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

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2021

or

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

For the transition period from ____ to ____

Commission File Number: 001-40159

InnovAge Holding Corp.

(Exact name of registrant as specified in its charter)

Delaware **(State or Other Jurisdiction of Incorporation or Organization)**	**81-0710819** **(I.R.S. Employer Identification Number)**
8950 E. Lowry Boulevard **Denver, CO** **(Address of Principal Executive Offices)**	**80230** **(Zip Code)**

(844) 803-8745
(Registrant's telephone number, including area code)

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

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

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

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

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

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

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

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

As of February 8, 2022, there were 135,516,513 of the registrant's common stock outstanding.

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InnovAge Holding Corp. and Subsidiaries
Quarterly Report on Form 10-Q
For the quarterly period ended December 31, 2021

Cautionary Note on Forward-Looking Statements

Throughout this Quarterly Report on Form 10-Q, we make "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements describe future expectations, plans, results or strategies and can often be identified by the use of terminology such as "may," "will," "estimate," "intend," "plan," "continue," "believe," "expect," "anticipate," "target," "should," "could," "potential," "opportunity," "goal" or similar terminology. Forward-looking statements may be identified by the fact that they do not relate strictly to historical or current facts and may include statements about our expectations to increase the number of participants we serve, to grow enrollment and capacity within existing centers, to build de novo centers, and other similar statements. The forward-looking statements contained in this Quarterly Report on Form 10-Q are generally located in the material set forth under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in Part I, Item 2, and "Risk Factors," included in Part II, Item 1A, but may be found in other locations as well. These statements are based upon management's current expectations, assumptions and estimates and are not guarantees of timing, future results or performance. Therefore, you should not rely on any of these forward-looking statements as predictions of future events. Actual results may differ materially from those contemplated in these statements due to a variety of risks and uncertainties and other factors, including, among other things:

- the results of periodic inspections, reviews and audits under the federal and state government programs, including the ongoing audit of our Albuquerque, New Mexico center, the sanctions currently in place on our centers in Colorado and in our Sacramento center in California and our ability to sufficiently cure any deficiencies identified by the respective federal and state government programs;
- the impact on our business of security breaches, loss of data or other disruptions causing the compromise of sensitive information or preventing us from accessing critical information;
- our ability to develop and maintain proper and effective internal control over financial reporting;
- the impact on our business of disruptions in our disaster recovery systems or management continuity planning;
- the impact of any restrictions on our use of or ability to license data or our failure to license data and integrate third-party technologies;
- our ability to attract and retain highly qualified personnel;
- our management team's limited experience managing a public company and recent Chief Executive Officer succession;
- the impact on our business of the termination of our leases, increases in rent or inability to renew or extend leases;
- the impact of failures by our suppliers, material price increases on supplies, lack of reimbursement for drugs we purchase or limitations on our ability to access new technology or products;
- our ability to maintain our corporate culture;
- the impact of competition for physicians and nurses, shortages of qualified personnel and related increases in our labor costs;
- our ability to attract and retain the services of key primary care physicians;
- the risk that our submissions to health plans may contain inaccurate or unsupportable information regarding risk adjustment scores of members;
- our ability to accurately estimate incurred but not reported medical expense;
- the impact of negative publicity regarding the managed healthcare industry;
- the impact of state and federal efforts to reduce Medicaid spending;
- the impact on our centers of adverse weather conditions and other factors beyond our control; and
- other factors disclosed in the section entitled "Risk Factors" in our Annual Report for the year ended June 30, 2021 filed with the Securities and Exchange Commission (the "SEC") on September 22, 2021 as well as in this Quarterly Report on Form 10-Q.

We derive many of our forward-looking statements from our operating budgets and forecasts, which are based on many detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and it is impossible for us to anticipate all factors that could affect our actual results. All written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by these cautionary statements as well as other cautionary statements that are made from time to time in our other public communications and filings with the SEC. You should evaluate all forward-looking statements made in this Quarterly Report on Form 10-Q in the context of these risks and uncertainties.

We caution you that the important factors referenced above may not contain all of the factors that are important to you. In addition, we cannot assure you that we will realize the results or developments we expect or anticipate or, even if substantially realized, that they will result in the consequences or affect us or our operations in the way we expect. The forward-looking statements included in this Quarterly Report on Form 10-Q are made only as of the date hereof. We undertake no obligation to update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law. Unless otherwise specified or unless the context requires otherwise, all references in this Quarterly Report on Form 10-Q to “InnovAge,” “the Company,” “we,” “us,” and “our,” or similar references, refer to InnovAge Holding Corp. and our consolidated subsidiaries.

PART I —FINANCIAL INFORMATION

Item 1. Financial Statements

INNOVAGE HOLDING CORP. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets
(In thousands, except per share data)
(Unaudited)

	December 31, 2021	June 30, 2021
Assets		
Current Assets		
Cash and cash equivalents	$ 216,314	$ 201,466
Restricted cash	2,234	2,234
Accounts receivable, net of allowance ($2,861 – December 31, 2021 and $4,350 – June 30, 2021)	33,288	32,582
Prepaid expenses and other	9,458	9,249
Income tax receivable	4,644	5,401
Total current assets	265,938	250,932
Noncurrent Assets		
Property and equipment, net	152,200	142,715
Investments	5,493	3,493
Deposits and other	3,966	3,877
Goodwill	124,217	124,217
Intangible assets, net	6,187	6,518
Total noncurrent assets	292,063	280,820
Total assets	$ 558,001	$ 531,752
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable and accrued expenses	$ 39,223	$ 32,361
Reported and estimated claims	34,607	33,234
Due to Medicaid and Medicare	8,840	7,101
Current portion of long-term debt	3,792	3,790
Current portion of capital lease obligations	2,854	2,079
Total current liabilities	89,316	78,565
Noncurrent Liabilities		
Deferred tax liability, net	19,080	15,700
Capital lease obligations	8,788	5,190
Other noncurrent liabilities	2,489	2,758
Long-term debt, net of debt issuance costs	69,892	71,574
Total liabilities	189,565	173,787
Commitments and Contingencies (See Note 9)		
Redeemable Noncontrolling Interests (See Note 4)	18,850	16,986
Stockholders’ Equity		
Common stock, $0.001 par value; 500,000,000 authorized as of December 31, 2021 and June 30, 2021; 135,516,513 shares issued and outstanding as of both December 31, 2021 and June 30, 2021	136	136
Additional paid-in capital	325,501	323,760
Retained earnings	17,695	10,663
Total InnovAge Holding Corp.	343,332	334,559
Noncontrolling interests	6,254	6,420
Total stockholders’ equity	349,586	340,979
Total liabilities and stockholders’ equity	$ 558,001	$ 531,752

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

INNOVAGE HOLDING CORP. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations
(In thousands, except number of shares and per share data)
(Unaudited)

	Three Months Ended December 31, 2021	Three Months Ended December 31, 2020	Six Months Ended December 31, 2021	Six Months Ended December 31, 2020
Revenues				
Capitation revenue	$ 174,964	$ 156,515	$ 347,518	$ 308,459
Other service revenue	386	796	902	1,418
Total revenues	175,350	157,311	348,420	309,877
Expenses				
External provider costs	91,033	75,145	181,045	148,826
Cost of care, excluding depreciation and amortization	42,911	38,074	83,639	76,357
Sales and marketing	6,679	4,631	12,972	8,743
Corporate, general and administrative	28,482	15,729	49,566	87,306
Depreciation and amortization	3,292	2,992	6,585	5,951
Equity loss	—	541	—	1,342
Other operating income	—	(343)	—	(1,011)
Total expenses	172,397	136,769	333,807	327,514
Operating Income (Loss)	2,953	20,542	14,613	(17,637)
Other Income (Expense)				
Interest expense, net	(674)	(6,555)	(1,221)	(12,186)
Loss on extinguishment of debt	—	—	—	(991)
Other income (expense)	28	106	(465)	44
Total other expense	(646)	(6,449)	(1,686)	(13,133)
Income (Loss) Before Income Taxes	2,307	14,093	12,927	(30,770)
Provision for Income Taxes	1,201	4,486	4,197	9,423
Net Income (Loss)	1,106	9,607	8,730	(40,193)
Less: net loss attributable to noncontrolling interests	(217)	(98)	(279)	(243)
Net Income (Loss) Attributable to InnovAge Holding Corp.	$ 1,323	$ 9,705	$ 9,009	$ (39,950)
Weighted-average number of common shares outstanding - basic	135,516,513	116,520,612	135,516,513	118,795,021
Weighted-average number of common shares outstanding - diluted	135,516,513	116,520,612	135,516,513	118,795,021
Net income (loss) per share - basic	$ 0.01	$ 0.08	$ 0.07	$ (0.34)
Net income (loss) per share - diluted	$ 0.01	$ 0.08	$ 0.07	$ (0.34)

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

INNOVAGE HOLDING CORP. AND SUBSIDIARIES

Condensed Consolidated Statements of Stockholders' Equity
(In thousands, except per share data)
(Unaudited)

For the Three Months Ended December 31, 2021

	Capital Stock Shares	Capital Stock Amount	Additional Paid-in Capital	Retained Earnings (Deficit)	Treasury Stock Shares	Treasury Stock Amount	Noncontrolling Interests	Total Permanent Stockholders' Equity	Redeemable Noncontrolling Interests (Temporary Equity)	Net Income (Loss)
Balances, September 30, 2021	135,516,513	136	324,718	18,936	-	-	6,326	350,116	16,431	
Stock-based compensation	-	-	783	-	-	-	-	783	-	
Net income (loss)	-	-	-	1,323	-	-	(72)	1,251	(145)	
Adjustment to redemption value	-	-	-	(2,564)	-	-	-	(2,564)	2,564	$ -
Balances, December 31, 2021	135,516,513	$ 136	$325,501	$17,695	-	$ -	$ 6,254	$ 349,586	$ 18,850	

For the Six Months Ended December 31, 2021

	Capital Stock Shares	Capital Stock Amount	Additional Paid-in Capital	Retained Earnings (Deficit)	Treasury Stock Shares	Treasury Stock Amount	Noncontrolling Interests	Total Permanent Stockholders' Equity	Redeemable Noncontrolling Interests (Temporary Equity)	Net Income (Loss)
Balances, June 30, 2021	135,516,513	136	323,760	10,663	-	-	6,420	340,979	16,986	
Stock-based compensation	-	-	1,741	-	-	-	-	1,741	-	
Net income (loss)	-	-	-	9,009			(166)	8,843	(113)	
Adjustment to redemption value	-	-	-	(1,977)	-	-	-	(1,977)	1,977	$ -
Balances, December 31, 2021	135,516,513	$ 136	$325,501	$17,695	-	$ -	$ 6,254	$ 349,586	$ 18,850	

	For the Three Months Ended December 31, 2020							
	Capital Stock		Additional Paid-in	Retained	Treasury Stock		Noncontrolling	
	Shares	Amount	Capital	Earnings	Shares	Amount	Interests	Total
Balances, September 30, 2020	132,718,461	$ 133	$ 4,026	$ 5,626	16,197,849	$ (77,796)	$ 6,589	$ (61,422)
Stock-based compensation	—	—	526	—	—	—	—	526
Owner contribution	—	—	20,000	—	—	—	—	20,000
Net income (loss)	—	—	—	9,705	—	—	(98)	9,607
Balances, December 31, 2020	132,718,461	$ 133	$ 24,552	$ 15,330	16,197,849	$ (77,796)	$ 6,492	$ (31,289)

	For the Six Months Ended December 31, 2020							
	Capital Stock		Additional Paid-in	Retained	Treasury Stock		Noncontrolling	
	Shares	Amount	Capital	Earnings	Shares	Amount	Interests	Total
Balances, June 30, 2020	132,718,461	$ 133	$ 36,338	$ 64,737	102,030	$ (193)	$ 6,735	$ 107,750
Treasury stock transaction	—	—	—	—	16,095,819	(77,603)	—	(77,603)
Owner distribution	—	—	—	(9,457)	—	—	—	(9,457)
Time based awards- option cancelation	—	—	(32,358)	—	—	—	—	(32,358)
Stock-based compensation	—	—	572	—	—	—	—	572
Owner contribution	—	—	20,000	—	—	—	—	20,000
Net income (loss)	—	—	—	(39,950)	—	—	(243)	(40,193)
Balances, December 31, 2020	132,718,461	$ 133	$ 24,552	$ 15,330	16,197,849	$ (77,796)	$ 6,492	$ (31,289)

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

INNOVAGE HOLDING CORP. AND SUBSIDIARIES

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

	For the Six Months Ended December 31, 2021	2020
Operating Activities		
Net income (loss)	$ 8,730	$ (40,193)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Loss on disposal of assets	465	—
Provision for uncollectible accounts	2,883	2,712
Depreciation and amortization	6,585	5,951
Loss on extinguishment of long-term debt	—	991
Amortization of deferred financing costs	215	652
Stock-based compensation	1,741	572
Deferred income taxes	3,380	6,084
Loss in equity of nonconsolidated entities	—	1,342
Change in fair value of contingent consideration	—	(1,011)
Changes in operating assets and liabilities, net of acquisitions		
Accounts receivable, net	(3,589)	4,171
Prepaid expenses and other	(209)	(385)
Income tax receivable	757	1,738
Deposits and other	(89)	(315)
Accounts payable and accrued expenses	7,596	2,351
Reported and estimated claims	1,373	6,204
Due to Medicaid and Medicare	1,739	8,393
Net cash provided by (used in) operating activities	31,577	(743)
Investing Activities		
Purchases of property and equipment	(11,681)	(11,464)
Purchase of intangible assets	—	(2,000)
Purchase of cost method investment	(2,000)	—
Net cash used in investing activities	$ (13,681)	$ (13,464)
Financing Activities		
Distributions to owners	$ —	$ (9,457)
Owner contributions	—	20,000
Payments on capital lease obligations	(1,154)	(1,079)
Proceeds from long-term debt	—	300,000
Principal payments on long-term debt	(1,894)	(213,390)
Payment of financing costs and debt premiums	—	(7,478)
Treasury stock purchases	—	(77,603)
Payments related to option cancellation	—	(32,358)
Net cash used in financing activities	(3,048)	(21,365)
INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS & RESTRICTED CASH	14,848	(35,572)
CASH, CASH EQUIVALENTS & RESTRICTED CASH, BEGINNING OF PERIOD	203,700	114,565
CASH, CASH EQUIVALENTS & RESTRICTED CASH, END OF PERIOD	$ 218,548	$ 78,993
Supplemental Cash Flows Information		
Interest paid	$ 984	$ 8,154
Income taxes paid	$ 84	$ 1,638
Property and equipment included in accounts payable	$ 1,004	$ 217
Property and equipment purchased under capital leases	$ 5,653	$ 3,527

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

INNOVAGE HOLDING CORP. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1: Business

InnovAge Holding Corp. (formerly, TCO Group Holdings, Inc.) was formed May 13, 2016, to acquire the business of Total Community Options, Inc. d/b/a InnovAge, which was formed in May 2007. In connection with the Company's initial public offering ("IPO"), which occurred in March 2021, we changed the name of our Company from TCO Group Holdings, Inc. to InnovAge Holding Corp.

InnovAge Holding Corp. and its subsidiaries, which are headquartered in Denver, Colorado have a record of innovation, quality, and sensitivity to the needs of participants and staff. The Company manages, and in many cases directly provides, a broad range of medical and ancillary services for seniors in need of care and support to safely live independently in their homes and communities, including in-home care services (skilled, unskilled and personal care); in-center services such as primary care, physical therapy, occupational therapy, speech therapy, dental services, mental health and psychiatric services, meals, and activities; transportation to the Program of All-Inclusive Care for the Elderly ("PACE") center and third-party medical appointments; and care management. The Company manages its business as one reportable segment, PACE.

As of December 31, 2021, the Company served approximately 7,050 PACE participants, making it the largest PACE provider in the United States of America (the "U.S.") based upon participants served, and operates 18 PACE centers across Colorado, California, New Mexico, Pennsylvania and Virginia.

PACE is a fully-capitated managed care program, which serves the frail elderly, and predominantly dual-eligible, population in a community-based service model. InnovAge is obligated to provide and participants receive all needed healthcare services through an all-inclusive, coordinated model of care, and the Company is at risk for 100% of healthcare costs incurred with respect to the care of its participants. PACE programs receive capitation payments directly from Medicare Parts C and D, Medicaid, Veterans Administration ("VA"), and private pay sources. Additionally, under the Medicare Prescription Drug Plan, the Centers for Medicare and Medicaid Services ("CMS") share part of the risk for providing prescription medication to the Company's participants.

On March 8, 2021, we completed our IPO. The Company's common stock began trading on the Nasdaq Stock Market LLC ("NASDAQ") under the ticker symbol "INNV".

Note 2: Summary of Significant Accounting Policies

The Company described its significant accounting policies in Note 2, "Summary of Significant Accounting Policies" of the Notes to Consolidated Financial Statements in its Annual Report on Form 10-K for the year ended June 30, 2021 ("2021 10-K"). During the six months ended December 31, 2021, there were no significant changes to those accounting policies.

Basis of Preparation and Principles of Consolidation

The unaudited interim condensed consolidated financial statements and accompanying notes have been prepared in accordance with accounting principles generally accepted in the U.S. ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been omitted pursuant to such regulations. These financial statements have been prepared on a basis consistent with the accounting principles applied for the fiscal year ended June 30, 2021. In the opinion of management, all adjustments (consisting of all normal and recurring adjustments) considered necessary for a fair presentation have been included. The condensed consolidated financial statements include the accounts of InnovAge, its wholly owned subsidiaries, variable interest entities ("VIEs") for which it is the primary beneficiary and entities for which it has a controlling interest. All intercompany accounts and transactions have been eliminated in consolidation.

The Company does not have any components of comprehensive income and comprehensive income is equal to net income reported in the statements of operations for all periods presented.

Restatement of Prior Period Financial Statements

Subsequent to the issuance of the Company's condensed consolidated financial statements as of and for the year ended June 30, 2021, we identified an error in our consolidated balance sheet and statement of stockholders' equity as of June 30, 2021 related to the presentation of redeemable noncontrolling interests. The Company incorrectly recorded redeemable noncontrolling interests of $17.0 million as permanent equity rather than temporary equity as of June 30, 2021. As a result, the Company restated the June 30, 2021 condensed consolidated financial statements to reflect this reclassification from permanent to temporary equity and to record the related adjustment to redemption value as of June 30, 2021. Management evaluated the materiality of this misstatement and concluded that it is not material to the prior period. The effect of the restatement on the consolidated balance sheet as of June 30, 2021 is as follows (*in thousands*):

	As Previously Reported	Adjustments	As Restated
Redeemable Noncontrolling Interests (See Note 4)	—	16,986	16,986
Retained earnings	11,250	(587)	10,663
Total InnovAge Holding Corp.	335,146	(587)	334,559
Noncontrolling interests	22,819	(16,399)	6,420
Total stockholders' equity	357,965	(16,986)	340,979

The effect of the restatement on the balances as of June 30, 2021 included in the consolidated statement of stockholders' equity as of December 31, 2021 is as follows (*in thousands*):

	Retained Earnings	Noncontrolling Interests	Total Permanent Stockholders' Equity	Redeemable Noncontrolling Interests (Temporary Equity)
As Previously Reported				
Balances, June 30, 2021	11,250	22,819	357,965	—
Adjustments				
Balances, June 30, 2021	(587)	(16,399)	(16,986)	16,986
As Restated				
Balances, June 30, 2021	10,663	6,420	340,979	16,986

Property and Equipment

Property and equipment were comprised of the following as of December 31, 2021 and June 30, 2021:

dollars in thousands	Estimated Useful Lives	December 31, 2021	June 30, 2021
Land	N/A	$ 11,980	$ 11,980
Buildings and leasehold improvements	10 - 40 years	121,644	104,724
Software	3 - 5 years	13,964	13,316
Equipment and vehicles	3 - 7 years	43,006	35,341
Construction in progress	N/A	12,164	22,130
		202,758	187,491
Less accumulated depreciation and amortization		(50,558)	(44,776)
Total property and equipment, net		$ 152,200	$ 142,715

Depreciation of $6.1 million and $5.6 million was recorded during the six months ended December 31, 2021 and 2020, respectively.

Coronavirus Pandemic ("COVID-19")

In March 2020, the World Health Organization declared COVID-19 a pandemic. The global spread of COVID-19 has created significant volatility, uncertainty, and economic disruption. Governments in affected regions have implemented, and may continue to implement, safety precautions which include quarantines, travel restrictions, business closures, cancellations of public gatherings and other measures as they deem necessary. Many organizations and individuals, including the Company and its employees, continue to take additional steps to avoid or reduce infection, including limiting travel and working from home. These measures are disrupting normal business operations both in and outside of affected areas and have had significant negative impacts on businesses worldwide. As a PACE organization, we have been and will continue to be impacted by the effects of COVID-19. We closed all our centers in March 2020 and transitioned to a 100% in-home and virtual care model. We believe that the general lack of in-person interaction and the reduction in healthcare personnel, and specifically, trained personnel, impacted our ability to adhere to the complex government laws and regulations that apply to our business. We remain committed to carrying out our mission of caring for our participants. We continue to closely monitor the impact of COVID-19 on all aspects of our business, including the impacts to our employees, participants and suppliers. Due to the numerous evolving factors, we are unable to reliably estimate the ultimate impact the pandemic will have on our consolidated financial condition, results of operations or cash flows.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was signed into legislation. The CARES Act provided for $100.0 billion to healthcare providers, including hospitals on the front lines of the COVID-19 pandemic. Under the CARES Act, the state of Pennsylvania signed into law the Act 24 of 2020, which allocated $10.0 million of funding from the federal CARES Act to managed long term care organizations. Funding from the Act 24 of 2020 was to be used to cover necessary COVID-19 related costs incurred between March 1, 2020 and November 30, 2020 for entities in operation as of March 31, 2020. We received $1.0 million in funding under the Act 24 of 2020, which was allocated to InnovAge centers in Pennsylvania. Of the $1.0 million, $0.7 million was recognized prior June 30, 2020 and the remaining balance of $0.3 million was recognized during the year ended June 30, 2021. The CARES Act also provides for the temporary suspension of the automatic 2% reduction of Medicare claim reimbursements (sequestration) for the period of May 1, 2020 through December 31, 2020. The Consolidated Appropriations Act, 2021, enacted December 27, 2020, extended this suspension for three more months, through March 31, 2021. H.R. 1868, enacted on April14, 2021 further extends the suspension through December 31, 2021. On December 10, 2021 the "Protecting Medicare and American Farmers from Sequester Cuts Act" extends the 2% Medicare sequester moratorium through March 31, 2022, and adjusts the sequester to 1% between April 1, 2022 and June 30, 2022.

Recently Adopted Accounting Pronouncements

Income Taxes

In December 2019, the Financial Accounting Standards Board ("FASB") issued ASU 2019-12, *Income Taxes Topic 740-Simplifying the Accounting for Income Taxes* ("ASU 2019-12"), which intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application of Topic 740. This guidance is effective for companies with fiscal years beginning after December 15, 2020, including interim periods therein, and early adoption is permitted. The Company adopted ASU 2019-12 during the quarter ended September 30, 2021 and it did not have a material effect on the Company's condensed consolidated financial statements.

Recent Accounting Pronouncements Not Yet Adopted

Leases

In February 2016, the FASB issued ASU 2016-02 *Leases* ("ASU 2016-02"), which was intended to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet and disclosing key information about leasing arrangements. Under the new guidance, lessees will be required to recognize a right-of-use asset and a lease liability, measured on a discounted basis, at the commencement date for all leases with terms greater than 12 months. Additionally, this guidance will require disclosures to help investors and other financial statement users to better understand the amount, timing, and uncertainty of cash flows arising from leases, including qualitative and quantitative requirements. The guidance should be applied under a modified retrospective transition approach for leases existing at the beginning of the earliest comparative period presented in the adoption-period financial statements. Any leases that expire before the initial application date will not require any accounting adjustment. In June 2020, FASB issued ASU 2020-05 *Revenue from contracts with customers (Topic 606) and leases (Topic 842)—Effective dates for certain entities* which deferred the new lease standard effective date for the Company to December 15, 2022, with early adoption permitted. The Company will adopt this ASU in the fiscal year beginning July 1, 2022 and has not yet determined the effect of the standard on its ongoing financial reporting.

Financial Instruments

In April 2019, the FASB issued ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments (*"ASU 2019-04"*)*, which requires entities to use a current expected credit loss ("CECL") model to measure impairment for most financial assets that are not recorded at fair value through net income. Under the CECL model, an entity will estimate lifetime expected credit losses considering available relevant information about historical events, current conditions and supportable forecasts. The CECL model does not apply to available-for-sale debt securities. This guidance also expands the required credit loss disclosures and will be applied using a modified retrospective approach by recording a cumulative effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. ASU 2019-04 is effective for the Company for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Company will adopt this guidance for the annual and interim reporting periods beginning July 1, 2023. The Company has not determined the effect of the standard on its condensed consolidated financial statements.

We do not expect that any other recently issued accounting guidance will have a significant effect on our condensed consolidated financial statements.

Note 3: Revenue Recognition

Under ASC 606, revenue is recognized when a customer obtains control of promised goods or services, in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of ASC 606, the Company performed the following five steps: (i) Identify the contract(s) with a customer; (ii) Identify the performance obligations in the contract; (iii) Determine the transaction price; (iv) Allocate the transaction price to the performance obligations in the contract; and (v) Recognize revenue as the entity satisfies a performance obligation.

Capitation Revenue and Accounts Receivable

Our capitation revenue relates to contracts with participants in which our performance obligation is to provide healthcare services to the participants. Revenues are recorded during the period our obligations to provide healthcare services are satisfied as noted below within each service type. The Company contracts directly with Medicare and Medicaid on a per member, per month ("PMPM") basis. We receive 100% of the pooled capitated payment to directly provide or manage the healthcare needs of our participants.

Fees are recorded gross in revenues because the Company is acting as a principal in providing for or overseeing comprehensive care provided to the participants. Neither the Company nor any of its affiliates is a registered insurance company because state law in the states in which it operates does not require such registration for risk-bearing providers.

In general, a participant enrolls in the PACE program and is considered a customer of InnovAge. The Company considers all contracts with participants as a single performance obligation to provide comprehensive medical, health, and social services that integrate acute and long-term care. The Company identified that contracts with customers in the PACE program have similar performance obligations and therefore groups them into one portfolio. This performance obligation is satisfied as the Company provides comprehensive care to its participants.

Our revenues are based on the estimated PMPM amounts we expect to be entitled to receive from the capitated fees per participant that are paid monthly by Medicaid, Medicare, the VA, and private pay sources. Medicaid and Medicare capitation revenues are based on PMPM capitation rates under the PACE program. VA is included in “Private Pay and other” and is also capitated. Private pay includes direct payments from participants who do not qualify for the full capitated rate and have to pay all or a portion of the capitated rate.

The Company disaggregates capitation revenue from the following sources for the six months ended:

	December 31,	
	2021	2020
Medicaid	54 %	52 %
Medicare	46 %	47 %
Private pay and other	* %	1 %
Total	100 %	100 %

* Less than 1%

The Company determined the transaction price for these contracts is the amount we expect to be entitled to, which is the most likely amount. For certain capitation payments, the Company is subject to retroactive premium risk adjustments based on various factors. The Company estimates the amount of the adjustment and records it monthly on a straight-line basis. These adjustments are not expected to be material.

The capitation revenues are recognized based on the estimated PMPM transaction price to transfer the service for a distinct increment of the series (i.e. month). We recognize revenue in the month in which participants are entitled to receive comprehensive care benefits during the contract term. As the period between the time of service and time of payment is typically one year or less, the Company elected the practical expedient under ASC 606-10-32-18 and did not adjust for the effects of a significant financing component.

The Company also provides prescription drug benefits in accordance with Medicare Part D. Monthly payments received from CMS and the participants represent the bid amount for providing prescription drug coverage. The portion received from CMS is subject to risk sharing through Medicare Part D risk-sharing corridor provisions. These risk-sharing corridor provisions compare costs targeted in the Company’s bid to actual prescription drug costs. The Company estimates and records a monthly adjustment to Medicare Part D revenues associated with these risk-sharing corridor provisions. Medicare Part D comprised (i) 12% of capitation revenues for both the six months ended December 31, 2021 and 2020 and (ii) 19% and 20% of external provider costs for the six months ended December 31, 2021 and 2020, respectively.

Our accounts receivable as of December 31, 2021 and June 30, 2021 is primarily from capitation revenue arrangements. The concentration of net receivables from participants and third-party payers was as follows:

	December 31, 2021	June 30, 2021
Medicaid	49 %	60 %
Medicare	42 %	20 %
Private pay and other	9 %	20 %
Total	100 %	100 %

The Company records accounts receivable at net realizable value, which includes an allowance for estimated uncollectible accounts. The allowance for uncollectible accounts reflects the Company’s best estimate of probable losses considering eligibility, historical experience, and existing economic conditions. The balance of the allowance for uncollectible accounts was $2.9 million as of December 31, 2021, compared to $4.4 million as of June 30, 2021. Accounts are written off as bad debts when they are deemed uncollectible based upon individual credit evaluations and specific circumstances underlying the accounts.

Other Service Revenue and Accounts Receivable

Other service revenue is comprised of rents earned related to Senior Housing and other fee for service revenue. Other service revenue was 0.3% and 0.5% of total revenue for the six months ended December 31, 2021 and 2020, respectively. Accounts receivable related to other service revenue were not significant as of both December 31, 2021 and June 30, 2021.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to change, as well as government review. Failure to comply with these laws can expose the entity to significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs. See Note 9, “Commitments and Contingencies”.

Note 4: Investments

The Company holds equity method and cost method investments as of:

in thousands	December 31, 2021	June 30, 2021
Cost method investments	$ 4,645	$ 2,645
Equity method investments	848	848
Total investments	$ 5,493	$ 3,493

Nonconsolidated Entities

Cost Method Investments

The Company maintains two investments that are accounted for using the cost method. The investments do not have a readily determinable fair value and the Company has elected to record the investments at cost, less impairment, if any, plus or minus any changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer. During the six months ended December 31, 2021 and 2020, there were no observable price changes or impairments recorded.

Jetdoc

In August 2021, the Company acquired a minority interest equal to 806,481 shares of the outstanding common stock of Jetdoc, Inc. (“Jetdoc”), a telehealth and virtual urgent care app dedicated to effectively connecting users with medical professionals, for cash consideration of $2.0 million. The balance of the Company’s investment in Jetdoc is $2.0 million which represents the maximum exposure to loss.

Dispatch Health

Since 2019, the Company has maintained an investment of $2.6 million in DispatchHealth Holdings, Inc. (“Dispatch Heath”). Dispatch Health offers complete in-home on-demand healthcare. The balance of the Company’s investment is $2.6 million which represents the maximum exposure to loss.

Equity Method Investments

Pinewood Lodge

The Company’s operations include a Senior Housing unit that primarily includes the accounts of Continental Community Housing (“CCH”), the general partner of Pinewood Lodge, LLP (“ PWD”) which was organized to develop, construct, own, maintain, and operate certain apartment complexes intended for rental to low-income elderly individuals aged 62 or older.

PWD is a VIE, but the Company is not the primary beneficiary. The Company does not have the power to direct the activities that most significantly impact the economic performance of PWD. Accordingly, the Company does not consolidate PWD. PWD is accounted for using the equity method of accounting. The equity earnings of PWD are insignificant. As of December 31, 2021, the balance of the Company's investment in PWD is $0.8 million which represents the maximum exposure to loss.

Noncontrolling Interest

Senior Housing

The Company's operations include a 0.01% partnership interest in InnovAge Senior Housing Thornton, LLC ("SH1"), which was organized to develop, construct, own, maintain, and operate certain apartment complexes intended for rental to low-income elderly individuals aged 62 or older.

SH1 is a VIE. The Company is the primary beneficiary of SH1 and consolidates SH1. The Company is the primary beneficiary of SH1 as it has the power to direct the activities that are most significant to SH1 and has an obligation to absorb losses or the right to receive benefits from SH1. The most significant activity of SH1 is the operation of the senior housing facility. The Company has provided a subordinated loan to SH1 and has provided a guarantee for a convertible term loan held by SH1.

Redeemable Noncontrolling Interest

InnovAge Sacramento

On March 18, 2019, in connection with the formation of InnovAge Sacramento, the joint venture with Adventist Health System/West ("Advestist") and Eskaton Properties, Incorporated ("Eskaton"), the Company contributed $9.0 million in cash and land valued at $4.2 million for a 59.9% membership interest in the joint venture, InnovAge Sacramento. Further, Adventist contributed $5.8 million in cash and Eskaton contributed $3.0 million in cash for membership interests of 26.4% and 13.7%, respectively.

Prior to January 1, 2021, the Company did not consolidate InnovAge Sacramento. In the third quarter of fiscal year 2021, the Company made an additional contribution of $52,000 to obtain an additional 0.1% membership interest in the joint venture. With the acquisition of the additional 0.1% membership interest, the Company obtained control of InnovAge Sacramento effective January 1, 2021. Accordingly, beginning January 1, 2021, the results of InnovAge Sacramento are included in our consolidated results of operations.

Before consolidation, the Company recorded its proportionate share of net loss, which was a loss of $1.3 million for the six months ended December 31, 2020, as equity loss in the statement of operations.

When the joint venture was formed, the Company issued warrants to Adventist (the "Sacramento Warrants") to purchase 5% of its issued and outstanding common stock par value $0.001 per share, at an exercise price equal to the fair market value per share at the time of exercise of the warrant. Pursuant to the original warrants, the Sacramento Warrants were to fully vest on the date on which Adventist would have made aggregate capital contributions in an amount greater than $25.0 million to one or more joint venture entities in which Adventist and the Company held equity (the "Investment Threshold").

On February 9, 2021, we entered into an amendment agreement with Adventist to amend the Sacramento Warrants. The amendment removes the Investment Threshold requirement and grants Adventist the right to purchase up to $15.0 million of our common stock at an exercise price equal to the initial public offering price. The warrant is exercisable for one year beginning March 8, 2021, the date of the consummation of our IPO. As of December 31, 2021, Adventist had not exercised any warrants.

At inception, the Sacramento Warrants were initially determined to be equity-based payments to nonemployees and as such the measurement date for these warrants was considered to be the date when the Investment Threshold is reached. At the time of the amendment, due to the removal of the Investment Threshold, the Sacramento Warrants were evaluated under ASC 815-40, "*Contracts in an Entity's Own Equity*," which resulted in a liability classification from the date of the amendment through completion of our IPO, due to the variable amount of shares which could be issued. Upon completion of the IPO, the number of shares to be issued were no longer variable, which resulted in the warrants being recorded in equity. A charge of $2.3 million, representing the fair value of the Sacramento Warrants from inception through the date of completion of the IPO, was recorded in other income (expense) in the condensed consolidated statement of operations.

As described above, we obtained control of InnovAge Sacramento through acquisition of an additional 0.1% membership interest, which we consider to be a step acquisition, whereby the Company remeasured the previously held equity method investment to fair value. The amount by which the purchase price exceeds the fair value of the net assets acquired is recorded as goodwill. The fair value of the previously held equity investments was determined using a discounted cash flow model. This resulted in recording a gain on consolidation of $10.9 million during the third quarter of fiscal year 2021.

The InnovAge California PACE-Sacramento LLC Limited Liability Company Agreement (the "JV Agreement") includes numerous provisions whereby, if certain conditions are met, the Joint Venture may be required to purchase, at fair market value, certain members' interests or certain members may be required to purchase, at fair market value, the interests of certain other members. As of December 31, 2021, none of the conditions specified in the JV Agreement had been met. At the time the Company became a publicly traded company these put rights held by the noncontrolling interests of the Joint Venture were required to be presented as temporary equity. The fair value of the redeemable noncontrolling interest as of December 31, 2021 was $18.9 million.

Note 5: Fair Value Measurements

Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants, at the measurement date. A fair value hierarchy was established that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources outside the reporting entity. Unobservable inputs are inputs that reflect the Company's own assumptions based on market data and assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The sensitivity to changes in inputs and their impact on fair value measurements can be significant.

The three levels of inputs that may be used to measure fair value are:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date

Level 2 Quoted prices in markets that are not active or inputs that are observable, either directly or indirectly, for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs to the valuation techniques that are significant to the fair value measurements of the assets or liabilities

Recurring Measurements

The Company's investment in InnovAge Sacramento includes a put right for the noncontrolling interest holders to require the Company to repurchase the interest of the noncontrolling interest holders at fair value, after the initial term of the management services agreement in 2028. As a result, at each fiscal period end the Company reports this put right at the greater of i) carrying value of the redeemable noncontrolling interest or (ii) fair value of the redeemable noncontrolling interest. Because this asset does not have observable inputs, level 3 inputs are used to measure fair value. As of December 31, 2021, the Company recorded an adjustment to redemption value related to the redeemable noncontrolling interest of $2.6 million. This adjustment represents the excess amount of fair value over the carrying value as of December 31, 2021. The fair value of the redeemable noncontrolling interest is determined utilizing a discounted cash flow model.

Effective August 7, 2018, the Company finalized the acquisition of NewCourtland LIFE Program ("NewCourtland") in Pennsylvania. The Company paid a base purchase price of $30.0 million, subject to certain net working capital and closing adjustments plus contingent consideration of up to $20.0 million. On March 8, 2021, we completed our IPO, which satisfied the condition that the Company sell equity securities pursuant to an effective registration statement. Accordingly, $20.0 million of contingent consideration was paid under the terms of the acquisition agreement. Since all of the contingent consideration of $20.0 million was paid, the lease payments in certain real estate leases between the Company and NewCourtland were reduced from their current amounts and allow the Company to exercise its option to purchase the leased buildings at fair market value, after the initial term of the lease.

Change in fair value of $1.0 million was recorded in other operating expense (income) for the six months ended December 31, 2020. As of June 30, 2021 and December 31, 2021, there are no amounts of contingent consideration outstanding.

There were no transfers in and out of Level 3 during the six months ended December 31, 2021 or 2020.

Note 6: Goodwill and Intangible Assets

Goodwill, which represents the excess of consideration paid over the fair value of net assets acquired through business acquisitions. Goodwill amounted to $124.2 million at each of December 31, 2021 and June 30, 2021. Goodwill is not amortized.

Pursuant to ASC 350, "*Intangibles – Goodwill and Other*," we review the recoverability of goodwill annually as of April 1 or whenever significant events or changes occur which might impair the recovery of recorded amounts. For purposes of the annual goodwill impairment assessment, the Company has identified three reporting units. There were no indicators of impairment identified and no goodwill impairments recorded during the six months ended December 31, 2021 and 2020.

Intangibles assets consisted of the following as of:

in thousands	December 31, 2021	June 30, 2021
Definite-lived intangible assets	$ 6,600	$ 6,600
Indefinite-lived intangible assets	2,000	2,000
Total intangible assets	8,600	8,600
Accumulated amortization	(2,413)	(2,082)
Balance as of end of period	$ 6,187	$ 6,518

Intangible assets consist of customer relationships acquired through business acquisitions. The Company recorded amortization expense of $0.3 million for both the six months ended December 31, 2021 and 2020, respectively.

We review the recoverability of other intangible assets in conjunction with long-lived assets whenever events or changes in circumstances indicate the carrying amount of such assets may not be recoverable. There were no intangible asset impairments recorded during the six months ended December 31, 2021 and 2020.

During the six months ended December 31, 2021, the market value of our common stock declined below the carrying value of equity. We were required to qualitatively assess whether a triggering event had occurred and whether it was more likely than not that our goodwill was impaired as of December 31, 2021. On September 17, 2021, we were notified that CMS had determined to suspend new enrollments at our Sacramento center based on deficiencies detected in an audit related to participant quality of care, and on September 30, 2021, we were further notified that the State of California had followed in the determination of such sanctions. On December 22, 2021, we were notified that CMS had determined to suspend new enrollments at our Colorado centers based on deficiencies detected in an audit related to participant quality of care, and on December 23, 2021, we were further notified that the Colorado Department of Health Care Policy and Financing ("HCPF") intended to issue similar sanctions. In each case, the suspension will remain in effect until CMS and the respective States determine that we have remediated the deficiencies to their satisfaction. We believe this continued decline in common stock price was the market reaction to the additional enrollment suspensions.

Based on our interim qualitative assessment as of December 31, 2021, we determined that it was more-likely-than-not that the fair value of the Company was greater than the net book value and that we did not have a "triggering event" requiring a quantitative or Step 1 assessment of Goodwill. Our review of macroeconomic and industry considerations, the Company's financial results of the central region and west region reporting units for the six months ended December 31, 2021 and financial projections for the full fiscal year 2022, inclusive of a sustained impact of the enrollment suspension in each case, were consistent with the expectations and sensitivities assessed as part of our annual goodwill impairment performed in the fourth quarter of fiscal year 2021. If assumptions or estimates in the fair value calculations change or if future cash flows vary from what was expected, including those assumptions relating to the duration and severity of the financial impact of the enrollment suspension at Sacramento and Colorado, this may impact the impairment analysis and could reduce the underlying cash flows used to estimate fair values and result in a decline in fair value that may trigger future impairment charges.

Note 7: Leases

Property and equipment includes property under various capital leases. These leases have expiration dates ranging from August 2022 to November 2027, varying interest rates, and generally include an option to purchase the equipment at the end of the underlying lease period. The Company's capital leases included the following at December 31, 2021 and June 30, 2021:

in thousands	December 31, 2021	June 30, 2021
Equipment	$ 16,412	$ 13,302
Less accumulated depreciation	(6,284)	(7,081)
Total capital leases	$ 10,128	$ 6,221

Certain of the Company's property and equipment is leased under operating leases. Total rental expense under operating leases was $2.1 million and $2.3 million for the each of six months ended December 31, 2021, and 2020.

Future minimum lease payments for fiscal years beginning with remainder of fiscal year 2022 for capital leases having initial terms of more than one year and noncancelable operating leases were as follows:

in thousands	Capital Leases Obligations	Operating Leases Minimum Lease Payments
Amount remaining in 2022	$ 1,831	$ 2,188
2023	3,780	4,829
2024	3,253	4,556
2025	2,477	4,110
2026	1,446	4,051
Thereafter	1,819	14,029
Total	14,606	$ 33,763
Less amount representing interest	(2,964)	
Total minimum lease payments	11,642	
Less current maturities	(2,854)	
Noncurrent maturities	$ 8,788	

Note 8. Long Term Debt

Long-term debt consisted of the following at December 31, 2021 and June 30, 2021:

	Interest rate	Maturity date	December 31, 2021	June 30, 2021
			in thousands	
Senior secured borrowings:				
Term Loan Facility	(a)	March 8, 2026	$ 73,125	$ 75,000
Revolving Credit Facility (b)	(a)	March 8, 2026	—	—
Convertible term loan	6.68%	August 20, 2030	2,348	2,367
Total debt			75,473	77,367
Less unamortized debt issuance costs			1,788	2,003
Less current maturities			3,792	3,790
Noncurrent maturities			$ 69,892	$ 71,574

(a) The interest rates on the Term Loan Facility and Revolving Credit Facility are described below.
(b) The remaining capacity under the Revolving Credit Facility as of December 31, 2021 was $100.0 million, subject to (i) any issued amounts under our letters of credit, which as of December 31, 2021 was $2.2 million, and (ii) applicable covenant compliance restrictions and any other conditions precedent to borrowing.

2016 Credit Agreement

The Company originally entered into a senior secured borrowing agreement (the “2016 Credit Agreement”) on May 13, 2016, that consisted of a senior secured term loan for $75.0 million and a revolving credit facility for $20.0 million. The 2016 Credit Agreement was subsequently amended (i) on May 2, 2019 to increase the senior secured term loan to $190.0 million and a revolving credit facility for $30.0 million and a delayed draw term loan facility (“DDTL”) for $45.0 million and (ii) on July 27, 2020, to increase the senior secured term loan to $300.0 million, the revolving credit facility to $40.0 million and to terminate the DDTL. The structure of the July 27, 2020 amendment to the 2016 Credit Agreement led to an extinguishment of debt for certain lenders and a modification of debt for other lenders. The total debt structure extinguishment for certain lenders was $57.1 million, and the write off of $1.0 million in debt issuance costs was recorded in loss on extinguishment of debt for the six months ended December 31, 2020. The total debt structure that was modified was $250.0 million, while the new debt issued was $50.0 million, which resulted in $9.1 million of capitalized debt issuance costs. Total amortization of deferred financing costs was $0.7 million for the six months ended December 31, 2020.

Concurrent with the Company's entry into the 2021 Credit Agreement (as defined below), the Company terminated and repaid in full all outstanding indebtedness under the 2016 Credit Agreement.

2021 Credit Agreement

On March 8, 2021, concurrently with the closing of the IPO, the Company entered into a new credit agreement (the "2021 Credit Agreement") that replaced the 2016 Credit Agreement. The 2021 Credit Agreement consists of a senior secured term loan (the "Term Loan Facility") of $75.0 million principal amount and a revolving credit facility (the "Revolving Credit Facility") of $100.0 million maximum borrowing capacity. Loans under the 2021 Credit Agreement are secured by substantially all of the Company's assets. Principal on the Term Loan Facility is paid each calendar quarter beginning September 2021 in an amount equal to 1.25% of the initial term loan on closing date. Proceeds of the Term Loan Facility, together with proceeds from the IPO, were used to repay amounts outstanding under the 2016 Credit Agreement.

Outstanding principal amounts under the 2021 Credit Agreement accrue interest at a variable interest rate. As of December 31, 2021, the interest rate on the Term Loan Facility was 1.84%. Under the terms of the 2021 Credit Agreement, the Revolving Credit Facility fee accrues at 0.25% of the average daily unused amount and is paid quarterly. As of December 31, 2021, we had no borrowings outstanding under the Revolving Credit Facility.

The 2021 Credit Agreement requires the Company to meet certain operational and reporting requirements, including, but not limited to, a secured net leverage ratio. Additionally, annual capital expenditures and permitted investments, including acquisitions, are limited to amounts specified in the 2021 Credit Agreement. The 2021 Credit Agreement also provides certain restrictions on dividend payments and other equity transactions and requires the Company to make prepayments under specified circumstances. As of December 31, 2021, the Company was in compliance with the covenants of the 2021 Credit Agreement.

The deferred financing costs of $2.0 million are amortized over the term of the underlying debt and unamortized amounts have been offset against long-term debt in the consolidated balance sheets. Total amortization of deferred financing costs was $0.2 million for the six months ended December 31, 2021.

Convertible Term Loan

On June 29, 2015, SH1 entered into a convertible term loan. Monthly principal and interest payments of $0.02 million commenced on September 1, 2015. The loan is secured by a deed of trust to Public Trustee, assignment of leases and rents, security agreements, and SH1's fixture filing.

Note 9: Commitments and Contingencies

Professional Liability

The Company pays fixed premiums for annual professional liability insurance coverage under a claims-made policy. Under such policy, only claims made and reported to the insurer are covered during the policy term, regardless of when the incident giving rise to the claim occurred. The Company records claim liabilities and expected recoveries, if any, at gross amounts. The Company is not currently aware of any unasserted claims or unreported incidents that are expected to exceed medical malpractice insurance coverage limits.

Litigation

From time to time, in the normal course of business, the Company is involved in or subject to legal proceedings related to its business, including those described below. The Company regularly evaluates the status of claims and legal proceedings in which it is involved in order to assess whether a loss is probable or there is a reasonable possibility that a loss may have been incurred, and to determine if accruals are appropriate. The Company expenses legal costs as such costs are incurred.

On October 14, 2021, the Company was named as a defendant in a putative class action complaint filed in the District Court for the District of Colorado on behalf of individuals who purchased or acquired shares of the Company's common stock during a specified period. Through the complaint, plaintiffs are asserting claims against the Company, certain of the Company's officers and the underwriters in the Company's IPO, alleging violations of Sections 11 and 15 of the Securities Act of 1933 for making allegedly inaccurate and misleading statements and omissions in connection with the Company's IPO and seeking compensatory damages, among other things.

In July 2021, the Company received a civil investigative demand from the Attorney General for the State of Colorado under the Colorado Medicaid False Claims Act. The demand requests information and documents regarding Medicaid billing, patient services and referrals in connection with the Company's PACE program in Colorado. We continue to fully cooperate with the Attorney General and produce the requested information and documentation. We are currently unable to predict the outcome of this investigation.

In February 2022, the Company received a civil investigative demand from the Department of Justice ("DOJ") under the Federal False Claims Act on similar subject matter. The demand requests information and documents regarding audits, billing, orders tracking, and quality and timeliness of patient services in connection with the Company's PACE programs in the states where the Company operates (California, Colorado, New Mexico, Pennsylvania, and Virginia). The Company is fully cooperating with the DOJ to produce the requested information and documentation. We are currently unable to predict the outcome of this investigation.

Although the results of legal proceedings and claims are inherently unpredictable and uncertain, we do not believe that the outcomes of the legal proceedings with which we are currently involved, based on the currently available information, either individually or in the aggregate, will have a material adverse effect on our business, financial condition, or cash flows, though the outcomes could be material to the Company's operating results for any particular period; depending in part, upon the operating results of such period. Regardless of the outcome, litigation has the potential to have an adverse impact on us due to any related defense and settlement costs, diversion of management resources, and other factors.

Note 10: Equity

Equity Owner Transaction

On July 27, 2020, InnovAge Holding Corp. (formerly TCO Group Holdings, Inc.), Ignite Aggregator LP ("Purchaser"), and the former equity holders of InnovAge Holding Corp. ("Sellers") entered into a Securities Purchase Agreement (the "Agreement"), effective July 27, 2020. Under the terms of the Agreement, the Sellers sold a portion of their equity interest to the Purchaser. The Purchaser and the Sellers then contributed their equity interests in the Company to a newly formed limited partnership, TCO Group Holdings, L.P. (the "LP") resulting in the Company being wholly owned by the LP.

Concurrently with the entry into the Agreement, the Company amended and restated its 2016 Credit Agreement, see Note 8, "Long Term Debt" for further discussion. A portion of the proceeds from the 2016 Credit Agreement were used by the Company to repurchase 16,095,819 shares of its common stock for $77.6 million from certain members of management, including certain members of the Board of Directors, and certain members of our equity partner. The common stock was then recognized as Treasury stock. The Treasury stock was retired in March 2021.

Additionally, as part of the Agreement, the Company executed an Option Cancellation Agreement (the "Cancellation Agreement"), which canceled the Company's common stock option awards of 16,994,975 granted under the 2016 Equity Incentive Plan for $74.6 million. Such cancellation resulted in a settlement of the awards. Vesting of the contingent performance-based awards was not deemed probable at the time of the settlement resulting in the settlement of the contingent performance-based awards being recorded as Corporate, general and administrative. Vesting of the time vesting awards was deemed probable at the time of the settlement resulting in a portion of the settlement of the time vesting awards being recorded as Corporate, general and administrative expense and the remainder being recorded as a reduction to Additional paid-in capital. Of the total settlement, $45.4 million was recorded as Corporate, general and administrative expense and $32.4 million was recorded as a reduction to Additional paid-in capital. The Cancellation Agreement resulted in the option holders receiving the same amount of cash that they would have received had they exercised their options, participated in the repurchase described above and sold their remaining shares.

As part of the transaction, for the six months ended December 31, 2020, the Company incurred $22.6 million in transaction costs, of which $13.1 million was recognized as Corporate, general and administrative expense and $9.5 million was recognized as a distribution to owners as the costs were paid on behalf of the owners. These costs were recorded during the six months ended December 31, 2020.

Note 11: Stock-based Compensation

A summary of our aggregate share-based compensation expense is set forth below. Stock-based compensation expense is included in corporate, general and administrative expenses on our consolidated statements of operations.

in thousands	Six Months Ended December 31, 2021	Six Months Ended December 31, 2020
Stock options (a)	$ 90	$ 45,387
Profits interests units	1,029	572
Restricted stock units	622	—
Total stock-based compensation expense	$ 1,741	$ 45,959

(a) The amount for 2020 relates to stock-based compensation expense recognized as a result of the Cancellation Agreement.

2016 Equity Incentive Plan

The Company maintained the 2016 Equity Incentive Plan pursuant to which various stock-based awards were granted to employees, directors, consultants, and advisers. The total number of shares of the Company's common stock that was authorized under the 2016 Equity Incentive Plan was 17,836,636, of which a total of 16,994,976 awards were granted. On July 27, 2020, the Company, Ignite Aggregator LP, and the equity holders of the Company entered into a Securities Purchase Agreement, and in conjunction therewith, the Company amended and restated the 2016 Credit Agreement. A portion of the proceeds from the 2016 Credit Agreement were used by the Company to repurchase 16,095,819 shares of its common stock from the certain members of management, the Board of Directors, and members of our equity partner. Additionally, as part of the 2016 Credit Agreement, the Company executed the Cancellation Agreement with each of the 2016 Equity Incentive Plan option holders, pursuant to which the Company's 16,994,976 common stock options which were granted under the 2016 Equity Incentive Plan, were cancelled. The Cancellation Agreement resulted in the option holders receiving the same amount of cash that they would have received had they exercised their options, participated in the repurchase described above and sold their remaining shares. The 2016 Equity Incentive Plan was cancelled and replaced with the 2020 Equity Incentive Plan, as described below.

2020 Equity Incentive Plan

Profits Interests

The LP maintains the 2020 Equity Incentive Plan pursuant to which interests in the LP in the form of Class B Units (profits interests) may be granted to employees, directors, consultants, and advisers. A maximum number of 16,162,177

Class B Units are authorized for grant under the 2020 Equity Incentive Plan. As of December 31, 2021, a total of 13,009,137 profits interests units have been granted under the 2020 Equity Incentive Plan.

The Company used the Monte Carlo option model to determine the fair value of the profits interests units at the time of the grant. There were no grants during the six months ended December 31, 2021.

A summary of profits interests activity for the six months ended December 31, 2021 was as follows:

Time-based unit awards	**Number of units**	**Weighted average grant date fair value**
Outstanding balance, June 30, 2021	6,587,261	$ 1.28
Forfeited	(547,959)	$ 1.28
Outstanding balance, December 31, 2021	6,039,302	$ 1.28

Performance-based unit awards	**Number of units**	**Weighted average grant date fair value**
Outstanding balance, June 30, 2021	6,223,262	$ 0.57
Forfeited	(728,254)	$ 0.57
Outstanding balance, December 31, 2021	5,495,008	$ 0.57

The total unrecognized compensation cost related to profits interests units outstanding as of December 31, 2021 was $8.2 million, comprised (i) $5.0 million related to time-based unit awards expected to be recognized over a weighted-average period of 0.9 years and (ii) $3.2 million related to performance-based unit awards, which will be recorded when it is probable that the performance-based criteria will be met.

2021 Omnibus Incentive Plan

In March 2021, the compensation committee of our Board of Directors approved the InnovAge Holding Corp. 2021 Omnibus Incentive Plan (the “2021 Omnibus Incentive Plan”), pursuant to which various stock-based awards may be granted to employees, directors, consultants, and advisers. The total number of shares of the Company’s common stock authorized under the 2021 Omnibus Incentive Plan is 14,700,000. The Company has issued time-based restricted stock units under this plan to its employees which generally vest (i) on March 4, 2023, the second anniversary of the grant date, or (ii) over a three-year period with one-third vesting on each anniversary of the date of grant. Certain other vesting periods have also been used. The grant date fair value of restricted stock units with time based vesting is based on the closing market price of our common stock on the date of grant.

Restricted Stock Units

A summary of time-based vesting restricted stock units activity for the six months ended December 31, 2021 was as follows:

Restricted stock units - time based	**Number of awards**	**Weighted average grant-date fair value per share**
Outstanding balance, June 30, 2021	48,470	$ 22.87
Granted	232,980	$ 10.35
Forfeited	(5,170)	$ 23.95
Outstanding balance, December 31, 2021	276,280	$ 12.51

The total unrecognized compensation cost related to time based restricted stock units outstanding as of December 31, 2021 was $3.0 million and is expected to be recognized over a weighted-average period of 2.0 years.

A summary of performance based vesting restricted stock units activity for the six months ended December 31, 2021 was as follows:

Restricted stock units - performance based	**Number of awards**		**Weighted average grant-date fair value per share**
Outstanding balance, June 30, 2021	—	$	—
Granted	258,767	$	5.18
Forfeited	—	$	—
Outstanding balance, December 31, 2021	258,767	$	5.18

The fair value of the performance based restricted stock units and performance based stock options granted during the six months ended December 31, 2021, was based upon a Monte Carlo option pricing model using the assumptions in the following table:

		2022
Expected volatility		34.5 %
Expected term (in years)		5.0
Interest rate		1.56 %
Dividend yield		0 %
Weighted-average fair values	$	5.18
Fair value of underlying stock	$	7.89

The total unrecognized compensation cost related to performance based vesting restricted stock units outstanding as of December 31, 2021 was $1.3 million and is expected to be recognized over a weighted-average period of 3.8 years.

Nonqualified Stock Options

A summary of time-based vesting stock option activity for the six months ended December 31, 2021 was as follows:

Stock options - time based	**Number of awards**		**Weighted average grant-date fair value per share**
Outstanding balance, June 30, 2021	—	$	—
Granted	554,499	$	1.61
Forfeited	—	$	—
Outstanding balance, December 31, 2021	554,499	$	1.61

The total unrecognized compensation cost related to time-based vesting stock options outstanding as of December 31, 2021 was $0.9 million and is expected to be recognized over a weighted-average period of 2.8 years.

The fair value of the time-based stock options granted during the six months ended December 31, 2021, was based upon the Black-Scholes option pricing model using the assumptions in the following table:

	2022
Expected volatility	34.5 %
Weighted-average expected life (years) - time vesting units	2.9
Interest rate	0.83 %
Dividend yield	0 %
Weighted-average fair values	$ 1.61
Fair value of underlying stock	$ 7.89

A summary of performance-based vesting stock option activity for the six months ended December 31, 2021 was as follows:

Stock options - performance based	Number of awards	Weighted average grant-date fair value per share
Outstanding balance, June 30, 2021	—	$ —
Granted	776,299	$ 3.08
Forfeited	—	$ —
Outstanding balance, December 31, 2021	776,299	$ 3.08

The fair value of the performance-based stock options granted during the six months ended December 31, 2021, was based upon a Monte Carlo option pricing model using the assumptions in the table above.

The total unrecognized compensation cost related to performance-based vesting stock options outstanding as of December 31, 2021 was $2.3 million and is expected to be recognized over a weighted-average period of 3.8 years.

Note 12: Income Taxes

The Company recorded a tax provision of $4.2 million and $9.4 million for the six months ended December 31, 2021 and 2020, respectively. This represents an effective tax rate of 32.5% and (30.6)% for the six months ended December 31, 2021 and 2020, respectively.

The effective rate for the six months ended December 31, 2021 was different from the federal statutory rate primarily due to disallowed officers’ compensation under Internal Revenue Code (“IRC”) Section 162(m) and lobbying expenses which occurred during the three month period.

The Company assesses the valuation allowance recorded against deferred tax assets at each reporting date. The determination of whether a valuation allowance for deferred tax assets is appropriate requires the evaluation of positive and negative evidence that can be objectively verified. Consideration must be given to all sources of taxable income available to realize deferred tax assets, including, as applicable, the future reversal of existing temporary differences, future taxable income forecasts exclusive of the reversal of temporary differences and carryforwards, taxable income in carryback years and tax planning strategies. In estimating income taxes, the Company assesses the relative merits and risks of the appropriate income tax treatment of transactions taking into account statutory, judicial, and regulatory guidance. As of the six-month period ended December 31, 2021, the Company has determined that it is not “more likely than not” that the deferred tax assets associated with certain state net operating losses will be realized and as such continues to maintain a valuation allowance against these state deferred tax assets.

The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of the employer portion of social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitation and technical corrections to tax depreciation methods for qualified improvement property. The Company continues to examine the impacts that the CARES Act may have on its business. While several of these provisions may impact the Company, there have not been any significant impacts noted through December 31, 2021.

Note 13: Earnings per Share

Basic earnings (loss) per share is computed using the weighted-average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted-average number of common shares outstanding during the period, plus the dilutive effect of outstanding options, using the treasury stock method and the average market price of the Company’s common stock during the applicable period. When a loss from continuing operations exists, all dilutive securities and potentially dilutive securities are anti-dilutive and are therefore excluded from the computation of diluted earnings per share. When net income from continuing operations exists, performance-based units, are omitted from the calculation of diluted EPS until it is determined that the performance criteria has been met at the end of the reporting period.

The following table sets forth the computation of basic and diluted net loss per common share:

	Three months ended December 31,		Six months ended December 31,	
in thousands, except share values	2021	2020	2021	2020
Net income (loss) attributable to InnovAge Holding Corp.	$ 1,323	$ 9,705	$ 9,009	$ (39,950)
Weighted average common shares outstanding (basic)	135,516,513	116,520,612	135,516,513	118,795,021
Earnings (loss) per share - basic	**$ 0.01**	**$ 0.08**	**$ 0.07**	**$ (0.34)**
Dilutive shares	—	—	—	—
Weighted average common shares outstanding (diluted)	135,516,513	116,520,612	135,516,513	118,795,021
Earnings (loss) per share - diluted	**$ 0.01**	**$ 0.08**	**$ 0.07**	**$ (0.34)**

Note 14: Segment Reporting

The Company applies ASC Topic 280, "*Segment Reporting*," which establishes requirements to report selected segment information quarterly and to report annually entity-wide disclosures about operations, major customers and the geographies in which the entity holds material assets and reports revenue. An operating segment is defined as a component that engages in business activities whose operating results are reviewed by the Company’s chief executive officer, who is the chief operating decision maker (“CODM”), and for which discrete financial information is available. The Company has determined that it has five operating segments, three of which are related to the Company’s PACE offering. The PACE-related operating segments are based on three geographic divisions, which are West, Central, and East. Due to the similar economic characteristics, nature of services, and customers, we have aggregated our West, Central, and East operating segments into one reportable segment for PACE. The Company’s remaining two operating segments relate to Homecare and Senior Housing, which are immaterial operating segments, and are shown below as "Other" along with certain corporate unallocated expenses.

As of December 31, 2021, the Company served approximately 7,050 PACE participants, making it the largest PACE provider in the U.S. based upon participants served, and operates 18 PACE centers across Colorado, California, New Mexico, Pennsylvania and Virginia. PACE, an alternative to nursing homes, is a managed care, capitated program, which serves the frail elderly in a community-based service model. Participants receive all medical services through a comprehensive, consolidated model of care. Capitation payments are received from Medicare parts C and D; Medicaid; the VA, and private pay sources. The Company is at risk for all health and allied care costs incurred with respect to the care of its participants, although it does negotiate discounted rates with its provider network consisting of hospitals, nursing homes, assisted living facilities, and medical specialists. Additionally, under the Medicare Prescription Drug Plan, CMS shares part of the risk for providing prescription medication to the Company's participants.

The Company evaluates performance and allocates capital resources to each segment based on an operating model that is designed to maximize the quality of care provided and profitability. The Company does not review assets by segment and therefore assets by segment are not disclosed below. For the periods presented, all of the Company's long-lived assets were located in the U.S. and all revenue was earned in the U.S.

The Company's management uses Center-level Contribution Margin as the measure for assessing performance of its segments. Center-level Contribution Margin is defined as total revenues less external provider costs and cost of care (excluding depreciation and amortization), which includes all medical and pharmacy costs. The Company allocates corporate level expenses to its segments with a majority of the allocation going to the PACE segment.

The following table summarizes the operating results regularly provided to the CODM by reportable segment for the six months ended:

	December 31, 2021			December 31, 2020		
in thousands	**PACE**	**All other[(1)]**	**Totals**	**PACE**	**All other[(1)]**	**Totals**
Capitation revenue	$ 347,518	$ —	$ 347,518	$ 308,459	$ —	$ 308,459
Other service revenue	69	833	902	277	1,141	1,418
Total revenues	347,587	833	348,420	308,736	1,141	309,877
External provider costs	181,045	—	181,045	148,826	—	148,826
Cost of care, excluding depreciation and amortization	82,579	1,060	83,639	74,712	1,645	76,357
Center-level Contribution Margin	83,963	(227)	83,736	85,198	(504)	84,694
Overhead costs[(2)]	62,551	(13)	62,538	96,049	—	96,049
Depreciation and amortization	6,370	215	6,585	5,622	329	5,951
Equity loss	—	—	—	1,342	—	1,342
Other operating income	—	—	—	(1,011)	—	(1,011)
Interest expense, net	(1,120)	(101)	(1,221)	(12,276)	90	(12,186)
Loss on extinguishment of debt	—	—	—	(991)	—	(991)
Other income	(464)	(1)	(465)	44	—	44
Income (Loss) Before Income Taxes	$ 13,458	$ (531)	$ 12,927	$ (30,027)	$ (743)	$ (30,770)

(1) Center-level Contribution Margin from segments below the quantitative thresholds are attributable to two operating segments of the Company. Those segments consist of Homecare and Senior Housing. Neither of those segments has ever met any of the quantitative thresholds for determining reportable segments.
(2) Overhead consists of the Sales and marketing and Corporate, general and administrative financial statement line items.

Note 15: Related-party

Pursuant to the PWD Amended and Restated Agreement of Limited Partnership, the general partner, who is a subsidiary of the Company (the "General Partner"), helped fund operating deficits and shortfalls of PWD in the form of a loan. At each of December 31, 2021 and June 30, 2021, $0.7 million was recorded in Deposits and other. Additionally, the General Partner is paid an administration fee of $35,000 per year.

Note 16: Subsequent Events

The Company has evaluated subsequent events through February 9, 2022, the date on which the condensed consolidated financial statements were issued.

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

The following discussion of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and the related notes included elsewhere in this Quarterly Report on Form 10-Q. The discussion contains forward-looking statements that are based on the beliefs of management, as well as assumptions made by, and information currently available to, our management. Readers are cautioned not to place undue reliance on any forward-looking statements, as forward-looking statements are not guarantees of future performance and the Company's actual results may differ significantly due to numerous known and unknown risks and uncertainties, including those discussed below and in the section entitled "Cautionary Note on Forward-Looking Statements." Those known risks and uncertainties include, but are not limited to, the risk factors identified in the section titled "Risk Factors" in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the fiscal year ended June 30, 2021 ("2021 10-K").

Overview

InnovAge Holding Corp. ("InnovAge"), formerly TCO Group Holdings, Inc., became a public company in March 2021. The Company serves approximately 7,050 PACE participants, and operates 18 PACE centers across Colorado, California, New Mexico, Pennsylvania and Virginia.

Impact of COVID-19

The rapid spread of COVID-19 around the world and throughout the United States has altered the behavior of businesses and people, with significant negative effects on federal, state and local economies, the duration of which continues to be unknown at this time. The virus has and continues to disproportionately impact older adults, especially those with chronic illnesses, which describes our participants.

We closed all our centers in March 2020 and transitioned to a 100% in-home and virtual care model. We believe that the general lack of in-person interaction and the reduction in healthcare personnel, and specifically, trained personnel, impacted our ability to adhere to the complex government laws and regulations that apply to our business. Despite the challenges brought on by COVID-19, as of December 31, 2021, we continue care delivery through telehealth and at our centers, all of which remain fully opened. As economies around the world reopened in 2021, sharp increases in demand are creating significant disruptions to the global supply chain. Global logistics network challenges have resulted in higher prices for the medical supplies we require. Uncertainties related to the magnitude and duration of global supply chain disruptions have adversely affected, and may continue to adversely affect, our business and outlook.

For additional information on the various risks posed by the COVID-19 pandemic, please see the section entitled "Risk Factors" included in Part I, Item 1A of our 2021 10-K.

Key Factors Affecting Our Performance

Our historical financial performance has been, and we expect our financial performance in the future to be, driven by the following factors:

- *Our participants.* We focus on providing all-inclusive care to frail, high-cost, dual-eligible seniors. We directly contract with government payors, such as Medicare and Medicaid, through PACE and receive a capitated risk-adjusted payment to manage the totality of a participant's medical care across all settings. InnovAge manages participants that are, on average, more complex and medically fragile than other Medicare-eligible patients, including those in Medicare Advantage ("MA") programs. As a result, we receive larger payments for our participants compared to MA participants. This is driven by two factors: (i) we manage a higher acuity population, with an average risk adjustment factor ("RAF") score of 2.36 based on InnovAge data as of December 31, 2021; and (ii) we manage Medicaid spend in addition to Medicare. Our participants are managed on a capitated, or at-risk basis, where InnovAge is financially responsible for all of participant medical costs. Our comprehensive care model and globally capitated payments are designed to cover participants from enrollment until the end of life, including coverage for participants requiring hospice and palliative care. For dual-eligible participants, we receive per member, per month ("PMPM") payments directly from Medicare and Medicaid, which provides recurring revenue streams and significant visibility into our revenue. The Medicare portion of our capitated payment is risk-based on the underlying medical conditions and frailty of each participant.

- *Our ability to grow enrollment and capacity within existing centers.* We believe all seniors should have access to the type of all-inclusive care offered by the PACE model. We believe our ability to expand access to care and serve more seniors in our existing centers is a key competency of the InnovAge Platform. Awareness of PACE programs remains low among potential participants and we believe we have growth opportunities to serve more seniors within our existing center base. However, several factors can affect our ability to grow enrollment and capacity within existing centers, including sanctions issued by regulators. Currently, the Centers for Medicare and Medicaid Services ("CMS") and state agencies have suspended new enrollments at our Sacramento, California center and at our centers in the State of Colorado.

- *Our ability to maintain high participant satisfaction and retention.* We achieved an 83% participant satisfaction rating as of July 1, 2021 and average participant tenure was 3.1 years as of December 31, 2021, measured as tenure from enrollment to disenrollment, among our centers that have been operated by us for at least five years. Furthermore, we experience low levels of voluntary disenrollment, averaging 5% annually over the last three fiscal years. Approximately 75% of our historical disenrollments have been involuntary, due primarily to participant death or otherwise due to participants moving out of our service areas.

- *Effectively managing the cost of care for our participants*. We receive capitated payments to manage the totality of a participant's medical care across all settings. Because our participants are among the most frail and medically complex individuals in the U.S. healthcare system, our external provider costs and cost of care, excluding depreciation and amortization, represented approximately 76% of our revenue in the six months ended December 31, 2021. While we are liable for potentially large medical claims, our care model focuses on delivering high-quality medical care in cost efficient, community-based settings as a means of avoiding costly inpatient and outpatient services. However, our participants retain the freedom to seek care at sites of their choice, including hospitals and emergency rooms; we do not restrict participant access to care.

- *Center-level Contribution Margin*. As we serve more participants in existing centers, we leverage our fixed cost base at those centers and the value of a center to our business increases over time. The enrollment sanctions in place in Sacramento and Colorado limit our ability to grow our participant census and impact Center-level Contribution Margin. See "Risk Factors" in Part II, Item 1A.

- *Our ability to expand via acquisition or de novo centers within existing and new markets.* We have a large addressable market and believe we serve a very small portion of PACE-eligible participants in those markets, reflecting significant unmet demand for PACE services and creating opportunities for us to grow in new and existing markets. We believe our innovative care model can scale nationally, and part of our business strategy is to continue selectively and strategically expanding into new geographies. However, several factors can affect our ability to open de novo centers, including sanctions issued by regulators. On January 7, 2022, the Department of Health Care Services ("DHCS") of the State of California notified us that it was suspending the State's previously provided assurances that it would enter into a PACE program agreement with the Company (State Attestations) with respect to de novo centers in the State of California until such time as the corrective action plans ("CAPs") and the remediation and validation processes for our Sacramento center have been successfully completed and the enrollment sanctions are lifted. In addition, on February 9, 2022, we received notice from the Cabinet for Health and Family Services of the State of Kentucky informing us that they no longer intend to enter into an agreement with us to be a PACE provider in the State of Kentucky. We intend to work closely with the Cabinet to attempt to address any issues that may have prompted the notification. See "Risk Factors" in Part II, Item 1A.

- *Execute tuck-in acquisitions.* We believe there is a sizeable landscape of potential tuck-in acquisitions to supplement our organic growth strategy. Over the past three fiscal years, we have acquired and integrated three PACE organizations, expanding our InnovAge Platform to one new state and four new markets through those acquisitions. We are disciplined in our approach to acquisitions and have executed multiple types of transactions, including turnarounds and non-profit conversions. When integrating acquired programs, we work closely with key constituencies, including local governments, health systems and senior housing providers, to enable continuity of high-quality care for participants.

- *Contracting with government payors*. Our economic model relies on our capitated arrangements with government payors, namely Medicare and Medicaid. We view the government not only as a payor but also as a key partner in our efforts to expand into new geographies and access more participants in our existing markets. Maintaining, supporting and growing these relationships in existing markets as well as new geographies, is critical to our long-term success.

- *Investing to support growth*. We intend to continue investing in our centers, value-based care model, and sales and marketing organization to support long-term growth. We expect our expenses to increase in absolute dollars for the foreseeable future to support our growth and due to additional costs we are incurring and expect to incur as a public company, including expenses related to compliance with the rules and regulations of the SEC and the listing standards of Nasdaq, additional corporate and director and officer insurance, investor relations and increased legal, audit, reporting and consulting fees. We plan to invest in future growth judiciously and maintain focus on managing our results of operations. Accordingly, in the short term we expect the activities noted above to increase our expenses as a percentage of revenue, but in the longer term, we anticipate that these investments will positively impact our business and results of operations.

- *Seasonality of our business*. Our operational and financial results, including medical costs and per-participant revenue true-ups, will experience some variability depending upon the time of year in which they are measured. Medical costs vary most significantly as a result of (i) the weather, with certain illnesses, such as the influenza virus, being more prevalent during colder months of the year, which generally increases per-participant costs and (ii) the number of business days in a period, with shorter periods generally having lower medical costs all else equal. Per-participant revenue true-ups represent the difference between our estimate of per-participant capitation revenue to be received and actual revenue received by CMS, which is based on CMS's determination of a participant's RAF score as measured twice per year and is based on the evolving acuity of a participant. Based on the difference between our estimate and the final determination from CMS, we may receive incremental true up revenue or be required to repay certain amounts. Historically, these true-up payments typically occur between May and August, but the timing of these payments is determined by CMS, and we have neither visibility nor control over the timing of such payments.

Components of Results of Operations

Revenue

Capitation Revenue. In order to provide comprehensive services to manage the totality of a participant's medical care across all settings, we receive fixed or capitated fees per participant that are paid monthly by Medicare, Medicaid, Veterans Affairs ("VA") and private pay sources.

Medicaid and Medicare capitation revenues are based on PMPM capitation rates under the PACE program. The PACE state contracts between us and the respective state Medicaid administering agency are amended annually each June 30 in all states other than California and Pennsylvania, which contract on a calendar-year basis. New agreements have been executed for the periods (i) January 1, 2021 through December 31, 2021 for California and (ii) July 1, 2021 through June 30, 2022 for all other states, except Pennsylvania, for which we are currently operating in good standing under the 2020 amended agreement while the agency finalizes its 2021 amendment. For a discussion of our revenue recognition policies, please see *Critical Accounting Policies and Estimates* below and Note 2 "Summary of Significant Accounting Policies" to our consolidated financial statements included in our 2021 10-K.

Other Service Revenue. Other service revenue primarily consists of revenues derived from fee-for-service arrangements, state food grants, rent revenues and management fees. We generate fee-for-service revenue from providing home-care services to non-PACE patients in their homes, for which we bill the patient or their insurance plan on a fee-for-service basis. For a discussion of our revenue recognition policies, please see *Critical Accounting*

Policies and Estimates below and Note 2, "Summary of Significant Accounting Policies" to our consolidated financial statements included in our 2021 10-K.

Operating Expenses

External Provider Costs. External provider costs consist primarily of the costs for medical care provided by non-InnovAge providers. We separate external provider costs into four categories: inpatient (e.g., hospital), housing (e.g., assisted living), outpatient and pharmacy. In aggregate, external provider costs represent the largest portion of our expenses.

Cost of Care, Excluding Depreciation and Amortization. Cost of care, excluding depreciation and amortization, includes the costs we incur to operate our care delivery model. This includes costs related to IDTs, salaries, wages and benefits for center-level staff, participant transportation, medical supplies, occupancy, insurance and other operating costs. IDT employees include medical doctors, registered nurses, social workers, physical, occupational, and speech therapists, nursing assistants, and transportation workers. Center-level employees include clinic managers, dieticians, activity assistants and certified nursing assistants. Cost of care excludes any expenses associated with sales and marketing activities incurred at a local level as well as any allocation of our corporate, general and administrative expenses. A portion of our cost of care is fixed relative to the number of participants we serve, such as occupancy and insurance expenses. The remainder of our cost of care, including our employee-related costs, is directly related to the number of participants cared for in a center. As a result, as revenue increases due to census growth, cost of care, excluding depreciation and amortization, typically decreases as a percentage of revenue. As we open new centers, we expect cost of care, excluding depreciation and amortization, to increase in absolute dollars due to higher census and facility related costs.

Sales and Marketing. Sales and marketing expenses consist of employee-related expenses, including salaries, commissions, and employee benefits costs, for all employees engaged in marketing, sales, community outreach and sales support. These employee-related expenses capture all costs for both our field-based and corporate sales and marketing teams. Sales and marketing expenses also include local and centralized advertising costs, as well as the infrastructure required to support our marketing efforts. We expect these costs to increase in absolute dollars over time as we continue to grow our participant census. We evaluate our sales and marketing expenses relative to our participant growth and will invest more heavily in sales and marketing from time-to-time to the extent we believe such investment can accelerate our growth without negatively affecting profitability.

Corporate, General and Administrative. Corporate, general and administrative expenses include employee-related expenses, including salaries and related costs. In addition, general and administrative expenses include all corporate technology and occupancy costs associated with our regional corporate offices. We expect our general and administrative expenses to increase in absolute dollars due to the additional legal, accounting, insurance, investor relations and other costs that we incur as a public company, as well as other costs associated with continuing to grow our business. However, we anticipate general and administrative expenses to decrease as a percentage of revenue over the long term, although such expenses may fluctuate as a percentage of revenue from period to period due to the timing and amount of these expenses.

Depreciation and Amortization. Depreciation and amortization expenses are primarily attributable to our buildings and leasehold improvements and our equipment and vehicles. Depreciation and amortization are recorded using the straight-line method over the shorter of estimated useful life or lease terms, to the extent the assets are being leased.

Equity Loss. Equity loss relates to our equity method investment in InnovAge Sacramento, which began operations in July 2020 and subsequently became a consolidated entity effective January 1, 2021.

Other Operating Income. Other operating income consists of the re-measurement of contingent consideration to fair value relating to our acquisition of NewCourtland.

For more information relating to the components of our results of operations, see *Results of Operations* below and Note 2 "Summary of Significant Accounting Policies" to our consolidated financial statements included in our 2021 10-K.

Results of Operations

The results of our operations for the six months ended December 31, 2021 include those of InnovAge Sacramento, which during the same period of the prior year was not a consolidated entity. The following table sets forth our consolidated results of operations for the periods presented:

in thousands	Three Months Ended December 31, 2021	Three Months Ended December 31, 2020	Six Months Ended December 31, 2021	Six Months Ended December 31, 2020
Revenues				
Capitation revenue	$ 174,964	$ 156,515	$ 347,518	$ 308,459
Other service revenue	386	796	902	1,418
Total revenues	175,350	157,311	348,420	309,877
Expenses				
External provider costs	91,033	75,145	181,045	148,826
Cost of care, excluding depreciation and amortization	42,911	38,074	83,639	76,357
Sales and marketing	6,679	4,631	12,972	8,743
Corporate, general and administrative	28,482	15,729	49,566	87,306
Depreciation and amortization	3,292	2,992	6,585	5,951
Equity loss	—	541	—	1,342
Other operating income	—	(343)	—	(1,011)
Total expenses	172,397	136,769	333,807	327,514
Operating Income (Loss)	$ 2,953	$ 20,542	$ 14,613	$ (17,637)
	—	—	—	—
Other Income (Expense)				
Interest expense, net	(674)	(6,555)	(1,221)	(12,186)
Loss on extinguishment of debt	—	—	—	(991)
Other income (expense)	28	106	(465)	44
Total other expense	(646)	(6,449)	(1,686)	(13,133)
Income (Loss) Before Income Taxes	2,307	14,093	12,927	(30,770)
Provision for Income Taxes	1,201	4,486	4,197	9,423
Net Income (Loss)	$ 1,106	$ 9,607	$ 8,730	$ (40,193)
Less: net loss attributable to noncontrolling interests	(217)	(98)	(279)	(243)
Net Income (Loss) Attributable to InnovAge Holding Corp.	$ 1,323	$ 9,705	$ 9,009	$ (39,950)

Revenues

in thousands	Three Months Ended December 31, 2021	Three Months Ended December 31, 2020	Change $	Change %	Six Months Ended December 31, 2021	Six Months Ended December 31, 2020	Change $	Change %
Capitation revenue	$ 174,964	$ 156,515	$ 18,449	11.8 %	$ 347,518	$ 308,459	$ 39,059	12.7 %
Other service revenue	386	796	(410)	(51.5)%	902	1,418	(516)	(36.4)%
Total revenues	$ 175,350	$ 157,311	$ 18,039	11.5 %	$ 348,420	$ 309,877	$ 38,543	12.4 %

Capitation revenue. Capitation revenue was $175.0 million for the three months ended December 31, 2021, an increase of $18.5 million, or 11.8%, compared to $156.5 million for the three months ended December 31, 2020. This increase was driven by (i) an 7.3% increase in member months (as defined below) and (ii) a 4.2% increase in capitation rates. The increase in capitation rates was primarily driven by an annual increase in Medicaid capitation rates.

Capitation revenue was $347.5 million for the six months ended December 31, 2021, an increase of $39.1 million, or 12.7% compared to $308.5 million for the six months ended December 31, 2020. This increase was driven by (i) an 7.7%

increase in member months (as defined below) and (ii) a 4.6% increase in capitation rates. The increase in capitation rates was primarily driven by an expected annual increase in Medicaid capitation rates.

Other service revenue. Other service revenue was $0.4 million for the three months ended December 31, 2021, a decrease of $0.4 million, or 51.5%, from $0.8 million for the three months ended December 31, 2020. Other service revenue was $0.9 million for the six months ended December 31, 2021, a decrease of $0.5 million, or 36.4%, from $1.4 million for the six months ended December 31, 2020.

Operating Expenses

	Three Months Ended December 31,		Change		Six Months Ended December 31,		Change	
	2021	2020	$	%	2021	2020	$	%
in thousands								
External provider costs	$ 91,033	$ 75,145	$ 15,888	21.1 %	$ 181,045	$ 148,826	$ 32,219	21.6 %
Cost of care (excluding depreciation and amortization)	42,911	38,074	4,837	12.7 %	83,639	76,357	7,282	9.5 %
Sales and marketing	6,679	4,631	2,048	44.2 %	12,972	8,743	4,229	48.4 %
Corporate, general, and administrative	28,482	15,729	12,753	81.1 %	49,566	87,306	(37,740)	(43.2)%
Depreciation and amortization	3,292	2,992	300	10.0 %	6,585	5,951	634	10.7 %
Equity loss	—	541	(541)	*	—	1,342	(1,342)	*
Other operating income	—	(343)	343	*	—	(1,011)	1,011	*
Total operating expenses	$ 172,397	$ 136,769	$ 35,628		$ 333,807	$ 327,514	$ 6,293	

**not meaningful*

External provider costs. External provider costs were $91.0 million for the three months ended December 31, 2021, an increase of $15.9 million, or 21.1%, compared to $75.1 million for the three months ended December 31, 2020. The increase is primarily driven by (i) an increase of 12.9% in cost per participant and (ii) an increase of 7.3% in member months. The increase in cost per participant is primarily driven by the net effect of an increase in housing, outpatient, inpatient and specialist care expenses, in part as a result of our participants seeking healthcare services that were delayed during the peak of the COVID-19 pandemic, the current Omicron surge, and increased housing rates as mandated by certain states

External provider costs were $181.0 million for the six months ended December 31, 2021, an increase of $32.2 million, or 21.6%, compared to $148.8 million for the six months ended December 31, 2020. The increase is primarily driven by (i) an increase of 13.0% in cost per participant and (ii) an increase of 7.7% in member months. The increase in cost per participant is primarily driven by the net effect of an increase in housing, outpatient, inpatient and specialist care expenses.

Cost of care (excluding depreciation and amortization). Cost of care (excluding depreciation and amortization) expense was $42.9 million for the three months ended December 31, 2021, an increase of $4.8 million, or 12.7%, compared to $38.1 million for the three months ended December 31, 2020, primarily due to the net effect of (i) an increase of 7.3% in member months and (ii) an increase of 5.0% in cost per participant. The increase in cost per participant was driven by an increase in operational costs of reopening our centers and an increase wage rates.

Cost of care (excluding depreciation and amortization) expense was $83.6 million for the six months ended December 31, 2021, an increase of $7.3 million, or 9.5%, compared to $76.4 million for the six months ended December 31, 2020, primarily due to the net effect of (i) an increase of 7.7% in member months and (ii) an increase of 1.7% in cost per participant. The increase in cost per participant was driven by an increase in operational costs of reopening our centers and an increase in headcount.

Sales and marketing. Sales and marketing expenses were $6.7 million for the three months ended December 31, 2021, an increase of $2.0 million, or 44.2%, compared to $4.6 million for the three months ended December 31, 2020, primarily due to an increase in (i) employee compensation and benefits due to an increase in full time employees and (ii) costs associated with certain new advertising campaigns to raise PACE awareness.

Sales and marketing expenses were $13.0 million for the six months ended December 31, 2021, an increase of $4.2 million, or 48.4%, compared to $8.7 million for the six months ended December 31, 2020, primarily due to an increase in (i) employee compensation and benefits due to an increase in FTEs and (ii) costs associated with certain new advertising campaigns to raise PACE awareness.

Corporate, general and administrative. Corporate, general and administrative expenses were $28.5 million for the three months ended December 31, 2021, an increase of $12.8 million, or 81.1%, compared to $15.7 million for the three months ended December 31, 2020. The increase is related to (i) employee compensation and benefits as the result of an increase in FTEs, (ii) compliance-related expense, (iii) increased legal costs, (iv) costs associated with executive severance and recruiting and (v) costs associated with being a publicly traded company.

Corporate, general and administrative expenses were $49.6 million for the six months ended December 31, 2021, a decrease of $37.7 million, or 43.2%, compared to $87.3 million for the six months ended December 31, 2020. The decrease was primarily due to the fees incurred during fiscal year 2021 as a result of the Apax Transaction (as defined below). In connection with the Apax Transaction, $45.4 million was recorded related to the cancellation of 16,994,975 common stock options outstanding under the Company's 2016 Equity Incentive Plan and $13.1 million of transaction related costs were recorded as corporate, general and administrative expenses. Offsetting the decrease of $58.5 million related to the Apax Transaction were expenses related to (i) employee compensation and benefits as the result of an increase in FTEs, (ii) compliance-related expense, (iii) increased legal costs, (iv) costs associated with executive severance and recruiting and (v) costs associated with being a publicly traded company.

Depreciation and amortization. Depreciation and amortization expense was $3.3 million for the three months ended December 31, 2021, an increase of $0.3 million, or 10.0%, compared to $3.0 million for the three months ended December 31, 2020. Depreciation and amortization expense was $6.6 million for the six months ended December 31, 2021, an increase of $0.6 million, or 10.7%, compared to $6.0 million for the six months ended December 31, 2020. This increase in both periods is due to an increase in depreciation expense as a result of capital additions in the normal course of business.

Equity loss. Equity loss of $0.5 million for the three months ended December 31, 2020 and $1.3 million for the six months ended December 31, 2020 related to our equity method investment in InnovAge Sacramento. InnovAge Sacramento began operations in July 2020 and was subsequently consolidated into operations effective January 1, 2021, therefore there are no equity earnings for the three and six months ended December 31, 2021.

Other operating income. Other operating income was $0.3 million for the three months ended December 31, 2020 and $1.0 million for the six months ended December 31, 2020 due to the change in fair value of contingent consideration. The contingent consideration was paid in March 2021 and there were no amounts outstanding as of December 31, 2021.

Other Income (Expense)

	Three Months Ended December 31,		Change		Six Months Ended December 31,		Change	
	2021	2020	$	%	2021	2020	$	%
in thousands								
Interest expense, net	$ (674)	$ (6,555)	$ 5,881	89.7 %	$ (1,221)	$ (12,186)	$ 10,965	90.0 %
Loss on extinguishment of debt	—	—	—	*	—	(991)	991	*
Other expense	28	106	(78)	73.6 %	(465)	44	(509)	1,156.8 %
Total other expense	$ (646)	$ (6,449)	$ 5,803		$ (1,686)	$ (13,133)	$ 11,447	

**not meaningful*

Interest expense, net. Interest expense, net, consists primarily of interest payments on our outstanding borrowings, net of interest income earned on our cash and cash equivalents and restricted cash. Interest expense, net was $0.7 million for the three months ended December 31, 2021, a decrease of $5.9 million, or 89.7%, compared to $6.6 million for the three months ended December 31, 2020. Interest expense, net was $1.2 million for the six months ended December 31, 2021, a decrease of $11.0 million, or 90.0%, compared to $12.2 million for the six months ended December 31, 2020. The decrease was primarily due to (i) a lower outstanding debt balance and (ii) to a lesser extent, a lower average interest rate. For additional information regarding our outstanding indebtedness, see Note 8, “Long-Term Debt” to our condensed consolidated financial statements.

Loss on extinguishment of debt. We recognized a loss on extinguishment of debt of $1.0 million for the six months ended December 31, 2020 and no loss on extinguishment of debt for the six months ended December 31, 2021.

Provision for Income Taxes

The Company and its subsidiaries calculate federal and state income taxes currently payable and for deferred income taxes arising from temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured pursuant to enacted tax laws and rates applicable to periods in which those temporary differences are expected to be recovered or settled. The impact on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment. The members of SH1 and Sacramento have elected to be taxed as partnerships, and no provision for income taxes for SH1 or Sacramento is included in these condensed consolidated financial statements.

A valuation allowance is provided to the extent that it is more likely than not that deferred tax assets will not be realized. Tax benefits from uncertain tax positions are recognized when it is more likely than not that the position will be sustained upon examination based on the technical merits of the position. The amount recognized is measured as the largest amount of benefit that has a greater than 50% likelihood of being realized upon settlement. The Company recognizes interest and penalty expense associated with uncertain tax positions as a component of provision for income taxes.

During the six months ended December 31, 2021 and 2020, we reported provision for income taxes of $4.2 million and $9.4 million, respectively. The decrease of $5.2 million is primarily due to certain permanent differences between the financial and tax accounting treatment of (a) the Section 162(m) limitation on compensation of five highest paid officers and (b) transaction costs associated with the Apax Transaction in 2020. These differences resulted in our pretax book loss generating taxable net income for the six months ended December 31, 2020. The taxable net income for the six months ended December 31, 2021 was lower than the taxable net income for the six months ended December 31, 2020.

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Net Loss Attributable to Noncontrolling Interests.

InnovAge Senior Housing Thornton, LLC (“SH1”) is a Variable Interest Entity (“VIE”). The Company is the primary beneficiary of SH1 and consolidates SH1. The Company is the primary beneficiary of SH1 because it has the power to direct the activities that are most significant to SH1 and has an obligation to absorb losses or the right to receive benefits from SH1. The most significant activity of SH1 is the operation of the housing facility. The Company has provided a subordinated loan to SH1 and has provided a guarantee for the convertible term loan held by SH1. The SH1 interest is reflected within equity as noncontrolling interests. Our share of earnings are recorded in the consolidated statements of operations and the share of the other noncontrolling interest holders’ earnings are recorded as net loss attributable to noncontrolling interests.

The Company has a controlling interest in InnovAge Sacramento. As of January 1, 2021, our share of earnings are recorded in the consolidated statements of operations and the share of the other noncontrolling interest holders’ earnings are recorded as net loss attributable to noncontrolling interests.

Net Income (Loss)

During the three months ended December 31, 2021 and 2020, we reported net income of $1.1 million and $9.6 million, respectively, consisting of (i) income from operations of $3.0 million and $20.5 million, respectively, (ii) other expense of $0.6 million and $6.4 million, respectively, and (iii) provision for income taxes of $1.2 million and $4.5 million, respectively, each as described above.

During the six months ended December 31, 2021 and 2020, we reported net income of $8.7 million and a net loss of $(40.2) million, respectively, consisting of (i) income (loss) from operations of $14.6 million and ($17.6 million), respectively, (ii) other expense of $1.7 million and $13.1 million, respectively, and (iii) provision for income taxes of $4.2 million and $9.4 million, respectively, each as described above.

Key Business Metrics and Non-GAAP Measures

In addition to our GAAP financial information, we review a number of operating and financial metrics, including the following key metrics and non-GAAP measures, to evaluate our business, measure our performance, identify trends affecting our business, formulate business plans and make strategic decisions. We believe these metrics provide additional perspective and insights when analyzing our core operating performance from period to period and evaluating trends in historical operating results. These key business metrics and non-GAAP measures should not be considered superior to, or a substitute for, and should be read in conjunction with, the GAAP financial information presented herein. These measures may not be comparable to similarly-titled performance indicators used by other companies.

	Six Months Ended December 31,	
	2021	**2020**
	dollars in thousands	
Key Business Metrics:		
Centers[a]	18	17
Census[a][b]	7,050	6,600
Total Member Months[a]	42,095	39,092
Center-level Contribution Margin	$ 83,736	$ 84,694
Center-level Contribution Margin as a % of revenue	24.0 %	27.3 %
Non-GAAP Measures:		
Adjusted EBITDA[c]	$ 32,962	$ 45,673
Adjusted EBITDA Margin[c]	9.5%	14.8%

(a) Amount for 2021 includes InnovAge Sacramento, which the Company owns and controls through a joint venture and is consolidated in our financial statements.

(b) Participant numbers are approximate.

(c) Adjusted EBITDA and Adjusted EBITDA margin are non-GAAP measures. For a definition and reconciliation of these non-GAAP measures to the most closely comparable GAAP measures for the period indicated, see below under “Adjusted EBITDA.”

Centers

We define our centers as those centers open for business and attending to participants at the end of a particular period.

Census

Our census is comprised of our capitated participants for whom we are financially responsible for their total healthcare costs.

Total Member Months

We define Total Member Months as the total number of participants multiplied by the number of months within a year in which each participant was enrolled in our program. We believe this is a useful metric as it more precisely tracks the number of participants we serve throughout the year.

Center-level Contribution Margin

We define Center-level Contribution Margin as total revenues less external provider costs and cost of care, excluding depreciation and amortization, which includes all medical and pharmacy costs. For purposes of evaluating Center-level Contribution Margin on a center-by-center basis, we do not allocate our sales and marketing expense or corporate, general and administrative expenses across our centers. Center-level Contribution Margin was $83.6 million and $84.7 million for the six months ended December 31, 2021 and 2020, respectively.

Adjusted EBITDA

We define Adjusted EBITDA as net income adjusted for interest expense, depreciation and amortization, and provision for income tax as well as addbacks for non-recurring expenses or exceptional items, including charges relating to management equity compensation, rate determination, executive severance and recruitment, class action litigation, M&A diligence, transaction and integration, business optimization, electronic medical record ("EMR") implementation, financing-related fees and contingent consideration. For the six months ended December 31, 2021 and 2020, our net income (loss) was $8.7 million and ($40.2 million), respectively, and Adjusted EBITDA was $22.6 million and $45.7 million, respectively, representing a year-over-year decrease of 27.8%. The decrease in Adjusted EBITDA and Adjusted EBITDA margin is primarily from i) the impact of normalization of center-level contribution margin as a result of our participants seeking healthcare services that were delayed during the peak of the COVID-19 pandemic and costs associated with with re-opening of our centers ii) an increase in sales and marketing expense as a result of growth and our investment in digital and other sales initiatives and ii) higher corporate, general and administrative expenses, primiarily attributable to growth and costs associated with being a publicly traded company.

A reconciliation of Adjusted EBITDA to net income, the most directly comparable GAAP measure, for each of the periods is as follows:

	Three Months Ended December 31,		**Six Months Ended December 31,**	
in thousands	**2021**	**2020**	**2021**	**2020**
Net income (loss)	$ 1,106	$ 9,607	$ 8,730	$ (40,193)
Interest expense, net	674	6,555	1,221	12,186
Depreciation and amortization	3,292	2,992	6,585	5,951
Provision for income tax	1,201	4,486	4,197	9,423
Stock-based compensation	783	526	1,741	572
Rate determination[a]	—	(2,158)	—	(2,158)
Executive severance and recruitment[b]	4,123	—	4,123	—
Class action litigation [c]	45	—	45	—
M&A diligence, transaction and integration[d]	513	446	840	58,784
Business optimization[e]	2,671	356	4,788	859
EMR implementation[f]	342	97	692	269
Financing-related fees[g]	—	—	—	991
Contingent consideration[h]	—	(343)	—	(1,011)
Adjusted EBITDA	$ 14,750	$ 22,564	$ 32,962	$ 45,673

(a) Reflects the CMS settlement payment of approximately $2.2 million related to end-stage renal disease beneficiaries for calendar years 2010 through 2020.

(b) Reflects charges related to executive severance and recruiting.

(c) Reflects charges related to litigation by shareholders.

(d) For the six months ended December 31, 2020, this primarily represents (i) $45.4 million related to the cancellation of options and the redemption of shares and (ii) $13.1 million of transaction fees and expenses recognized in connection with the July 27, 2020 transaction between us, an affiliate of Apax Partners and our then existing equity holders entering into a Securities Purchase Agreement (the “Apax Transaction”).

(e) Reflects charges related to business optimization initiatives. Such charges relate to one-time investments in projects designed to enhance our technology and compliance systems, and improve and support the efficiency and effectiveness of our operations.

(f) Reflects non-recurring expenses relating to the implementation of a new electronic medical record vendor.

(g) Reflects fees and expenses incurred in connection with amendments to our credit agreements. See Note 8, “Long Term Debt” to the condensed consolidated financial statements.

(h) Reflects the contingent consideration fair value adjustment made during the reporting period associated with our acquisition of NewCourtland.

Adjusted EBITDA margin

Adjusted EBITDA margin is Adjusted EBITDA expressed as a percentage of our total revenue less any exceptional, one-time revenue items. For the six months ended December 31, 2021, our net income margin was 2.5%, as compared to our net income margin of (13.0)% for the six months ended December 31, 2020. For the six months ended December 31, 2021, our Adjusted EBITDA margin was 9.5%, as compared to our Adjusted EBITDA margin for the six months ended December 31, 2020 of 14.8%.

Adjusted EBITDA and Adjusted EBITDA margin are supplemental measures of operating performance monitored by management that are not defined under GAAP and that do not represent, and should not be considered as, an alternative to net income (loss) and net income (loss) margin, respectively, as determined by GAAP. We believe that Adjusted EBITDA and Adjusted EBITDA margin are appropriate measures of operating performance because the metrics eliminate the impact of revenue and expenses that do not relate to our ongoing business performance, allowing us to more effectively evaluate our core operating performance and trends from period to period. We believe that Adjusted EBITDA and Adjusted EBITDA margin help investors and analysts in comparing our results across reporting periods on a consistent basis by excluding items that we do not believe are indicative of our core operating performance. These non-GAAP financial measures have limitations as analytical tools and should not be considered in isolation from, or as a substitute for, the analysis of other GAAP financial measures, including net income (loss) and net income (loss) margin. In evaluating Adjusted EBITDA, you should be aware that in the future we may incur expenses that are the same as or similar to some of the adjustments in this presentation. Our presentation of Adjusted EBITDA should not be construed to imply that our future results will be unaffected by the types of items excluded from the calculation of Adjusted EBITDA. The use of the term Adjusted EBITDA varies from others in our industry.

Liquidity and Capital Resources

General

To date, we have financed our operations principally through cash flows from operations and through borrowings under our credit facilities, and from the sale of common stock in our IPO that occurred in March 2021. As of December 31, 2021, we had cash and cash equivalents of $218.5 million. Our cash and cash equivalents primarily consist of highly liquid investments in demand deposit accounts and cash.

Our capital resources are generally used to fund (i) debt service requirements, the majority of which relate to the quarterly principal payments of the Term Loan Facility (as defined in Note 8, “Long Term Debt” to the condensed consolidated financial statements) due 2026, (ii) capital and operating lease obligations, which are generally paid on a monthly basis and include maturities through 2025 and 2032, respectively, (iii) the operations of our business, including special projects such as our transition to a new electronic medical record vendor, with respect to which we expect to incur non-recurring implementation costs over the next 18 months, and ongoing costs through 2026, and (iv) income tax payments, which are generally due on a quarterly and annual basis. We also expect to use capital resources for capital additions, which we expect to primarily relate to the development of de novo centers to the extent and as they are opened. Collectively, these obligations are expected to represent a significant liquidity requirement of our Company on both a short-term and long-term basis. For additional information regarding our lease obligations, debt and commitments, see

Note 7, “Leases”, Note 8, “Long Term Debt” and Note 9, “Commitments and Contingencies” to our condensed consolidated financial statements.

We believe that our cash and cash equivalents and our cash flows from operations will be sufficient to fund our operating and capital needs for at least the next 12 months. We have based this estimate on assumptions that may prove to be wrong, and we could use our available capital resources sooner than we currently expect. Our actual results could vary because of, and our future capital requirements will depend on, many factors, including our growth rate, the timing and extent of spending to open new centers and the expansion of sales and marketing activities. We may in the future enter into arrangements to acquire or invest in complementary businesses, services and technologies. We may be required to seek additional equity or debt financing. In the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us or at all. If we are unable to raise additional capital when desired, or if we cannot expand our operations or otherwise capitalize on our business opportunities because we lack sufficient capital, our business, results of operations, and financial condition would be adversely affected.

On March 8, 2021, concurrently with the closing of the IPO, the Company entered into a new credit agreement, (“the 2021 Credit Agreement”), that replaced the 2016 Credit Agreement, as further discussed in Note 8, “Long Term Debt” to our condensed consolidated financial statements. The 2021 Credit Agreement consists of a senior secured term loan, Term Loan Facility, of $75.0 million principal amount and a revolving credit facility, Revolving Credit Facility, of $100.0 million maximum borrowing capacity, each as defined and described in Note 8, “Long Term debt” to the condensed consolidated financial statements. Principal on the Term Loan Facility is paid each calendar quarter beginning September 2021 in an amount equal to 1.25% of the initial term loan on closing date. Proceeds of the Term Loan Facility, together with proceeds from the IPO, were used to repay amounts outstanding under the 2016 Credit Agreement.

Any outstanding principal amounts under the 2021 Credit Agreement accrue interest at a variable interest rate. As of December 31, 2021, the interest rate on the Term Loan Facility was 1.84%. Under the terms of the 2021 Credit Agreement, the Revolving Credit Facility fee accrues at 0.25% of the average daily unused amount and is paid quarterly. As of December 31, 2021, we had no borrowings outstanding under the Revolving Credit Facility and, therefore, had full capacity thereunder, subject to applicable covenant compliance restrictions and any other conditions precedent to borrowing. As of December 31, 2021, we also had $2.4 million principal amount outstanding under our convertible term loan. Monthly principal and interest payments are approximately $0.02 million, and the loan bears interest at an annual rate of 6.68%. The remaining principal balance is due upon maturity, which is August 20, 2030.

For more information about our debt, see Note 8 “Long Term Debt” to our condensed consolidated financial statements.

We currently intend to retain all available funds and any future earnings to fund the development and growth of our business.

Condensed Consolidated Statements of Cash Flows

Our consolidated statements of cash flows for the six months ended December 31, 2021 and 2020 are summarized as follows:

	Six Months Ended December 31,		
	2021	**2020**	**$ Change**
in thousands			
Net cash provided by (used in) operating activities	$ 31,577	$ (743)	$ 32,320
Net cash used in investing activities	(13,681)	(13,464)	(217)
Net cash used in financing activities	(3,048)	(21,365)	18,317
Net change in cash, cash equivalents and restricted cash	$ 14,848	$ (35,572)	$ 50,420

Operating Activities. The change in net cash provided by (used in) operating activities was primarily due to the net effect of (i) net income of $8.7 million in the current year period compared to a net loss of $40.2 million in the prior year period, as described further above, (ii) a net increase in working capital primarily as a result of the impact of the completion of the Colorado Department of Health Care Policy & Financing's ("HCPF") reconciliation, as described below, and the timing of accrued expenses.

In fiscal year 2021, the Company and the HCPF completed the reconciliation for fiscal years 2018 and 2019. The reconciliation resulted in a net adjustment of reduction of accounts receivable of $3.4 million, which was recorded in fiscal year 2021. The Company does not expect adjustments related to the reconciliation to be significant in future periods.

Investing Activities. Investing activities were made up of approximately $11.5 million in purchases of property and equipment.

Financing activities. The decrease in net cash used in financing activities was primarily due to the net effect of the Apax Transaction in fiscal year 2021, which included net proceeds on long-term debt of $79.1 million, $77.6 million related to treasury stock purchases and $32.4 million related to stock option cancellation payments, those payments of which did not recur in fiscal year 2022.

Contractual Obligations and Commitments

Our principal commitments consist of repayments of long-term debt and obligations under operating and capital leases. As of December 31, 2021, we had $75.4 million of long-term debt outstanding. See Note 8, "Long Term Debt" in our condensed consolidated financial statements for more information. As of December 31, 2021, we had future minimum operating lease payments under non-cancellable leases through the year 2032 of $33.8 million. We also had non-cancellable capital lease agreements with third parties through the year 2027 with future minimum payments of $14.6 million. See Note 7, "Leases" in our condensed consolidated financial statements for more information.

Off Balance Sheet Arrangements

We did not have any off balance sheet arrangements as of December 31, 2021**.**

JOBS Act

We qualify as an "emerging growth company" pursuant to the provisions of the Jumpstart Our Business Startups ("JOBS") Act. For as long as we are an "emerging growth company," we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies," including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act, only being required to present two years of audited financial statements, plus unaudited condensed consolidated financial statements for applicable interim periods and the related discussion in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations," reduced disclosure obligations regarding executive compensation in our periodic reports, proxy statements and registration statements, exemptions from the requirements of holding non-binding advisory "say-on-pay" votes on executive compensation and stockholder advisory votes on golden parachute compensation.

In addition, under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards until such time as those standards apply to private companies. We take advantage of the longer phase-in periods for the adoption of new or revised financial accounting standards under the JOBS Act until we are no longer an emerging growth company. Our election to use the phase-in periods permitted by this election may make it difficult to compare our financial statements to those of non-emerging growth companies and other emerging growth companies that have opted out of the longer phase-in periods permitted under the JOBS Act and who will comply with new or revised financial accounting standards. If we were to subsequently elect instead to comply with public company effective dates, such election would be irrevocable pursuant to the JOBS Act.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates under different assumptions or conditions, impacting our reported results of operations and financial condition.

Certain accounting policies involve significant judgments and assumptions by management, which have a material impact on the carrying value of assets and liabilities and the recognition of income and expenses. We consider these accounting policies to be critical accounting policies. The estimates and assumptions used by management are based on historical experience and other factors, which are believed to be reasonable under the circumstances.

For a description of our policies regarding our critical accounting policies, see “Critical Accounting Policies and Estimates” in the 2021 Annual 10-K. There have been no significant changes in our critical accounting policies, estimates, or methodologies to our condensed consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily a result of exposure due to potential changes in inflation or interest rates. We do not hold financial instruments for trading purposes.

Interest rate risk

As of December 31, 2021, we had total outstanding debt of $73.1 million in principal amount under the Term Loan Facility, $2.4 million under the convertible term loan, and no outstanding debt under the Revolving Credit Facility (each as defined in Note 8, “Long Term Debt” to our condensed consolidated financial statements). As of June 30, 2021, we had total outstanding debt of $75.0 million in principal amount under the Term Loan Facility and $2.4 million under the Convertible Term Loan. As of December 31, 2021, the interest rate on the Term Loan Facility was 1.84%

We had cash and cash equivalents of $216.3 million and $201.5 million as of December 31, 2021 and June 30, 2021, respectively, which are deposited with high credit quality financial institutions and are primarily in demand deposit accounts.

Our cash and cash equivalents and interest payments in respect of our debt are subject to market risk due to changes in interest rates. We do not believe that an increase or decrease in interest rates of 100 basis points would have a material effect on our business, financial condition or results of operations.

Inflation risk

Based on our analysis of the periods presented, we believe that inflation has not had a material effect on our operating results. There can be no assurance that future inflation, including as a result of COVID-19, will not have an adverse impact on our operating results and financial condition.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures were effective as of December 31, 2021.

Changes to our Internal Controls over Financial Reporting

There have been no changes in internal control over financial reporting during the quarter ended December 31, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may be involved in various legal proceedings and subject to claims that arise in the ordinary course of business.

On October 14, 2021, the Company was named as a defendant in a putative class action complaint filed in the District Court for the District of Colorado on behalf of individuals who purchased or acquired shares of the Company's common stock during a specified period. Through the complaint, plaintiffs are asserting claims against the Company, certain of the Company's officers and the underwriters in the Company's IPO, alleging violations of Sections 11 and 15 of the Securities Act of 1933 for making allegedly inaccurate and misleading statements and omissions in connection with the Company's IPO and seeking compensatory damages, among other things.

In July 2021, the Company received a civil investigative demand from the Attorney General for the State of Colorado under the Colorado Medicaid False Claims Act. The demand requests information and documents regarding Medicaid billing, patient services and referrals in connection with the Company's PACE program in Colorado. We continue to fully cooperate with the Attorney General and produce the requested information and documentation. We are currently unable to predict the outcome of this investigation.

In February 2022, the Company received a civil investigative demand from the Department of Justice ("DOJ") under the Federal False Claims Act on similar subject matter. The demand requests information and documents regarding audits, billing, orders tracking, and quality and timeliness of patient services in connection with the Company's PACE programs in the states where the Company operates (California, Colorado, New Mexico, Pennsylvania, and Virginia). The Company is fully cooperating with the DOJ to produce the requested information and documentation. We are currently unable to predict the outcome of this investigation.

Although the results of legal proceedings and claims are inherently unpredictable and uncertain, we do not believe that any of the legal proceedings with which we are currently involved would, if determined adversely to us, either individually or in the aggregate, have a material adverse effect on our business, operating results, cash flows or financial condition. Regardless of the outcome, litigation has the potential to have an adverse impact on us due to any related defense and settlement costs, diversion of management resources, and other factors.

Item 1.A Risk Factors

Other than the updates to the risk factor set forth below, there have been no material changes to the risk factors disclosed in the "Risk factors" section of our 2021 10-K.

Risks Related to our Business

We may be subject to legal proceedings, enforcement actions and litigation, malpractice and privacy disputes, which are costly to defend and could materially harm our business and results of operations.

We may be party to lawsuits and legal proceedings in the normal course of business. These matters are often expensive and disruptive to normal business operations. We may face allegations, lawsuits and regulatory inquiries, requests for information, audits and investigations regarding care and services provided to participants, the False Claims Act ("FCA"), data privacy, security, labor and employment, consumer protection or intellectual property. We may also face allegations or litigation related to our acquisitions, securities issuances or business practices, including public disclosures about our business. On October 14, 2021, the Company was named as a defendant in a putative class action complaint filed in the District Court for the District of Colorado on behalf of individuals who purchased or acquired shares of the Company's common stock during a specified period. We are currently unable to predict the outcome of this proceeding. See Item 1, Legal Proceedings.

Litigation and regulatory proceedings may be protracted and expensive, and the results are difficult to predict. Certain of these matters include claims for substantial or indeterminate amounts of damages and may include claims for injunctive relief. Additionally, our litigation costs could be significant. Adverse outcomes with respect to litigation or any of these legal proceedings may result in significant settlement costs or judgments, penalties, fines and sanctions. In the event of compliance issues, sanctions could include civil monetary penalties, corrective action plans, monitoring, contract termination, and/or CMS and/or Medicaid agencies suspending or restricting enrollment with us (as is the case currently with respect to our Sacramento, California center, and our centers in the State of

Colorado), which could negatively impact our geographical expansion and revenue growth. We are also subject to periodic audits, which have and may continue to increase our regulatory compliance costs and may require us to change our business practices, which could negatively impact our revenue growth. Managing legal proceedings, regulatory inquiries, litigation and audits, even if we achieve favorable outcomes, is costly, time-consuming and diverts management's attention from our business.

The results of regulatory proceedings, investigations, inquiries, litigation, claims, and audits cannot be predicted with certainty, and determining reserves for pending litigation and other legal, regulatory and audit matters requires significant judgment and assumptions. There can be no assurance that our expectations will prove correct, and even if these matters are resolved in our favor or without significant cash settlements, these matters, and the time and resources necessary to litigate or resolve them, cause harm to our reputation, business, financial condition, results of operations and the market price of our common stock.

We are also subject to lawsuits under the FCA and comparable state laws for submitting allegedly fraudulent, inadequately supported or otherwise inappropriate bills for services to the Medicare and Medicaid programs. These lawsuits, which may be initiated by government authorities as well as private party relators, can involve significant monetary damages, fines, attorney fees and the award of bounties to private plaintiffs who successfully bring these suits, as well as to the government programs. In recent years, government oversight and law enforcement have become increasingly active and aggressive in investigating and taking legal action against potential fraud and abuse.

In July 2021, the Company received a civil investigative demand from the Attorney General for the State of Colorado under the Colorado Medicaid False Claims Act. The demand requests information and documents regarding Medicaid billing, patient services and referrals in connection with the Company's PACE program in Colorado. We continue to fully cooperate with the Attorney General and produce the requested information and documentation. We are currently unable to predict the outcome of this investigation.

In February 2022, the Company received a civil investigative demand from the Department of Justice ("DOJ") under the Federal False Claims Act on similar subject matter. The demand requests information and documents regarding audits, billing, orders tracking, and quality and timeliness of patient services in connection with the Company's PACE programs in the states where the Company operates (California, Colorado, New Mexico, Pennsylvania, and Virginia). The Company is fully cooperating with the DOJ to produce the requested information and documentation. We are currently unable to predict the outcome of this investigation.

Furthermore, our business exposes us to potential medical malpractice, professional negligence or other related actions or claims that are inherent in the provision of healthcare services. While the industry has not seen an increase in the number of claims of this nature due to the impact of the COVID-19 pandemic, this remains a possibility due to the relatively lengthy claim development inherent in professional liability claims. These claims, whether or not they have merit, could cause us to incur substantial costs, and could place a significant strain on our financial resources, divert the attention of management from our core business, harm our reputation and adversely affect our ability to attract and retain participants, any of which could have a material adverse effect on our business, financial condition and results of operations.

Although we maintain third-party professional liability insurance coverage, it is possible that claims against us may exceed the coverage limits of our insurance policies. Even if any professional liability loss is covered by an insurance policy, these policies typically have substantial deductibles for which we are responsible. Professional liability claims in excess of applicable insurance coverage could have a material adverse effect on our business, financial condition and results of operations. In addition, any professional liability claim brought against us, whether or not they have merit, could result in an increase of our professional liability insurance premiums. Insurance coverage varies in cost and can be difficult to obtain, and we cannot guarantee that we will be able to obtain insurance coverage in the future on terms acceptable to us or at all. If our costs of insurance and claims increase, then our earnings could decline.

We depend on our senior management team and other key employees, and the loss of one or more of these employees or an inability to attract and retain other highly skilled employees could harm our business.

Our success depends largely upon the services of our senior management team and other key employees. We rely on our leadership team in the areas of operations, provision of medical services, information technology and security, marketing, and general and administrative functions. Since we became a public company, there have been changes in our executive management team resulting from the hiring or departure of executives. Effective January 1, 2022, our Board of Directors elevated Patrick Blair, then President of the Company, to the position of President and Chief Executive Officer to replace Maureen Hewitt, our former Chief Executive Officer, who resigned effective on that same date. Even though Mr. Blair has had a long and successful career in healthcare, joining the Company from BAYADA Home Health Care, where he was the Group President responsible for overall quality and financial performance of the Home Health, Hospice and Personal Care businesses, failure to execute a smooth transition could affect the execution of our business strategy and relationships with regulators and other stakeholders. In addition, our employment agreements with our executive officers and other key personnel do not require them to continue to work for us for any specified period and, therefore, they could terminate their employment with us at any time. The loss, whether as a result of voluntary termination or illness, of one or more of the members of our senior management team, or other key employees, could harm our business. Changes in our executive management team may also cause disruptions in, and harm to, our business.

Risks Related to Regulation

We face inspections, reviews, audits and investigations under federal and state government programs and contracts. These audits require corrective actions and have resulted in adverse findings that have negatively affected and may continue to affect our business, including our results of operations, liquidity, financial condition and reputation.

As a result of our PACE contracts with CMS and state government agencies, state licenses, and participation in Medicaid, we are routinely subject to, and will continue to be subject to, various governmental inspections, reviews, audits, requests for information and investigations to verify our compliance with requirements of these programs and applicable laws and regulations, assess the quality of the services we are providing to our participants, and evaluate the accuracy of the risk adjustment data we have submitted to the government.

On May 26, 2021, the Colorado Department of Health Care Policy & Financing ("HCPF") and the Colorado Department of Public Health and Environment ("CDPHE") initiated a joint audit of our Colorado PACE centers, and on June 21, 2021, CMS also initiated a separate focused desk audit of our Colorado PACE program. We received preliminary findings from CMS and HCPF/CDPHE in July 2021, followed by validation results in October 2021. In conjunction with providing validation results, the agencies referred our case to the Compliance and Enforcement Division of CMS for review and possible further action. Effective December 23, 2021, CMS suspended new enrollments at the Company's Colorado centers, based on deficiencies detected in the joint audit related to participant quality of care. The suspension will remain in effect until CMS determines that we have remediated the deficiencies to their satisfaction. Effective on the same date, HCPF also determined to impose sanctions and suspended new enrollments at the Company's Colorado centers identifying certain deficiencies specific to Medicaid. In addition, as a result of their specific findings, CDPHE mandated that we retain a consultant for a period of 12 months to oversee our remediation efforts, and issued a $10,000 penalty, which we have paid. On January 17, 2022 and February 5, 2022, we submitted a CAP to each of CDPHE and CMS, respectively. A separate CAP for HCPF is due on February 22, 2022. We cannot guarantee that these agencies will accept our CAPs, that if accepted, we will be able to implement the CAPs, or that we will be able to remedy the deficiencies specified by each of the agencies. In addition, although these agencies coordinate many of the actions taken with respect to these audits, they each have separate mandates and are not obligated to act together or reach the same decisions. Therefore, we cannot guarantee that the agencies will not separately request further actions or impose additional separate sanctions.

On May 10, 2021, CMS began a routine, scheduled audit of our Sacramento, California center. On September 17, 2021, we were notified that CMS had determined to suspend new enrollments at our Sacramento center based on deficiencies detected in the audit related to participant quality of care, and on September 30, 2021, we were further notified that the Department of Health Care Services ("DHCS") of the State of California had reached the same determination. The suspension will remain in effect until CMS and DHCS determine that we have remediated the deficiencies to their satisfaction. We submitted a CAP on October 15, 2021, which has been accepted by both CMS and DHCS. As a result, both agencies are currently monitoring the implementation of the CAP. On January 7, 2022, DHCS notified us that it was suspending the State's previously provided assurances that it would enter into a PACE program agreement with the Company (State Attestations) with respect to de novo centers in the State of California until such time as the CAPs and the remediation and validation processes for our Sacramento center have been successfully completed and the enrollment sanctions are lifted. As a result of the suspension, we will be unable to open one of the de novo centers we had identified in California within our planned timeline.

In addition, on February 9, 2022, we received notice from the Cabinet for Health and Family Services of the State of Kentucky informing us that they no longer intend to enter into an agreement with us to be a PACE provider in the State of Kentucky. We intend to work closely with the Cabinet to attempt to address any issues that may have prompted the notification.

As previously disclosed, in November 2021, CMS began a routine audit of our Albuquerque, New Mexico center. On November 23, 2021, we received preliminary results identifying certain deficiencies related to participant quality of care. We are currently in the audit validation process, which entails provision of various participant records. Following such process, we expect to receive final results from the audit. At this time, we cannot guarantee the outcome of this audit, including whether or not sanctions will be imposed. If CMS were to suspend enrollments at, or otherwise curtail, our center or impose other sanctions, such actions could have a material adverse effect on our business operations, financial results and reputation.

At this time, we cannot guarantee the outcome of any of the audits and processes described above. If we are unable to effectively remediate the deficiencies raised by the audits, implement the CAPs we have submitted, will submit or may be required to submit, or otherwise satisfy the agencies' concerns, we could be subject to additional sanctions and our business plan, including our growth strategy (including with respect to enrollment growth and de novo openings), would continue to be adversely impacted. In general, inspections, reviews, audits, requests for information or investigations with adverse findings, and in particular the audits described above, have resulted in and may further result in:

- temporary or permanent enrollment sanctions in the affected center(s), as is the case with our Sacramento, California center and our centers in the State of Colorado;
- refunding amounts we have been paid by the government;
- state or federal agencies imposing CAPs, fines, penalties, training, policies and procedures, and other requirements or sanctions on us;
- temporary suspension of payments;
- debarment or exclusion from participation in federal health care programs;
- self-disclosure of violations to applicable regulatory authorities;
- damage to our reputation;
- the revocation of a facility's license; and
- loss of certain rights under, or termination of, our contracts with government payors.

We may be required to refund amounts we have been paid and/or pay fines and penalties as a result of these inspections, reviews, audits, requests for information and investigations. Any of the results noted above could have further material adverse effects on our business and operating results. Furthermore, the legal, document production and other costs associated with complying with these inspections, reviews, audits, requests for information or investigations is significant.

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

Unregistered Sales of Equity Securities

There were no unregistered sales of equity securities during the six months ended December 31, 2021.

Use of Proceeds

On March 8, 2021, we completed the IPO of our common stock pursuant to a Registration Statement on Form S-1 (File No. 333-252853), which was declared effective on March 3, 2021. There have been no material changes in the planned use of proceeds from the IPO from those that were described in the final prospectus filed pursuant to Rule 424(b) with the Securities and Exchange Commission on March 5, 2021.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The following is a list of all exhibits filed or furnished as part of this report:

EXHIBIT INDEX

Exhibit No.	Description
3.1	Second Amended and Restated Certificate of Incorporation of InnovAge Holding Corp., filed March 3, 2021 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on March 8, 2021).
3.2	Amended and Restated Bylaws of InnovAge Holding Corp., effective March 3, 2021 (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the SEC on March 8, 2021).
10.1	Employment Agreement, dated as of December 1, 2021, by and between the Company and Patrick Blair (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on November 12, 2021).
10.2	Separation Letter, dated as of January 1, 2022
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1†	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2†	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
104	Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101)

† The certifications furnished in Exhibit 32.1 and Exhibit 32.2 hereto are deemed "furnished" with this Quarterly Report on Form 10-Q and will not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, except to the extent that the registrant specifically incorporates it by reference.

SIGNATURES

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

Date: February 9, 2022

INNOVAGE HOLDING CORP.

By:	/s/ Barbara Gutierrez
Name:	Barbara Gutierrez
Title:	Chief Financial Officer

Exhibit 31.1

Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002

I, Patrick Blair, certify that:

1. I have reviewed this quarterly report on Form 10-Q of InnovAge Holding Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

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

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

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

Date: February 9, 2022

By: /s/ Patrick Blair
Name: Patrick Blair
Title: *Chief Executive Officer*

Exhibit 31.2

Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002

I, Barbara Gutierrez, certify that:

1. I have reviewed this quarterly report on Form 10-Q of InnovAge Holding, Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (c) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: February 9, 2022

By: /s/ Barbara Gutierrez
Name: Barbara Gutierrez
Title: *Chief Financial Officer*

Exhibit 32.1

Certification of Chief Executive Officer

Pursuant to Rule 18 U.S.C. Section 1350

In connection with the Quarterly Report on Form 10-Q of InnovAge Holding Corp. (the “Company”) for the fiscal quarter ended December 31, 2021 as filed with the U.S. Securities and Exchange Commission (the “Report”), I, Patrick Blair, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

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

Date: February 9, 2022

By:	/s/ Patrick Blair
Name:	Patrick Blair
Title:	*Chief Executive Officer*

Exhibit 32.2

Certification of Chief Financial Officer

Pursuant to Rule 18 U.S.C. Section 1350

In connection with the Quarterly Report on Form 10-Q of InnovAge Holding Corp. (the “Company”) for the fiscal quarter ended December 31, 2022 as filed with the U.S. Securities and Exchange Commission (the “Report”), I, Barbara Gutierrez, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

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

Date: February 9, 2022

By: /s/ Barbara Gutierrez
Name: Barbara Gutierrez
Title: *Chief Financial Officer*