
Risk pool and other receivables, net	Receivables, net	31,200	(31,200)	2(a)
			69,254	66,945
			(3,908)	2(b)
			1,599	2(c)
Prepaid expenses and other current assets	Prepaid expenses and other current assets	13,241	1,355	2(d)
Note receivable	Loan receivable	1,355	(1,355)	2(d)
Total current assets	Total current assets	213,018	(2,309)	210,709
	Non-current assets			
Property, improvements and equipment, net	Property and equipment, net	21,680		21,680
Operating lease right-of-use assets	Operating lease right-of-use assets	4,511		4,511
Deposits and other assets	Other assets	4,143		4,143
Goodwill	Goodwill	29,666		29,666
Restricted cash	Restricted cash	1,300		1,300
Note receivable, net of current portion	Loans receivable, non-current	486		486
Total assets	Total assets	\$ 274,804	\$ (2,309)	\$ 272,495
Liabilities	Liabilities			
Current liabilities:	Current liabilities:			
Accrued medical claims and other healthcare costs payable		121,351	(121,351)	2(f)
Accounts payable and other accrued liabilities	Accounts payable and accrued expenses	86,689	2,175	2(f)
			39,126	2(g)
			(1,421)	2(b)
	Medical liabilities		119,176	2(f)
			1,599	2(c)
			(11,918)	2(e)
Accrued salaries, wages and benefits		26,525	(26,525)	2(g)
Hospital fee program liability		8,625	(8,625)	2(g)
Due to government payers		3,976	(3,976)	2(g)
Income taxes payable	Income taxes payable	28,077		28,077
Current portion of long-term debt	Current portion of long-term debt	219		219
Current portion of finance lease liabilities	Finance lease liabilities	722		722
Current portion of operating lease liabilities	Operating lease liabilities	2,354		2,354
Other current liabilities	Other liabilities	2,291		2,291
Total current liabilities	Total current liabilities	280,829	(11,740)	269,089
	Non-current liabilities			
Long-term debt, net of current portion	Long-term debt, net of current portion and deferred financing costs	1,216,392		1,216,392
Finance lease liabilities, net of current portion	Finance lease liabilities, net of current portion	1,409		1,409
Operating lease liabilities, net of current portion	Operating lease liabilities, net of current portion	2,830		2,830
Malpractice reserves		2,572	(2,572)	2(h)
Other long-term liabilities	Other long-term liabilities	5,587	2,572	2(h)
Total liabilities	Total liabilities	\$ 1,509,619	(11,740)	\$ 1,497,879
Mezzanine equity:	Mezzanine deficit:			
Redeemable convertible preferred stock		75,295		75,295
Members' deficit:	Stockholders' equity			
Additional paid-in capital	Additional paid-in capital	151,496		151,496
Accumulated deficit	Retained earnings	(1,447,310)	(2,487)	2(b)
			11,918	2(e)
Due from related parties		(14,441)		(14,441)
Total PHP Holdings, LLC's & RI Market members' deficit	Total stockholders' equity			
		(1,310,255)	9,431	(1,300,824)
Non-controlling interests	Non-controlling interest	145		145
Total members' deficit	Total equity	(1,310,110)	9,431	(1,300,679)
Total liabilities, mezzanine equity and members' deficit	Total liabilities, mezzanine deficit, and stockholders' equity	\$ 274,804	\$ (2,309)	\$ 272,495

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

2(a) Represents the reclassification of “Hospital fee program receivable”, “Patient accounts receivable”, “Due from government payers”, and “Risk pool and other receivables, net” on the Prospect Business’s balance sheet to “Receivables, net” to conform to Astrana’s balance sheet presentation.

2(b) Reflects an adjustment to reduce “Receivables, net” and “Accounts payable and accrued expenses” made to conform to Astrana’s policies for constraining variable consideration resulting in a net increase to the Prospect Business’s historical “Accumulated deficit” as of March 31, 2025.

2(c) Reflects an adjustment to increase “Receivables, net” and “Medical liabilities” to conform the net presentation on the Prospect Business’s balance sheet to Astrana’s gross presentation.

2(d) Represents the reclassification of the current portion of the “Note receivable” on the Prospect Business’s balance sheet to “Prepaid expenses and other current assets” to conform to Astrana’s balance sheet presentation.

2(e) Reflects an adjustment to reduce “Medical liabilities” and an offsetting adjustment to decrease the Prospect Business’s historical “Accumulated deficit” as of March 31, 2025, to eliminate the provision for adverse deviation reported by the Prospect Business to conform to Astrana’s policies, which do not include such a provision.

2(f) Represents the reclassification of “Accrued medical claims and other healthcare costs payable” on the Prospect Business’s balance sheet to “Medical liabilities” and “Accounts payable and accrued expenses,” to conform to Astrana’s balance sheet presentation.

2(g) Represents the reclassification of “Accrued salaries, wages, and benefits”, “Hospital fee program liability”, and “Due to government payers” on the Prospect Business’s balance sheet to “Accounts payable and accrued expenses” to conform to Astrana’s balance sheet presentation.

2(h) Represents the reclassification of “Malpractice reserves” on the Prospect Business’s balance sheet to “Other long-term liabilities” to conform to Astrana’s balance sheet presentation.

The following sets forth the reclassification adjustments made to conform the Prospect Business’s presentation to Astrana’s presentation in the unaudited pro forma statement of income for the year ended December 31, 2024 (in thousands):

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

Prospect Business caption	Astrana caption	For the Twelve Months Ended December 31, 2024			
		Prospect Business (Note 7)	Reclassifications	Note	Prospect Business As Reclassified
Operating revenues:					
Capitation	Capitation, net	\$ 1,087,465	\$ -		\$ 1,087,465
Patient services, net		111,527	(111,527)	2(i)	-
	Fee-for-service, net		96,399	2(i)	96,399
Management fees	Management fee income	26,340			26,340
Other operating revenues		16,469	(16,469)	2(j)	-
	Risk pool settlements and incentives		8,676	2(j)	8,676
	Other revenues		6,206	2(j)	21,334
			15,128	2(i)	
Total net revenue	Total revenue	1,241,801	(1,587)		1,240,214
Cost of revenues:					
Claims expense		597,209	(597,209)	2(k)	-
Capitation expense		248,139	(248,139)	2(k)	-
Other cost of revenues		64,523	(64,523)	2(k)	-
Total cost of revenues		909,871	(909,871)		-
Operating expenses:	Operating expenses:				
	Cost of services, excluding depreciation and amortization				
		-	(1,244)	2(j)	1,052,062
			909,871	2(k)	
			137,919	2(l)	
			1,392	2(m)	
			5,717	2(n)	
			2,576	2(o)	
			(4,169)	2(r)	
Salary and benefits		143,581	(143,581)	2(l)	-
Outside services		32,516	(32,516)	2(m)	-
Management fees		12,923	(12,923)	2(p)	-
Professional fees		5,593	(5,593)	2(o)	-
Marketing		3,072	(3,072)	2(p)	-
Lease and rental expense		3,435	(3,435)	2(p)	-
Repair, maintenance and utilities		4,925	(4,925)	2(p)	-
Software licensing		8,558	(8,558)	2(p)	-
Taxes, licenses and fees		7,284	(7,284)	2(n)	-
Insurance		3,182	(3,182)	2(p)	-
Other operating expenses		4,112	(4,112)	2(p)	-
	General and administrative expenses				
		-	5,662	2(l)	81,577
			31,124	2(m)	
			1,567	2(n)	
			3,017	2(o)	
			40,207	2(p)	
Depreciation and amortization	Depreciation and amortization	4,336			4,336
Total operating expenses	Total expenses	233,517	904,458		1,137,975
Operating income	Income from operations	98,413	3,826		102,239
	Other income (expense)				
Operating gain (loss) from unconsolidated joint venture		336	(336)	2(s)	-
	(Loss) income from equity method investments				
		336	336	2(s)	336
Interest expense, net		(162,399)	162,399	2(t)	-
	Interest expense			(2(t))	(164,597)
	Interest income		2,198	2(t)	2,198
Other expense	Other (loss) income	(239)	343	2(j)	104
	Total other (expense) income, net	(162,302)	343		(161,959)
(Loss) income before income taxes	(Loss) Income before provision for income taxes	(63,889)	4,169		(59,720)
Income tax expense	Provision for income taxes	14,459			14,459
Net (loss) income	Net income (loss) attributable to Astrana Health, Inc.	\$ (78,348)	\$ 4,169		\$ (74,179)

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The following sets forth the reclassification adjustments made to conform the Prospect Business's presentation to Astrana's presentation in the unaudited pro forma statement of income for the three months ended March 31, 2025 (in thousands):

Prospect Business caption	Astrana caption	For the Three Months Ended March 31, 2025			
		Prospect Business (Note 7)	Reclassifications	Note	Prospect Business As Reclassified
Operating revenues:					
Capitation	Capitation, net	\$ 269,116	\$ -		\$ 269,116
Patient services, net	Fee-for-service, net	26,395	(26,395) 22,487	2(i) 2(i)	- 22,487
Management fees	Management fee income	10,398			10,398
Other operating revenues	Risk pool settlements and incentives	3,755	(3,755) 1,969	2(j) 2(j)	- 1,969
	Other revenues		1,538 3,908	2(j) 2(i)	1,538 3,908
			(3,908)	2(q)	
Total net revenue	Total revenue	309,664	(4,156)		305,508
Cost of revenues:					
Claims expense		152,649	(152,649)	2(k)	-
Capitation expense		64,661	(64,661)	2(k)	-
Other cost of revenues		12,187	(12,187)	2(k)	-
Total cost of revenues		229,497	(229,497)		-
Operating expenses:	Operating expenses:				
Cost of services, excluding depreciation and amortization		-	(163)	2(j)	265,953
Salaries and benefits		229,497	229,497	2(k)	
Outside services		35,805	35,805	2(l)	
Management fees		438	438	2(m)	
Professional fees		1,421	1,421	2(n)	
Marketing		692	692	2(o)	
Lease and rental expense		(1,421)	(1,421)	2(q)	
Repair, maintenance and utilities		(316)	(316)	2(r)	
Software licensing		37,300	(37,300)	2(l)	-
Taxes, licenses and fees		6,137	(6,137)	2(m)	-
Insurance		4,099	(4,099)	2(p)	-
Other operating expenses		1,142	(1,142)	2(o)	-
	General and administrative expenses	696	(696)	2(p)	-
Depreciation and amortization	Depreciation and amortization	747	(747)	2(p)	-
Total operating expenses	Total expenses	1,381	(1,381)	2(p)	-
		2,533	(2,533)	2(p)	-
Operating income	Income from operations	1,845	(1,845)	2(n)	-
Interest expense, net	Other income (expense)	1,616	(1,616)	2(p)	-
	Interest expense	1,492	(1,492)	2(p)	-
	Interest income				
	Other (loss) income	940	940		
		5,699	5,699	2(m)	
(Loss) income before income taxes		424	424	2(n)	
Income tax expense		450	450	2(o)	
Net (loss) income	Net income (loss) attributable to Astrana Health, Inc.	12,564	12,564	2(p)	

2(i) Reflects the reclassification of "Patient services, net" on the Prospect Business's statement of operations to "Fee-for-service, net" and "Other revenues" to conform to Astrana's statement of income presentation.

2(j) Represents the reclassification of "Other operating revenues" on the Prospect Business's statement of operations to "Risk pool settlements and incentives", "Other revenues", "Cost of services, excluding depreciation and amortization", and "Other (loss) income" to conform to Astrana's statement of income presentation.

2(k)Represents the reclassification of "Claims expense", "Capitation expense", and "Other costs of revenues" on the Prospect Business's statement of operations to "Cost of services, excluding depreciation and amortization" to conform to Astrana's statement of income presentation.

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

2(l) Represents the reclassification of “Salary and benefits” on the Prospect Business’s statement of operations to “Cost of services, excluding depreciation and amortization” and “General and administrative expenses” to conform to Astrana’s statement of income presentation.

2(m) Represents the reclassification of “Outside services” on the Prospect Business’s statement of operations to “Cost of services, excluding depreciation and amortization” and “General and administrative expenses” to conform to Astrana’s statement of income presentation.

2(n) Represents the reclassification of “Taxes, licenses and fees” on the Prospect Business’s statement of operations to “Cost of services, excluding depreciation and amortization” and “General and administrative expenses” to conform to Astrana’s statement of income presentation.

2(o) Represents the reclassification of “Professional fees” on the Prospect Business’s statement of operations to “Cost of services, excluding depreciation and amortization” and “General and administrative expenses” to conform to Astrana’s statement of income presentation.

2(p) Represents the reclassification of “Management fees”, “Marketing”, “Lease and rental expense”, “Repair, maintenance and utilities”, “Software licensing”, “Insurance” and “Other operating expenses” on the Prospect Business’s statement of operations to “General and administrative expenses” to conform to Astrana’s statement of income presentation.

2(q) Reflects the adjustment to “Other revenues” and “Cost of services, excluding depreciation and amortization” for the three months ended March 31, 2025 to conform to the Company’s policies for constraining variable consideration. This adjustment does not impact the Prospect Business’s historical statement of operations for the year ended December 31, 2024.

2(r) Reflects an adjustment to reduce “Cost of services, excluding depreciation and amortization” to eliminate the change in the provision for adverse deviation reported by the Prospect Business to conform to Astrana’s policies, which do not include such a provision.

2(s) Represents the reclassification of the Prospect Business’s “Operating gain (loss) from unconsolidated joint venture” to “(Loss) income from equity method investments” for the year ended December 31, 2024 to conform to Astrana’s statement of income presentation.

2(t) Represents the reclassification of “Interest expense, net” on the Prospect Business’s statement of operations to “Interest expense” and “Interest income” to conform to Astrana’s statement of income presentation.

3. Estimated Consideration and Preliminary Purchase Price Allocation

Astrana will account for the Acquisition as a business combination in accordance with GAAP. Accordingly, for purposes of preparing the unaudited pro forma condensed combined financial information, the estimated purchase price attributable to the Acquisition has been allocated to the assets acquired and liabilities assumed based on their preliminary estimated fair values. Upon the closing of the acquisition of the Prospect Business, Astrana paid preliminary estimated cash consideration of \$678.2 million. The estimated purchase consideration is preliminary and subject to additional customary adjustments.

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The following table sets forth the preliminary allocation of the estimated purchase price to the tangible and intangible assets acquired and liabilities assumed based on a preliminary estimate of the fair values, as if the Acquisition had been completed on March 31, 2025 (in thousands):

	As of March 31, 2025
Purchase consideration:	
Cash paid	\$ 678,202
	<u>\$ 678,202</u>
Assets:	
Cash and cash equivalents	\$ 129,168
Receivables	66,945
Prepaid expenses and other current assets	14,444
Loan receivable, non-current	486
Property and equipment	44,223
Intangible assets	193,500
Goodwill	422,627
Restricted cash	1,300
Operating lease right-of-use assets	4,511
Other assets	4,143
Estimated total assets acquired:	\$ 881,347
Liabilities:	
Accounts payable and accrued expenses	\$ 81,898
Medical liabilities	108,857
Operating lease liabilities, current and non-current	5,184
Other liabilities	2,291
Deferred tax liability	4,865
Other long-term liabilities	50
Estimated total liabilities assumed	\$ 203,145
Estimated total net assets acquired	\$ 678,202

The pro forma purchase price allocation is preliminary and the estimated fair value of the assets acquired and liabilities assumed are based upon available information and certain assumptions. The final determination of the purchase price allocation will be completed as soon as practicable and will be based on the fair value of the assets acquired and liabilities assumed as of the Closing date. Accordingly, the pro forma purchase price allocation is subject to revision as a more detailed analysis is completed and additional information on the fair value of the assets and liabilities become available, including receipt of final appraisals of the net assets acquired. A change in the fair value of the net assets may change the amount of purchase price allocable to the goodwill, and could have a material impact on the amount of expense included in the accompanying unaudited pro forma condensed combined statements of income.

4. Adjustments to Unaudited Pro Forma Condensed Combined Balance Sheet

Pro Forma Financing Adjustments

The following pro forma adjustments are included in the unaudited pro forma condensed combined balance sheet as of March 31, 2025 to reflect the Financing:

4(a) Reflects an adjustment to retained earnings of \$0.4 million representing the proportionate write-off of unamortized deferred financing costs previously allocated to the DDTL A and reported in other assets on Astrana's historical consolidated balance sheet due to the reduction in the aggregate delayed draw term loan commitment from \$745.0 million to \$707.3 million.

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

4(b) Reflects the receipt of net cash proceeds of \$705.3 million from the funding of the \$707.3 million DDTL A, net of approximately \$2.0 million in lender fees and issuance costs paid in connection with the Financing. Of the \$707.3 million in incremental DDTL A principal, \$35.4 million is presented as a current obligation based on the timing of principal installments due in one year, assuming the Financing was completed on March 31, 2025. The remaining amount is classified as non-current and is presented net of the incremental financing costs paid at the closing of the Financing and \$8.0 million in unamortized deferred financing costs previously allocated to the DDTL A (net of the write-off discussed in Note 4(a)), which were reported in other assets prior to the Financing.

Pro Forma Transaction Accounting Adjustments

The following pro forma adjustments are included in the unaudited pro forma condensed combined balance sheet as of March 31, 2025 to reflect the effects of the Acquisition:

4(c) Reflects adjustments to remove assets not acquired and liabilities not assumed by Astrana, comprised of the following (in thousands):

	As of March 31, 2025	
Prepaid expenses and other current assets	(152)	(i)
Accounts payable and accrued expenses	(44,671)	(i)(ii)
Income taxes payable	(28,077)	(i)(ii)
Finance lease liabilities	(722)	(ii)
Current portion of long-term debt	(219)	(ii)
Finance lease liabilities, net of current portion	(1,409)	(ii)
Long-term debt, net of current portion and deferred financing costs	(1,216,392)	(ii)
Other long-term liabilities	(8,109)	(i)
Due from related parties	14,441	(i)

(i) Represents assets and liabilities of the Prospect Business excluded from the transaction perimeter pursuant to the terms of the Purchase Agreement.

(ii) Represents balances settled by the Prospect Business with the cash consideration transferred by Astrana. Note that the amounts reflected on the March 31, 2025 Prospect Business balance sheet may differ from the actual cash settlements at Closing on July 1, 2025.

4(d) Represents estimated total preliminary consideration for the Acquisition of approximately \$678.2 million paid in cash as of the Closing.

4(e) Reflects the elimination of historical equity balances of the Prospect Business, including additional paid-in capital, accumulated deficit and redeemable convertible preferred stock presented in mezzanine equity.

4(f) Reflects a net adjustment to recognize the estimated fair value of the property and equipment acquired. The estimated net fair value adjustment and the useful life of the property and equipment acquired is as follows (in thousands):

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

	Estimated fair value	Estimated useful life (years)	Estimated depreciation expense	
			For the Year Ended December 31, 2024	For the Three Months Ended March 31, 2025
Land	\$ 25,239	NA	\$ -	\$ -
Buildings	11,420	35.0	326	82
Site Improvements	341	15.0	23	6
Personal property	7,223	4.0	1,806	452
Total estimated fair value of acquired property and equipment	\$ 44,223		\$ 2,155	\$ 540
Less: Prospect historical carrying value of property and equipment, net	(21,680)			
Net adjustment to property and equipment, net	\$ 22,543			

The preliminary fair values of the property and equipment were estimated using a combination of the cost, market, and income approaches. The market approach estimates the fair value of the tangible assets by comparing the subject to similar assets that have been sold or offered for sale, adjusted to reflect differences between the asset being valued and the comparable assets, such as conditions of sale, market conditions, utility and physical characteristics. The income approach estimates fair value based on the net cash flows the asset is expected to generate, considering market inputs such as rent coverage ratios and capitalization rates.

The fair value of property and equipment and related useful lives are based on preliminary valuations. As such, the amount that will ultimately be allocated to property and equipment and the subsequent depreciation expense may differ materially from this preliminary estimate. In addition, the depreciation impacts will ultimately be based upon the periods in which the associated economic benefits are expected to be derived. Therefore, the amount of depreciation may differ significantly between periods based upon the final value and useful lives assigned.

Depreciation of the acquired property and equipment is reflected as a pro forma adjustment in the unaudited pro forma condensed combined statements of income based on the estimated useful lives above, as further described in Note 5(d).

4(g) Reflects an adjustment to recognize the estimated fair value of the identifiable intangible assets acquired in the Acquisition. The preliminary estimated fair value and the useful life of the intangible assets acquired is as follows (in thousands):

	Estimated fair value	Estimated useful life (years)	Estimated amortization expense	
			For the Year Ended December 31, 2024	For the Three Months Ended March 31, 2025
Customer-related intangibles	\$ 136,300	10.0 - 12.0	\$ 29,202	\$ 7,637
Provider network	53,800	15.0	3,587	897
Restricted Knox-Keene license	1,900	Indefinite	-	-
Trademarks and trade names	1,500	3.0	500	125
Total estimated fair value of intangible assets acquired	\$ 193,500		\$ 33,289	\$ 8,659

The preliminary fair value of the customer-related intangibles was estimated using the “multi-period excess earnings” method, an income approach that considers the net cash flows expected to be generated by the intangible asset, excluding any cash flows related to contributory assets. Significant assumptions include the customer attrition rate, contributory asset charges, and the concluded discount rate.

The preliminary fair value of the trademarks and trade names was estimated using the “relief-from-royalty” method, an income approach that considers the market-based royalty a company would pay to enjoy the benefits of the trademark or trade name in lieu of actual ownership of the trademark or trade name. The hypothetical streams of royalty payments are then discounted to present value. Significant assumptions used in this method include the estimated royalty rate and the concluded discount rate.

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The preliminary fair values of the provider network and the Restricted Knox-Keene license were estimated using the “cost-to-recreate” method, a cost approach that estimates the fair value of an intangible asset based on the estimated costs that would be required currently to replace the service capacity of an asset. This method considers the direct and indirect costs required to develop the asset, as well as adjustments for factors such as obsolescence to arrive at an indication of value.

The identified intangible assets and related amortization are preliminary. As such, the amount that will ultimately be allocated to identified intangible assets and the subsequent amortization expense may differ materially from this preliminary allocation. In addition, the amortization impacts will ultimately be based upon the periods in which the associated economic benefits are expected to be derived. Therefore, the amount of amortization following the merger may differ significantly between periods based upon the final value and useful lives assigned, and amortization methodology used for each identified intangible asset.

Amortization related to the identified finite-lived intangible assets is reflected as a pro forma adjustment in the unaudited pro forma condensed combined statements of income based on the estimated useful lives above, as further described in Note 5(d).

4(h) Reflects additional transaction costs of \$16.0 million incurred by Astrana subsequent to March 31, 2025 as a reduction to retained earnings, and an adjustment to cash and cash equivalents to reflect the settlement of such transaction costs as of the Closing. The adjustment to cash and cash equivalents also reflect the settlement of \$1.0 million unpaid transaction costs reported in Accounts payable and accrued expenses on Astrana’s historical consolidated balance sheet as of March 31, 2025.

Remaining transaction costs of \$6.7 million and \$1.3 million previously incurred are included in Astrana’s historical statements of income for the year ended December 31, 2024 and the three months ended March 31, 2025, respectively.

4(i) Reflects the adjustment to recognize a deferred tax liability of approximately \$4.9 million, arising from the excess book intangible value over tax basis from the preliminary purchase price allocation. This determination is subject to change based upon the final determination of the fair value of assets acquired and liabilities assumed on the acquisition date.

4(j) Reflects a net adjustment to recognize the preliminary estimated goodwill expected to arise from the Acquisition, comprised of the following (in thousands):

	As of March 31, 2025
Elimination of the Prospect Business’s historical goodwill balance	\$ (29,666)
Estimated goodwill expected to arise from the Acquisition	422,627
Net adjustment to goodwill	\$ 392,961

Goodwill is primarily attributable to the assembled workforce and synergies expected to be achieved from combining the operations of Astrana and the Prospect Business. See Note 3 for significant estimates and assumptions used to determine the preliminary estimate of goodwill for the purpose of preparing the unaudited pro forma condensed combined financial information.

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

5. Adjustments to Unaudited Pro Forma Condensed Combined Statements of Income

Pro Forma Financing Adjustments

The following pro forma adjustments are included in the unaudited pro forma condensed combined statements of income for the year ended December 31, 2024 and the three months ended March 31, 2025 to reflect the Financing:

5(a) Reflects the recognition of a non-recurring expense during the year ended December 31, 2024 representing the proportionate write-off of \$0.4 million in unamortized deferred financing costs previously allocated to the DDTL A due to the reduction in the aggregate delayed draw term loan commitment from \$745.0 million to \$707.3 million.

5(b) Reflects the recognition of estimated incremental interest expense associated with the Financing, comprised of the following (in thousands):

	For the Year Ended December 31, 2024	For the Three Months Ended March 31, 2025
Incremental interest expense on new \$707.3 million DDTL A	\$ 42,693	\$ 10,201
Amortization of new deferred financing costs paid in connection with the Financing (net of the write-off discussed in Note 5(a))	317	78
Total adjustment to interest expense	\$ 43,010	\$ 10,279

The pro forma adjustment to interest expense is calculated based on an estimated interest rate of 6.08%, calculating using the three month Term SOFR as of July 1, 2025, plus a spread of 1.75%, representing the applicable spread as of July 1, 2025 based on the Company's leverage ratio, in accordance with the terms of the Second Amended and Restated Credit Agreement. Interest expense on the DDTL A is variable and may be higher or lower depending on fluctuations in the benchmark rate of interest and the Company's leverage ratio in each quarterly period. The following table reflects the estimated impact to the pro forma adjustment to interest expense as a result of interest rate changes of plus or minus 12.5 basis points (in thousands):

Pro forma adjustment to interest expense:	For the Year Ended December 31, 2024	For the Three Months Ended March 31, 2025
As presented	\$ 43,010	\$ 10,279
+ 12.5 basis points	43,888	10,489
- 12.5 basis points	42,132	10,069

For purposes of the unaudited pro forma condensed combined statements of income, the amortization of incremental deferred financing costs is calculated using the effective interest method over the period from January 1, 2024, the beginning of the earliest period presented, through the five-year term.

5(c) Reflects an adjustment to the provision for income taxes as a result of the estimated income tax effects of the pro forma financing adjustments herein. The adjustment was calculated using a blended statutory income tax rate of 30.5%. The blended statutory tax rate is not necessarily indicative of the effective tax rate of Astrana following the Acquisition, which could be significantly different depending on various factors.

Pro Forma Transaction Accounting Adjustments

The following pro forma adjustments are included in the unaudited pro forma condensed combined statements of income for the year ended December 31, 2024 and the three months ended March 31, 2025 to reflect the effects of the Acquisition:

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

5(d) Reflects the estimated incremental depreciation and amortization expense resulting from the Acquisition, and is comprised of the following (in thousands):

	For the Year Ended December 31, 2024	For the Three Months Ended March 31, 2025
Estimated depreciation expense related to the acquired property and equipment	\$ 2,155	\$ 540
Estimated amortization expense related to the acquired finite-lived intangibles	33,289	8,659
Elimination of historical depreciation and amortization expense reported by the Prospect Business	(4,336)	(940)
Net adjustment to depreciation and amortization expense	\$ 31,108	\$ 8,259

Depreciation expense related to the acquired property and equipment is calculated assuming a straight-line method of amortization based on the preliminary estimated fair values and useful lives presented Note 4(f) above. Amortization expense related to the acquired finite-lived intangible assets is based on the preliminary estimated fair values and useful lives presented Note 4(g) above, calculated using the straight-line method of amortization for the provider network and trademarks and trade names and the discounted cash flow method for the customer-related intangibles.

The amount of depreciation and amortization expense will ultimately be based on the periods in which the associated economic benefits are expected to be derived and the pattern of benefit for each tangible and intangible asset, and therefore, the amount reported after the Acquisition may differ significantly between periods based upon the final values assigned and depreciation or amortization methodology used for each asset.

A 10% increase or decrease in the estimated fair value of the property and equipment would cause an increase or decrease of \$0.2 million and \$0.05 million to the depreciation expense amounts as presented in the unaudited pro forma condensed combined statements of income for the year ended December 31, 2024 and the three months ended March 31, 2025, respectively, assuming the estimated useful lives presented Note 4(f) above. A 10% increase or decrease in the estimated fair value of the intangible assets would cause an increase or decrease of \$3.3 million and \$0.9 million to the amortization amounts as presented in the unaudited pro forma condensed combined statement of operations for the year ended December 31, 2024 and the three months ended March 31, 2025, respectively, assuming the estimated useful lives presented Note 4(g) above.

5(e) Reflects the reversal of the Prospect Business' historical interest expense, inclusive of amortization of debt discounts and premiums for the year ended December 31, 2024 and the three months ended March 31, 2025, that would not have been incurred had the Acquisition been consummated on January 1, 2024 as all outstanding debt obligations were settled at Closing and not assumed by Astrana pursuant to the terms of the Purchase Agreement.

5(f) Reflects a non-recurring adjustment to record the estimated incremental transaction-related costs of approximately \$16.0 million incurred by Astrana after March 31, 2025. Transaction costs of \$6.7 million and \$1.3 million are reflected in Astrana's historical statements of income for the year ended December 31, 2024 and the three months ended March 31, 2025, respectively. Direct transaction costs are expensed as incurred and these additional transaction costs are reflected as if incurred on January 1, 2024, the beginning of the earliest period presented. The unaudited pro forma condensed combined statement of income for the three months ended March 31, 2025 does not reflect an adjustment for transaction costs as such costs are not expected to recur beyond one year from the acquisition date.

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

5(g) Reflects an adjustment to the provision for income taxes as a result of the estimated income tax effects of the pro forma transaction accounting adjustments herein. The adjustment was calculated using a blended statutory income tax rate of 30.5%. The blended statutory tax rate is not necessarily indicative of the effective tax rate of Astrana following the Acquisition, which could be significantly different depending on various factors.

6. Earnings (Loss) per Share

Pro forma basic and diluted earnings (loss) per share has been adjusted to reflect the pro forma adjustments herein for the three months ended March 31, 2025 and the year ended December 31, 2024. The following table sets forth the computation of pro forma combined basic and diluted net earnings (loss) per share (in thousands, except share and per share amounts):

	For the Year Ended December 31, 2024	For the Three Months Ended March 31, 2025
Pro forma net income (loss) attributable to Astrana Health, Inc.	\$ 20,441	\$ (790)
Astrana historical weighted-average shares of common stock outstanding - basic ⁽¹⁾	47,597,295	48,470,682
Pro forma weighted-average shares of common stock outstanding - basic	47,597,295	48,470,682
Astrana historical weighted-average shares of common stock outstanding - diluted ⁽¹⁾	47,974,334	48,850,666
Add: Astrana historical effects of dilutive securities ⁽²⁾	-	(379,984)
Pro forma weighted-average shares of common stock outstanding - diluted	47,974,334	48,470,682
Pro forma earnings (loss) per share attributable to Astrana Health, Inc. common stockholders:		
Basic	\$ 0.43	\$ (0.02)
Diluted	\$ 0.43	\$ (0.02)

(1) As reported by Astrana for the year ended December 31, 2024 and the three months ended March 31, 2025.

(2) Dilutive securities included in Astrana's historical calculation of diluted earnings per share for the three months ended March 31, 2025, including 112,858 stock options, 130,055 restricted stock awards and units, and 137,071 contingently issuable shares, were added back in computing the pro forma diluted weighted-average shares of common stock outstanding, as the effects would have been antidilutive to the pro forma net loss for the three months ended March 31, 2025. Therefore, the pro forma diluted net loss per share is the same as the pro forma basic net loss per share.

7. Prospect Business Statement of Operations Reconciliation

As previously discussed, Astrana's fiscal year ends on December 31, and the fiscal year end of the Prospect Business is September 30. The Company has prepared the unaudited pro forma condensed combined statements of income utilizing the historical statements of operations of the Prospect Business, adjusted to conform to the same calendar periods as Astrana's fiscal year and interim period.

The statement of operations data of the Prospect Business presented in the unaudited pro forma condensed combined statement of income for the year ended December 31, 2024 was derived from the Prospect Business's audited combined and consolidated statement of operations for the fiscal year ended September 30, 2024, adjusted to exclude the unaudited statement of operations data for the three months ended December 31, 2023, and adjusted to include the unaudited statement of operations data for the three months ended December 31, 2024, as follows (in thousands):

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

	Year Ended September 30, 2024 (A)	Three Months Ended December 31, 2023 (B)	Three Months Ended December 31, 2024 (C)	For the Twelve Months Ended December 31, 2024 (A - B + C)
Operating revenues:				
Capitation	\$ 1,044,463	\$ 240,104	\$ 283,106	\$ 1,087,465
Patient services, net	109,811	26,445	28,161	111,527
Management fees	25,392	6,021	6,969	26,340
Other operating revenues	14,934	3,191	4,726	16,469
Total net revenue	1,194,600	275,761	322,962	1,241,801
Cost of revenues:				
Claims expense	560,434	126,083	162,858	597,209
Capitation expense	240,061	56,192	64,270	248,139
Other cost of revenues	69,479	20,986	16,030	64,523
Total cost of revenues	869,974	203,261	243,158	909,871
Gross margin	324,626	72,500	79,804	331,930
Operating expenses:				
Salary and benefits	140,105	32,476	35,952	143,581
Outside services	26,424	5,070	11,162	32,516
Management fees	11,736	2,545	3,732	12,923
Professional fees	5,388	1,339	1,544	5,593
Marketing	3,138	774	708	3,072
Lease and rental expense	3,425	779	789	3,435
Repair, maintenance and utilities	4,511	982	1,396	4,925
Software licensing	8,205	1,642	1,995	8,558
Taxes, licenses and fees	6,997	1,496	1,783	7,284
Insurance	2,901	605	886	3,182
Depreciation and amortization	3,953	429	812	4,336
Other operating expenses	4,000	1,402	1,514	4,112
Total operating expenses	220,783	49,539	62,273	233,517
Operating income	103,843	22,961	17,531	98,413
Operating gain (loss) from unconsolidated joint venture	348	12	-	336
Interest expense, net	(138,251)	(19,276)	(43,424)	(162,399)
Other expense	(2,739)	(2,500)	-	(239)
(Loss) income before income taxes	(36,799)	1,197	(25,893)	(63,889)
Income tax expense	41,890	29,696	2,265	14,459
Net (loss) income attributable to PHP Holdings, LLC & RI				
Market	\$ (78,689)	\$ (28,499)	\$ (28,158)	\$ (78,348)

The statement of operations data of the Prospect Business presented in the unaudited pro forma condensed combined statement of income for the three months ended March 31, 2025 was derived from the Prospect Business's unaudited combined and consolidated statement of operations for the six months ended March 31, 2025, adjusted to exclude the three months ended December 31, 2024, as follows (in thousands):

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

	Six Months Ended March 31, 2025 (A)	Three Months Ended December 31, 2024 (B)	For the Three Months Ended March 31, 2025 (A - B)
Operating revenues:			
Capitation	\$ 552,222	\$ 283,106	\$ 269,116
Patient services, net	54,556	28,161	26,395
Management fees	17,367	6,969	10,398
Other operating revenues	8,481	4,726	3,755
Total net revenue	632,626	322,962	309,664
Cost of revenues:			
Claims expense	315,507	162,858	152,649
Capitation expense	128,931	64,270	64,661
Other cost of revenues	28,217	16,030	12,187
Total cost of revenues	472,655	243,158	229,497
Gross margin	159,971	79,804	80,167
Operating expenses:			
Salary and benefits	73,252	35,952	37,300
Outside services	17,299	11,162	6,137
Management fees	7,831	3,732	4,099
Professional fees	2,686	1,544	1,142
Marketing	1,404	708	696
Lease and rental expense	1,536	789	747
Repair, maintenance and utilities	2,777	1,396	1,381
Software licensing	4,528	1,995	2,533
Taxes, licenses and fees	3,628	1,783	1,845
Insurance	2,502	886	1,616
Depreciation and amortization	1,752	812	940
Other operating expenses	3,006	1,514	1,492
Total operating expenses	122,201	62,273	59,928
Operating income	37,770	17,531	20,239
Interest expense, net	(80,549)	(43,424)	(37,125)
(Loss) income before income taxes	(42,779)	(25,893)	(16,886)
Income tax expense	3,971	2,265	1,706
Net (loss) income attributable to PHP Holdings, LLC & RI Market	\$ (46,750)	\$ (28,158)	\$ (18,592)