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

FORM 10-Q

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

For the quarterly period ended June 30, 2021.

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

For the transition period from __________ to __________.

Commission file number: 001-38900

THE PENNANT GROUP, INC.

(Exact Name of Registrant as Specified in Its Charter)

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

1675 East Riverside Drive, Suite 150, Eagle, ID 83616
(Address of Principal Executive Offices and Zip Code)
(208) 506-6100
(Registrant's Telephone Number, Including Area Code)
None
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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

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

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

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

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

As of August 9, 2021, 28,361,909 shares of the registrant's common stock were outstanding.

THE PENNANT GROUP, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2021
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PART I. FINANCIAL INFORMATION

Item I. *Financial Statements*

THE PENNANT GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited, in thousands, except par value)

	June 30, 2021	December 31, 2020
Assets		
Current assets:		
Cash	$ 2,879	$ 43
Accounts receivable—less allowance for doubtful accounts of $914 and $643, respectively	52,136	47,221
Prepaid expenses and other current assets	18,463	12,335
Total current assets	73,478	59,599
Property and equipment, net	17,969	17,884
Right-of-use assets	303,431	308,650
Escrow deposits	—	525
Deferred tax assets	1,987	2,097
Restricted and other assets	5,691	4,289
Goodwill	73,364	66,444
Other indefinite-lived intangibles	53,889	47,488
Total assets	$ 529,809	$ 506,976
Liabilities and equity		
Current liabilities:		
Accounts payable	$ 8,321	$ 9,761
Accrued wages and related liabilities	21,856	26,873
Operating lease liabilities—current	15,233	14,106
Other accrued liabilities	37,412	38,275
Total current liabilities	82,822	89,015
Long-term operating lease liabilities—less current portion	291,160	296,615
Other long-term liabilities	7,732	11,897
Long-term debt, net	38,113	8,277
Total liabilities	419,827	405,804
Commitments and contingencies		
Equity:		
Common stock, $0.001 par value; 100,000 shares authorized; 28,759 and 28,355 shares issued and outstanding, respectively at June 30, 2021, and 28,696 and 28,243 shares issued and outstanding, respectively at December 31, 2020.	28	28
Additional paid-in capital	90,099	84,671
Retained earnings	15,545	11,945
Treasury stock, at cost, 3 shares at June 30, 2021 and December 31, 2020	(65)	(65)
Total Pennant Group, Inc. stockholders' equity	105,607	96,579
Noncontrolling interest	4,375	4,593
Total equity	109,982	101,172
Total liabilities and equity	$ 529,809	$ 506,976

See accompanying notes to condensed consolidated financial statements.

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THE PENNANT GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited, in thousands, except for per-share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	**2020**	**2021**	**2020**
Revenue	$ 110,345	$ 92,740	$ 216,008	$ 184,589
Expense				
Cost of services	86,667	68,159	170,289	138,348
Rent—cost of services	10,156	9,767	20,121	19,473
General and administrative expense	8,783	7,538	18,071	14,199
Depreciation and amortization	1,170	1,201	2,345	2,222
Total expenses	106,776	86,665	210,826	174,242
Income from operations	3,569	6,075	5,182	10,347
Other expense:				
Other expense	(24)	—	(24)	—
Interest expense, net	(472)	(301)	(832)	(704)
Other expense, net	(496)	(301)	(856)	(704)
Income before provision for income taxes	3,073	5,774	4,326	9,643
Provision for income taxes	604	1,437	944	2,326
Net income	2,469	4,337	3,382	7,317
Less: net loss attributable to noncontrolling interest	(181)	—	(218)	—
Net income and other comprehensive income attributable to The Pennant Group, Inc.	$ 2,650	$ 4,337	$ 3,600	$ 7,317
Earnings per share:				
Basic	$ 0.09	$ 0.16	$ 0.13	$ 0.26
Diluted	$ 0.09	$ 0.15	$ 0.12	$ 0.25
Weighted average common shares outstanding:				
Basic	28,356	27,952	28,324	27,922
Diluted	30,647	29,662	30,785	29,780

See accompanying notes to condensed consolidated financial statements.

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THE PENNANT GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(unaudited, in thousands)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock		Non-Controlling Interest	Total
	Shares	Amount			Shares	Amount		
Balance at December 31, 2020	28,696	$ 28	$ 84,671	$ 11,945	3	$ (65)	$ 4,593	$ 101,172
Net income attributable to The Pennant Group, Inc.	—	—	—	950	—	—	—	950
Net loss attributable to Non-Controlling Interests	—	—	—	—	—	—	(37)	(37)
Stock-based compensation	—	—	2,416	—	—	—	—	2,416
Issuance of common stock from the exercise of stock options	21	—	218	—	—	—	—	218
Net issuance of restricted stock	3	—	—	—	—	—	—	—
Balance at March 31, 2021	28,720	$ 28	$ 87,305	$ 12,895	3	$ (65)	$ 4,556	$ 104,719
Net income attributable to The Pennant Group, Inc.	—	—	—	2,650	—	—	—	2,650
Net loss attributable to Non-Controlling Interests	—	—	—	—	—	—	(181)	(181)
Stock-based compensation	—	—	2,499	—	—	—	—	2,499
Issuance of common stock from the exercise of stock options	35	—	295	—	—	—	—	295
Net issuance of restricted stock	4	—	—	—	—	—	—	—
Balance at June 30, 2021	28,759	$ 28	$ 90,099	$ 15,545	3	$ (65)	$ 4,375	$ 109,982

	Common Stock		Additional Paid-In Capital	Retained Earnings/ (Accumulated Deficit)	Treasury Stock		Non-Controlling Interest	Total
	Shares	Amount			Shares	Amount		
Balance at December 31, 2019	28,435	$ 28	$ 74,882	$ (3,799)	—	$ —	$ —	$ 71,111
Net income attributable to The Pennant Group, Inc.	—	—	—	2,980	—	—	—	2,980
Stock-based compensation	—	—	1,956	—	—	—	—	1,956
Issuance of common stock from the exercise of stock options	38	—	138	—	—	—	—	138
Net issuance of restricted stock	3	—	—	—	—	—	—	—
Balance at March 31, 2020	28,476	$ 28	$ 76,976	$ (819)	—	$ —	$ —	$ 76,185
Net income/ (loss) attributable to The Pennant Group, Inc.	—	—	—	4,337	—	—	—	4,337
Share-based compensation	—	—	1,959	—	—	—	—	1,959
Issuance of common stock from the exercise of stock options	20	—	77	—	—	—	—	77
Net issuance of restricted stock	20	—	—	—	—	—	—	—
Shares of common stock withheld to satisfy tax withholding obligations	(2)	—	—	—	2	(57)	—	(57)
Balance at June 30, 2020	28,514	$ 28	$ 79,012	$ 3,518	$ 2	$ (57)	$ —	$ 82,501

See accompanying notes to condensed consolidated financial statements.

THE PENNANT GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, in thousands)

	Six Months Ended June 30,	
	2021	**2020**
Cash flows from operating activities:		
Net income	$ 3,382	$ 7,317
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	2,345	2,222
Amortization of deferred financing fees	229	162
Provision for doubtful accounts	446	282
Share-based compensation	4,915	3,915
Deferred income taxes	111	—
Change in operating assets and liabilities:		
Accounts receivable	(5,360)	(2,077)
Prepaid expenses and other assets	(7,221)	(232)
Operating lease obligations	893	2,168
Accounts payable	(1,500)	(2,019)
Accrued wages and related liabilities	(5,017)	(937)
Other accrued liabilities	2,328	4,600
Contract liabilities (CARES Act advance payments)	(7,096)	27,997
Other long-term liabilities	(261)	—
Net cash (used in) provided by operating activities	(11,806)	43,398
Cash flows from investing activities:		
Purchase of property and equipment	(2,412)	(5,963)
Cash payments for business acquisitions, net of escrow	(12,800)	(6,868)
Escrow deposits	—	(639)
Other	(265)	(333)
Net cash used in investing activities	(15,477)	(13,803)
Cash flows from financing activities:		
Proceeds from Revolving Credit Facility	70,500	26,500
Payments on Revolving Credit Facility	(39,500)	(44,500)
Repurchase of shares of common stock to satisfy tax withholding obligations	—	(57)
Payments for deferred financing costs	(1,394)	(26)
Issuance of common stock upon the exercise of options	513	215
Net cash provided by (used in) financing activities	30,119	(17,868)
Net increase in cash	2,836	11,727
Cash beginning of period	43	402
Cash end of period	$ 2,879	$ 12,129

See accompanying notes to condensed consolidated financial statements.

THE PENNANT GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - (Continued)
(unaudited, in thousands)

	Six Months Ended June 30,	
	2021	**2020**
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 598	$ 619
Income taxes	$ 1,295	$ 2,430
Lease liabilities	$ 19,496	$ 18,462
Right-of-use assets obtained in exchange for new operating lease obligations	$ 2,872	$ 3,437
Net non-cash adjustment to right-of-use assets and lease liabilities from lease modifications	$ —	$ 441
Non-cash investing activity:		
Capital expenditures	$ 561	$ 1,035

See accompanying notes to condensed consolidated financial statements.

THE PENNANT GROUP INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share data and operational senior living units)

1. DESCRIPTION OF BUSINESS

The Pennant Group, Inc. (herein referred to as "Pennant," the "Company," "it," or "its"), is a holding company with no direct operating assets, employees or revenue. The Company, through its independent operating subsidiaries, provides healthcare services across the post-acute care continuum. As of June 30, 2021, the Company's subsidiaries operated 86 home health, hospice and home care agencies and 54 senior living communities located in Arizona, California, Colorado, Idaho, Iowa, Montana, Nevada, Oklahoma, Oregon, Texas, Utah, Washington, Wisconsin and Wyoming.

On October 1, 2019, The Ensign Group, Inc. (NASDAQ: ENSG) ("Ensign" or the "Parent") completed the separation of Pennant (the "Spin-Off"). To accomplish the Spin-Off, Ensign contributed all of its home health and hospice and substantially all of its senior living businesses into Pennant. Each Ensign stockholder received a distribution of one share of Pennant's common stock for every two shares of Ensign's common stock, plus cash in lieu of fractional shares. The noncontrolling interest was converted into shares of Pennant at the established conversion ratio. As a result of the Spin-Off on October 1, 2019, Pennant began trading as an independent company on the NASDAQ under the symbol "PNTG."

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

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

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying unaudited condensed consolidated financial statements of the Company (the "Interim Financial Statements") reflect the Company's financial position, results of operations and cash flows of the business. The Interim Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") and pursuant to the regulations of the Securities and Exchange Commission ("SEC"). Management believes that the Interim Financial Statements reflect, in all material respects, all adjustments which are of a normal and recurring nature necessary to present fairly the Company's financial position, results of operations, and cash flows for the periods presented in conformity with GAAP. The results reported in these Interim Financial Statements are not necessarily indicative of results that may be expected for the entire year.

The Condensed Consolidated Balance Sheet as of December 31, 2020 is derived from the Company's annual audited Consolidated Financial Statements for the fiscal year ended December 31, 2020 which should be read in conjunction with these Interim Financial Statements. Certain information in the accompanying footnote disclosures normally included in annual financial statements was condensed or omitted for the interim periods presented in accordance with GAAP.

All intercompany transactions and balances between the various legal entities comprising the Company have been eliminated in consolidation. The Company presents noncontrolling interests within the equity section of its Condensed Consolidated Balance Sheets and the amount of consolidated net income that is attributable to the Company and the noncontrolling interest in its Condensed Consolidated Statements of Income.

The Company consists of various limited liability companies and corporations established to operate home health, hospice, home care, and senior living operations. The Interim Financial Statements include the accounts of all entities controlled by the Company through its ownership of a majority voting interest.

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

CARES Act: The Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was enacted on March 27, 2020 in the United States. The CARES Act allowed for deferred payment of the employer-paid portion of social security taxes through the end of 2020, with 50% due on December 31, 2021 and the remainder due on December 31, 2022. As of June 30, 2021, the Company deferred approximately $7,836 of the employer-paid portion of social security taxes, of which $3,918 is included in other long-term liabilities and the current portion of $3,918 in accrued wages and related liabilities. The CARES Act also expanded the Centers for Medicare & Medicaid Services' ("CMS") ability to provide accelerated/advance payments intended to increase the cash flow of healthcare providers and suppliers impacted by COVID-19. During the prior year, the Company applied for and received $27,997 in funds under the Accelerated and Advance Payment ("AAP") Program, of which $7,096 had been recouped as of June 30, 2021. See Note 10, *Other Accrued Liabilities* for further discussion of the AAP.

The American Rescue Plan Act of 2021 (the "ARP Act") was enacted on March 11, 2021 in the United States. The ARP Act was designed to assist the country with the effects of the COVID-19 pandemic and included a number of tax components. The ARP Act's primary tax impact on the Company is a new revenue raising provision that requires the Company to include the next five highest paid employees to the list of covered officers already subject to the IRC Section 162(m) wage limitation beginning in the 2027 tax year. The Company will continue to assess the effect of the ARP Act and ongoing other government legislation related to the COVID-19 pandemic that may be issued.

Recent Accounting Standards Adopted by the Company

FASB Accounting Standards Update, or ASU, ASU 2021-01 "Reference Rate Reform (Topic 848): Scope" or ASU 2020-4 - On January 7, 2021, the FASB issued ASU 2021-01 to amend the scope of the guidance in ASU 2020-04 "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting" or ASU 2020-4. Specifically, the amendments in ASU 2021-01 clarify that "certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition." The amendment in ASU 2021-1 is available to all entities: (i) on a full retrospective basis as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020 through the date that the final update to the standard was issued or (ii) on a prospective basis for new contract modifications through December 31, 2022. The Company has adopted ASU 2021-01 on a prospective basis effective as of January 7, 2021. There was no material impact to the Company's Interim Financial Statements or related disclosures as a result of the adoption of ASU 2021-01.

3. RELATED PARTY TRANSACTIONS

The Company leases 31 of its senior living communities from subsidiaries of Ensign, and each of the leases have a term of between 14 and 20 years from the lease commencement date. The total amount of rent expense included in Rent - cost of services paid to subsidiaries of Ensign was $3,173 and $6,246 for the three and six months ended June 30, 2021, respectively, and $3,071 and $6,172 for the three and six months ended June 30, 2020, respectively.

The Company's subsidiaries received services from Ensign's subsidiaries. Services included in cost of services were $749 and $1,617 for the three and six months ended June 30, 2021 and $1,166 and $2,188 for the three and six months ended June 30, 2020, respectively.

On October 1, 2019, in connection with the Spin-Off, Pennant entered into several agreements with Ensign that set forth the principal actions taken or to be taken in connection with the Spin-Off and govern the relationship of the parties following the Spin-Off. The Company has incurred costs of $747 and $1,735 for the three and six months ended June 30, 2021, respectively, and $1,525 and $2,861 for the three and six months ended June 30, 2020, respectively, which costs related primarily to administrative support under the Transitions Services Agreement

4. COMPUTATION OF NET INCOME PER COMMON SHARE

Basic net income per share is computed by dividing net income attributable to stockholders of the Company by the weighted average number of outstanding common shares for the period. The computation of diluted net income per share is similar to the computation of basic net income per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Numerator:				
Net income	$ 2,469	$ 4,337	$ 3,382	$ 7,317
Add: net loss attributable to noncontrolling interests	(181)	—	(218)	—
Net income attributable to The Pennant Group, Inc.	$ 2,650	$ 4,337	$ 3,600	$ 7,317
Denominator:				
Weighted average shares outstanding for basic net income per share	28,356	27,952	28,324	27,922
Plus: assumed incremental shares from exercise of options and assumed conversion or vesting of restricted stock[(a)]	2,291	1,710	2,461	1,858
Adjusted weighted average common shares outstanding for diluted income per share	30,647	29,662	30,785	29,780
Earnings Per Share:				
Basic net income per common share	$ 0.09	$ 0.16	$ 0.13	$ 0.26
Diluted net income per common share	$ 0.09	$ 0.15	$ 0.12	$ 0.25

(a) The calculation of dilutive shares outstanding excludes out-of-the-money stock options (i.e., such options' exercise prices were greater than the average market price of our common shares for the period) because their inclusion would have been antidilutive. Options outstanding which are anti-dilutive and therefore not factored into the weighted average common shares amount above were 484 and 380 for the three and six months ended June 30, 2021 and 240 and 102 for the three and six months ended June 30, 2020.

5. REVENUE AND ACCOUNTS RECEIVABLE

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

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

Revenue from the Medicare and Medicaid programs accounted for 61.7% and 62.8% of the Company's revenue, for the three and six months ended June 30, 2021, and 59.4% and 58.7% for the three and six months ended June 30, 2020, respectively. The Company records revenue from these governmental and managed care programs as services are performed at their expected net realizable amounts under these programs. The Company's revenue from governmental and managed care programs is subject to audit and retroactive adjustment by governmental and third-party agencies. Consistent with healthcare industry accounting practices, any changes to these governmental revenue estimates are recorded in the period the change or adjustment becomes known based on final settlement.

Disaggregation of Revenue

The Company disaggregates revenue from contracts with its patients by reportable operating segments and payors. The Company has determined that disaggregating revenue into these categories achieves the disclosure objectives to depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

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

Home Health Revenue

Medicare Revenue

For Medicare episodes that began after January 1, 2020, net service revenue is recognized in accordance with the Patient Driven Groupings Model (“PDGM”). This new reimbursement structure involves case mix calculation methodology refinements, changes to low-utilization payment adjustment (“LUPA”) thresholds, the elimination of therapy thresholds, a change to the unit of payment from a 60-day episode to a 30-day payment period, and reduction of requests for anticipated payments (“RAPs”) to 20% of the estimated payment for a patient’s initial or subsequent period of care up-front (after the initial assessment is completed and upon initial billing). The RAPs were phased out effective January 1, 2021. Under PDGM, Medicare provides agencies with payments for each 30-day payment period provided to beneficiaries. If a beneficiary is still eligible for care after the end of the first 30-day payment period, a second 30-day payment period can begin. There are no limits to the number of periods of care a beneficiary who remains eligible for the home health benefit can receive. While payment for each 30-day payment period is adjusted to reflect the beneficiary’s health condition and needs, a special outlier provision exists to ensure appropriate payment for those beneficiaries that have the most expensive care needs. The payment under the Medicare program is also adjusted for certain variables including, but not limited to: (a) a LUPA if the number of visits is below an established threshold that varies based on the diagnosis of a beneficiary; (b) a partial payment if the patient transferred to another provider or the Company received a patient from another provider before completing the period of care; (c) adjustment to the admission source of claim if it is determined that the patient had a qualifying stay in a post-acute care setting within 14 days prior to the start of a 30-day payment period; (d) the timing of the 30-day payment period provided to a patient in relation to the admission date, regardless of whether the same home health provider provided care for the entire series of episodes; (e) changes to the acuity of the patient during the previous 30-day payment period; (f) changes in the base payments established by the Medicare program; (g) adjustments to the base payments for case mix and geographic wages; and (h) recoveries of overpayments.

For all episodes that began prior to January 1, 2020, net service revenue was recorded under the Medicare prospective payment system based on a 60-day episode payment rate that is subject to adjustment based on certain variables including, but not limited to: (a) an outlier payment if the patient’s care was unusually costly; (b) a LUPA if the number of visits was fewer than five; (c) a partial payment if the patient transferred to another provider or transferred from another provider before completing the episode; (d) a payment adjustment based upon the level of covered therapy services; (e) the number of episodes of care provided to a patient, regardless of whether the same home health provider provided care for the entire series of episodes; (f) changes in the base episode payments established by the Medicare program; (g) adjustments to the base episode payments for case mix and geographic wages; and (h) recoveries of overpayments.

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

In addition to revenue recognized on completed episodes and periods, the Company also recognizes a portion of revenue associated with episodes and periods in progress. Episodes in progress are 30-day payment periods, if the episode started after January 1, 2020, or 60-day episodes of care, if the episode started prior to January 1, 2020, that begin during the reporting period but were not completed as of the end of the period. As such, the Company estimates revenue and recognizes it on a daily basis. The primary factors underlying this estimate are the number of episodes in progress at the end of the reporting period, expected Medicare revenue per period of care or episode of care and the Company’s estimate of the average percentage complete based on the scheduled end of period and end of episode dates.

Non-Medicare Revenue

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

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

Hospice Revenue

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

Senior Living Revenue

The Company has elected the lessor practical expedient within ASC Topic 842, *Leases* (“ASC 842”) and therefore recognizes, measures, presents, and discloses the revenue for services rendered under the Company’s senior living residency agreements based upon the predominant component, either the lease or non-lease component, of the contracts. The Company has determined that the services included under the Company’s senior living residency agreements each have the same timing and pattern of transfer. The Company recognizes revenue under ASC Topic 606, *Revenue from Contracts with Customers* for its senior residency agreements, for which it has determined that the non-lease components of such residency agreements are the predominant component of each such contract.

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

Revenue By Payor

Revenue by payor for the three months ended June 30, 2021 and 2020, is summarized in the following tables:

	Three Months Ended June 30, 2021				
	Home Health and Hospice Services				
	Home Health Services	Hospice Services	Senior Living Services	Total Revenue	Revenue %
Medicare	$ 20,498	$ 33,303	$ —	$ 53,801	48.8 %
Medicaid	2,525	2,708	9,004	14,237	12.9
Subtotal	23,023	36,011	9,004	68,038	61.7
Managed care	12,165	725	—	12,890	11.7
Private and other[(a)]	6,079	102	23,236	29,417	26.6
Total revenue	$ 41,267	$ 36,838	$ 32,240	$ 110,345	100.0 %

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

	Three Months Ended June 30, 2020				
	Home Health and Hospice Services				
	Home Health Services	Hospice Services	Senior Living Services	Total Revenue	Revenue %
Medicare	$ 11,808	$ 28,550	$ —	$ 40,358	43.5 %
Medicaid	1,963	3,637	9,155	14,755	15.9
Subtotal	13,771	32,187	9,155	55,113	59.4
Managed care	6,846	397	—	7,243	7.8
Private and other[(a)]	4,744	39	25,601	30,384	32.8
Total revenue	$ 25,361	$ 32,623	$ 34,756	$ 92,740	100.0 %

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

Revenue by payor for the six months ended June 30, 2021 and 2020, is summarized in the following tables:

	Six Months Ended June 30, 2021				
	Home Health and Hospice Services				
	Home Health Services	Hospice Services	Senior Living Services	Total Revenue	Revenue %
Medicare	$ 40,828	$ 66,712	$ —	$ 107,540	49.8 %
Medicaid	4,721	5,433	17,936	28,090	13.0
Subtotal	45,549	72,145	17,936	135,630	62.8
Managed care	22,617	1,362	—	23,979	11.1
Private and other[(a)]	10,794	245	45,360	56,399	26.1
Total revenue	$ 78,960	$ 73,752	$ 63,296	$ 216,008	100.0 %

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

	Six Months Ended June 30, 2020				
	Home Health and Hospice Services				
	Home Health Services	Hospice Services	Senior Living Services	Total Revenue	Revenue %
Medicare	$ 24,384	$ 55,230	$ —	$ 79,614	43.1 %
Medicaid	3,553	6,966	18,188	28,707	15.6
Subtotal	27,937	62,196	18,188	108,321	58.7
Managed care	13,962	813	—	14,775	8.0
Private and other[(a)]	9,784	54	51,655	61,493	33.3
Total revenue	$ 51,683	$ 63,063	$ 69,843	$ 184,589	100.0 %

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

Balance Sheet Impact

Included in the Company’s Condensed Consolidated Balance Sheets are contract assets, comprised of billed accounts receivable and unbilled receivables, which are the result of the timing of revenue recognition, billings and cash collections, as well as, contract liabilities, which primarily represent payments the Company receives in advance of services provided. As of June 30, 2021, the Company had contract liabilities in the amount of $20,901 related to Advance Payments received in connection with the CARES Act reported in other current liabilities. As further discussed in Note 10, *Other Accrued Liabilities*, the repayment terms for Medicare advance payments were modified through the passage of the Continuing Appropriations Act, 2021 and Other Extensions Act on October 1, 2020.

Accounts receivable, net as of June 30, 2021 and December 31, 2020 is summarized in the following table:

	June 30, 2021	December 31, 2020
Medicare	$ 29,331	$ 28,569
Medicaid	8,233	7,669
Managed care	10,858	7,590
Private and other	4,628	4,036
Accounts receivable, gross	53,050	47,864
Less: allowance for doubtful accounts	(914)	(643)
Accounts receivable, net	$ 52,136	$ 47,221

Practical Expedients and Exemptions

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

6. BUSINESS SEGMENTS

The Company classifies its operations into the following reportable operating segments: (1) home health and hospice services, which includes the Company's home health, hospice and home care businesses; and (2) senior living services, which includes the operation of assisted living, independent living and memory care communities. The reporting segments are business units that offer different services and are managed separately to provide greater visibility into those operations. Our Chief Executive Officer, who is our Chief Operating Decision Maker ("CODM"), reviews financial information at the operating segment level. We also report an "all other" category that includes general and administrative expense from our Service Center.

As of June 30, 2021, the Company provided services through 86 affiliated home health, hospice and home care agencies, and 54 affiliated senior living operations. The Company evaluates performance and allocates capital resources to each segment based on an operating model that is designed to maximize the quality of care provided and profitability. The Company's Service Center provides various services to all lines of business. The Company does not review assets by segment and therefore assets by segment are not disclosed below.

The CODM uses Segment Adjusted EBITDAR from Operations as the primary measure of profit and loss for the Company's reportable segments and to compare the performance of its operations with those of its competitors. Segment Adjusted EBITDAR from Operations is net income (loss) attributable to the Company's reportable segments excluding interest expense, provision for income taxes, depreciation and amortization expense, rent, and, in order to view the operations performance on a comparable basis from period to period, certain adjustments including: (1) costs at start-up operations, (2) share-based compensation, (3) acquisition related costs, (4) redundant and nonrecurring costs associated with the Transition Services Agreement, and (5) net loss attributable to noncontrolling interest. General and administrative expenses are not allocated to the reportable segments, and are included as "All Other", accordingly the segment earnings measure reported is before allocation of corporate general and administrative expenses. The Company's segment measures may be different from the calculation methods used by other companies and, therefore, comparability may be limited.

The following tables present certain financial information regarding our reportable segments, general and administrative expenses are not allocated to the reportable segments and are included in "All Other" for the three and six months ended June 30, 2021 and 2020:

	Home Health and Hospice Services	Senior Living Services	All Other	Total
Three Months Ended June 30, 2021				
Revenue	$ 78,105	$ 32,240	$ —	$ 110,345
Segment Adjusted EBITDAR from Operations	$ 14,931	$ 9,752	$ (6,068)	$ 18,615
Three Months Ended June 30, 2020				
Revenue	$ 57,984	$ 34,756	$ —	$ 92,740
Segment Adjusted EBITDAR from Operations	$ 11,245	$ 13,492	$ (3,999)	$ 20,738

	Home Health and Hospice Services	Senior Living Services	All Other	Total
Six Months Ended June 30, 2021				
Revenue	$ 152,712	$ 63,296	$ —	$ 216,008
Segment Adjusted EBITDAR from Operations	$ 28,722	$ 18,586	$ (12,466)	$ 34,842
Six Months Ended June 30, 2020				
Revenue	$ 114,746	$ 69,843	$ —	$ 184,589
Segment Adjusted EBITDAR from Operations	$ 21,151	$ 25,989	$ (8,781)	$ 38,359

This following table provides a reconciliation of Segment Adjusted EBITDAR from Operations to income from operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Segment Adjusted EBITDAR from Operations	$ 18,615	$ 20,738	$ 34,842	$ 38,359
Less: Depreciation and amortization	1,170	1,201	2,345	2,222
Rent—cost of services	10,156	9,767	20,121	19,473
Other expense	(24)	—	(24)	—
Adjustments to Segment EBITDAR from Operations:				
Less: Costs at start-up operations[a]	347	473	459	705
Share-based compensation expense[b]	2,499	1,959	4,915	3,915
Acquisition related costs[c]	30	—	37	—
Transition services costs[d]	687	380	1,589	537
Net COVID-19 related costs[e]	—	883	—	1,160
Add: Net loss attributable to noncontrolling interest	(181)	—	(218)	—
Condensed Consolidated Income from Operations	$ 3,569	$ 6,075	$ 5,182	$ 10,347

Represents results related to start-up operations. This amount excludes rent and depreciation and amortization expense related to such operations.
Share-based compensation expense incurred which is included in cost of services and general and administrative expense.
Acquisition related costs related to business combinations completed during the periods.

A portion of the costs incurred under the Transition Services Agreement identified as redundant or nonrecurring that are included in general and administrative expense. Fees incurred under the Transition Services agreement, net of the Company's payroll reimbursement, were $747 and $1,735 for the three and six months ended June 30, 2021, and $1,525 and $2,861 for the three and six months ended June 30, 2020, respectively. During the fourth quarter of fiscal 2020, we updated our Transition service costs adjustment to include duplicate software costs. The prior year transition service costs adjustment has been recast to reflect the change. The adjustment to the prior year transition service costs was $113 and $220 for the duplicative software costs for the three and six months ended June 30, 2020 that were included in the 2020 full year amount in the Company's as filed Form 10-K.

Beginning in the first quarter of fiscal year 2021, we updated our definition of Segment Adjusted EBITDAR to no longer include an adjustment for COVID-19 expenses offset by the amount of sequestration relief. COVID-19 expenses continue to be part of daily operations for which less specific identification is visible. Furthermore, the sequestration relief has been extended through December 31, 2021. Sequestration relief was $870 and $1,818 for the three and six months ended June 30, 2021, respectively.

The 2020 amounts represent incremental costs incurred as part of the Company's response to COVID-19 including direct medical supplies, labor, and other expenses, net of $554 in increased revenue related to the 2% payment increase in Medicare reimbursements for sequestration relief for both the three and six months ended June 30, 2020. The COVID-19 costs do not include $277 in costs for the three months ended March 31, 2020 that were included in the 2020 full year amount.

7. ACQUISITIONS

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

2021 Acquisitions

During the six months ended June 30, 2021, the Company expanded its operations with the addition of five home health, three hospice and two home care agencies. The aggregate purchase price for these acquisitions was $13,385. A subsidiary of the Company entered into a separate operations transfer agreement with the prior operator of each acquired operation as part of each transaction.

The fair value of assets for home health, hospice and home care acquisitions was mostly concentrated in goodwill and intangible assets and as such, these transactions were classified as business combinations in accordance with ASC Topic 805, *Business Combinations* ("ASC 805"). The purchase price for the business combinations was $12,800, which consisted of equipment and other assets of $64, goodwill of $6,920, and indefinite-lived intangible assets of $5,816 related to Medicare and Medicaid licenses. The Company anticipates that the total goodwill recognized will be fully deductible for tax purposes. There were no material acquisition costs that were expensed related to the business combinations during the six months ended June 30, 2021.

Two of the hospice agencies were acquired Medicare licenses and are considered asset acquisitions. The fair value of assets for the hospice licenses acquired totaled $585 and was allocated to indefinite-lived intangible assets.

2020 Acquisitions

During the six months ended June 30, 2020, the Company expanded its operations with the addition of one home health agency, three hospice agencies, and two senior living communities. The aggregate purchase price for these acquisitions was $7,268. In connection with the addition of the senior living communities, the Company entered into new long-term "triple-net" leases with subsidiaries of Ensign. The addition of these operations added a total of 164 operational senior living units to be operated by the Company's independent operating subsidiaries. A subsidiary of the Company entered into a separate operations transfer agreement with the prior operator of each acquired operation as part of each transaction.

The fair value of assets for all home health, hospice and home care acquisitions was concentrated in goodwill and as such, these transactions were classified as business combinations in accordance with ASC 805. The purchase price for the business combinations was $7,268, which mostly consisted of equipment of $44, goodwill of $4,139, indefinite-lived intangible assets of $3,166 related to Medicare and Medicaid licenses, net of assumed liabilities of $81. The majority of total goodwill recognized is fully deductible for tax purposes. There were no acquisition costs that were expensed related to the business combinations of home health, hospice, and home care during the six months ended June 30, 2020.

8. PROPERTY AND EQUIPMENT—NET

Property and equipment, net consist of the following:

	June 30, 2021	December 31, 2020
Leasehold improvements	$ 11,091	$ 9,984
Equipment	23,770	22,420
Furniture and fixtures	1,183	1,186
	36,044	33,590
Less: accumulated depreciation	(18,075)	(15,706)
Property and equipment, net	$ 17,969	$ 17,884

Depreciation expense was $1,167 and $2,338 for the three and six months ended June 30, 2021, respectively, and $1,197 and $2,215 for the three and six months ended June 30, 2020, respectively.

The Company measures certain assets at fair value on a non-recurring basis, including long-lived assets, which are evaluated for impairment. Long-lived assets include assets such as property and equipment, operating lease assets and certain intangible assets. The inputs used to determine the fair value of long-lived assets and a reporting unit are considered Level 3 measurements due to their subjective nature. Management has evaluated its long-lived assets and determined there was no impairment during the three and six months ended June 30, 2021 and 2020.

9. GOODWILL AND OTHER INDEFINITE-LIVED INTANGIBLE ASSETS

The following table represents activity in goodwill by segment for the six months ended June 30, 2021:

	Home Health and Hospice Services	Senior Living Services	Total
December 31, 2020	$ 62,802	$ 3,642	$ 66,444
Additions	6,920	—	6,920
June 30, 2021	$ 69,722	$ 3,642	$ 73,364

Other indefinite-lived intangible assets consist of the following:

	June 30, 2021	December 31, 2020
Trade name	$ 1,355	$ 1,355
Medicare and Medicaid licenses	52,534	46,133
Total	$ 53,889	$ 47,488

As of June 30, 2021, we evaluated potential triggering events that might be indicators that our goodwill and indefinite lived intangibles were impaired. The Company concluded that the current economic and business conditions did not result in a triggering event requiring a quantitative goodwill impairment analysis. No goodwill or intangible asset impairments were recorded during the three and six months ended June 30, 2021 and 2020.

10. OTHER ACCRUED LIABILITIES

Other accrued liabilities consist of the following:

	June 30, 2021	December 31, 2020
Refunds payable	$ 2,674	$ 2,664
Deferred revenue	1,501	1,271
Resident deposits	5,571	5,647
Contract Liabilities (CARES Act advance payments)	20,901	22,771
Property taxes	897	982
Accrued self-insurance liabilities - current portion	2,350	1,354
Other	3,518	3,586
Other accrued liabilities	$ 37,412	$ 38,275

Refunds payable includes payables related to overpayments, duplicate payments and credit balances from various payor sources. Deferred revenue occurs when the Company receives payments in advance of services provided. Resident deposits include refundable deposits to residents and a small portion consists of non-refundable deposits recognized into revenue over a period of time. The CARES Act also expanded the ability of CMS to provide accelerated or advance payments intended to increase the cash flow of healthcare providers and suppliers impacted by COVID-19. During the prior year the Company applied for and received $27,997 in funds under the AAP Program. On October 1, 2020, the Continuing Appropriations Act, 2021 and Other Extensions Act (the “CA Act”) was signed into law. Among other things, the CARES Act significantly changed the repayment terms for AAP. In April 2021 CMS began automatic recoupment of these amounts through offsets to new claims. Medicare will automatically recoup 25 percent of Medicare payments for 11 months. At the end of the 11 months and assuming full repayment has not occurred, recoupment will increase to 50 percent for another six months. Any balance outstanding after these two recoupment periods will be subject to repayment at a four percent interest rate. As of June 30, 2021, CMS had recouped $7,096 of the AAP. The Company anticipates completing repayment of the AAP within the allotted recoupment periods.

11. DEBT

Long-term debt, net consists of the following:

	June 30, 2021	December 31, 2020
Revolving Credit Facility	$ 40,500	$ 9,500
Less: unamortized debt issuance costs[(a)]	(2,387)	(1,223)
Long-term debt, net	$ 38,113	$ 8,277

(a) Amortization expense for debt issuance costs was $142 and $229 for the three and six months ended June 30, 2021, respectively, and $80 and $162 for the three and six months ended June 30, 2020, respectively, and is recorded in interest expense, net on the condensed consolidated statements of income.

On February 23, 2021, Pennant entered into an amendment to its existing credit agreement (as amended, the “Credit Agreement”), which provides for an increased revolving credit facility with a syndicate of banks with a borrowing capacity of $150,000 (the “Revolving Credit Facility”). The interest rates applicable to loans under the Revolving Credit Facility are, at the Company’s election, either (i) Adjusted LIBOR (as defined in the Credit Agreement) plus a margin ranging from 2.3% to 3.3% per annum or (ii) Base Rate plus a margin ranging from 1.3% to 2.3% per annum, in each case based on the ratio of Consolidated Total Net Debt to Consolidated EBITDA (each, as defined in the Credit Agreement). In addition, Pennant pays a commitment fee on the undrawn portion of the commitments under the Revolving Credit Facility which ranges from 0.35% to 0.50% per annum, depending on the Consolidated Total Net Debt to Consolidated EBITDA ratio of the Company and its subsidiaries. The Company is not required to repay any loans under the Credit Agreement prior to maturity in 2026, other than to the extent the outstanding borrowings exceed the aggregate commitments under the Credit Agreement. As of June 30, 2021, the Company’s weighted average interest rate on its outstanding debt was 2.91%. As of June 30, 2021, the Company had available borrowing on the Revolving Credit Facility of $106,164, which is net of outstanding letters of credit of $3,336.

The fair value of the Revolving Credit Facility approximates carrying value, due to the short-term nature and variable interest rates. The fair value of this debt is categorized within Level 2 of the fair value hierarchy based on the observable market borrowing rates.

The Credit Agreement is guaranteed, jointly and severally, by certain of the Company's independent operating subsidiaries, and is secured by a pledge of stock of the Company's material independent operating subsidiaries as well as a first lien on substantially all of each material operating subsidiary's personal property. The Credit Agreement contains customary covenants that, among other things, restrict, subject to certain exceptions, the ability of the Company and its independent operating subsidiaries to grant liens on their assets, incur indebtedness, sell assets, make investments, engage in acquisitions, mergers or consolidations, amend certain material agreements and pay certain dividends and other restricted payments. Financial covenants require compliance with certain levels of leverage ratios that impact the amount of interest. As of June 30, 2021, the Company was compliant with all such financial covenants.

12. OPTIONS AND AWARDS

Outstanding options held by employees of the Company under the Ensign stock plans (collectively the "Ensign Plans") and outstanding options and restricted stock awards under the Company Subsidiary Equity Plan (together with the Ensign Plans the "Pre-Spin Plans") were modified and replaced with Pennant awards under the Pennant Plans at the Spin-Off date. Additionally, in connection with the Spin-Off, the Company issued new options and restricted stock awards to Pennant and Ensign employees under the 2019 Omnibus Incentive Plan (the "OIP") and Long-Term Incentive Plan (the "LTIP", together referred to as the "Pennant Plans").

Under the Ensign Plans and the Pennant Plans, stock-based payment awards, including employee stock options, restricted stock awards ("RSA"), and restricted stock units ("RSU" and together with RSA, "Restricted Stock") are issued based on estimated fair value. The following disclosures represent share-based compensation expense relating to employees of the Company's subsidiaries and non-employee directors who have awards under the Ensign and Pennant Plans.

Total share-based compensation expense for all Plans for the three and six months ended June 30, 2021 and 2020 was:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Share-based compensation expense related to stock options	$ 745	343	$ 1,382	$ 632
Share-based compensation expense related to Restricted Stock	1,530	1,542	3,050	3,085
Share-based compensation expense related to Restricted Stock to non-employee directors	224	74	483	198
Total share-based compensation	$ 2,499	$ 1,959	$ 4,915	$ 3,915

In future periods, the Company estimates it will recognize the following share-based compensation expense for unvested stock options and unvested Restricted Stock, which were unvested as of June 30, 2021:

	Unrecognized Compensation Expense	Weighted Average Recognition Period (in years)
Unvested Stock Options	$ 12,919	4.1
Unvested Restricted Stock	7,877	1.3
Total unrecognized share-based compensation expense	$ 20,796	

Stock Options

Under the Pennant Plans, options granted to employees of the subsidiaries of Pennant generally vest over five years at 20% per year on the anniversary of the grant date. Options expire ten years after the date of grant.

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

The fair value of each option is estimated on the grant date using a Black-Scholes option-pricing model with the following weighted average assumptions for stock options granted:

Grant Year	Options Granted	Risk-Free Interest Rate	Expected Life[(a)]	Expected Volatility[(b)]	Dividend Yield	Weighted Average Fair Value of Options
2021	304	1.0 %	6.5	38.0 %	— %	$ 15.41
2020	366	0.6 %	6.5	35.8 %	— %	$ 8.44

(a) Under the midpoint method, the expected option life is the midpoint between the contractual option life and the average vesting period for the options being granted. This resulted in an expected option life of 6.5 years for the options granted.

(b) Because the Company's equity shares have been traded for a relatively short period of time, expected volatility assumption was based on the volatility of related industry stocks.

The following table represents the employee stock option activity during the six months ended June 30, 2021:

	Number of Options Outstanding	Weighted Average Exercise Price	Number of Options Vested	Weighted Average Exercise Price of Options Vested
December 31, 2020	1,982	$ 17.48	615	$ 7.52
Granted	304	39.32		
Exercised	(56)	9.14		
Forfeited & Expired	(50)	23.07		
June 30, 2021	2,180	$ 20.61	687	$ 8.96

Restricted Stock

A summary of the status of Pennant's non-vested Restricted Stock, and changes during the six months ended June 30, 2021, is presented below:

	Non-Vested Restricted Stock	Weighted Average Grant Date Fair Value
December 31, 2020	1,635	$ 14.80
Granted	10	49.58
Vested	(65)	16.92
Forfeited	(3)	14.55
June 30, 2021	1,577	$ 14.93

13. LEASES

The Company's independent operating subsidiaries lease 54 senior living communities and its administrative offices under non-cancelable operating leases, most of which have initial lease terms ranging from five to 21 years. Most of these leases contain renewal options, most involve rent increases and none contain purchase options. The lease term excludes lease renewals because the renewal rents are not at a bargain, there are no economic penalties for the Company to renew the lease, and it is not reasonably certain that the Company will exercise the extension options. As of June 30, 2021, the Company's independent operating subsidiaries leased 31 communities from subsidiaries of Ensign (the "Ensign Leases") under a master lease arrangement. The existing leases with subsidiaries of Ensign are generally for initial terms of between 14 to 20 years. In addition to rent, each of the operating companies are required to pay the following: (1) all impositions and taxes levied on or with respect to the leased properties (other than taxes on the income of the lessor); (2) all utilities and other services necessary or appropriate for the leased properties and the business conducted on the leased properties; (3) all insurance required in connection with the leased properties and the business conducted on the leased properties; (4) all community maintenance and repair costs; and (5) all fees in connection with any licenses or authorizations necessary or appropriate for the leased properties and the business conducted on the leased properties.

Fifteen of the Company’s affiliated senior living communities, excluding the communities that are operated under the Ensign Leases (as defined herein), are operated under two separate master lease arrangements. Under these master leases, a breach at a single community could subject one or more of the other communities covered by the same master lease to the same default risk. Failure to comply with Medicare and Medicaid provider requirements is a default under several of the Company’s leases and master leases. With an indivisible lease, it is difficult to restructure the composition of the portfolio or economic terms of the master lease without the consent of the landlord.

The components of operating lease cost, are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Operating Lease Costs:				
Facility Rent—cost of services	$ 8,957	$ 8,892	$ 17,792	$ 17,748
Office Rent—cost of services	1,199	949	2,329	1,799
Sublease Income	—	(74)	—	(74)
Rent—cost of services	$ 10,156	$ 9,767	$ 20,121	$ 19,473
General and administrative expense	$ 77	$ 27	$ 141	$ 57
Variable lease cost [a]	$ 1,490	$ 1,347	$ 2,989	$ 2,676

(a) Represents variable lease cost for operating leases, which costs include property taxes and insurance, common area maintenance, and consumer price index increases, incurred as part of our triple net lease, and which is included in cost of services for the three and six months ended June 30, 2021 and 2020.

The following table shows the lease maturity analysis for all leases as of June 30, 2021, for the years ended December 31:

Year	Amount
2021 (Remainder)	$ 19,603
2022	38,630
2023	37,673
2024	36,663
2025	35,739
Thereafter	356,870
Total lease payments	525,178
Less: present value adjustments	(218,785)
Present value of total lease liabilities	306,393
Less: current lease liabilities	(15,233)
Long-term operating lease liabilities	$ 291,160

Operating lease liabilities are based on the net present value of the remaining lease payments over the remaining lease term. In determining the present value of lease payments, the Company used its incremental borrowing rate based on the information available at each lease’s commencement date to determine each lease's operating lease liability. As of June 30, 2021, the weighted average remaining lease term is 14.5 years and the weighted average discount rate is 8.2%.

14. INCOME TAXES

The Company recorded income tax expense of $604 and $944 or 19.7% and 21.8% of earnings before income taxes for the three and six months ended June 30, 2021, respectively and income tax expense of $1,437 and $2,326 or 24.9% and 24.1% of earnings before income taxes for the three and six months ended June 30, 2020, respectively. The effective tax rate for both three and six month periods includes excess tax benefits from share-based compensation which were offset by non-deductible expenses including non-deductible compensation.

15. COMMITMENTS AND CONTINGENCIES

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

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

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

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

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

Under the Fraud Enforcement and Recovery Act ("FERA") and its associated rules, healthcare providers face significant penalties for the knowing retention of government overpayments, even if no false claim was involved. Providers have an obligation to proactively exercise "reasonable diligence" to identify overpayments and return those overpayments to CMS within 60 days of "identification" or the date any corresponding cost report is due, whichever is later. Retention of overpayments beyond this period may create liability under the FCA. In addition, FERA protects whistleblowers (including employees, contractors, and agents) from retaliation.

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

Medicare Revenue Recoupments - The Company is subject to probe reviews relating to Medicare services, billings and potential overpayments by Unified Program Integrity Contractors ("UPIC"), Recovery Audit Contractors ("RAC"), Zone Program Integrity Contractors ("ZPIC"), Program Safeguard Contractors ("PSC"), Supplemental Medical Review Contractors ("SMRC") and Medicaid Integrity Contributors ("MIC") programs, each of the foregoing collectively referred to as "Reviews." As of June 30, 2021, eight of the Company's independent operating subsidiaries had Reviews scheduled, on appeal or in dispute resolution process, both pre- and post-payment. If an operation fails an initial or subsequent Review, the operation could then be subject to extended Review, suspension of payment, or extrapolation of the identified error rate to all billing in the same time period. As of June 30, 2021, and through the filing of this Quarterly Report on Form 10-Q, the Company's independent operating subsidiaries have responded to the Reviews that are currently ongoing, on appeal or in dispute resolution process and the Company has no material probable or estimable contingencies.

Insurance - The Company retains risk for a substantial portion of potential claims for general and professional liability, workers' compensation and automobile liability. The Company does not retain risk related to its employee health plans.

The Company recognizes obligations associated with these costs, up to specified deductible limits in the period in which a claim is incurred, including with respect to both reported claims and claims incurred but not reported. The general and professional liability insurance has a retention limit of $150 per claim with a $500 corridor as an additional out-of-pocket retention we must satisfy for claims within the policy year before the carrier will reimburse losses. The workers' compensation insurance has a retention limit of $250 per claim, except for policies held in Texas and Washington which are subject to state insurance and possess their own limits.

Concentrations

Credit Risk - The Company has significant accounts receivable balances, the collectability of which is dependent on the availability of funds from certain governmental programs, primarily Medicare and Medicaid. These receivables represent the only significant concentration of credit risk for the Company. The Company does not believe there are significant credit risks associated with these governmental programs. The Company believes that an appropriate allowance has been recorded for the possibility of these receivables proving uncollectible, and continually monitors and adjusts these allowances as necessary. The Company's gross receivables from the Medicare and Medicaid programs accounted for approximately 70.8% and 75.7% of its total gross accounts receivable as of June 30, 2021 and December 31, 2020, respectively. Revenue from reimbursement under the Medicare and Medicaid programs accounted for 61.7% and 62.8% for the three and six months ended June 30, 2021, and 59.4% and 58.7% of the Company's revenue for the three and six months ended June 30, 2020.

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

You should read the following discussion and analysis in conjunction with the Interim Financial Statements and the related notes thereto contained in Part I, Item 1 of this Quarterly Report on Form 10-Q (the "Quarterly Report"). The information contained in this Quarterly Report is not a complete description of our business or the risks associated with an investment in our common stock. We urge you to carefully review and consider the various disclosures made by us in this Quarterly Report and in our other reports filed with the Securities and Exchange Commission ("SEC"), including our Annual Report on Form 10-K for the year ended December 31, 2020 (the "2020 Annual Report"), which discusses our business and related risks in greater detail, as well as subsequent reports we may file from time to time on Form 10-K, Form 10-Q and 8-K, for additional information. The section entitled "Risk Factors" filed within our 2020 Annual Report describes some of the important risk factors that may affect our business, financial condition, results of operations and/or liquidity. You should carefully consider those risks, in addition to the other information in this Quarterly Report and in our other filings with the SEC, before deciding to purchase, hold or sell our common stock.

Special Note About Forward-Looking Statements

This Quarterly Report contains "forward-looking statements" within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995, that are based on our management's beliefs and assumptions and on information currently available to our management. Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as the words "outlook," "believes," "expects," "potential," "continues," "may," "might," "will," "should," "could," "seeks," "approximately," "goals," "future," "projects," "predicts," "guidance," "target," "intends," "plans," "estimates," "anticipates", the negative version of these words or other comparable words. Forward-looking statements include, but are not limited to, statements related to our expectations regarding the performance of our business, our financial results, our liquidity and capital resources, the benefits resulting from the Spin-Off, the effects of competition and the effects of future legislation or regulations and other non-historical statements. Additionally, many of these risks and uncertainties are currently amplified by and will continue to be amplified by, or in the future may be amplified by, the COVID-19 outbreak. The developments with respect to the spread of COVID-19 and its impacts have occurred rapidly, and because of the unprecedented nature of the pandemic, we are unable to predict the extent and duration of the adverse financial impact of COVID-19 on our business, financial condition and results of operations.

The risk factors discussed in this Quarterly Report and the 2020 Annual Report under the heading "Risk Factors," could cause our results to differ materially from those expressed in forward-looking statements. Factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to:

- uncertainties related to the COVID-19 outbreak;
- federal and state changes to, or delays receiving, reimbursement and other aspects of Medicaid and Medicare;
- changes in the regulation of the healthcare services industry;
- increases in the federal income tax rate;
- increased competition for, or a shortage of, skilled personnel;
- government reviews, audits and investigations of our business;
- changes in federal and state employment related laws;
- compliance with state and federal employment, immigration, licensing and other laws;
- competition from other healthcare providers;
- actions of national labor unions;
- the leases of our affiliated senior living communities;
- inability to complete future community or business acquisitions and failure to successfully integrate acquired communities and businesses into our operations;
- general economic conditions;
- security breaches and other cyber security incidents;
- the performance of the financial and credit markets;
- uncertainties related to our ability to realize the anticipated benefits of the Spin-Off; and
- uncertainties related to our ability to obtain financing or the terms of such financing.

Forward-looking statements involve risks, uncertainties and assumptions. Actual results may differ materially from those expressed in these forward-looking statements. You should not place undue reliance on any forward-looking statements in this Quarterly Report. Although we may from time to time voluntarily update our prior forward-looking statements, we disclaim any commitment to do so except as required by applicable securities laws.

Overview

We are a leading provider of high-quality healthcare services to patients of all ages, including the growing senior population, in the United States. We strive to be the provider of choice in the communities we serve through our innovative operating model. We operate in multiple lines of businesses including home health, hospice and senior living services across Arizona, California, Colorado, Idaho, Iowa, Montana, Nevada, Oklahoma, Oregon, Texas, Utah, Washington, Wisconsin and Wyoming. As of June 30, 2021, our home health and hospice business provided home health, hospice and home care services from 86 agencies operating across these 14 states, and our senior living business operated 54 senior living communities throughout seven states.

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

	December 31,								June 30,
	2013	2014	2015	2016	2017	2018	2019	2020	2021
Home health and hospice agencies	16	25	32	39	46	54	63	76	86
Senior living communities	12	15	36	36	43	50	52	54	54
Senior living units	1,256	1,587	3,184	3,184	3,434	3,820	3,963	4,127	4,127
Total number of home health, hospice, and senior living operations	28	40	68	75	89	104	115	130	140

COVID-19

We have been, and we expect to continue to be, impacted by several factors related to the viral disease known as COVID-19 (“COVID-19”) that may cause actual results to differ from our historical results or current expectations. Due to the COVID-19 pandemic, the results presented in this report are not necessarily indicative of future operating results. The situation surrounding COVID-19 remains fluid. We are actively managing our response in collaboration with government officials, team members and business partners, and we are assessing potential impacts to our financial position and operating results, as well as adverse developments in our business.

Senior Living Segment

COVID-19 continues to impact all aspects of our senior living business and geographies, including impacts on our residents, team members, vendors and business partners. During the second quarter of 2021, we saw our occupancy begin to improve each month, although our overall senior living occupancy has decreased since the onset of the COVID-19 pandemic due to a greater number of move outs net of move ins. We cannot be sure if or when the occupancy levels in our senior living communities will improve over multiple measurement periods or return to pre-pandemic levels. In addition, the decrease in occupancy across the senior living industry has caused some other operators to offer potential residents rent discounts or other incentives, which has impacted our ability to maintain or increase rental rates at some of our communities.

We have experienced and expect to continue to see increased labor costs due to increased overtime and premium pay and the increased need for temporary labor to supplement our existing staffing. We are monitoring the ongoing impact of our COVID-19 response actions on our revenue and expenses. However, the extent to which COVID-19 will continue to impact our operations will depend on future developments, which remain uncertain and cannot be predicted with confidence, including the pace of spread and impact of the B.1.617.2 variant of COVID-19 (the “Delta variant”) and other potential variant strains, and the actions taken to contain COVID-19 or treat its impact, among others.

Recent Activities

Acquisitions. During the six months ended June 30, 2021, we expanded our operations with the addition of five home health, three hospice and two home care agencies. We entered into a separate operations transfer agreement with each respective prior operator as a part of each transaction. The aggregate purchase price for these acquisitions was $13.4 million. For further discussion of our acquisitions, see Note 7, *Acquisitions*, in the Notes to the Interim Financial Statements.

Trends

In the second quarter we experienced an increase in all of our key metrics in our home health and hospice businesses. Since the pandemic began and until the first quarter of 2021, we experienced a steady decline in senior living occupancy as move-ins declined relative to move-outs due to the pandemic. During the second quarter of 2021, we began to experience a slight increase in our senior living occupancy. We cannot be sure when the occupancy levels in our senior living communities will improve over consecutive measurement periods or return to pre-pandemic levels. As uncertainty regarding the COVID-19 pandemic persists, if there is a resurgence in cases, or if variant strains aggressively emerge, we could see a more prolonged recovery. For further discussion of trends related to COVID-19, see *COVID-19* above.

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

Government Regulation

We have disclosed under the heading “Government Regulation” in the 2020 Annual Report a summary of regulations that we believe materially affect our business, financial condition or results of operations. Since the time of the filing of the 2020 Annual Report, the following regulations have been updated.

The Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) was enacted on March 27, 2020 in the United States and subsequent regulatory actions. The CARES Act contained provisions for accelerated or advance Medicare payments (“AAP”) to provide supporting cash flow to providers and suppliers combating the effects of the COVID-19 pandemic. We applied for and received $28.0 million in the prior year. These funds are subject to automatic recoupment through offsets to new claims beginning one year after payment were issued. In April, 2021, CMS began to automatically recoup 25 percent of Medicare payments, which will continue for 11 months. At the end of the 11 months, assuming full repayment has not occurred, recoupment will increase to 50 percent for another six months. Any balance outstanding after these two recoupment periods will be subject to repayment at a four percent interest rate. We anticipate completing repayment of the AAP within the allotted recoupment periods.

The CARES Act temporarily suspended the 2% sequestration payment adjustment on Medicare fee-for-service payment beginning May 1, 2020 until December 31, 2020. The suspension was initially extended to go through March 31, 2021, and in April 2021 was extended through December 31, 2021. We recognized $0.9 million and $1.8 million in revenue related to the suspension of sequestration for the three and six months ended June 30, 2021, exclusive of our start-up operations. Further, the CARES Act payroll tax deferral program allowed employers to defer the deposit and payment of the employer’s portion of social security taxes that otherwise would be due between March 27, 2020, and December 31, 2020. The CARES Act permits employers to deposit half of these deferred payments by the end of 2021 and the other half by the end of 2022. We deferred approximately $7.8 million of the employer-paid portion of social security taxes, of which $3.9 million is included in other long-term liabilities and the current portion of $3.9 million in accrued wages and related liabilities.

The American Rescue Plan Act of 2021 (the “ARP Act”) was enacted on March 11, 2021 in the United States. The ARP Act was designed to assist the country with the effects of the COVID-19 pandemic and included a number of tax components. The ARP Act’s primary tax impact on us is a new revenue raising provision that requires us to include the next five highest paid employees to the list of covered officers already subject to the IRC Section 162(m) wage limitation beginning in the 2027 tax year. We will continue to assess the effect of the ARP Act and ongoing other government legislation related to the COVID-19 pandemic that may be issued.

Segments

We have two reportable segments: (1) home health and hospice services, which includes our home health, home care and hospice businesses; and (2) senior living services, which includes the operation of assisted living, independent living and memory care communities. Our Chief Executive Officer, who is our Chief Operating Decision Maker (“CODM”), reviews financial information at the operating segment level. We also report an “all other” category that includes general and administrative expense from our Service Center.

Key Performance Indicators

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

Home Health and Hospice Services

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Home health services:				
Total home health admissions	10,069	5,259	19,166	11,395
Total Medicare home health admissions	4,406	2,459	8,904	5,268
Average Medicare revenue per 60-day completed episode	$ 3,441	$ 3,412	$ 3,424	$ 3,232
Hospice services:				
Total hospice admissions	2,047	1,954	4,201	3,630
Average hospice daily census	2,296	1,979	2,301	1,925
Hospice Medicare revenue per day	$ 171	$ 164	$ 172	$ 163

Senior Living Services

- ***Occupancy***. The ratio of actual number of days our units are occupied during any measurement period to the number of units available for occupancy during such measurement period.
- ***Average monthly revenue per occupied unit***. The revenue for senior living services during any measurement period divided by actual occupied senior living units for such measurement period divided by the number of months for such measurement period.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Occupancy	72.7 %	78.5 %	72.4 %	79.3 %
Average monthly revenue per occupied unit	$ 3,176	$ 3,204	$ 3,181	$ 3,205

Revenue Sources

Home Health and Hospice Services

Home Health. We derive the majority of our home health revenue from Medicare and managed care. The Medicare payment is adjusted for differences between estimated and actual payment amounts, an inability to obtain appropriate billing documentation or authorizations acceptable to the payor and other reasons unrelated to credit risk. For Medicare episodes that began prior to January 1, 2020, home health agencies were reimbursed under the Medicare HH PPS, while Medicare periods of care that began on or after that date are reimbursed under the Patient-Driven Groupings Model ("PDGM") methodology. Under PDGM, Medicare provides agencies with payments for each 30-day period of care provided to beneficiaries. If a beneficiary is still eligible for care after the end of the first 30-day payment period, a second 30-day payment period can begin. There are no limits to the number of periods of care a beneficiary who remains eligible for the home health benefit can receive. While payment for each 30-day period of care is adjusted to reflect the beneficiary's health condition and needs, a special outlier provision exists to ensure appropriate payment for those beneficiaries that have the most expensive care needs. The payment under the Medicare program is also adjusted for certain variables including, but not limited to: (a) a low utilization payment adjustment if the number of visits is below an established threshold that varies based on the diagnosis of a beneficiary; (b) a partial payment if the patient transferred to another provider or the Company received a patient from another provider before completing the period of care; (c) adjustment to the admission source of claim if it is determined that the patient had a qualifying stay in a post-acute care setting within 14 days prior to the start of a 30-day payment period; (d) the timing of the 30-day payment period provided to a patient in relation to the admission date, regardless of whether the same home health provider provided care for the entire series of episodes; (e) changes to the acuity of the patient during the previous 30-day period of care; (f) changes in the base payments established by the Medicare program; (g) adjustments to the base payments for case mix and geographic wages; and (h) recoveries of overpayments. For further detail regarding PDGM see the *Government Regulation* section of our 2020 Annual Report.

Hospice. We derive the majority of our hospice business revenue from Medicare reimbursement. The estimated payment rates are calculated as daily rates for each of the levels of care we deliver. Rates are set based on specific levels of care, are adjusted by a wage index to reflect healthcare labor costs across the country and are established annually through federal legislation. The following are the four levels of care provided under the hospice benefit:

- ***Routine Home Care ("RHC").*** Care that is not classified under any of the other levels of care, such as the work of nurses, social workers or home health aides.
- ***General Inpatient Care.*** Pain control or acute or chronic symptom management that cannot be managed in a setting other than an inpatient Medicare-certified facility, such as a hospital, skilled nursing facility or hospice inpatient facility.
- ***Continuous Home Care.*** Care for patients experiencing a medical crisis that requires nursing services to achieve palliation and symptom control, if the agency provides a minimum of eight hours of care within a 24-hour period.
- ***Inpatient Respite Care.*** Short-term, inpatient care to give temporary relief to the caregiver who regularly provides care to the patient.

CMS has established a two-tiered payment system for RHC. Hospices are reimbursed at a higher rate for RHC services provided from days of service one through 60 and a lower rate for all subsequent days of service. CMS also provides for a Service Intensity Add-On, which increases payments for certain RHC services provided by registered nurses and social workers to hospice patients during the final seven days of life.

Medicare reimbursement is adjusted for an inability to obtain appropriate billing documentation or authorizations acceptable to the payor and other reasons unrelated to credit risk. Additionally, as Medicare hospice revenue is subject to an inpatient cap limit and an overall payment cap, we monitor our provider numbers and estimate amounts due back to Medicare to the extent that the cap has been exceeded.

Senior Living Services. As of June 30, 2021, we provided assisted living, independent living and memory care services in 54 communities. Within our senior living operations, we generate revenue primarily from private pay sources, with a portion earned from Medicaid or other state-specific programs.

Primary Components of Expense

Cost of Services (excluding rent, general and administrative expense and depreciation and amortization). Our cost of services represents the costs of operating our independent operating subsidiaries, which primarily consists of payroll and related benefits, supplies, purchased services, and ancillary expenses such as the cost of pharmacy and therapy services provided to patients. Cost of services also includes the cost of general and professional liability insurance and other general cost of services specifically attributable to our operations.

Rent—Cost of Services. Rent—cost of services consists solely of base minimum rent amounts payable under lease agreements to our landlords. Our subsidiaries lease and operate but do not own the underlying real estate at our operations, and these amounts do not include taxes, insurance, impounds, capital reserves or other charges payable under the applicable lease agreements.

General and Administrative Expense. General and administrative expense consists primarily of payroll and related benefits and travel expenses for our Service Center personnel, including training and other operational support. General and administrative expense also includes professional fees (including accounting and legal fees), costs relating to information systems, stock-based compensation and rent for our Service Center offices.

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

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based on Interim Financial Statements, which have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The preparation of the Interim Financial Statements and related disclosures requires us to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. On an ongoing basis we review our judgments and estimates, including but not limited to those related to revenue, cost allocations, leases, intangible assets, goodwill, and income taxes. We base our estimates and judgments upon our historical experience, knowledge of current conditions and our belief of what could occur in the future considering available information, including assumptions that we believe to be reasonable under the circumstances. By their nature, these estimates and judgments are subject to an inherent degree of uncertainty, and actual results could differ materially from the amounts reported. While we believe that our estimates, assumptions, and judgments are reasonable, they are based on information available when the estimate was made. Refer to Note 2, *Basis of Presentation and Summary of Significant Accounting Policies*, within the 2020 Annual Report for further information on our critical accounting estimates and policies, which are as follows:

- ***Revenue recognition*** - The estimate of variable considerations to arrive at the transaction price, including methods and assumptions used to determine settlements with Medicare and Medicaid payors or retroactive adjustments due to audits and reviews;
- ***Leases*** - We use our estimated incremental borrowing rate based on the information available at lease commencement date in determining the present value of future lease payments;
- ***Acquisition accounting*** - The assumptions used to allocate the purchase price paid for assets acquired and liabilities assumed in connection with our acquisitions; and
- ***Income taxes*** - The estimation of valuation allowance or the need for and magnitude of liabilities for uncertain tax position.

Recent Accounting Pronouncements

Information concerning recently issued accounting pronouncements are included in Note 2, *Basis of Presentation and Summary of Significant Accounting Policies* in the Interim Financial Statements.

Results of Operations

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Total revenue	100.0 %	100.0 %	100.0 %	100.0 %
Expense:				
Cost of services	78.5	73.5	78.8	74.9
Rent—cost of services	9.2	10.5	9.3	10.5
General and administrative expense	8.0	8.1	8.4	7.7
Depreciation and amortization	1.1	1.3	1.1	1.2
Total expenses	96.8	93.4	97.6	94.3
Income from operations	3.2	6.6	2.4	5.7
Other income (expense):				
Other income	—	—	—	—
Interest expense, net	(0.4)	(0.4)	(0.4)	(0.4)
Other expense, net	(0.4)	(0.4)	(0.4)	(0.4)
Income before provision for income taxes	2.8	6.2	2.0	5.3
Provision for income taxes	0.6	1.5	0.4	1.3
Net income	2.2	4.7	1.6	4.0
Less: net loss attributable to noncontrolling interest	(0.2)	—	(0.1)	—
Net income attributable to Pennant	2.4 %	4.7 %	1.7 %	4.0 %

The following table presents our consolidated GAAP Financial measures for the three and six months ended June 30, 2021 and 2020:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(In thousands)			
Consolidated GAAP Financial Measures:				
Total revenue	$ 110,345	$ 92,740	$ 216,008	$ 184,589
Total expenses	$ 106,776	$ 86,665	$ 210,826	$ 174,242
Income from operations	$ 3,569	$ 6,075	$ 5,182	$ 10,347

The following tables present certain financial information regarding our reportable segments. General and administrative expenses are not allocated to the reportable segments and are included in “All Other”:

	Home Health and Hospice Services	Senior Living Services	All Other	Total
	(In thousands)			
Segment GAAP Financial Measures:				
Three Months Ended June 30, 2021				
Revenue	$ 78,105	$ 32,240	$ —	$ 110,345
Segment Adjusted EBITDAR from Operations	$ 14,931	$ 9,752	$ (6,068)	$ 18,615
Three Months Ended June 30, 2020				
Revenue	$ 57,984	$ 34,756	$ —	$ 92,740
Segment Adjusted EBITDAR from Operations	$ 11,245	$ 13,492	$ (3,999)	$ 20,738

	Home Health and Hospice Services	Senior Living Services	All Other	Total
	(In thousands)			
Segment GAAP Financial Measures:				
Six Months Ended June 30, 2021				
Revenue	$ 152,712	$ 63,296	$ —	$ 216,008
Segment Adjusted EBITDAR from Operations	$ 28,722	$ 18,586	$ (12,466)	$ 34,842
Six Months Ended June 30, 2020				
Revenue	$ 114,746	$ 69,843	$ —	$ 184,589
Segment Adjusted EBITDAR from Operations	$ 21,151	$ 25,989	$ (8,781)	$ 38,359

The table below provides a reconciliation of Segment Adjusted EBITDAR from Operations to Condensed Consolidated Income from operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(In thousands)			
Segment Adjusted EBITDAR from Operations[(a)]	$ 18,615	$ 20,738	$ 34,842	$ 38,359
Less: Depreciation and amortization	1,170	1,201	2,345	2,222
Rent—cost of services	10,156	9,767	20,121	19,473
Other Expense	(24)	—	(24)	—
Adjustments to Segment EBITDAR from Operations:				
Less: Costs at start-up operations[(b)]	347	473	459	705
Share-based compensation expense[(c)]	2,499	1,959	4,915	3,915
Acquisition related costs[(d)]	30	—	37	—
Transition services costs[(e)]	687	380	1,589	537
Net COVID-19 related costs[(f)]	—	883	—	1,160
Add: Net loss attributable to noncontrolling interest	(181)	—	(218)	—
Condensed Consolidated Income from Operations	$ 3,569	$ 6,075	$ 5,182	$ 10,347

) Segment Adjusted EBITDAR from Operations is net income (loss) attributable to the Company's reportable segments excluding interest expense, provision for income taxes, depreciation and amortization expense, rent, and, in order to view the operations performance on a comparable basis from period to period, certain adjustments including: (1) costs at start-up operations, (2) share-based compensation, (3) acquisition related costs, (4) redundant and nonrecurring costs associated with the Transition Services Agreement, and (5) net loss attributable to noncontrolling interest. General and administrative expenses are not allocated to the reportable segments, and are included as “All Other”, accordingly the segment earnings measure reported is before allocation of corporate general and administrative expenses. The Company's segment measures may be different from the calculation methods used by other companies and, therefore, comparability may be limited.

) Represents results related to start-up operations. This amount excludes rent and depreciation and amortization expense related to such operations.

) Share-based compensation expense incurred which is included in cost of services and general and administrative expense.

) Acquisition related costs related to business combinations completed during the periods.

) A portion of the costs incurred under the Transition Services Agreement identified as redundant or nonrecurring that are included in general and administrative expense. Fees incurred under the Transition Services agreement, net of the Company’s payroll reimbursement, were $747 and $1,735 for the three and six months ended June 30, 2021, and $1,525 and $2,861 for the three and six months ended June 30, 2020, respectively. During the fourth quarter of fiscal 2020, we updated our Transition service costs adjustment to include duplicate software costs. The prior year transition service costs adjustment has been recast to reflect the change. The adjustment to the prior year transition service costs was $113 and $220 for the duplicative software costs for the three and six months ended June 30, 2020 that were included in the 2020 full year amount in the Company’s as filed Form 10-K.

) Beginning in the first quarter of fiscal year 2021, we updated our definition of Segment Adjusted EBITDAR to no longer include an adjustment for COVID-19 expenses offset by the amount of sequestration relief. COVID-19 expenses continue to be part of daily operations for which less specific identification is visible. Furthermore, the sequestration relief has been extended through December 31, 2021. Sequestration relief was $870 and $1,818 for the three and six months ended June 30, 2021, respectively.

The 2020 amounts represent incremental costs incurred as part of the Company's response to COVID-19 including direct medical supplies, labor, and other expenses, net of $554 in increased revenue related to the 2% payment increase in Medicare reimbursements for sequestration relief for both the three and six months ended June 30, 2020. The COVID-19 costs do not include $277 in costs for the three months ended March 31, 2020 that were included in the 2020 full year amount.

Performance and Valuation Measures:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	**2020**	**2021**	**2020**
	(In thousands)			
Consolidated Non-GAAP Financial Measures:				
Performance Metrics				
Consolidated EBITDA	$ 4,896	$ 7,276	$ 7,721	$ 12,569
Consolidated Adjusted EBITDA	$ 8,624	$ 11,007	$ 14,920	$ 18,935
Valuation Metric				
Consolidated Adjusted EBITDAR	$ 18,615		$ 34,842	

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	**2020**	**2021**	**2020**
	(In thousands)			
Segment Non-GAAP Measures:[(a)]				
Segment Adjusted EBITDA from Operations				
Home health and hospice services	$ 13,867	$ 10,387	$ 26,642	$ 19,456
Senior living services	$ 825	$ 4,619	$ 744	$ 8,260

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

The tables below reconcile Consolidated net income to the consolidated Non-GAAP financial measures, Consolidated and Consolidated Adjusted EBITDA, and to the Non-GAAP valuation measure, Consolidated Adjusted EBITDAR, for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(In thousands)			
Consolidated Net income	$ 2,469	$ 4,337	$ 3,382	$ 7,317
Less: Net loss attributable to noncontrolling interest	(181)	—	(218)	—
Add: Provision for income taxes	604	1,437	944	2,326
Interest expense, net	472	301	832	704
Depreciation and amortization	1,170	1,201	2,345	2,222
Consolidated EBITDA	4,896	7,276	7,721	12,569
Adjustments to Consolidated EBITDA				
Add: Costs at start-up operations[(a)]	347	473	459	705
Share-based compensation expense[(b)]	2,499	1,959	4,915	3,915
Acquisition related costs[(c)]	30	—	37	—
Transition services costs[(d)]	687	380	1,589	537
Net COVID-19 related costs[(e)]	—	883	—	1,160
Rent related to item (a) above	165	36	199	49
Consolidated Adjusted EBITDA	8,624	11,007	14,920	18,935
Rent—cost of services	10,156	9,767	20,121	19,473
Rent related to item (a) above	(165)	(36)	(199)	(49)
Adjusted rent—cost of services	9,991	9,731	19,922	19,424
Consolidated Adjusted EBITDAR	$ 18,615		$ 34,842	

(a) Represents results related to start-up operations. This amount excludes rent and depreciation and amortization expense related to such operations.

(b) Share-based compensation expense incurred which is included in cost of services and general and administrative expense.

(c) Acquisition related costs related to business combinations completed during the periods.

(d) A portion of the costs incurred under the Transition Services Agreement identified as redundant or nonrecurring that are included in general and administrative expense. Fees incurred under the Transition Services agreement, net of the Company's payroll reimbursement, were $747 and $1,735 for the three and six months ended June 30, 2021, and $1,525 and $2,861 for the three and six months ended June 30, 2020, respectively. During the fourth quarter of fiscal 2020, we updated our Transition service costs adjustment to include duplicate software costs. The prior year transition service costs adjustment has been recast to reflect the change. The adjustment to the prior year transition service costs was $113 and $220 for the duplicative software costs for the three and six months ended June 30, 2020 that were included in the 2020 full year amount in the Company's as filed Form 10-K.

(e) Beginning in the first quarter of fiscal year 2021, we updated our definition of Segment Adjusted EBITDAR to no longer include an adjustment for COVID-19 expenses offset by the amount of sequestration relief. COVID-19 expenses continue to be part of daily operations for which less specific identification is visible. Furthermore, the sequestration relief has been extended through December 31, 2021. Sequestration relief was $870 and $1,818 for the three and six months ended June 30, 2021, respectively.

The 2020 amounts represent incremental costs incurred as part of the Company's response to COVID-19 including direct medical supplies, labor, and other expenses, net of $554 in increased revenue related to the 2% payment increase in Medicare reimbursements for sequestration relief for both the three and six months ended June 30, 2020. The COVID-19 costs do not include $277 in costs for the three months ended March 31, 2020 that were included in the 2020 full year amount.

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

	Three Months Ended June 30,			
	Home Health and Hospice		Senior Living	
	2021	2020	2021	2020
	(In thousands)			
Segment Adjusted EBITDAR from Operations	$ 14,931	$ 11,245	$ 9,752	$ 13,492
Less: Rent—cost of services	1,199	874	8,957	8,893
Rent related to start-up operations	(135)	(16)	(30)	(20)
Segment Adjusted EBITDA from Operations	$ 13,867	$ 10,387	$ 825	$ 4,619

	Six Months Ended June 30,			
	Home Health and Hospice		Senior Living	
	2021	2020	2021	2020
	(In thousands)			
Segment Adjusted EBITDAR from Operations	$ 28,722	$ 21,151	$ 18,586	$ 25,989
Less: Rent—cost of services	2,329	1,724	17,792	17,749
Rent related to start-up operations	(249)	(29)	50	(20)
Segment Adjusted EBITDA from Operations	$ 26,642	$ 19,456	$ 744	$ 8,260

The following discussion includes references to certain performance and valuation measures, which are non-GAAP financial measures, including Consolidated EBITDA, Consolidated Adjusted EBITDA, Segment Adjusted EBITDA from Operations, and Consolidated Adjusted EBITDAR (collectively, "Non-GAAP Financial Measures"). Non-GAAP Financial Measures are used in addition to, and in conjunction with, results presented in accordance with GAAP and should not be relied upon to the exclusion of GAAP financial measures. Non-GAAP Financial Measures reflect an additional way of viewing aspects of our operations and company that, when viewed with our GAAP results and the accompanying reconciliations to corresponding GAAP financial measures, we believe can provide a more comprehensive understanding of factors and trends affecting our business.

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

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

We use Non-GAAP Financial Measures:

- as measurements of our operating performance to assist us in comparing our operating performance on a consistent basis from period to period;
- to allocate resources to enhance the financial performance of our business;
- to assess the value of a potential acquisition;
- to assess the value of a transformed operation's performance;

- to evaluate the effectiveness of our operational strategies; and
- to compare our operating performance to that of our competitors.

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

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

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

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

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

We strongly encourage investors to review the Interim Financial Statements, included in this Quarterly Report in their entirety and to not rely on any single financial measure. Because these Non-GAAP Financial Measures are not standardized, it may not be possible to compare these financial measures with other companies' non-GAAP financial measures having the same or similar names. These Non-GAAP Financial Measures should not be considered a substitute for, nor superior to, financial results and measures determined or calculated in accordance with GAAP. We strongly urge you to review the reconciliation of income from operations to the Non-GAAP Financial Measures in the table presented above, along with the Interim Financial Statements and related notes included elsewhere in this Quarterly Report.

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

Performance Measures:

Consolidated EBITDA

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

We calculate Consolidated EBITDA as net income, adjusted for net income (loss) attributable to noncontrolling interest prior to the Spin-Off, before (a) interest expense (b) provision for income taxes and (c) depreciation and amortization.

Consolidated Adjusted EBITDA

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

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

- costs at start-up operations;
- share-based compensation expense;
- acquisition related costs;
- Spin-Off related transaction costs;
- redundant or nonrecurring costs incurred as part of the Transition Services Agreement (as defined in Note 3, *Related Party Transactions*).

Segment Adjusted EBITDA from Operations

We calculate Segment Adjusted EBITDA from Operations by adjusting Segment Adjusted EBITDAR from Operations to include rent-cost of services. We believe that the inclusion of rent-cost of services provides useful supplemental information to investors regarding our ongoing operating performance for each segment.

***Valuation Measure*:**

Consolidated Adjusted EBITDAR

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

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

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

Three Months Ended June 30, 2021 Compared to the Three Months Ended June 30, 2020

Revenue

	Three Months Ended June 30,			
	2021		2020	
	Revenue Dollars	Revenue Percentage	Revenue Dollars	Revenue Percentage
	(In thousands)			
Home health and hospice services				
Home health	$ 35,287	32.0 %	$ 20,824	22.4 %
Hospice	36,838	33.4	32,623	35.2
Home care and other[(a)]	5,980	5.4	4,537	4.9
Total home health and hospice services	78,105	70.8	57,984	62.5
Senior living services	32,240	29.2	34,756	37.5
Total revenue	$ 110,345	100.0 %	$ 92,740	100.0 %

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

Our total revenue increased $17.6 million, or 19.0% during the three months ended June 30, 2021. We experienced growth of $4.1 million from increased operational performance in our Home Health and Hospice segments as detailed below. Quarter-to-date revenue from acquired operations between June 30, 2020 and June 30, 2021 resulted in adding $13.5 million or 14.5%.

Home Health and Hospice Services

	Three Months Ended June 30,			
	2021	2020	Change	% Change
	(In thousands)			
Home health and hospice revenue				
Home health services	$ 35,287	$ 20,824	$ 14,463	69.5 %
Hospice services	36,838	32,623	4,215	12.9
Home care and other	5,980	4,537	1,443	31.8
Total home health and hospice revenue	$ 78,105	$ 57,984	$ 20,121	34.7 %

	Three Months Ended June 30,			
	2021	2020	Change	% Change
Home health services:				
Total home health admissions	10,069	5,259	4,810	91.5 %
Total Medicare home health admissions	4,406	2,459	1,947	79.2
Average Medicare revenue per 60-day completed episode[(a)]	$ 3,441	$ 3,412	$ 29	0.8
Hospice services:				
Total hospice admissions	2,047	1,954	93	4.8
Average daily census	2,296	1,979	317	16.0
Hospice Medicare revenue per day	$ 171	$ 164	$ 7	4.3
Number of home health and hospice agencies at period end	86	67	19	28.4

(a) Recast prior period based upon current methodology.

Home health and hospice revenue increased $20.1 million, or 34.7%. Revenue grew due to an increase in all key performance indicators, including an increase of 91.5% in total home health admissions, an increase of 79.2% in Medicare home health admissions, an increase of 4.8% in total hospice admissions, and an increase of 16.0% in hospice average daily census during the three months ended June 30, 2021 in comparison to the prior year's quarter. Growth was partially driven by the addition of nineteen home health, hospice and home care operations between June 30, 2020 and June 30, 2021, adding $13.5 million or 23.3% in revenue along with additional revenue due to the sequestration suspension in the current year.

Senior Living Services

	Three Months Ended June 30,			
	2021	**2020**	**Change**	**% Change**
Revenue (in thousands)	$ 32,240	$ 34,756	$ (2,516)	(7.2)%
Number of communities at period end	54	54	—	—
Occupancy	72.7 %	78.5 %	(5.8)%	
Average monthly revenue per occupied unit	$ 3,176	$ 3,204	$ (28)	(0.9)

Senior living revenue decreased $2.5 million, or 7.2%, for the three months ended June 30, 2021 compared to the same period in the prior year due primarily to a 5.8% decrease in occupancy between June 30, 2020 and June 30, 2021.

Cost of Services

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

	Three Months Ended June 30,			
	2021	**2020**	**Change**	**% Change**
	(In thousands)			
Home Health and Hospice	$ 64,107	$ 46,109	$ 17,998	39.0 %
Senior Living	22,560	22,050	510	2.3
Total cost of services	$ 86,667	$ 68,159	$ 18,508	27.2 %

Total consolidated cost of services increased $18.5 million or 27.2% for the three months ended June 30, 2021 when compared to the three months ended June 30, 2020. Cost of services as a percentage of revenue increased by 5.0% from 73.5% to 78.5% for the three months ended June 30, 2021 when compared to the three months ended June 30, 2020.

Home Health and Hospice Services

	Three Months Ended June 30,			
	2021	**2020**	**Change**	**% Change**
	(In thousands)			
Cost of service	$ 64,107	$ 46,109	$ 17,998	39.0 %
Cost of services as a percentage of revenue	82.1 %	79.5 %	2.6 %	

Cost of services related to our home health and hospice services segment increased $18.0 million, or 39.0%, primarily due to increased volume of services provided and increased labor costs. Cost of services as a percentage of revenue for the three months ended June 30, 2021 increased 2.6% from 79.5% to 82.1% for the three months ended June 30, 2021 when compared to the three months ended June 30, 2020. Wage costs show an increase over the prior year due to challenges in the staffing environment resulting in higher overtime and per hour wages.

Senior Living Services

	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Change	% Change
	(In thousands)			
Cost of service	$ 22,560	$ 22,050	$ 510	2.3 %
Cost of services as a percentage of revenue	70.0 %	63.4 %	6.6 %	

Cost of services related to our senior living services segment increased $0.5 million, or 2.3%. As a percentage of revenue, costs of service increased by 6.6% from 63.4% to 70.0% for the three months ended June 30, 2021 when compared to the three months ended June 30, 2020, primarily as a result of a decrease in occupancy while maintaining levels of cost in operating expenses. Fixed costs have remained intact to facilitate recovery.

Rent—Cost of Services. Rent expense increased 4.0% from $9.8 million to $10.2 million in the three months ended June 30, 2021 compared to the three months ended June 30, 2020, primarily as a result of adjustments due to CPI increases, acquisitions and other lease renewals. Rent as a percentage of total revenue decreased 1.3% from 10.5% to 9.2% in the three months ended June 30, 2021.

General and Administrative Expense. Our general and administrative expense increased $1.3 million or 17.8% from $7.5 million to $8.8 million for the three months ended June 30, 2021 when compared to the three months ended June 30, 2020. General and administrative expense as a percentage of revenue decreased 0.1% from 8.1% to 8.0% as a result of growth in revenue outpacing growth in expense. The increase in general and administrative expense was primarily due to nonrecurring costs of $0.7 million related to transition services costs and $0.6 million related to continued operational support of our own information systems infrastructure during the three months ended June 30, 2021 when compared to the three months ended June 30, 2020.

Depreciation and Amortization. Depreciation and amortization expense decreased slightly as a percentage of total revenue.

Provision for Income Taxes. Our effective tax rate for the three months ended June 30, 2021 was 19.7% of earnings before income taxes compared with an effective tax rate of 24.9% for the three months ended June 30, 2020. See Note 14, *Income Taxes*, to the Interim Financial Statements included elsewhere in this Quarterly Report for further discussion.

Six Months Ended June 30, 2021 Compared to the Six Months Ended June 30, 2020

Revenue

	Six Months Ended June 30, 2021		2020	
	Revenue Dollars	Revenue Percentage	Revenue Dollars	Revenue Percentage
	(In thousands)			
Home health and hospice services				
Home health	$ 68,491	31.7 %	$ 42,268	22.9 %
Hospice	73,752	34.1	63,063	34.2
Home care and other[(a)]	10,469	4.9	9,415	5.1
Total home health and hospice services	152,712	70.7	114,746	62.2
Senior living services	63,296	29.3	69,843	37.8
Total revenue	$ 216,008	100.0 %	$ 184,589	100.0 %

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

Our total revenue increased $31.4 million, or 17.0% during the six months ended June 30, 2021. This increase was primarily the result of revenue from acquired home health and hospice operations increasing by $25.5 million or 13.8% since June 30, 2020. The remaining increase in revenue came due to organic growth from operational performance in our home health and hospice segment, offset by a decrease of $6.5 million in our senior living segment.

Home Health and Hospice Services

	Six Months Ended June 30, 2021	2020	Change	% Change
	(In thousands)			
Home health and hospice revenue				
Home health services	$ 68,491	$ 42,268	$ 26,223	62.0 %
Hospice services	73,752	63,063	10,689	16.9
Home care and other	10,469	9,415	1,054	11.2
Total home health and hospice revenue	$ 152,712	$ 114,746	$ 37,966	33.1 %

	Six Months Ended June 30, 2021	2020	Change	% Change
Home health services:				
Total home health admissions	19,166	11,395	7,771	68.2 %
Total Medicare home health admissions	8,904	5,268	3,636	69.0
Average Medicare revenue per 60-day completed episode	$ 3,424	$ 3,232	$ 192	5.9
Hospice services:				
Total hospice admissions	4,201	3,630	571	15.7
Average daily census	2,301	1,925	376	19.5
Hospice Medicare revenue per day	$ 172	$ 163	$ 9	5.5
Number of home health and hospice agencies at period end	86	67	19	28.4

Home health and hospice revenue increased $38.0 million, or 33.1% during the six months ended June 30, 2021. Revenue grew primarily due to an increase of 68.2% in home health admissions, (inclusive of total Medicare home health admissions increase of 69.0%), an increase of 15.7% in total hospice admissions, and an increase of 19.5% in hospice average daily census during the six months ended June 30, 2021 when compared to the six months ended June 30, 2020. Growth was primarily driven by the addition of $25.5 million in revenue from the acquisition of nineteen home health, hospice and home care operations from June 30, 2020 through June 30, 2021, as well as additional revenue due to an increase in operational performance metrics compared to the prior year.

Senior Living Services

	Six Months Ended June 30, 2021	2020	Change	% Change
Revenue (in thousands)	$ 63,296	$ 69,843	$ (6,547)	(9.4)%
Number of communities at period end	54	54	—	—
Occupancy	72.4 %	79.3 %	(6.9)%	
Average monthly revenue per occupied unit	$ 3,181	$ 3,205	$ (24)	(0.7)

Senior living revenue decreased $6.5 million, or 9.4%, for the six months ended June 30, 2021 compared to the same period in the prior year due primarily to a 6.9% decrease in occupancy in occupancy between June 30, 2020 and June 30, 2021

Cost of Services

	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020	Change	% Change
	(In thousands)			
Home Health and Hospice	$ 125,593	$ 93,497	$ 32,096	34.3 %
Senior Living	44,696	44,851	(155)	(0.3)
Total cost of services	$ 170,289	$ 138,348	$ 31,941	23.1 %

Consolidated cost of services increased $31.9 million or 23.1% during the six months ended June 30, 2021. Cost of services as a percentage of revenue for the six months ended June 30, 2021 increased by 3.9% to 78.8% from 74.9% compared to the six months ended June 30, 2020.

Home Health and Hospice Services

	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020	Change	% Change
Cost of service (in thousands)	$ 125,593	$ 93,497	$ 32,096	34.3 %
Cost of services as a percentage of revenue	82.2 %	81.5 %	0.7 %	

Cost of services related to our home health and hospice services segment increased $32.1 million, or 34.3%, primarily due to increased volume of services due to acquisitions and organic growth. Cost of services as a percentage of revenue for the six months ended June 30, 2021 increased 0.7% compared to the six months ended June 30, 2020. Wage costs show an increase over the prior year due to challenges in the staffing environment resulting in higher overtime and per hour wages

Senior Living Services

	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020	Change	% Change
Cost of service (in thousands)	$ 44,696	$ 44,851	$ (155)	(0.3)%
Cost of services as a percentage of revenue	70.6 %	64.2 %	6.4 %	

Cost of services related to our senior living services segment decreased $0.2 million, or 0.3% during the six months ended June 30, 2021. As a percentage of revenue, costs of service increased by 6.4% from 64.2% to 70.6% during the six months ended June 30, 2021 when compared to the six months ended June 30, 2020, as a result of a decrease in occupancy while maintaining levels of cost in operating expenses in anticipation of occupancy rebound. Fixed costs have remained intact to facilitate recovery.

Rent—Cost of Services. Rent increased 3.3% from $19.5 million to $20.1 million in the six months ended June 30, 2021 compared to the same period in the prior year, primarily as a result of adjustments due to CPI increases, acquisitions and other lease renewals. As a percentage of revenue, rent—cost of services decreased 1.2% when compared to the six months ended June 30, 2020.

General and Administrative Expense. Our general and administrative expense increased $3.9 million or 27.3% from $14.2 million to $18.1 million for the six months ended June 30, 2021 when compared to the six months ended June 30, 2020. The increase in general and administrative expense was primarily due to increased costs of $1.6 million non-recurring costs related to transition services costs and $1.2 million related to continued operational support of our own information systems infrastructure during the six months ended June 30, 2021 and an increase of $1.2 million from wages for additional personnel to support the new systems and the growth in operations for the six months ended June 30, 2021 when compared to the six months ended June 30, 2020.

Depreciation and Amortization. Depreciation and amortization expense decreased slightly as a percentage of total revenue.

Provision for Income Taxes. Our effective tax rate for the six months ended June 30, 2021 was 21.8% of earnings before income taxes compared with an effective tax rate of 24.1% for the six months ended June 30, 2020. The decrease in the effective tax rate was due to an increase in excess tax benefits from share-based compensation, which was partially offset by an increase in non-deductible expenses including non-deductible compensation. See Note 14, *Income Taxes*, to the Interim Financial Statements included elsewhere in this Quarterly Report for further discussion.

Liquidity and Capital Resources

Our primary sources of liquidity are net cash provided by operating activities and borrowings under our revolving credit facility.

Revolving Credit Facility

On February 23, 2021, Pennant entered into an amendment to its existing credit agreement (as amended, the “Credit Agreement”), which provides for an increased revolving credit facility with a syndicate of banks with a borrowing capacity of $150.0 million (the “Revolving Credit Facility”). The Revolving Credit Facility is not subject to interim amortization and the Company will not be required to repay any loans under the Revolving Credit Facility prior to maturity in 2026. The Company is permitted to prepay all or any portion of the loans under the Revolving Credit Facility prior to maturity without premium or penalty, subject to reimbursement of any LIBOR breakage costs of the lenders.

The Credit Agreement contains customary covenants that, among other things, restrict, subject to certain exceptions, the ability of the Company and its independent operating subsidiaries to grant liens on their assets, incur indebtedness, sell assets, make investments, engage in acquisitions, mergers or consolidations, amend certain material agreements and pay certain dividends and other restricted payments. Financial covenants require compliance with certain levels of leverage ratios that impact the amount of interest. As of June 30, 2021, the Company was compliant with all such financial covenants.

As of June 30, 2021 we had $2.9 million of cash and $106.2 million of available borrowing capacity on our Revolving Credit Facility.

We believe that our existing cash, cash equivalents, cash generated through operations and our access to financing facilities, together with funding through third-party sources such as commercial banks, will be sufficient to fund our operating activities and growth needs, and provide adequate liquidity for the next twelve months.

The following table presents selected data from our condensed consolidated Statement of Cash Flows for the periods presented:

	Six Months Ended June 30,	
	2021	**2020**
	(In thousands)	
Net cash (used in) provided by operating activities	$ (11,806)	$ 43,398
Net cash used in investing activities	(15,477)	(13,803)
Net cash provided by (used in) financing activities	30,119	(17,868)
Net increase in cash	2,836	11,727
Cash at beginning of year	43	402
Cash at end of year	$ 2,879	$ 12,129

Six Months Ended June 30, 2021 Compared to the Six Months Ended June 30, 2020

Our net cash flow from operating activities for the six months ended June 30, 2021 decreased by $55.2 million when compared to the six months ended June 30, 2020. The primary driver of this difference can be attributed to the $35.1 million change in cash flows related to the AAP. We received $28.0 million in AAP in the six months ended June 30, 2020, and CMS recouped $7.1 million of those funds during the six months ended June 30, 2021. Other factors that contributed to the net cash used in operating activities were a decrease of $3.9 million in net income, an increase of $7.0 million in prepaid expenses, and a decrease of $4.1 million in accrued wages when compared to the six months ended June 30, 2020.

Our net cash used in investing activities for the six months ended June 30, 2021 increased by $1.7 million compared to the six months ended June 30, 2020, primarily due to an increase of $5.9 million related to cash paid for acquisitions, offset by a decrease of $3.6 million in capital expenditures in the six months ended June 30, 2021.

Our net cash provided by financing activities increased by approximately $48.0 million for the six months ended June 30, 2021 compared to the six months ended June 30, 2020, primarily due to the financing of our acquisitions and the recoupment of the AAP.

Contractual Obligations, Commitments and Contingencies

Other than certain draws and payments made on our Revolving Credit Facility, as described in Note 11, *Debt*, to the Interim Financial Statements in Part I of this Quarterly Report, there have been no material changes to our total obligations during the period covered by this Quarterly Report outside of the normal course of our business.

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

Interest Rate Risk. We are exposed to risks associated with market changes in interest rates. Our Revolving Credit Facility exposes us to variability in interest payments due to changes in LIBOR. We manage our exposure to this market risk by monitoring available financing alternatives.

Item 4. *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

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

PART II. OTHER INFORMATION

Item 1. *Legal Proceedings*

We are involved in various claims and lawsuits arising in the ordinary course of business, none of which, in the opinion of management, is expected to have a material adverse effect on our results of operations or financial condition. However, the results of such matters cannot be predicted with certainty and we cannot assure you that the ultimate resolution of any legal or administrative proceeding or dispute will not have a material adverse effect on our business, financial condition, results of operations and cash flows. See Note 15, *Commitments and Contingencies*, to the Interim Financial Statements for a description of claims and legal actions arising in the ordinary course of our business.

Item 1A. *Risk Factors*

We have disclosed under the heading “Risk Factors” in the 2020 Annual Report risk factors that materially affect our business, financial condition or results of operations. You should carefully consider the risk factors set forth in the 2020 Annual Report and the other information set forth elsewhere in this Quarterly Report. You should be aware that these risk factors and other information may not describe every risk facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 6. Exhibits

EXHIBIT INDEX

Exhibit	Description
3.1	Amended and Restated Certificate of Incorporation of The Pennant Group, Inc., effective as of September 27, 2019 (incorporated by reference to Exhibit 3.1 to The Pennant Group, Inc.'s Current Report on Form 8-K (File No. 001-38900) filed with the SEC on October 3, 2019).
3.2	Amended and Restated By-laws of The Pennant Group, Inc. (incorporated by reference to Exhibit 3.2 to The Pennant Group, Inc.'s Current Report on Form 8-K (File No. 001-38900) filed with the SEC on October 3, 2019).
10.1	Pennant Services Nonqualified Deferred Compensation Plan (incorporated by reference to Exhibit 10.1 to The Pennant Group, Inc.'s Current Report on Form 8-K (File No. 001-38900) filed with the SEC on May 28, 2021).
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

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

		The Pennant Group, Inc.
Dated: August 9, 2021	BY:	/s/ JENNIFER L. FREEMAN
		Jennifer L. Freeman
		Chief Financial Officer (Principal Financial Officer and Duly Authorized Officer)

EXHIBIT 31.1

I, Daniel H Walker, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Pennant Group, Inc;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2021

/s/ DANIEL H WALKER

Name:	Daniel H Walker
Title:	Chairman and Chief Executive Officer (Principal Executive Officer)

EXHIBIT 31.2

I, Jennifer L. Freeman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Pennant Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2021

/s/ JENNIFER L. FREEMAN

Name:	Jennifer L. Freeman
Title:	*Chief Financial Officer (Principal Financial Officer, Principal Accounting Officer and Duly Authorized Officer)*

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of The Pennant Group, Inc. (the Company) on Form 10-Q for the period ended June 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Daniel H Walker, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1 The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2 The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ DANIEL H WALKER

Name:	Daniel H Walker
Title:	Chairman and Chief Executive Officer (Principal Executive Officer)

August 9, 2021

A signed original of this written statement required by 18 U.S.C. Section 1350 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of The Pennant Group, Inc. (the Company) on Form 10-Q for the period ended June 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Jennifer L. Freeman, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1 The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2 The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ JENNIFER L. FREEMAN

Name:	Jennifer L. Freeman
Title:	*Chief Financial Officer (Principal Financial Officer, Principal Accounting Officer and Duly Authorized Officer)*

August 9, 2021

A signed original of this written statement required by 18 U.S.C. Section 1350 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.