Genesis Healthcare, Inc. and Subsidiaries

Consolidated Financial Statements

December 31, 2023 and 2022

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Genesis HealthCare, Inc. and Subsidiaries

Opinion

We have audited the consolidated financial statements of Genesis HealthCare, Inc. and Subsidiaries (the "Company"), which comprise the consolidated balance sheet as of December 31, 2023, and the related consolidated statements of operations, stockholders' deficit, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for opinion

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

Substantial doubt about the entity's ability to continue as a going concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has experienced recurring losses from operations, has a net capital deficiency, and has stated that substantial doubt exists about the Company's ability to continue as going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Responsibilities of management for the financial statements

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

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

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

In performing an audit in accordance with US GAAS, we:

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

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

GrantThornton

Other matter

The consolidated financial statements of the Company as of and for the year ended December 31, 2022, were audited by other auditors. Those auditors' report, dated March 27, 2023, expressed an unmodified opinion on those 2022 consolidated financial statements and included an explanatory paragraph regarding substantial doubt about the Company's ability to continue as a going concern as described in Note 1 to the consolidated financial statements.

Grant Thornton LLP

Philadelphia, Pennsylvania
June 14, 2024

GENESIS HEALTHCARE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	December 31, 2023	December 31, 2022
Assets:		
Current assets:		
Cash and cash equivalents	$ 23,729	$ 72,026
Restricted cash and cash equivalents	252,354	181,198
Accounts receivable	547,119	427,040
Prepaid expenses	75,970	72,202
Other current assets	26,646	28,114
Total current assets	925,818	780,580
Property and equipment, net of accumulated depreciation of $485,732 and $454,768 at December 31, 2023 and 2022, respectively	752,311	846,385
Finance lease right-of-use assets, net of accumulated amortization of $55,331 and $60,899 at December 31, 2023 and 2022, respectively	595,982	694,954
Operating lease right-of-use assets	697,985	821,462
Restricted cash and cash equivalents	45,233	46,965
Other long-term assets	110,691	86,113
Identifiable intangible assets, net of accumulated amortization of $95,998 and $91,434 at December 31, 2023 and 2022, respectively	19,303	23,067
Goodwill	11,828	85,642
Total assets	$ 3,159,151	$ 3,385,168
Liabilities and Stockholders' Deficit:		
Current liabilities:		
Current portion of long-term debt	$ 15,340	$ 836,296
Current portion of finance lease obligations	47,828	49,114
Current portion of operating lease obligations	177,066	199,626
Accounts payable	326,942	229,127
Accrued expenses	353,148	264,866
Accrued compensation	218,346	187,611
Self-insurance reserves	100,741	119,299
Total current liabilities	1,239,411	1,885,939
Long-term debt	1,696,716	819,284
Finance lease obligations	599,489	705,442
Operating lease obligations	762,658	947,622
Deferred income taxes	804	672
Self-insurance reserves	255,560	267,913
Other long-term liabilities	55,839	50,879
Total liabilities	4,610,477	4,677,751
Commitments and contingencies		
Stockholders’ deficit:		
Class A common stock, (par $0.001, 1,000,000,000 shares authorized, issued and outstanding - 121,145,801 and 120,830,695 at December 31, 2023 and 2022, respectively)	121	121
Class B common stock, (par $0.001, 20,000,000 shares authorized, issued and outstanding - 691,055 and 691,055 at December 31, 2023 and 2022, respectively)	1	1
Class C common stock, (par $0.001, 150,000,000 shares authorized, issued and outstanding - 51,004,345 and 51,004,345 at December 31, 2023 and 2022, respectively)	51	51
Additional paid-in-capital	212,030	212,044
Accumulated deficit	(1,281,442)	(1,158,047)
Total stockholders’ deficit before noncontrolling interests	(1,069,239)	(945,830)
Noncontrolling interests	(382,087)	(346,753)
Total stockholders' deficit	(1,451,326)	(1,292,583)
Total liabilities and stockholders’ deficit	$ 3,159,151	$ 3,385,168

The accompanying notes are an integral part of these consolidated financial statements.

GENESIS HEALTHCARE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS)

	Year ended December 31,	
	2023	**2022**
Net revenues	$ 3,638,740	$ 3,145,959
Salaries, wages and benefits	2,030,065	1,747,739
Other operating expenses	1,180,622	1,082,542
General and administrative costs	100,022	79,982
Lease expense	198,853	198,192
Depreciation and amortization expense	79,907	120,361
Interest expense	273,694	170,846
Loss on early extinguishment of debt	—	882
Investment income	(4,552)	(2,177)
Other income	(79,121)	(33,260)
Transaction costs	25,686	18,403
Employee retention credit - other income	(65,000)	—
Long-lived asset impairments	10,452	25,932
Goodwill and identifiable intangible asset impairments	74,581	49,156
Federal and state stimulus - COVID-19 other income	(18,716)	(44,965)
Equity in net income of unconsolidated affiliates	(7,046)	(3,129)
Loss before income tax expense (benefit)	(160,707)	(264,545)
Income tax expense (benefit)	293	(4,770)
Net loss	(161,000)	(259,775)
Less net loss attributable to noncontrolling interests	37,605	66,703
Net loss attributable to Genesis Healthcare, Inc.	$ (123,395)	$ (193,072)

The accompanying notes are an integral part of these consolidated financial statements.

GENESIS HEALTHCARE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
(IN THOUSANDS)

	Class A Common Stock		Class B Common Stock		Class C Common Stock		Additional	Accumulated	Stockholders'	Noncontrolling	Total stockholders'
	Shares	Amount	Shares	Amount	Shares	Amount	paid-in capital	deficit	deficit	interests	deficit
Balance at December 31, 2021	118,845	$ 119	691	$ 1	51,004	$ 51	$ 216,512	$ (964,975)	$ (748,292)	$ (270,755)	$ (1,019,047)
Net loss	—	—	—	—	—	—	—	(193,072)	(193,072)	(66,703)	(259,775)
Share based compensation	—	—	—	—	—	—	1,095	—	1,095	—	1,095
Issuance of common stock	1,986	2	—	—	—	—	(2)	—	—	—	—
Conversion of common stock among classes	—	—	—	—	—	—	(5,138)	—	(5,138)	5,138	—
Distributions to noncontrolling interests	—	—	—	—	—	—	(423)	—	(423)	(16,273)	(16,696)
Contributions from noncontrolling interests	—	—	—	—	—	—	—	—	—	1,840	1,840
Balance at December 31, 2022	120,831	$ 121	691	$ 1	51,004	$ 51	$ 212,044	$ (1,158,047)	$ (945,830)	$ (346,753)	$ (1,292,583)
Net loss	—	—	—	—	—	—	—	(123,395)	(123,395)	(37,605)	(161,000)
Share based compensation	—	—	—	—	—	—	686	—	686	—	686
Issuance of common stock	315	—	—	—	—	—	—	—	—	—	—
Conversion of common stock among classes	—	—	—	—	—	—	(685)	—	(685)	685	—
Distributions to noncontrolling interests	—	—	—	—	—	—	(15)	—	(15)	(7,414)	(7,429)
Other changes in noncontrolling interests	—	—	—	—	—	—	—	—	—	9,000	9,000
Balance at December 31, 2023	121,146	$ 121	691	$ 1	51,004	$ 51	$ 212,030	$ (1,281,442)	$ (1,069,239)	$ (382,087)	$ (1,451,326)

The accompanying notes are an integral part of these consolidated financial statements.

GENESIS HEALTHCARE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	Year ended December 31, 2023	Year ended December 31, 2022
Cash flows from operating activities:		
Net loss	$ (161,000)	$ (259,775)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Non-cash interest arrangements, net	73,355	62,419
Lease Modifications and other non-cash gain, net	(79,121)	(33,260)
Share based compensation	686	1,095
Depreciation and amortization expense	79,907	120,361
Amortization of operating lease right-of-use assets	97,500	86,378
Provision of losses on accounts receivable	162	3,569
Equity in net income of unconsolidated affiliates	(7,046)	(3,129)
Benefit (provision) for deferred taxes	132	(4,734)
Gain on early extinguishment of debt	—	(7,120)
Long-lived asset impairments	10,452	25,932
Goodwill and identifiable intangible asset impairments	74,581	49,156
Changes in assets and liabilities:		
Accounts receivable	(96,407)	(35,290)
Accounts payable and other accrued expenses and other	175,210	11,313
Medicare advance recoupments	—	(44,749)
Operating lease obligations	(114,757)	(102,571)
Net cash provided by (used in) operating activities	53,654	(130,405)
Cash flows from investing activities:		
Capital expenditures	(32,685)	(35,957)
Purchases of assets	(16,577)	—
Sales of assets	62,318	47,249
Restricted deposits	(12,606)	(2,735)
Distributions from joint venture	—	1,454
Net cash provided by investing activities	450	10,011
Cash flows from financing activities:		
Borrowings under revolving credit facilities	3,609,601	3,394,838
Repayments under revolving credit facilities	(3,587,971)	(3,320,149)
Proceeds from issuance of long-term debt	43,450	414,886
Repayment of long-term debt	(78,264)	(351,676)
Repayment of finance lease obligations	(4,778)	(4,251)
Debt issuance and settlement costs	(7,586)	(16,954)
Contributions from noncontrolling interests	—	1,840
Distributions to noncontrolling interests and stockholders	(7,429)	(16,696)
Net cash (used in) provided by financing activities	(32,977)	101,838
Net increase (decrease) in cash and cash equivalents and restricted cash and cash equivalents	21,127	(18,556)
Cash and cash equivalents and restricted cash and cash equivalents:		
Beginning of period	300,189	318,745
End of period	$ 321,316	$ 300,189
Supplemental cash flow information:		
Interest paid	$ 168,601	$ 118,174
Net taxes paid	1,255	470
Non-cash investing and financing activities:		
Finance lease obligations, net (write-down) gross up due to lease activity	$ (104,448)	$ 723,143
Assets subject to finance lease obligations, net write-down (gross up) due to lease activity	99,827	(723,141)
Operating lease obligations, net (write-down) due to lease activity	(92,769)	(19,800)
Assets subject to operating leases, net gross up due to lease activity	25,977	16,757

The accompanying notes are an integral part of these consolidated financial statements.

(1) General Information

Description of Business

Genesis Healthcare, Inc. is a healthcare services holding company that, through its subsidiaries (collectively, the Company or Genesis), owns and operates skilled nursing facilities, assisted/senior living facilities and a rehabilitation therapy business. The Company has an administrative services company that provides a full complement of administrative and consultative services that allows its affiliated operators and third-party operators with whom the Company contracts to better focus on delivery of healthcare services. At December 31, 2023, the Company provided inpatient services through 252 skilled nursing, assisted/senior living and behavioral health centers located in 20 states. Revenues of the Company's owned, leased and otherwise consolidated inpatient businesses constitute approximately 84% of its revenues.

The Company provides a range of rehabilitation therapy services, including speech pathology, physical therapy, occupational therapy and respiratory therapy. These services are provided by rehabilitation therapists and assistants employed or contracted at substantially all of the centers operated by the Company, as well as by contract to healthcare facilities operated by others. The Company has expanded its delivery model for providing rehabilitation services to community-based and at-home settings. After the elimination of intercompany revenues, the rehabilitation therapy services business constitutes approximately 10% of the Company's revenues.

The Company provides an array of other specialty medical services, including management services, physician services, staffing services, and other healthcare related services, which comprise the balance of the Company's revenues.

Basis of Accounting and Principles of Consolidation

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP). The consolidated financial statements include all necessary adjustments for a fair presentation of the consolidated financial position and results of operations for the periods presented.

The consolidated financial statements of the Company include the accounts of the Company and its subsidiaries. All intercompany transactions have been eliminated in consolidation. The Company presents noncontrolling interests within the stockholders' deficit section of its consolidated balance sheets. The Company presents the amount of net loss attributable to Genesis Healthcare, Inc. and net loss attributable to noncontrolling interests in its consolidated statements of operations.

The consolidated financial statements include the accounts of all entities controlled by the Company through its ownership of a majority voting interest and the accounts of variable interest entities (VIEs) where the Company is subject to a majority of the risk of loss from the VIE's activities, or entitled to receive a majority of the entity's residual returns, or both. The Company assesses the requirements related to the consolidation of VIEs, including a qualitative assessment of control and economics that considers whether the Company has the power to direct the activities that most significantly impact the VIE's economic performance and has the obligation to absorb losses of, or the right to receive benefits that could be potentially significant to the VIE.

The consolidated financial statements include the accounts of three strategic partnerships (the Next Partnership, the Vantage Point Partnership and the Cascade Partnership), in which the Company holds a membership interest of between 30% and 50%. These partnerships own the real property of skilled nursing facilities which the Company operates. The Company holds fixed price purchase options to acquire the real property of these partnerships. The Company has concluded the strategic partnerships qualify as VIEs of which the Company is the primary beneficiary. As such, the Company has consolidated all the accounts of the strategic partnerships in its consolidated financial statements.

Going Concern Considerations

The Company performed an assessment to determine whether there are conditions or events, considered in the aggregate, that raise substantial doubt about its ability to continue as a going concern within one year after the date the financial statements are available to be issued. Initially, this assessment does not consider the potential mitigating effect of management's plans that have not been fully implemented. When substantial doubt exists, management assesses the mitigating effect of its plans to determine if it is probable that (1) the plans will be effectively implemented within one year after the date the financial statements are available to be issued, and (2) when implemented, the plans will mitigate the relevant conditions or events that raise substantial doubt about the entity's ability to continue as a going concern.

In completing its going concern assessment, the Company considered the uncertainties around the future results of operations as well as its current financial condition and liquidity sources, including current funds available, forecasted future cash flows and the Company's indebtedness and other conditional and unconditional obligations due within 12 months following the date its consolidated financial statements were available to be issued. These conditions include:

- The Company has experienced recurring losses from operations and has a net capital deficiency; and
- The Company utilized the Coronavirus Aid, Relief, and Economic Security Act of 2020 (CARES Act) payroll tax deferral program to delay payment of a portion of payroll taxes incurred through December 2020. At December 31, 2023, the Company owes $87.9 million in remaining unpaid payroll tax deferrals. In addition, the Company has recorded $46.9 million in accrued penalties and interest through December 31, 2023.

In response to the conditions that raise substantial doubt about the Company's ability to continue as a going concern, as outlined above, the Company has taken the following measures:

- On June 3, 2024, the Company extended all of its debt instruments with Welltower Inc. (Welltower) through June 30, 2025. As a result, the combined $999.6 million in ABL Credit Facilities and Welltower debt balances have been classified as long-term debt on the consolidated balance sheet at December 31, 2023;
- The Company has approached the Internal Revenue Service (IRS) to establish a deferred payment plan beyond the original December 31, 2022 repayment deadline. The Company started monthly repayments of $1.5 million beginning in December 2023. Active negotiations are ongoing with an anticipated positive resolution in the near term. The IRS has accepted the monthly payments since the Company began payment in December 2023;
- The Company has nearly completed the necessary divestitures contemplated in Note 4 – "*Significant Transactions and Events – Restructuring Transactions*" with only one facility remaining to be sold as of June 14, 2024 in order to trigger the remaining debt forgiveness with Welltower;
- The Company issued $40.0 million in additional convertible promissory notes to ReGen in the year ended December 31, 2023;
- The Company has initiated divestitures of underperforming facilities across multiple states. Between June 1, 2023 and June 14, 2024, 50 facilities have been divested. See Note 4 – "*Significant Transactions and Events – Divestitures and Acquisitions"* and Note 14 – *"Subsequent Events – Divestitures"*;
- The Company expects to execute on certain operating strategies to improve operating results, consisting of the divestitures and other cost saving initiatives; and
- The Company has pursued, and will continue to pursue, creative and accretive opportunities to sell assets and enter into joint venture structures in order to provide additional liquidity.

These measures and other plans and initiatives are needed to provide the Company with adequate liquidity to meet its obligations for at least the twelve-month period following the date its consolidated financial statements are available to be issued. Several of these plans and initiatives are dependent on factors that are beyond the Company's control or may not be available on terms acceptable to the Company, or at all. Even though several of the plans are anticipated to be realized within the next 12 months, the Company is unable to assure its plans in alleviating its substantial doubt on going concern conclusion, given that these plans are not fully within the Company's control.

It is probable the Company will be unable to generate sufficient cash flows to meet its required financial obligations, including its rent and debt obligations, and maintain compliance with financial covenants. The existence of these conditions raises substantial doubt about the Company's ability to continue as a going concern for the twelve-month period following the date the consolidated financial statements are available to be issued.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern, which contemplates continuity of operations, realization of assets and the satisfaction of liabilities in the normal course of business for the twelve-month period following the date the consolidated financial statements are available to be issued.

(2) Summary of Significant Accounting Policies

Estimates and Assumptions

The consolidated financial statements have been prepared in conformity with U.S. GAAP, which requires management to consolidate the Company's financial information and make informed estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates in the Company's consolidated financial statements relate to valuation of revenues and accounts receivable, self-insured liabilities, income taxes, the useful lives and fair value of long-lived assets and goodwill, lease obligations and other contingencies. Actual results could differ from those estimates.

Revenue Recognition

The Company generates revenues, primarily by providing healthcare services to its customers. Revenues are recognized when control of the promised good or service is transferred to the Company's customers, in an amount that reflects the consideration to which the Company expects to be entitled from patients, third-party payors (including government programs and insurers) and others, in exchange for those goods and services. Amounts estimated to be uncollectable are generally considered implicit price concessions that are a direct reduction to net revenues.

Performance obligations are determined based on the nature of the services provided. The majority of the Company's healthcare services are highly interrelated and represent multiple inputs to deliver the combined output for which a customer has entered into a contract with the Company. As such, the bundle of services is treated as a single performance obligation satisfied over time as services are rendered. The Company determines the transaction price based on contractually agreed-upon amounts or rates, adjusted for estimates of variable consideration, such as implicit price concessions.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and short-term investments with original maturities of three months or less when purchased and therefore, approximate fair value. The Company's available cash is held in accounts at commercial banking institutions. The Company currently has bank deposits with commercial banking institutions that exceed Federal Deposit Insurance Corporation insurance limits. The Company believes it is not exposed to any significant credit risk in such deposits.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents include cash pledged to collateralize letters of credit under the ABL Credit Facilities, see Note 10 – "*Long-Term Debt*," and under the Company's wholly owned insurance captive. A total of $91.1 million in ERC proceeds are classified as restricted cash and cash equivalents while the Company seeks a payment plan on the outstanding unpaid deferral payroll tax obligations under the CARES Act. Restricted cash and cash equivalents also include cash account balances subject to deposit account control agreements that were sprung under the ABL Credit Facilities resulting in the majority of the Company's cash accounts being classified as restricted.

Accounts Receivable

The Company's accounts receivable are primarily comprised of amounts due from patients who either have insurance with Medicare, Medicaid, private and commercial insurance entities, other third-party payors and long-term care providers or patients who do not have insurance that utilize its rehabilitation therapy and other services. The Company evaluates the valuation of accounts receivable based on analysis of historical collection trends, as well as its understanding of the nature and collectability of accounts based on their age and other factors.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation. Depreciation expense is calculated using the straight-line method over the estimated useful lives of the depreciable assets, which generally range from 20-35 years for buildings, building improvements and land improvements, and 3-15 years for equipment, furniture and fixtures. Depreciation expense on leasehold improvements is calculated using the straight-line method over the lesser of the lease term or the estimated useful life of the asset. Expenditures for maintenance and repairs necessary to maintain property and equipment in efficient operating condition are expensed as incurred. Costs of additions and improvements are capitalized.

Impairment of Long-Lived Assets

The Company's long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by comparison of the carrying amount of an asset to the future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future undiscounted cash flows, an impairment charge is recognized to the extent the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or the fair value, less costs to sell.

Goodwill and Identifiable Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations. The Company tests goodwill on an annual basis and between annual tests if events occur or circumstances exist that would reduce the fair value of a reporting unit below its carrying amount. The Company first assesses qualitative factors to determine whether it is necessary to perform quantitative goodwill impairment testing. If determined necessary, the Company applies the quantitative impairment test to identify and measure the amount of impairment, if any.

Definite-lived intangible assets consist of customer relationships. These assets are amortized in accordance with the authoritative guidance for intangible assets using the straight-line method over their estimated useful lives. These assets are tested for impairment consistent with the Company's long-lived assets. Indefinite-lived intangible assets consist of trade names. The Company tests indefinite-lived intangible assets for impairment on an annual basis or more frequently if events occur or circumstances exist that would indicate that the carrying amount of the intangible asset may not be recoverable.

Self-Insurance Reserves

The Company provides for self-insurance reserves for both general and professional liabilities and workers' compensation claims based on estimates of the ultimate costs for both reported claims and claims incurred but not reported. Estimated losses from asserted and incurred but not reported claims are accrued based on the Company's estimates of the ultimate costs of the claims, which include costs associated with litigating and settling claims, and the relationship of past reported incidents to eventual claim payments. All relevant information, including the Company's own historical experience, the nature and extent of existing asserted claims and reported incidents, and independent actuarial analyses of this information is used in estimating the expected amount of claims. Estimated insurance recoveries related to recorded liabilities are reflected as other long-term assets in the Company's consolidated balance sheets when the receipt of such amounts is deemed to be probable.

Income Taxes

The Company's effective tax rate is based on pretax income, statutory tax rates and tax planning opportunities available in the various jurisdictions in which it operates. The Company accounts for income taxes in accordance with applicable guidance on accounting for income taxes, which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between book and tax bases on recorded assets and liabilities. Accounting guidance also requires that deferred tax assets be reduced by a valuation allowance when it is more likely than not that a tax benefit will not berealized.

The recognition and measurement of a tax position is based on management's best judgment given the facts, circumstances and information available at the reporting date. The Company evaluates tax positions to determine whether the benefits of tax positions are more likely than not of being sustained upon audit based on the technical merits of the tax position. For tax positions that are more likely than not of being sustained upon audit, the Company recognizes the largest amount of the benefit that is greater than 50% likely of being realized upon ultimate settlement in the financial statements. For tax positions that are not more likely than not of being sustained upon audit, the Company does not recognize any portion of the benefit in the financial statements. If the more likely than not threshold is not met in the period for which a tax position is taken, the Company may subsequently recognize the benefit of that tax position if the tax matter is effectively settled, the statute of limitations expires, or if the more likely than not threshold is met in a subsequent period.

The Company evaluates, on a quarterly basis, its ability to realize deferred tax assets by assessing its valuation allowance and by adjusting the amount of such allowance, if necessary. The factors used to assess the likelihood of realization are its forecast of pre-tax earnings, its forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets. To the extent the Company prevails in matters for which reserves have been established or is required to pay amounts in excess of its reserves, its effective tax rate in a given consolidated financial statement period could be materially affected. An unfavorable tax settlement would require use of cash and result in an increase in the effective tax rate in the year of resolution. A favorable tax settlement would be recognized as a reduction in the Company's effective tax rate in the year of resolution. The Company records accrued interest and penalties associated with uncertain tax positions as income tax expense (benefit) in the consolidated statements of operations.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2023 and 2022 are presented below (in thousands):

	2023	2022
Deferred tax assets:		
Investment in partnership	$ 266,522	$ 237,974
Net operating loss carryforwards	150,293	152,015
General business credits	33,750	31,523
Total deferred tax assets	450,565	421,512
Valuation allowance	(448,907)	(419,965)
Deferred tax assets, net of valuation allowance	1,658	1,547
Deferred tax liabilities:		
Long-lived assets - intangible property	(2,462)	(2,219)
Total deferred tax liabilities	(2,462)	(2,219)
Net deferred income taxes	$ (804)	$ (672)

The Company is party to a tax receivable agreement (TRA) with the noncontrolling owners of FC-GEN Operations Investment, LLC (FC-GEN), a subsidiary of the Company. The agreement provides for the payment by the Company to the noncontrolling owners of FC-GEN of 90% of the cash savings, if any, in U.S. federal, state and local income tax that the Company actually realizes as a result of (i) the increases in tax basis attributable to the owners of FC-GEN and (ii) tax benefits related to imputed interest deemed to be paid by the Company as a result of the TRA. Under the TRA, the benefits deemed to be realized by the Company as a result of the increase in tax basis attributable to the noncontrolling owners of FC-GEN generally will be computed by comparing the actual income tax liability of the Company to the amount of such taxes that the Company would have been required to pay had there been no such increase in tax basis. The term of the TRA generally will continue until all applicable tax benefits have been utilized or expired, unless the Company exercises its right to terminate the TRA and make an early termination payment.

Leases

The Company leases skilled nursing facilities and assisted/senior living facilities, as well as certain office space, land, and equipment. The Company evaluates at contract inception whether a lease exists and recognizes a lease liability and right-of-use (ROU) asset for all leases with a term greater than 12 months. Leases are classified as either finance or operating. While many of the Company's facilities are subject to master lease agreements, leases are assessed, classified, and measured at the facility level. All lease liabilities are measured as the present value of the future lease payments using a discount rate, which is generally the Company's incremental borrowing rate for collateralized borrowings. The future lease payments used to measure the lease liability include both fixed and variable payments that depend on a rate or index, as well as the exercise price of any options to purchase the underlying asset that have been deemed reasonably certain of being exercised.

Defined Contribution Plans

The Company sponsors two defined contribution plans covering substantially all employees. Plan eligibility is determined by grade level and state of employment. Employees are eligible to participate after 60 days of service. Employee contributions are immediately 100% vested. Employer contribution vesting is based on completed years of service. Vesting begins at 20% upon two years of service, increases by 20% every year and reaches 100% vesting upon six years of service. The Company did not match employee contributions for the defined contribution plans in 2023 and 2022.

Recently Adopted Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board issued Accounting Standard Update (ASU) 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which was intended to improve financial reporting by requiring earlier recognition of credit losses on certain financial assets, such as available-for-sale debt securities. The standard replaces the current incurred loss impairment model that recognizes losses when a probable threshold is met with a requirement to recognize lifetime expected credit losses immediately when a financial asset is originated or purchased. The standard is effective for fiscal years beginning after December 15, 2022, for private companies, including interim periods within those annual periods, with early adoption permitted. The adoption of ASU 2016-13 did not have a material impact on the Company's consolidated financial statements and related disclosures.

(3) Certain Significant Risks and Uncertainties

Revenue Sources

The sources and amounts of the Company's revenues are determined by a number of factors, including licensed bed capacity and occupancy rates of inpatient facilities, the mix of patients and the rates of reimbursement among payors. Likewise, payment for ancillary medical services, including services provided by the Company's rehabilitation therapy services business, varies based upon the type of payor and the historical reimbursement experience within each payor type. Changes in the case mix of the patients as well as payor mix of the patients among Medicare, Medicaid and private pay patients can significantly affect the Company's profitability.

It is difficult to quantify fully the effect of legislative changes, the interpretation or administration of such legislation or other governmental initiatives on the Company's business. The potential impact of reforms to the United States healthcare system, including potential material changes to the delivery of healthcare services and the reimbursement paid for such services by the government or other third party payors, is uncertain at this time. Also, initiatives among managed care payors, conveners and referring acute care hospital systems to reduce lengths of stay and avoidable hospital admissions and to divert referrals to home health or other community-based care settings could have an adverse impact on the Company's business. Accordingly, there can be no assurance that the impact of any future healthcare legislation, regulation or actions by participants in the health care continuum will not adversely affect the Company's business. There can be no assurance that payments under governmental and private third-party payor programs will be timely, will remain at levels similar to present levels or will, in the future, be sufficient to cover the costs allocable to patients eligible for reimbursement pursuant to such programs. The Company's financial condition and results of operations are and will continue to be affected by the reimbursement process, which in the healthcare industry is complex and can involve lengthy delays between the time that revenue is recognized and the time that reimbursement amounts are settled.

Laws and regulations governing the Medicare and Medicaid programs, and the Company's businesses generally, are complex and are often subject to a number of ambiguities in their application and interpretation. The Company believes that it is in substantial compliance with all applicable laws and regulations. However, from time to time the Company and its affiliates are subject to pending or threatened lawsuits and investigations involving allegations of potential wrongdoing, some of which may be material or involve significant costs to resolve and/or defend, or may lead to other adverse effects on the Company and its affiliates including, but not limited to, fines, penalties and exclusion from participation in the Medicare and/or Medicaid programs.

Concentration of Credit Risk

The Company is exposed to the credit risk of its third-party customers, many of whom are in similar lines of business as the Company and are exposed to the same systemic industry risks of operations as the Company, resulting in a concentration of risk. These include organizations that utilize the Company's rehabilitation services, staffing services and physician service offerings, engaged in similar business activities or having economic features that would cause their ability to meet contractual obligations, including those to the Company, to be similarly affected by changes in regulatory and systemic industry conditions.

Management assesses its exposure to loss on accounts at the customer level. The greatest concentration of risk exists in the Company's rehabilitation therapy services business where it has approximately 200 distinct customers, many being chain operators with more than one location. One of the Company's customers, a related party, comprises \$56.1 million and \$43.9 million of the outstanding contract receivables in the rehabilitation services business at December 31, 2023 and 2022, respectively. See Note 12 – *"Related Party Transactions."* A future adverse event impacting this customer or other large customers, resulting in their insolvency or other economic distress would have a material impact on the Company.

Covenant Compliance

Should the Company fail to comply with its debt and lease covenants at a future measurement date, it could, absent necessary and timely waivers and/or amendments, be in default under certain of its existing debt and lease agreements.

At December 31, 2023 and 2022, the Company was not in compliance with, or had not received waivers with respect to, the financial covenants contained in certain of its lease obligations. The lease obligations associated with these agreements have been classified as current liabilities. As of the date of this report, all debt service payments have been made timely and no material creditors have pursued remedies with respect to breaches of financial covenants.

The Company's ability to maintain compliance with financial covenants required by its debt and lease agreements depends in part on management's ability to increase revenues and control costs. Due to continuing changes in the healthcare industry, as well as the uncertainty with respect to changing referral patterns, patient mix, and reimbursement rates, it is possible that future operating performance may not generate sufficient operating results to maintain compliance with its quarterly debt and lease covenant requirements. The ongoing uncertainty related to the future results of operations may have an adverse impact on the Company's ability to remain in compliance with or return to compliance with its financial covenants for the twelve-month period following the date the consolidated financial statements are available to be issued.

(4) Significant Transactions and Events

Asset Based Lending Facilities (ABL Credit Facilities) Refinancing

On March 9, 2022, the Company refinanced the MidCap Financial Services, LLC ABL Credit Facilities with affiliates of White Oak Healthcare Finance, LLC (White Oak). The White Oak ABL Credit Facilities originally included total commitments of \$395.0 million comprised of (a) a \$240.0 million base revolving commitment, (b) a \$72.0 million HUD revolving credit commitment, (c) a \$53.0 million delayed draw commitment, and (d) a \$30.0 million term loan commitment. The White Oak ABL Credit Facilities have been amended numerous times to expand the total commitments, issue temporary overlines and modify interest applicable margins. See Note 10 – "*Long-Term Debt – Asset Based Lending Facilities"* for a summary of the White Oak ABL Credit Facilities terms as of December 31, 2023.

Restructuring Transactions

Investment Agreement

The Company is party to an investment agreement (the Investment Agreement) between FC-GEN and ReGen Healthcare, LLC (ReGen), a related party. See Note 12 – "*Related Party Transactions*."

On December 2, 2022, the Company issued a $10.0 million convertible promissory note to ReGen. The note has a stated maturity date of December 2, 2027 and initially bears interest at 1.0% per annum, payable at maturity. The note contains both automatic and optional conversion terms, whereby the note may be converted into 13,830,831 Conversion Baskets (as defined in Note 10 – "*Long-Term Debt – Convertible Notes"*), subject to adjustment.

On January 4, 2023, the Company issued a $15.0 million convertible promissory note to ReGen. The note has a stated maturity date of January 4, 2028 and initially bears interest at 1.0% per annum, payable at maturity. The note contains both automatic and optional conversion terms, whereby the note may be converted into 20,745,572 Conversion Baskets, subject to adjustment. Proceeds were used for working capital needs.

On May 24, 2023, the Company issued a $25.0 million convertible promissory note to ReGen. The note has a stated maturity date of January 4, 2028 and initially bears interest at 1.5% per month, paid-in-kind. The note contains optional conversion terms, whereby the note may be converted into 100,000 Conversion Baskets per $1,000 principal amount of the note, subject to adjustment. Proceeds were used for working capital needs.

Powerback Rehab

In 2022, the Company rebranded its rehabilitation services business as Powerback Rehab retiring its predecessor name of Genesis Rehabilitation Services (GRS). GRS had an indefinite-lived trade name asset of $49.2 million. Due to the rebranding, the Company recorded a non-cash impairment charge of $49.2 million in the year ended December 31, 2022.

Welltower

The Company is a party to a transaction agreement with Welltower pursuant to which the Company has agreed to support Welltower in connection with the sale to third party purchasers of Welltower's interests in 51 facilities leased to the Company. During the year ended December 31, 2022, two additional facilities were transitioned to new operators resulting in a reduction in debt obligations to Welltower of $1.6 million, which was recognized as a gain on early extinguishmentof debt. Through December 31, 2023, only one facility remains to be transitioned. There is a $1.6 million note payable obligation attributable to this remaining facility.

Upon the Company satisfying certain conditions, including transition of the facilities, and in consideration for the Company undertaking the transactions contemplated, an additional $238.1 million of outstanding unsecured real estate loans owed to Welltower will be written off. Concurrently with this restructuring, the Company will issue to Welltower 41,700,453 Class A Shares provided that such issuance will be subject to dilution from new capital and will issue a warrant to Welltower for its purchase of 900,000 Class A Shares at an exercise price equal to $1.00 per share. As of December 31, 2023, and through the date this report was available to be issued, the Company has not completed the transition of all facilities and, as such, the additional debt forgiveness has not been realized and the warrant has not been issued.

Divestitures and Acquisitions

Gains and losses associated with transactions and divestitures are included in other income on the consolidated statements of operations, see Note 11 – "*Other Income*." See Note 14 – "*Subsequent Events*" for divestitures and acquisitions after December 31, 2023.

Divestitures - 2023

The Company transferred the operations of 33 leased facilities and seven facilities included in the Vantage Point Partnership in the year ended December 31, 2023. The facilities generated annual revenues of $384.0 million and pre-tax loss of $16.5 million.

Divestitures - 2022

The Company transferred the operations of five leased facilities, closed one owned facility and sold five owned facilities in the year ended December 31, 2022. The facilities generated annual revenues of $105.8 million and pre-tax loss of $4.1 million. The five owned facilities sold for $44.5 million. Proceeds were used to pay down debt of $41.9 million. The Company recorded a gain on sale of $29.8 million.

Acquisitions - 2023

On February 1, 2023, the Company assumed the operations of one facility in New Jersey. The lease has an initial annual rent of $3.3 million, an annual rent escalator of 3% and a term of 20 years resulting in total lease obligations of $89.5 million. The lease includes a purchase option exercisable for a 12-month period after the fifth lease year for a fixed price of $44.8 million. The landlord is a related party. See Note 12 – "*Related Party Transactions*."

On July 20, 2023, the Company acquired a rehabilitation therapy services company for a purchase price of $16.0 million. The acquired company operates post-acute services in over 270 customer locations across 26 states.

On November 1, 2023, the Company assumed the operations of one leased facility in West Virgina. The facility was added to an existing master lease on February 9, 2024 with an initial annual rent of $0.8 million.

Acquisitions – 2022

On July 13, 2022, the Company assumed the operations of five facilities in Vermont. The facilities are subject to a master lease agreement with an initial annual rent of $4.4 million and term of five years. The lease includes a purchase option exercisable between July 13, 2022 and December 1, 2023 at a fixed price of $44.0 million if exercised by May 15, 2023 and $48.0 million if exercised after May 15, 2023. The Company initially assumed that it was reasonably certain to exercise the available purchase option and, as a result, recorded associated finance lease right-of-use assets and obligations of $45.4 million upon inception. Prior to the purchase option exercisable date, the Company concluded the purchase option would not be exercised. This conclusion resulted in a lease modification assessment that changed the lease classification from a financing lease to an operating lease. See Note 8 – "*Leases*."

On December 22, 2022, the Company assumed the operations of 34 facilities in Pennsylvania and four facilities in Colorado. Each state has a separate master lease agreement. The Pennsylvania master lease has an initial annual rent of $47.4 million, an annual rent escalator of 3% and a term of 20 years. The lease includes a purchase option exercisable for a 12-month period after the fifth lease year for a fixed price of $757.2 million. The Colorado master lease has an initial annual rent of $8.7 million, an annual rent escalator of 3% and a term of 20 years. The lease includes a purchase option exercisable for a 12-month period after the fifth lease year for a fixed price of $122.9 million. The Company determined that the associated lease payments constitute substantially all of the fair value of the underlying assets and, as a result, recorded associated finance lease right-of-use assets and obligations of $635.2 million upon inception. The landlord is a related party. See Note 12 – "*Related Party Transactions*."

Employee Retention Credits

The Company has applied and received the Employee Retention Credit (ERC) with the IRS. The ERC is a refundable credit on qualified wages paid to employees during the six quarters beginning April 1, 2020 and ending September 30, 2021. The Company received payments of $141.7 million, which includes interest, in the year ended December 31, 2023. Due to the possibility of an IRS audit or other future unknown developments, the Company recognized $65.0 million of ERC proceeds representing the amount of insurance coverage acquired by the Company in the event of potential IRS audit and repayment. Proceeds were recorded as "*Employee retention credit – other income*" on the consolidated statements of operations. The remaining balance of $76.7 million has been recorded as deferred income, which is included in "*Accrued expenses*" on the consolidated balance sheets.

(5) Net Revenues

Revenue Sources

The Company receives revenues from Medicare, Medicaid, commercial insurance, self-pay residents, other third-party payors and long-term care facilities that utilize its rehabilitation therapy and other services. The following table depicts the Company's inpatient services segment revenue by source for the years ended December 31, 2023 and 2022:

	Year ended December 31,	
	2023	2022
Medicare	16 %	19 %
Medicaid	61 %	58 %
Commercial insurance	13 %	12 %
Private	8 %	9 %
Other	2 %	2 %
Total	100 %	100 %

Disaggregation of Revenues

The Company disaggregates revenue from contracts with customers by reportable operating segments and payor type. The disaggregation of 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 payment terms and conditions within the Company's revenue-generating contracts vary by contract type and payor source. Payments are generally received within 30 to 60 days after billing. See Note 6 – "*Segment Information*."

The composition of net revenues by payor type and operating segment for the years ended December 31, 2023 and 2022 was as follows (in thousands):

	Year ended December 31, 2023			
	Inpatient Services	Rehabilitation Therapy Services	Other Services	Total
Medicare	$ 500,041	$ 98,965	$ —	$ 599,006
Medicaid	1,855,280	522	—	1,855,802
Commercial insurance	402,359	41,542	—	443,901
Private	251,072 (1)	—	—	251,072
Third-party providers	—	222,312	84,901	307,213
Other	53,051 (2)	15,390 (2)	113,305 (3)	181,746
Total net revenues	$ 3,061,803	$ 378,731	$ 198,206	$ 3,638,740

	Year ended December 31, 2022			
	Inpatient Services	Rehabilitation Therapy Services	Other Services	Total
Medicare	$ 486,482	$ 94,586	$ —	$ 581,068
Medicaid	1,489,358	345	—	1,489,703
Commercial insurance	303,123	33,271	—	336,394
Private	214,913 (1)	20	—	214,933
Third-party providers	—	200,906	153,741	354,647
Other	63,058 (2)	19,027 (2)	87,129 (3)	169,214
Total net revenues	$ 2,556,934	$ 348,155	$ 240,870	$ 3,145,959

(1) Includes assisted/senior living revenue of $68.3 million and $66.8 million for the years ended December 31, 2023 and 2022, respectively. Such amounts do not represent contracts with customers.
(2) Primarily consists of revenue from Veteran Affairs and administration of third party facilities.
(3) Includes net revenues from all payors generated by the other services, excluding third party providers.

(6) Segment Information

The Company has three reportable operating segments: (i) inpatient services; (ii) rehabilitation therapy services; and (iii) other services. For additional information on these reportable segments, see Note 1 – "*General Information – Description of Business*."

A summary of the Company's segmented revenues is as follows (in thousands, except percentages):

	Year ended December 31,				Increase / (Decrease)	
	2023		2022			
	Revenue Dollars	Revenue Percentage	Revenue Dollars	Revenue Percentage	Dollars	Percentage
Revenues:						
Inpatient services:						
Skilled nursing facilities	$ 2,992,648	82.2 %	$ 2,488,923	79.1 %	$ 503,725	20.2 %
Assisted/senior living facilities	68,334	1.9 %	66,848	2.1 %	1,486	2.2 %
Administration of third-party facilities	3,257	0.1 %	3,886	0.1 %	(629)	(16.2) %
Elimination of administrative services	(2,436)	(0.1) %	(2,723)	(0.1) %	287	10.5 %
Inpatient services, net	3,061,803	84.1 %	2,556,934	81.2 %	504,869	19.7 %
Rehabilitation therapy services:						
Total therapy services	554,475	15.2 %	490,194	15.6 %	64,281	13.1 %
Elimination of intersegment rehabilitation therapy services	(175,744)	(4.8) %	(142,039)	(4.5) %	(33,705)	(23.7) %
Third party rehabilitation therapy services, net	378,731	10.4 %	348,155	11.1 %	30,576	8.8 %
Other services:						
Total other services	278,453	7.7 %	364,949	11.6 %	(86,496)	(23.7) %
Elimination of intersegment other services	(80,247)	(2.2) %	(124,079)	(3.9) %	43,832	35.3 %
Third party other services, net	198,206	5.5 %	240,870	7.7 %	(42,664)	(17.7) %
Net revenues	$ 3,638,740	100.0 %	$ 3,145,959	100.0 %	$ 492,781	15.7 %

A summary of the Company's condensed consolidated statements of operations is as follows (in thousands):

	Year ended December 31, 2023					
	Inpatient Services	Rehabilitation Therapy Services	Other Services	Corporate	Eliminations	Consolidated
Net revenues	$ 3,064,239	$ 554,475	$ 278,453	$ —	$ (258,427)	$ 3,638,740
Salaries, wages and benefits	1,383,651	475,162	171,252	—	—	2,030,065
Other operating expenses	1,292,268	54,632	91,169	—	(257,447)	1,180,622
General and administrative costs	—	—	(410)	100,432	—	100,022
Lease expense	194,575	576	1,300	2,402	—	198,853
Depreciation and amortization expense	67,029	7,341	1,070	4,920	(453)	79,907
Interest expense	128,694	—	32	149,688	(4,720)	273,694
Investment income	—	—	—	(9,272)	4,720	(4,552)
Other income	(70,294)	(9,401)	—	574	—	(79,121)
Transaction costs	—	—	—	25,686	—	25,686
Employee retention credit - other income	—	—	—	(65,000)	—	(65,000)
Long-lived asset impairments	10,452	—	—	—	—	10,452
Goodwill and identifiable intangible asset impairments	—	74,581	—	—	—	74,581
Federal and state stimulus - COVID-19 other income	(18,716)	—	—	—	—	(18,716)
Equity in net income of unconsolidated affiliates	—	—	—	(7,046)	—	(7,046)
Income (loss) before income tax expense	76,580	(48,416)	14,040	(202,384)	(527)	(160,707)
Income tax expense	—	—	—	293	—	293
Net income (loss)	$ 76,580	$ (48,416)	$ 14,040	$ (202,677)	$ (527)	$ (161,000)

	Year ended December 31, 2022					
	Inpatient Services	Rehabilitation Therapy Services	Other Services	Corporate	Eliminations	Consolidated
Net revenues	$ 2,559,657	$ 490,194	$ 364,949	$ —	$ (268,841)	$ 3,145,959
Salaries, wages and benefits	1,112,656	402,107	232,976	—	—	1,747,739
Other operating expenses	1,195,805	50,181	104,047	—	(267,491)	1,082,542
General and administrative costs	—	—	—	79,982	—	79,982
Lease expense	193,809	517	1,702	2,164	—	198,192
Depreciation and amortization expense	98,349	6,138	1,338	14,989	(453)	120,361
Interest expense	69,012	—	34	106,520	(4,720)	170,846
Loss on early extinguishment of debt	—	—	—	882	—	882
Investment income	—	—	—	(6,897)	4,720	(2,177)
Other (income) loss	(33,542)	3,527	(1,245)	(2,000)	—	(33,260)
Transaction costs	—	—	—	18,403	—	18,403
Long-lived asset impairments	25,932	—	—	—	—	25,932
Goodwill and identifiable intangible asset impairments	—	49,156	—	—	—	49,156
Federal and state stimulus - COVID-19 other income	(44,961)	—	(4)	—	—	(44,965)
Equity in net income of unconsolidated affiliates	—	—	—	(8,527)	5,398	(3,129)
(Loss) income before income tax benefit	(57,403)	(21,432)	26,101	(205,516)	(6,295)	(264,545)
Income tax benefit	—	—	—	(4,770)	—	(4,770)
Net (loss) income	$ (57,403)	$ (21,432)	$ 26,101	$ (200,746)	$ (6,295)	$ (259,775)

The following table presents the segment assets as of December 31, 2023 compared to December 31, 2022 (in thousands):

	December 31, 2023	December 31, 2022
Inpatient services	$ 2,805,569	$ 3,099,668
Rehabilitation therapy services	169,471	177,555
Other services	97,244	99,926
Corporate and eliminations	86,867	8,019
Total assets	$ 3,159,151	$ 3,385,168

(7) Property and Equipment

Property and equipment consisted of the following as of December 31, 2023 and 2022 (in thousands):

	December 31, 2023	December 31, 2022
Land, buildings and improvements	$ 934,478	$ 989,137
Equipment, furniture and fixtures	303,319	310,390
Construction in progress	246	1,626
Gross property and equipment	1,238,043	1,301,153
Less: accumulated depreciation	(485,732)	(454,768)
Net property and equipment	$ 752,311	$ 846,385

Net property and equipment included $600.3 million and $674.2 million at December 31, 2023 and 2022, respectively, associated with the Company's consolidated VIEs. The Vantage Point Partnership sold seven facilities during the year ended December 31, 2023, resulting in a reduction of net property and equipment of $31.9 million.

During the years ended December 31, 2023 and 2022, the Company recorded long-lived asset impairment charges to its property and equipment of $10.5 million and $1.8 million, respectively.

(8) Leases

The Company leases the majority of the skilled nursing facilities and assisted/senior living facilities used in its operations, most of which are subject to triple-net leases, meaning that in addition to rent, the Company is responsible for paying property taxes, insurance, and maintenance and repair costs. As of December 31, 2023, the Company leased approximately 72% of its centers; 59% were leased pursuant to master lease agreements with four landlords. The Company also leases certain office space, land, and equipment. As of December 31, 2023, the Company held fixed-price options to purchase 86 facilities, 55 of which are subject to third-party leases and 31 of which are included within the Company's consolidated VIEs.

There were no long-lived asset impairment charges to its operating lease ROU assets recorded for the year ended December 31, 2023. During the year ended December 31, 2022, the Company recorded long-lived asset impairment charges to its operating lease ROU assets of $24.1 million.

The contractual maturities of total operating and finance lease obligations at December 31, 2023 is as follows (in thousands):

Year ending December 31,	Operating Leases	Finance Leases (1)
2024	$ 206,236	$ 101,359
2025	203,331	60,510
2026	188,280	62,020
2027	154,588	63,536
2028	140,005	64,976
Thereafter	411,602	1,044,844
Total lease payments	1,304,042	1,397,245
Less interest	(364,318)	(749,928)
Total lease obligations	939,724	647,317
Less current portion	(177,066)	(47,828)
Long-term lease obligations	$ 762,658	$ 599,489

(1) Finance lease payments include $18.6 million related to options to renew lease terms that are reasonably certain of beingexercised.

The impact of lease covenant failures noted below resulting in the classification as current liabilities is not reflected in the maturity of lease table presented as of December 31, 2023.

The following table provides lease costs and income by line item on the consolidated statements of operations for the years ended December 31, 2023 and 2022 (in thousands):

		Year ended December 31,	
	Classification	2023	2022
Operating lease cost	Lease expense	$ 198,853	$ 198,192
Finance lease cost:			
Amortization of finance lease ROU assets	Depreciation and amortization expense	(854)	41,893
Interest on finance lease obligations	Interest expense	64,649	7,888
Total finance lease expense		63,795	49,781
Variable lease cost	Other operating expenses	24,338	19,695
Short-term leases	Other operating expenses	11,690	13,493
Sublease income	Net revenues	(1,236)	(1,756)
Total		$ 297,440	$ 279,405

During the year ended December 31, 2023, the facts and circumstances changed surrounding a master lease that had been classified as a financing lease at December 31, 2022. The Company concluded the available purchase option will not be exercised. As a result, the master lease has been reclassified as an operating lease. The financing ROU asset and lease obligations of $44.5 million and $44.4 million, respectively, were written off and replaced by an operating ROU asset and lease obligation of $18.9 million and $18.9 million, respectively. In addition to the classification reassessment, the Company reversed accelerated depreciation and amortization expense of $36.7 million previously recorded in fiscal 2022. The adjustment is reflected in the table above.

The following table provides remaining lease term and discount rates by lease classification as of December 31, 2023 and 2022:

Lease Term and Discount Rate	December 31, 2023	December 31, 2022
Weighted-average remaining lease term (years)		
Operating leases	6.9	7.7
Finance leases	17.3	17.3
Weighted-average discount rate		
Operating leases	9.8%	9.4%
Finance leases	9.2%	9.1%

The following table includes supplemental lease information for the years ended December 31, 2023 and 2022 (in thousands):

	Year ended December 31,	
Other Information	2023	2022
Cash paid for amounts included in the measurement of lease obligations		
Operating cash flows from operating leases	$ 214,113	$ 212,301
Operating cash flows from finance leases	9,068	11,685
Financing cash flows from finance leases	4,778	4,251
Right-of-use assets obtained in exchange for new lease obligations		
Operating leases	118,025	18,552
Finance leases	38,070	721,824

Lease Covenants

The Company's lease agreements generally contain covenant requirements that, among other things, and subject to certain exceptions, impose operating and financial restrictions on the Company and its subsidiaries. These leases also require the Company to meet defined financial covenants, such as a minimum consolidated fixed charge coverage. Certain of the Company's leases include cross-default provisions with each other and certain material debt instruments.

At December 31, 2023, the Company did not meet certain financial covenants contained in two leases related to 20 of its facilities. The Company is, and expects to continue to be, current in the timely payment of its obligations under these leases. The leases do not trigger cross default provisions in any of the Company's other loan or lease agreements. The Company will continue to work with the related credit parties to amend the leases and the related financial covenants. The Company does not believe the breach of such financial covenants at December 31, 2023 will have a material adverse impact on its financial condition or results of operations. The Company has been afforded certain cure rights to such defaults by posting collateral in the form of additional letters of credit or security deposit. Long-term lease obligations associated with these agreements of $52.3 million have been classified as current liabilities.

(9) Goodwill and Identifiable Intangible Assets

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. The changes in the carrying value of goodwill are as follows (in thousands):

	Rehabilitation Therapy Services	Other Services	Consolidated
Balance at December 31, 2022			
Goodwill	$ 73,814	$ 11,828	$ 85,642
Balance at December 31, 2023			
Goodwill	73,814	11,828	85,642
Addition of Affirma	767	—	767
Impairment losses	(74,581)	—	(74,581)
	$ —	$ 11,828	$ 11,828

The Company fully impaired the goodwill associated with its rehabilitation therapy services business totaling $74.6 million in the year ended December 31, 2023.

The Company has accumulated impairment losses associated with its inpatient services of $351.5 million, representing the entire balance of goodwill associated with the inpatient reporting unit.

Identifiable intangible assets consist of the following at December 31, 2023 and 2022 (in thousands):

	December 31, 2023	Weighted Average Remaining Life (Years)
Customer relationship assets, net of accumulated amortization of $95,998	$ 17,903	4
Trade names	1,400	Indefinite
Identifiable intangible assets	$ 19,303	

	December 31, 2022	Weighted Average Remaining Life (Years)
Customer relationship assets, net of accumulated amortization of $91,434	$ 21,667	5
Trade names	1,400	Indefinite
Identifiable intangible assets	$ 23,067	

Amortization expense related to customer relationship assets, which is included in depreciation and amortization expense, for the years ended December 31, 2023 and 2022 was $4.6 million and $5.0 million, respectively.

(10) Long-Term Debt

Long-term debt at December 31, 2023 and 2022 consisted of the following (in thousands):

	December 31, 2023	December 31, 2022
Asset based lending facilities, net of debt issuance costs of $4,880 and $4,621 at December 31, 2023 and 2022, respectively	$ 417,439	$ 396,068
Term loan agreements, net of debt issuance costs of $20 at December 31, 2022	291,238	260,186
Real estate loans	289,300	256,740
Notes payable	16,534	10,440
Convertible notes	102,747	60,000
Mortgages and other secured debt (recourse)	619	661
Mortgages and other secured debt (non-recourse), net of debt issuance costs of $11,713 and $8,670 and debt premium balance of $1,027 and $1,126 at December 31, 2023 and 2022, respectively	594,179	671,485
	1,712,056	1,655,580
Less: Current portion of long-term debt	(15,340)	(836,296)
Long-term debt	$ 1,696,716	$ 819,284

Asset Based Lending Facilities

The Company is a party to asset based lending credit facilities (ABL Credit Facilities) with affiliates of White Oak Healthcare Finance, LLC (White Oak). The ABL Credit Facilities, as amended, include total commitments of $470.0 million comprised of (a) a $290.0 million base revolving commitment, (b) a $72.0 million HUD revolving credit commitment, (c) a $78.0 million delayed draw commitment, and (d) a $30.0 million term loan commitment. The ABL Credit Facilities included a temporary overline of $20.0 million increasing the total commitments to $490.0 million. On March 5, 2024, the ABL Credit Facilities was amended reducing the temporary overline to $19.0 million. The amended temporary overline termination date is June 13, 2024.

The ABL Credit Facilities, as amended, have a stated maturity of March 9, 2027 and include a springing maturity clause that would accelerate the maturity date 90 days prior to the maturity of the Term Loan Agreement, as amended, as defined below. As a result of the springing maturity clause, the borrowings of $417.4 million, net of debt issuance costs, under the ABL Credit facilities are due on April 1, 2025. Borrowings under the term loan and revolving credit facility components of the ABL Credit Facilities bear interest at a 90-day SOFR reference rate (subject to a floor of 0.5%) plus an applicable margin range of 4.20% and 4.85%. Borrowings under the delayed draw component bear interest at a 90-day SOFR reference rate (subject to a floor of 0.5%) plus an applicable margin range of 5.77% and 6.24%. Borrowing levels under the term loan and revolving credit facility components of the ABL Credit Facilities are limited to a borrowing base that is computed based upon the level of eligible accounts receivable.

The Company is required to pay a commitment fee to the lenders for any unutilized commitments. The commitment fee rate equals 0.5% per annum on the commitments that exceed outstanding borrowings. In addition, the Company is required to pay letter of credit fees at a rate equal to the applicable margin of 4.20% to 4.85% on any undrawn face amount of such letters of credit.

The Company is required to pay a termination fee upon early retirement of the commitments. The termination fee is equal to 2.5% for commitments retired prior to the first anniversary, 2.0% for commitments retired prior to the second anniversary, 1.0% for commitments retired prior to the third anniversary, 0.5% for commitments retired prior to the fourth anniversary and 0.0% thereafter.

The ABL Credit Facilities contain representations and warranties, affirmative covenants, negative covenants, financial covenants and events of default and security interests that are customarily required for similar financings. Financial covenants include a minimum consolidated fixed charge coverage ratio and minimum liquidity. The minimum consolidated fixed charge coverage ratio is 0.75 to 1.00 as of December 31, 2023, which steps up over the term of the agreement, to 1.20 to 1.00 for the quarter ending June 30, 2024, and thereafter. The Company is also required to maintain minimum liquidity of $62.0 million as of the last day of each month.

Borrowings and interest rates under the White Oak ABL Credit Facilities were as follows at December 31, 2023 (dollars in thousands):

ABL Credit Facilities	Commitment	Borrowings	Weighted Average Interest
Term loan facility	$ 290,000	$ 290,000	10.21 %
Revolving credit facility (Non-HUD)	98,000	50,623	11.60 %
Term Loan Commitments (Non-HUD)	30,000	30,000	11.60 %
Revolving credit facility (HUD)	72,000	51,696	11.60 %
	$ 490,000	$ 422,319	10.64 %

Term Loan Agreements

The Company and certain of its affiliates (the Borrower) are party to a term loan agreement, as amended (the Term Loan Agreement), with an affiliate of Welltower Inc. (Welltower) and an affiliate of Omega Healthcare Investors, Inc. (Omega). The Term Loan Agreement provided for term loans (the Term Loans) in the aggregate principal amount of $160.0 million. The Term Loans provide that 60% and 40% of the outstanding balance and interest accrued thereon is due to affiliates of Welltower and Omega, respectively. On June 3, 2024, the Term Loan Agreement was amended extending the maturity to June 30, 2025, provided that the Welltower affiliate’s portion of the interest payable under the Term Loans may be paid in-kind at the option of the Company, subject to the satisfaction of certain conditions. The original Term Loan for $120.0 million bore interest at a rate equal to 14.0% per annum, with up to 9.0% per annum to be paid in-kind, while the additional Term Loan for $40.0 million bore interest at a rate equal to 10.0% per annum, with up to 5.0% per annum to be paid in-kind. The Omega affiliate’s portion of the interest payable does not include the paid-in-kind option. The Term Loans had an outstanding accreted principal balance of $291.2 million and $260.2 million at December 31, 2023 and 2022, respectively.

The Term Loan Agreement is secured by a first priority lien on the equity interests of the subsidiaries of the Company and the Borrower as well as certain other assets of the Company, the Borrower and their subsidiaries, subject to certain exceptions. The Term Loan Agreement is also secured by a junior lien on the assets that secure the ABL Credit Facilities on a first priority basis. Welltower and Omega, or their respective affiliates, are each currently landlords under certain master lease agreements to which the Company and/or its affiliates are tenants.

Real Estate Loans

The Company is subject to two real estate loan agreements with Welltower (Welltower Real Estate Loans). The Welltower Real Estate Loans bear interest at an annual rate of 12%, which was entirely paid-in-kind, with a balloon payment due at the extended maturity date of June 30, 2025. The loans provide for the forgiveness of $169.8 million plus interest accrued thereon, upon the future satisfaction of certain conditions. The Welltower Real Estate Loans were unsecured as of December 31, 2023 and 2022.

The Welltower Real Estate Loans had an outstanding accreted principal balance of $289.3 million and $256.7 million at December 31, 2023 and 2022, respectively.

Notes Payable

The Company is subject to one note payable with Welltower. The note bears interest at an annual rate of 10.0%, which was entirely paid-in-kind. The note, as amended, matures June 30, 2025, subject to forgiveness upon the transition of the one remaining Welltower facility. As of December 31, 2023 and 2022, the note has an outstanding accreted principal balance of $1.6 million.

The Company previously converted trade payables into a note payable. In November 2023, the Company converted an additional $6.0 million of trade payables into a note payable. The amended note requires monthly interest payments based on an annual interest rate of 8.5%. The note payable is interest only until January 2025. As of December 31, 2023 and 2022, the outstanding principal balance of the note payable was $14.9 million and $8.9 million, respectively. The note payable has a maturity date of December 31, 2026.

Convertible Notes

On March 2, 2021, the Company issued a $50.0 million convertible promissory note to ReGen. The note has a stated maturity date of March 2, 2026 and initially bears interest at 1.0% per annum, payable at maturity. The note is convertible into baskets of securities (Conversion Baskets), each comprised of one Class A common unit of FC-GEN (Class A Unit) and one Class C common stock of Genesis (Class C Share), subject to adjustment. The note contains both automatic and optional conversion terms, whereby the note may be converted into 69,500,755 Conversion Baskets, subject to adjustment, which represent 25% of the fully diluted share capital of the Company, upon the occurrence of certain events.

On December 2, 2022, the Company issued a $10.0 million convertible promissory note to ReGen. The note has a stated maturity date of December 2, 2027 and initially bears interest at 1.0% per annum, payable at maturity. The note contains both automatic and optional conversion terms, whereby the note may be converted into 13,830,831 Conversion Baskets, subject to adjustment.

On January 4, 2023, the Company issued a $15.0 million convertible promissory note to ReGen. The note has a stated maturity date of January 4, 2028 and initially bears interest at 1.0% per annum, payable at maturity. The note contains both automatic and optional conversion terms, whereby the note may be converted into 20,745,572 Conversion Baskets, subject to adjustment.

On May 24, 2023, the Company issued a $25.0 million convertible promissory note to ReGen. The note has a stated maturity date of January 4, 2028 and initially bears interest at 1.5% per month, paid-in-kind. The note contains optional conversion terms, whereby the note may be converted into 100,000 Conversion Baskets per $1,000 principal amount of the note, subject to adjustment. As of December 31, 2023, the outstanding principal balance of the convertible promissory note was $27.7 million.

Mortgages and other secured debt (recourse)

The Company carries a note payable on one office building. The loan is secured by the underlying real property.

Mortgages and other secured debt (non-recourse)

The Company's consolidated joint ventures and VIEs are subject to various loans, as set forth below. These loans are labeled "non-recourse" because neither the Company nor any of its wholly owned subsidiaries is obligated to perform under the respective loan agreements.

Next Partnership Debt

The Next Partnership is subject to a term loan agreement with an original principal balance of $78.0 million and maturity date of September 1, 2025. The term loan bears interest at an initial rate of SOFR plus 5.50%. The applicable margin increases by 1.0% every six months. The term loan can be expanded by $5.0 million upon completion of certain conditions. Beginning in November 2024, principal payments will be calculated based on a 25-year amortization schedule, after giving effect to any prior refinancing or other repayments of the term loan, and applied to the remaining term loan balance. The term loan had an outstanding principal balance of $45.0 million at December 31, 2023 and 2022, respectively. The term loan was collateralized by five facilities as of December 31, 2023 and 2022, respectively.

The Next Partnership is subject to a mezzanine loan with an original principal balance of $27.0 million and maturity date of February 1, 2029. The mezzanine loan bears interest at 11.50% and had an outstanding principal balance of $15.4 million and $16.8 million as of December 31, 2023 and 2022, respectively.

The Next Partnership includes five facilities that are subject to HUD-insured loans. The loans mature on dates ranging from January 1, 2055 through June 1, 2055. The loans bear interest at fixed rates ranging from 2.79% to 3.15% and had an aggregate outstanding principal balance of $63.5 million and $64.7 million at December 31, 2023 and 2022, respectively.

Vantage Point Partnership Debt

The Vantage Point Partnership is subject to a term loan agreement with an aggregate original principal balance of $240.9 million and maturity date of September 12, 2026. The term loan bears interest at SOFR (subject to a floor of 1.75%) plus 3.75%. Principal payments are calculated based on a 25-year amortization schedule which, after giving effect to any prior refinancing or other repayments of the term loan, will be applied to the remaining term loan balance. During the year ended December 31, 2023, the Vantage Point Partnership sold seven facilities paying down debt by $58.0 million. The term loan had an outstanding principal balance of $173.8 million and $235.9 million as of December 31, 2023 and 2022, respectively. The term loan was collateralized by 12 facilities as of December 31, 2023.

The Vantage Point Partnership is subject to a promissory note in the amount of $76.8 million, the entire balance of which was outstanding at December 31, 2023 and December 31, 2022. The promissory note bears interest at 14.0% and matures on September 12, 2028.

Cascade Partnership Debt

On August 11, 2023, the Cascade Partnership refinanced its maturing term loan agreement. The refinanced term loan has an aggregate principal balance of $187.0 million and maturity date of August 11, 2025. The term loan bears interest at 30-day term SOFR (subject to a floor of 3.0%) plus 4.25% and is subject to interest-only payments through the maturity date. The term loan also has a one-year optional extension period that becomes exercisable upon satisfaction of certain conditions, such as achieving a specified debt service coverage ratio. The entire term loan balance of $187.0 million was outstanding as of December 31, 2023 compared to $183.5 million as of December 31, 2022. The term loan is collateralized by nine facilities as of December 31, 2023.

The Cascade Partnership was subject to a note payable in the initial amount of $10.0 million. The note was fully retired for $11.6 million in connection with the refinancing of the term loan on August 11, 2023. The note payable had an outstanding balance of $11.0 million at December 31, 2022.

HUD-Insured Loans

The HUD insured loans for owned facilities had an aggregate principal balance of $25.2 million and $25.8 million at December 31, 2023 and 2022, respectively. As of December 31, 2023, the Company had three owned, non-recourse loans insured by HUD.

Other Non-Recourse Debt

The Company has other non-recourse loans consisting principally of secured bank loans that are secured by the underlying real and personal property of individual facilities.

Debt Covenants

The Company's ability to maintain compliance with its debt covenants depends in part on management's ability to increase revenue, control costs and receive timely and adequate government-sponsored financial support. See Note 1 – *"General Information – Going Concern Considerations"* for discussion of conditions that have impacted current covenant compliance.

The maturity of total debt of $1,727.6 million, excluding debt issuance costs and other non-cash debt discounts and premiums, at December 31, 2023 is as follows (in thousands):

Twelve months ended December 31,		
2024	$	15,554
2025		826,650
2026		232,287
2027		437,152
2028		124,598
Thereafter		91,381
Total debt maturity	$	1,727,622

(11) Other Income

In the years ended December 31, 2023 and 2022, the Company completed multiple transactions, including the divestiture of numerous skilled nursing facilities and the termination or modification of certain lease agreements. See Note 4 – "*Significant Transactions and Events*." These transactions resulted in a net gain recorded as other income in the consolidated statements of operations. The following table summarizes the net gains (in thousands):

	Year ended December 31,			
	2023		2022	
Gain on sale/purchase of owned assets (1)	$	(34,655)	$	(29,499)
Loss (gain) recognized on divestiture or acquisition of operations (2)		8,187		(600)
Gain on lease termination or modification (3)		(52,653)		(3,161)
Total other income	$	(79,121)	$	(33,260)

(1) The Company sold eight owned skilled nursing facility, including seven facilities included in the Vantage Point Partnership, several land parcels and one joint venture arrangement during the year ended December 31, 2023. The Company acquired a therapy services company resulting in a gain during the year ended December 31, 2023. The Company sold five owned skilled nursing facilities and two land parcels during the year ended December 31, 2022. The gain represents sale proceeds in excess of the carrying value of the assets sold.

(2) The Company divested operations of 40 facilities, including the sold facilities noted above, and acquired operations of two facilities in the year ended December 31, 2023. The Company divested operations of 11 facilities, including the sold facilities noted above, and acquired operations of 41 facilities in the year ended December 31, 2022. Upon divestiture, the Company recognized exit costs for uncollectible accounts receivable resulting from a sale, the write-off of inventory balances assumed by the new operator, and other costs associated with the transition of operations. Upon acquisition, the Company established an inventory balance assumed from the old operator.

(3) The Company amended numerous lease agreements in the years ended December 31, 2023 and 2022 as a result of facility divestitures. Lease terminations may be the result of divested operations or sales of real property between landlords for retained operations. Each lease amendment triggers a lease reassessment, which includes possible lease reclassification and assumption of renewal options. Upon termination, the respective lease liability and ROU asset balances are adjusted proportionately, with offsetting adjustments recorded as other income, in certain circumstances.

(12) Related Party Transactions

The Company provides rehabilitation services to certain facilities owned and operated by two customers in which certain members of the Company's board of directors, board observer, shareholders and affiliate with greater than 5% of the Company's Class A common stock beneficially own an ownership interest. In the case of one significant customer, these services resulted in net revenues of $53.3 million and $70.4 million in the years ended December 31, 2023 and 2022, respectively. The services resulted in net accounts receivable balances of $56.1 million and $43.9 million at December 31, 2023 and 2022, respectively. Further, the Company holds a note receivable from this customer, which was derived from past due accounts receivable, in the principal amount of $56.3 million. The Company has fully reserved the note receivable balance. The reserve represents the judgment of management and does not indicate a forgiveness of any amount owed by this related party customer. In the case of the other customer, the Company recorded net revenues of $5.3 million and $5.0 million in the years ended December 31, 2023 and 2022, respectively, resulting in net accounts receivable balances of $2.2 million and $2.0 million at December 31, 2023 and 2022, respectively.

The consolidated financial statements include the accounts of three strategic partnerships, in which the Company holds a membership interest of between 30% and 50%. Certain members of the Company's Board of Directors or affiliate each directly or indirectly hold an ownership interest in each of the partnerships. These partnerships own the real property of skilled nursing facilities in which the Company operates. The Company holds fixed price purchase options to acquire the real property of these partnerships. The total property and equipment associated with the strategic partnerships was $600.3 million and $650.9 million at December 31, 2023 and 2022, respectively. The total debt associated with the strategic partnerships was $550.4 million and $625.6 million at December 31, 2023 and 2022, respectively.

The Company is party to a master lease and several debt instruments with Welltower, which holds greater than 5% of the Company's Class A common stock. The Company is a party to a transaction agreement with Welltower to exit the facilities subject to the master lease. See Note 4 – "*Significant Transactions and Events – Restructuring Transactions – Welltower*." At December 31, 2023, the Company leased only one facility as a result of the transitions from Welltower. During the years ended December 31, 2023 and 2022, the Company paid Welltower rent of $1.4 million and $1.3 million, respectively. During the years ended December 31, 2023 and 2022, the Company recorded cash interest on debt instruments due to Welltower of $5.1 million and $4.7 million, respectively.

The Company holds a 50% interest in 26 facilities in the states of California, Washington and Nevada (the NewGen Partnership). The Company does not hold a controlling financial interest in the NewGen Partnership. The Company provided $9.0 million in financing to the NewGen Partnership. The Company provided administrative and back-office services to the facilities pursuant to administrative support agreements until December 31, 2022. The Company continues to deliver therapy services and subleases six facilities to the NewGen Partnership. Total income recorded related to services provided and the subleases was $14.0 million and $24.3 million for the years ended December 31, 2023 and 2022, respectively. Therapy services resulted in net accounts receivable balances of $4.0 million and $3.6 million at December 31, 2023 and 2022, respectively.

The Company has four convertible notes totaling $102.7 million due and payable to ReGen. The Company has an affiliate who holds ownership interest in ReGen. See Note 10 – "*Long-Term Debt – Convertible Notes*."

The Company leases 34 facilities in Pennsylvania and one facility in New Jersey from a landlord under master leases for an annual rent of $50.5 million. The Company paid rent of $8.7 million for four facilities in Colorado that were divested August 1, 2023. The Company has an affiliate who holds ownership interest in the landlord. Welltower owns the remaining ownership interest in the landlord. See Note 4 – "*Significant Transactions and Events – Divestitures and Acquisitions.*"

The Company leases four facilities in New Hampshire from a landlord under a master lease for an annual rent of $3.0 million. An affiliate holds ownership interest in the landlord.

The Company entered into a consulting agreement effective January 1, 2022 with a firm to provide operational and clinical services for an annual sum of $4.2 million. An affiliate holds ownership interests in the firm.

(13) Commitments and Contingencies

Loss Reserves for Certain Self-Insured Programs

General and Professional Liability and Workers' Compensation

The Company self-insures for certain insurable risks, including general and professional liabilities and workers' compensation liabilities through the use of self-insurance or retrospective and self-funded insurance policies and other hybrid policies, which vary among states in which the Company operates, including wholly owned captive insurance subsidiaries, to provide for potential liabilities for general and professional liability claims and workers' compensation claims. General and professional liability policies are typically written for a duration of 12 months or less and are measured on a "claims made" basis. Regarding workers' compensation, the Company self-insures to its deductible and purchases statutorily required insurance coverage in excess of its deductible. Excess insurance policies are typically written for a duration of 12 months or less and are measured on an "occurrence" basis. There is a risk that amounts funded by the Company's self-insurance programs may not be sufficient to respond to all claims asserted under those programs. Insurance reserves represent estimates of future claims payments. This liability includes an estimate of the development of reported losses and losses incurred but not reported. Provisions for changes in insurance reserves are made in the period of the related coverage. Estimated insurance recoveries related to recorded liabilities are reflected as assets in the Company's consolidated balance sheets when the receipt of such amounts is deemed to be probable.

The Company's management employs its judgment and periodic independent actuarial analysis in determining the adequacy of certain self-insured workers' compensation and general and professional liability obligations recorded as liabilities in the Company's consolidated financial statements. The Company evaluates the adequacy of its self-insurance reserves on a semi-annual basis or more frequently when it is aware of changes to its incurred loss patterns that could impact the accuracy of those reserves. The methods of making such estimates and establishing the resulting reserves are reviewed periodically and are based on historical paid claims information and nationwide nursing home trends. The foundation for most of these methods is the Company's actual historical reported and/or paid loss data. Any adjustments resulting therefrom are reflected in current earnings. Claims are paid over varying periods, and future payments may be different than the estimated reserves.

The Company utilizes a combination of third-party administrators (TPAs), in-house adjusters, and legal counsel, along with systems designed to maintain and process claims to provide it with the data utilized in its assessments of reserve adequacy. Where TPAs are utilized, they operate under the oversight of the Company's in-house risk management and legal functions. These functions and systems ensure that the claims are properly administered so that the historical data is reliable for estimation purposes. Case reserves, which are approved by the Company's legal and risk management departments, are determined based on an estimate of the ultimate settlement and/or ultimate loss exposure of individual claims.

The provision for general and professional liability risks totaled $55.9 million and $52.1 million for the years ended December 31, 2023 and 2022, respectively. The reserves for general and professional liability, which are recorded on an undiscounted basis, were $246.7 million and $276.5 million as of December 31, 2023 and 2022, respectively.

The provision for workers' compensation risks totaled $28.1 million and $27.4 million for the years ended December 31, 2023 and 2022, respectively. The loss reserves for workers' compensation risks were $109.6 million and $110.7 million as of December 31, 2023 and 2022, respectively. These reserves are discounted based on actuarial estimates of claim payment patterns using a discount rate for the current policy year of 4.0%. The discount rates are based upon the risk-free rate for the appropriate duration for the respective policy year.

The Company has letters of credit with a bank totaling $111.7 million in favor of insurers. Restricted cash and cash equivalents of $112.2 million are pledged as security for these letters of credit.

Health Insurance

The Company offers employees an option to participate in self-insured health plans. Health insurance claims are paid as they are submitted to the plans' administrators. The Company maintains an accrual for claims that have been incurred but not yet reported to the plans' administrators and therefore have not yet been paid. This accrual for incurred but not yet reported claims was $8.8 million and $10.0 million as of December 31, 2023 and 2022, respectively. The liability for the self-insured health plan is recorded in accrued compensation in the consolidated balance sheets. Although management believes that the amounts provided in the Company's consolidated financial statements are adequate and reasonable, there can be no assurances that the ultimate liability for such self-insured risks will not exceed management's estimates.

Legal Proceedings

The Company and certain of its subsidiaries are involved in or have received notice of various investigations, litigation and potential claims related to the COVID-19 pandemic, including inquiries from state and federal agencies; professional liability claims; and employment-related lawsuits and claims. Such claims may be subject to liability protection provisions within various state executive orders or legislation and/or federal legislation. The applicability of such protection has not yet been adjudicated in any pending claim against the Company.

While there can be no assurance, based on the Company's evaluation of information currently available, management does not believe the results of such litigation and investigations would have a material adverse effect on the results of operations, financial position or cash flows of the Company. However, the Company's assessment may evolve based upon further developments in the proceedings at issue. The results of legal proceedings are inherently uncertain, and material adverse outcomes are possible.

The Company and certain of its subsidiaries are involved in various litigation and regulatory investigations arising in the ordinary course of business. While there can be no assurance, based on the Company's evaluation of information currently available, management does not believe the results of such litigation and regulatory investigations would have a material adverse effect on the results of operations, financial position or cash flows of the Company. However, the Company's assessment may be affected by limited information (particularly in the early stages of government investigations). Accordingly, the Company's assessment may change in the future based upon availability of discovery and further developments in the proceedings at issue. The results of legal proceedings are inherently uncertain, and material adverse outcomes are possible.

From time to time the Company may enter into confidential discussions regarding the potential settlement of pending investigations or litigation. There are a variety of factors that influence the Company's decisions to settle and the amount it may choose to pay, including the strength of the Company's case, developments in the investigation or litigation, the behavior of other interested parties, the demand on management time and the possible distraction of the Company's employees associated with the case and/or the possibility that the Company may be subject to an injunction or other equitable remedy. The settlement of any pending investigation, litigation or other proceedings could require the Company to make substantial settlement payments and result in incurring substantial costs.

Lease Guarantees

The Company is subject to lease guaranty agreements on six of the facilities leased by the NewGen Partnership, under which it guarantees all payments and performance obligations of the tenants. As of December 31, 2023 and 2022, the six leases have undiscounted cash rent obligations remaining of $65.1 million and $71.8 million, respectively.

(14) Subsequent Events

Divestitures

On April 10, 2024, the Company sold its staffing services company for $105.0 million. The Company received $40.0 million in cash proceeds which were used to pay down $36.9 million in borrowings under the ABL Credit Facilities and $2.3 million in closing fees and indemnity escrow. The Company also received $65.0 million in membership interests that are exchangeable into company stock of the acquiring entity. The staffing services company generated annual revenues of $178.7 million and break-even pre-tax income for the year ended December 31, 2023. The Company is finalizing the calculation of the gain resulting from this sale that will be recognized in 2024.

The Company divested the operations of eight leased facilities, one owned facility and one consolidated joint venture facility after December 31, 2023. The 10 facilities generated annual revenues of $114.5 million and pre-tax loss of $11.6 million for the year ended December 31, 2023. The real property of the owned facility sold for $10.2 million. The real property of the joint venture facility sold for $9.8 million. Non-recourse debt of $7.5 million was retired as part of the sale. The Company is finalizing the calculation of any gain or loss resulting from these divestitures that will be recognized in 2024.

Related Parties

On June 2, 2024, one of the Company's significant customers filed voluntary petitions for relief under Chapter 11 of the U.S. Bankruptcy Code. The Company provides rehabilitation services to this customer. Certain members of the Company's board of directors, board observer, shareholders and affiliate with greater than 5% of the Company's Class A common stock beneficially own an ownership interest in the customer. The Company is assessing the impact of the bankruptcy news on its statements of operations and financial condition. See Note 12 – "*Related Party Transactions*."

The Company did not have any other material subsequent events through June 14, 2024, which is the date the consolidated financial statements were available to be issued.