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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 September 30, 2022

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 November 7, 2022, there were 135,570,008 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 September 30, 2022

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 with respect to current audits and legal proceedings and actions, relationships and discussions with regulatory agencies, our expectations with respect to correcting deficiencies raised in audits and other processes, and 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, audits and investigations under the federal and state government programs, including 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 including with respect to the audits of our Albuquerque, New Mexico center and San Bernardino, California center;
- the adverse impact of inspections, reviews, audits, investigations, legal proceedings, enforcement actions and litigation, including the current civil investigative demands initiated by federal and state agencies, as well as the litigation and other proceedings initiated by, or on behalf, of our stockholders;
- the risk that the cost of providing services will exceed our compensation under the Program of All Inclusive Care for the Elderly (“PACE”);
- the dependence of our revenues and operations upon a limited number of government payors;
- changes in the rules governing the Medicare, Medicaid or PACE programs or applicable licensure requirements;
- the risk that our submissions to government payors may contain inaccurate or unsupportable information, including regarding risk adjustment scores of participants;
- the viability of our business strategy and our ability to realize expected results;
- the impact on our business of renegotiation, non-renewal or termination of capitation agreements with government payors;
- the impact of state and federal efforts to reduce healthcare spending;
- the impact on our business from an economic downturn
- the effects of a pandemic, epidemic or outbreak of an infectious disease, including the ongoing effects of COVID-19;
- our dependence on our senior management team and other key employees;
- the effect of sustained inflation on our business;
- the impact of failures by our suppliers, sustained material price increases on supplies or limitations on our ability to access new technology or medical products;
- the effect of our relatively limited operating history as a for-profit company on investors’ ability to evaluate our current business and future prospects;

- our ability to enroll or attract new participants and grow our revenue, especially as a result of the sanctions currently in place on our centers in Colorado and in our Sacramento center in California and actions from other states;
- the concentration of our presence in Colorado;
- our ability to manage our operations effectively, execute our business plan, maintain effective levels of service and participant satisfaction and adequately address competitive challenges;
- our ability to compete in the healthcare industry;
- our ability to establish a presence in new geographic markets, especially as a result of the actions taken by certain states and us in light of our ongoing audit processes;
- the impact of competition for physicians and other clinical personnel and related increases in our labor costs;
- 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 effectively invest in, implement improvements to and properly maintain the uninterrupted operation and data integrity of our information technology and other business systems;
- our ability to accurately estimate incurred but not reported medical expense or the risk scores of our participants;
- risks associated with our use of "open-source" software;
- the impact on our business of the termination of our leases, increases in rent or inability to renew or extend leases;
- our ability to maintain our corporate culture;
- the impact of negative publicity regarding the managed healthcare industry;
- the impact of weather and other factors beyond our control;
- our ability to adhere to complex and changing government laws and regulations in the healthcare industry, including U.S. Healthcare reform, the regulation of the corporate practice of medicine and the Health Information Technology for Economic and Clinical Health Act of 2009 (the "HITECH Act"), and their implementing regulations (collectively, "HIPAA"), CCPA and other privacy laws and regulations in the healthcare industry;
- our status as a "controlled company";
- our ability to maintain effective internal controls over financial reporting and other enhanced requirements of being a public company;
- our ability to maintain and enhance our reputation and brand recognition;
- the impact on our business of disruptions in our disaster recovery systems or business continuity planning;
- changes in accounting principles and guidance, resulting in unfavorable accounting charges or effects; and
- other factors disclosed in the section entitled "Risk Factors" in our Annual Report for the year ended June 30, 2022 filed with the Securities and Exchange Commission (the "SEC") on September 13, 2022, as supplemented by our subsequent filings with the SEC.

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)

	September 30, 2022	June 30, 2022
Assets		
Current Assets		
Cash and cash equivalents	$ 188,222	$ 184,429
Restricted cash	17	17
Accounts receivable, net of allowance ($4,264 – September 30, 2022 and $3,403 – June 30, 2022)	37,517	35,907
Prepaid expenses	12,165	13,842
Income tax receivable	5,010	6,761
Total current assets	242,931	240,956
Noncurrent Assets		
Property and equipment, net	181,086	176,260
Operating lease assets	22,995	—
Investments	5,493	5,493
Deposits and other	2,565	2,812
Goodwill	124,217	124,217
Other intangible assets, net	5,693	5,858
Total noncurrent assets	342,049	314,640
Total assets	$ 584,980	$ 555,596
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable and accrued expenses	$ 50,858	$ 50,562
Reported and estimated claims	35,974	38,454
Due to Medicaid and Medicare	10,633	9,130
Current portion of long-term debt	3,793	3,793
Current portion of finance lease obligations	3,376	3,368
Current portion of operating lease obligations	3,420	—
Deferred revenue	23,361	—
Total current liabilities	131,415	105,307
Noncurrent Liabilities		
Deferred tax liability, net	14,290	17,761
Finance lease obligations	8,792	9,440
Operating lease obligations	20,725	—
Other noncurrent liabilities	1,135	1,134
Long-term debt, net of debt issuance costs	67,369	68,210
Total liabilities	243,726	201,852
Commitments and Contingencies (See Note 9)		
Redeemable Noncontrolling Interests (See Note 4)	14,734	15,278
Stockholders' Equity		
Common stock, $0.001 par value; 500,000,000 authorized as of September 30, 2022 and June 30, 2022; 135,570,078 and 135,532,811 issued shares as of September 30, 2022 and June 30, 2022, respectively	136	136
Additional paid-in capital	328,708	327,499
Retained earnings (deficit)	(8,344)	4,729
Total InnovAge Holding Corp.	320,500	332,364
Noncontrolling interests	6,020	6,102
Total stockholders' equity	326,520	338,466
Total liabilities and stockholders' equity	$ 584,980	$ 555,596

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 September 30, 2022	Three Months Ended September 30, 2021
Revenues		
Capitation revenue	$ 170,931	$ 172,554
Other service revenue	287	516
Total revenues	171,218	173,070
Expenses		
External provider costs	96,237	90,012
Cost of care, excluding depreciation and amortization	53,557	40,728
Sales and marketing	4,413	6,293
Corporate, general and administrative	30,181	21,084
Depreciation and amortization	3,433	3,293
Total expenses	187,821	161,410
Operating Income (Loss)	(16,603)	11,660
Other Income (Expense)		
Interest expense, net	(603)	(547)
Other income (expense)	37	(493)
Total other expense	(566)	(1,040)
Income (Loss) Before Income Taxes	(17,169)	10,620
Provision (Benefit) for Income Taxes	(3,470)	2,996
Net Income (Loss)	(13,699)	7,624
Less: net loss attributable to noncontrolling interests	(626)	(62)
Net Income (Loss) Attributable to InnovAge Holding Corp.	$ (13,073)	$ 7,686
Weighted-average number of common shares outstanding - basic	135,566,117	135,516,513
Weighted-average number of common shares outstanding - diluted	135,566,117	135,516,513
Net income (loss) per share - basic	$ (0.10)	$ 0.06
Net income (loss) per share - diluted	$ (0.10)	$ 0.06

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 share amounts)
(Unaudited)

	Capital Stock		Additional Paid-in	Retained Earnings	Treasury Stock		Noncontrolling	Total Permanent	Redeemable Noncontrolling Interests	Net Income
	Shares	Amount	Capital	(Deficit)	Shares	Amount	Interests	Stockholders' Equity	(Temporary Equity)	(Loss)
Balances, June 30, 2021	135,516,513	$ 136	$ 323,760	$ 10,663	—	$ —	$ 6,420	$ 340,979	16,986	
Stock-based compensation	—	—	958	—	—	—	—	958	—	
Adjustments to redemption value	—	—	—	587	—	—	—	587	(587)	
Net income (loss)	—	—	—	7,686	—	—	(94)	7,592	32	7,624
Balances, September 30, 2021	135,516,513	$ 136	$ 324,718	$ 18,936	—	$ —	$ 6,326	$ 350,116	$ 16,431	$

	Capital Stock		Additional Paid-in	Retained Earnings	Treasury Stock		Noncontrolling	Total Permanent	Redeemable Noncontrolling Interests	Net Income
	Shares	Amount	Capital	(Deficit)	Shares	Amount	Interests	Stockholders' Equity	(Temporary Equity)	(Loss)
Balances, June 30, 2022	135,532,811	$ 136	$ 327,499	$ 4,729	—	$ —	$ 6,102	$ 338,466	15,278	
Stock-based compensation	37,267	—	1,209	—	—	—	—	1,209	—	
Adjustments to redemption value	—	—	—	—	—	—	—	—	—	
Net income (loss)	—	—	—	(13,073)	—	—	(82)	(13,155)	(544)	(13,699)
Balances, September 30, 2022	135,570,078	$ 136	$ 328,708	$ (8,344)	—	$ —	$ 6,020	$ 326,520	$ 14,734	$

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 Three Months Ended September 30, 2022	2021
Operating Activities		
Net income (loss)	$ (13,699)	$ 7,624
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
(Gain) Loss on disposal of assets	(37)	493
Provision for uncollectible accounts	1,571	1,268
Depreciation and amortization	3,433	3,293
Noncash lease expense	761	—
Amortization of deferred financing costs	107	107
Stock-based compensation	1,209	958
Deferred income taxes	(3,470)	1,230
Changes in operating assets and liabilities, net of acquisitions		
Accounts receivable, net	(3,180)	2,929
Prepaid expenses	1,678	(1,597)
Income tax receivable	1,750	1,766
Deposits and other	246	(309)
Accounts payable and accrued expenses	1,155	1,248
Reported and estimated claims	(2,480)	106
Due to Medicaid and Medicare	1,503	1,443
Operating lease liabilities	(781)	—
Deferred revenue	23,361	—
Net cash provided by operating activities	13,127	20,559
Investing Activities		
Purchases of property and equipment	(7,666)	(3,042)
Purchase of cost method investment	—	(2,000)
Net cash used in investing activities	$ (7,666)	$ (5,042)
Financing Activities		
Payments for finance lease obligations	(720)	(505)
Principal payments on long-term debt	(948)	(947)
Net cash used in financing activities	(1,668)	(1,452)
INCREASE IN CASH, CASH EQUIVALENTS & RESTRICTED CASH	3,793	14,065
CASH, CASH EQUIVALENTS & RESTRICTED CASH, BEGINNING OF PERIOD	184,446	203,700
CASH, CASH EQUIVALENTS & RESTRICTED CASH, END OF PERIOD	$ 188,239	$ 217,765
Supplemental Cash Flows Information		
Interest paid	$ 700	$ 573
Income taxes paid	$ 13	$ —
Property and equipment included in accounts payable	$ 2,446	$ 272
Property and equipment purchased under finance leases	$ 80	$ 127

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. and its subsidiaries, are headquartered in Denver, Colorado. 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 September 30, 2022, the Company served approximately 6,540 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.

The Company's common stock is traded 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, 2022 ("2022 10-K"). With the exception of Recently Adopted Accounting Pronouncements described below, there were no significant changes to those accounting policies during the three months ended September 30, 2022.

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, 2022. 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 (loss) reported in the statements of operations for all periods presented.

Property and Equipment

Property and equipment were comprised of the following as of September 30, 2022 and June 30, 2022:

dollars in thousands	**Estimated Useful Lives**	**September 30, 2022**	**June 30, 2022**
Land	N/A	$ 11,980	$ 11,980
Buildings and leasehold improvements	10 - 40 years	122,076	122,076
Software	3 - 5 years	16,425	16,264
Equipment and vehicles	3 - 7 years	48,054	47,546
Construction in progress	N/A	42,783	35,479
		241,318	233,345
Less: accumulated depreciation and amortization		(60,232)	(57,085)
Total property and equipment, net		$ 181,086	$ 176,260

Depreciation of $3.1 million and $3.1 million was recorded during the three months ended September 30, 2022 and 2021, respectively.

Recently Adopted Accounting Pronouncements

Leases

In February 2016, the Financial Accounting Standards Board ("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 are required to recognize a right-of-use ("ROU") 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 requires enhanced 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. In June 2020, the 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 interim periods beginning after December 15, 2022, with early adoption permitted.

We adopted the new standard on July 1, 2022 using the modified retrospective transition approach as permitted in ASU 2018-11. In accordance with this approach, the effective date of Topic 842 is also the application date of the new requirements, with prior comparative periods presented in the financial statements with the legacy requirements of ASC Topic 840, Leases. We elected the package of practical expedients which permits us not to reassess under the new lease standard our prior conclusions for lease identification and lease classification on expired or existing contracts and whether initial direct costs previously capitalized would qualify for capitalization under the new lease standard. We also elected to adopt the optional transition method which allows an entity to recognize, if necessary, a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company did not elect the practical expedient to use hindsight in determining the lease term and in assessing impairment conclusions on the ROU assets. Comparative periods presented in the financial statements continue to be presented in accordance with GAAP related to leases prior to transitioning to the new lease standard. The adoption of Topic 842 resulted in the recognition of operating lease liabilities and ROU assets of $25.1 million and $23.6 million, respectively, while our accounting for capital leases (now referred to as finance leases) remained substantially unchanged. The impact of adopting Topic 842 was not material to our Statements of Operations and Statements of Cash Flows. See Note 7, "Leases."

Recent Accounting Pronouncements Not Yet Adopted

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 three months ended:

	September 30, 2022	September 30, 2021
Medicaid	55 %	53 %
Medicare	45 %	47 %
Private pay and other	* %	* %
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 13% and 12% of capitation revenues for the three months ended September 30, 2022 and 2021, respectively.

Our accounts receivable as of September 30, 2022 and June 30, 2022 is primarily from capitation revenue arrangements. The concentration of net receivables from participants and third-party payers was as follows:

	September 30, 2022	June 30, 2022
Medicaid	45 %	70 %
Medicare	48 %	22 %
Private pay and other	7 %	8 %
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 $4.3 million as of September 30, 2022, compared to $3.4 million as of June 30, 2022. 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 0.2% and 0.3% of total revenue for the three months ended September 30, 2022 and 2021, respectively. Accounts receivable related to other service revenue was not significant as of both September 30, 2022 and June 30, 2022.

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	September 30, 2022	June 30, 2022
Cost method investments	$ 4,645	$ 4,645
Equity method investments	848	848
Total investments	$ 5,493	$ 5,493

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 three months ended September 30, 2022 and 2021, 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.

DispatchHealth

On June 14, 2019, the Company invested $1.5 million in DispatchHealth Holdings, Inc. ("DispatchHealth"), through the purchase of a portion of its outstanding Series B Preferred Stock. On April 2, 2020, the Company invested an additional $1.1 million through the purchase of a portion of its outstanding Series C Preferred Stock. 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 September 30, 2022, 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 ("Adventist") 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. In fiscal year 2021, the Company made an additional contribution of $52,000 and obtained an additional 0.1% membership interest in the joint venture, which resulted in the Company obtaining control and consolidating InnovAge Sacramento as of January 1, 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 September 30, 2022, 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 redeemable noncontrolling interest of $14.7 million was recorded at carrying value as of September 30, 2022.

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. The fair value of the redeemable noncontrolling interest is determined utilizing a discounted cash flow model. As of September 30, 2022, the Company's redeemable noncontrolling interest was recorded at carrying value of $14.7 million.

There were no transfers in and out of Level 3 during the three months ended September 30, 2022 or 2021.

Note 6: Goodwill and Intangible Assets

Goodwill represents the excess of cost over the fair value of net assets acquired. Goodwill amounted to $124.2 million at each of September 30, 2022 and June 30, 2022. 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 three months ended September 30, 2022 and 2021.

Intangibles assets consisted of the following as of:

in thousands	September 30, 2022	June 30, 2022
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	(2,907)	(2,742)
Balance as of end of period	$ 5,693	$ 5,858

Intangible assets consist primarily of customer relationships acquired through business acquisitions. The Company recorded amortization expense of $0.2 million and $0.2 million for the three months ended September 30, 2022 and 2021, 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 three months ended September 30, 2022 and 2021.

Note 7: Leases

Leasing Arrangements as Lessee

The Company leases certain property and equipment under various third-party operating and finance lease agreements. The Company determines if an arrangement is or contains a lease at the lease inception date by evaluating whether the arrangement conveys the right to use an identified asset and whether the Company obtains substantially all of the economic benefits from and has the ability to direct the use of the asset. The leases are noncancelable and expire on various terms from 2022 through 2032. We determine if an arrangement is a lease upon commencement of the contract. If an arrangement is determined to be a long-term lease (greater than 12 months), we recognize an ROU asset and lease liability based on the present value of the future minimum lease payments over the lease term at the commencement date. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of future payments. Our lease terms may also include options to extend or terminate the lease when it is reasonably certain that we will exercise those options. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

We have elected to apply the short-term lease exception for contracts that have a lease term of twelve months or less and do not include an option to purchase the underlying asset. Therefore, we do not recognize a ROU asset or lease liability for such contracts. We recognize short-term lease payments as expense on a straight-line basis over the lease term. Variable lease payments that do not depend on an index or rate are recognized as expense. Certain leases include escalations based on inflation indexes and fair market value adjustments. Operating lease liabilities are calculated using the prevailing index or rate at lease commencement for such leases.

The following table presents the components of our ROU assets and their classification in our Balance Sheet at September 30, 2022:

Component of Lease Balances	**Balance Sheet Line Items**		**Three months ended September 30, 2022**
			in thousands
Assets:			
Operating lease assets	Operating lease assets	$	22,995
Finance lease assets	Property and equipment, net		10,434
Total leased assets		$	33,429

The following table presents the components of our lease cost and the classification of such costs in our Statements of Operations for the three months ended September 30, 2022:

Component of Lease Cost	**Statements of Operations Line Items**		**Three months ended September 30, 2022**
			in thousands
Operating lease cost	Cost of care excluding depreciation and amortization and Corporate, general and administrative	$	1,025
Finance lease expense:			
Amortization of leased assets	Depreciation and amortization		769
Interest on lease liabilities	Interest expense, net		317
Variable lease cost	Cost of care excluding depreciation and amortization and Corporate, general and administrative		—
Short-term lease cost	Cost of care excluding depreciation and amortization and Corporate, general and administrative		11
Total lease expense		$	2,122

The following table includes the weighted-average lease terms and discount rates for operating and finance leases as of September 30, 2022:

Weighted average remaining lease term:	**September 30, 2022**
Operating leases	8.8 years
Finance leases	3.8 years

Weighted average discount rate:	**September 30, 2022**
Operating leases	6.61 %
Finance leases	8.76 %

The following table includes the future maturities of lease payments for operating leases and finance leases for periods subsequent to September 30, 2022:

in thousands	**Operating Lease**	**Finance Lease**	**Total**
Amount remaining in 2023	$ 3,586	$ 3,320	$ 6,906
2024	4,543	3,922	8,465
2025	4,136	3,140	7,276
2026	4,061	2,115	6,176
2027	3,764	1,419	5,183
Thereafter	10,302	537	10,839
Total lease payments	30,392	14,453	44,845
Less liability accretion / imputed interest	(6,247)	(2,285)	(8,532)
Total lease liabilities	24,145	12,168	36,313
Less: Current lease liabilities	3,420	3,376	6,796
Total long-term lease liabilities	$ 20,725	$ 8,792	$ 29,517

The following table includes the future maturities of minimum rental payments that are required to be paid under all non-cancelable operating and capital lease obligations as previously disclosed in our 2022 Annual Report on Form 10-K as of June 30, 2022, prior to the adoption of ASC 842:

in thousands	**Operating Lease**	**Capital Lease**
Amount remaining in 2023	$ 4,873	$ 4,405
2024	4,581	3,909
2025	4,122	3,126
2026	4,061	2,092
2027	3,764	1,393
Thereafter	10,265	535
Total minimal rental payments	31,666	15,460
Less: Amount representing interest		(2,652)
Subtotal		12,808
Current portion		3,368
Long-term portion		$ 9,440

Note 8. Long Term Debt

Long-term debt consisted of the following at September 30, 2022 and June 30, 2022:

	September 30, 2022	June 30, 2022
	in thousands	
Senior secured borrowings:		
Term Loan Facility	$ 70,313	$ 71,250
Convertible term loan	2,317	2,327
Total debt	72,630	73,577
Less: unamortized debt issuance costs	1,468	1,574
Less: current maturities	3,793	3,793
Noncurrent maturities	$ 67,369	$ 68,210

(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 September 30, 2022 was $100.0 million, subject to (i) any issued amounts under our letters of credit, which as of September 30, 2022 was $2.6 million, and (ii) applicable covenant compliance restrictions and any other conditions precedent to borrowing.

2021 Credit Agreement

On March 8, 2021, the Company entered into a credit agreement (the “2021 Credit Agreement”) that replaced its prior 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 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 Company’s initial public offering (“IPO”), were used to repay long term debt amounts then outstanding.

Outstanding principal amounts under the 2021 Credit Agreement accrue interest at a variable interest rate. As of September 30, 2022, the interest rate on the Term Loan Facility was 2.21%. 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 September 30, 2022, 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 September 30, 2022, 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 condensed consolidated balance sheets. Total amortization of deferred financing costs was $0.3 million for the three months ended September 30, 2022.

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, and subsequently amended on June 21, 2022, 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, 12(a)(2) and 15 of the Securities Act of 1933 and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), for making allegedly inaccurate and misleading statements and omissions in connection with the Company's IPO and subsequent earnings calls and public filings, and seeking compensatory damages, among other things. We are currently unable to predict the outcome of this matter.

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. The Company continues 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 continues to fully cooperate with the DOJ and produce the requested information and documentation. We are currently unable to predict the outcome of this investigation.

On April 20, 2022, the Board of Directors of the Company received a books and records demand pursuant to Section 220 of the Delaware General Corporation Law, from a purported stockholder of the Company, in connection with the stockholder's investigation of, among other matters, potential breaches of fiduciary duty, mismanagement, self-dealing, corporate waste or other violations of law by the Company's Board with respect to these matters. We are currently unable to predict the outcome of this matter.

Because the results of legal proceedings and claims are inherently unpredictable and uncertain, we are currently unable to predict whether the legal proceedings we are involved in will, either individually or in the aggregate, have a material adverse effect on our business, financial condition, or cash flows. The outcomes of legal proceedings and claims 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: Stock-based Compensation

A summary of our aggregate stock-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.

	Three months ended September 30, 2022	2021
	in thousands	
Stock options	$ 570	$ —
Profits interests units	254	590
Restricted stock units	476	368
Total stock-based compensation expense	$ 1,300	$ 958

2020 Equity Incentive Plan

Profits Interests

TCO Group Holdings, L.P. (the "LP"), the Company's largest shareholder and prior to the IPO, the Company's parent, maintains the 2020 Equity Incentive Plan pursuant to which interests in the LP in the form of Class B Units (profits interests) could be granted to employees, directors, consultants, and advisers. A maximum number of 16,162,177 Class B Units were authorized for grant under the 2020 Equity Incentive Plan. As of September 30, 2022, a total of 13,009,137 profits interests units had 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 following the IPO and during the three months ended September 30, 2022.

A summary of profits interests activity for the three months ended September 30, 2022 was as follows:

Time-based unit awards	Number of units	Weighted average grant date fair value
Outstanding balance, June 30, 2022	2,158,072	$ 1.28
Granted	—	$ —
Forfeited	—	$ —
Vested	(821,331)	$ 1.28
Outstanding balance, September 30, 2022	1,336,741	$ 1.28

Performance-based unit awards	Number of units	Weighted average grant date fair value
Outstanding balance, June 30, 2022	2,217,865	$ 0.57
Granted	—	$ —
Forfeited	—	$ —
Vested	—	$ —
Outstanding balance, September 30, 2022	2,217,865	$ 0.57

The total unrecognized compensation cost related to profits interests units outstanding as of September 30, 2022 was $2.8 million, comprised (i) $1.6 million related to time-based unit awards expected to be recognized over a weighted-average period of 0.9 years and (ii) $1.3 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. Certain awards under this plan vest upon achieving specific share price performance criteria and are determined to have performance-based vesting conditions. The Company has issued time-based stock options under this plan to its employees which generally vest at various intervals over a three-year period. Certain awards under this plan vest upon achieving specific share price performance criteria and are determined to have performance-based vesting conditions.

Restricted Stock Units

A summary of time-based vesting restricted stock units activity for the three months ended September 30, 2022 was as follows:

Restricted stock units - time based	**Number of awards**		**Weighted average grant-date fair value per share**
Outstanding balance, June 30, 2022	476,768	$	9.69
Forfeited	(84,688)	$	5.45
Vested	(51,519)	$	4.50
Granted	986,200	$	5.99
Outstanding balance, September 30, 2022	1,326,761	$	5.99

The total unrecognized compensation cost related to time based restricted stock units outstanding as of September 30, 2022 was $5.9 million and is expected to be recognized over a weighted-average period of 2.6 years.

A summary of performance based vesting restricted stock units activity for the three months ended September 30, 2022 was as follows:

Restricted stock units - performance based	**Number of awards**		**Weighted average grant-date fair value per share**
Outstanding balance, June 30, 2022	258,767	$	5.18
Forfeited	—	$	—
Vested	—	$	—
Granted	—	$	—
Outstanding balance, September 30, 2022	258,767	$	5.18

The total unrecognized compensation cost related to performance based vesting restricted stock units outstanding as of September 30, 2022 was $1.0 million and is expected to be recognized over a weighted-average period of 3.1 years.

Nonqualified Stock Options

A summary of time-based vesting stock option activity for the three months ended September 30, 2022 was as follows:

Stock options - time based	Number of awards		Weighted average grant-date fair value per share
Outstanding balance, June 30, 2022	554,499	$	1.61
Granted	81,082	$	0.80
Forfeited	—	$	—
Outstanding balance, September 30, 2022	635,581	$	1.21

The total unrecognized compensation cost related to time-based vesting stock options outstanding as of September 30, 2022 was $0.6 million and is expected to be recognized over a weighted-average period of 2.4 years.

The fair value of the time-based stock options granted during the three months ended September 30, 2022, 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		1.56 %
Dividend yield		0 %
Weighted-average fair values	$	0.80
Fair value of underlying stock	$	3.70

A summary of performance-based vesting stock option activity for the three months ended September 30, 2022 was as follows:

Stock options - performance based	Number of awards		Weighted average grant-date fair value per share
Outstanding balance, June 30, 2022	776,299	$	3.08
Granted	—	$	—
Forfeited	—	$	—
Outstanding balance, September 30, 2022	776,299	$	3.08

The total unrecognized compensation cost related to performance-based vesting stock options outstanding as of September 30, 2022 was $1.9 million and is expected to be recognized over a weighted-average period of 3.1 years.

Note 11: Income Taxes

The Company recorded an income tax benefit of $3.5 million and an income tax provision of $3.0 million for the three months ended September 30, 2022 and 2021, respectively. This represents an effective tax rate of 20.6% and 28.2% for the three months ended September 30, 2022 and 2021, respectively.

The effective rate for the three months ended September 30, 2022 was different from the federal statutory rate primarily due to the Company's book loss offset partially by disallowed officers' compensation under Internal Revenue Code ("IRC") Section 162(m), disallowed stock options related to the profit interest units, 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 three-month period ended September 30, 2022, 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 Company has provided $4.1 million at each of September 30, 2022 and June 30, 2022, as a valuation allowance against its deferred tax assets for state net operating losses where there is not sufficient positive evidence to substantiate that these deferred tax assets will be realized at a more-likely-than-not level of assurance.

Note 12: Earnings per Share

Basic earnings (loss) per share ("EPS") 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. As of September 30, 2022, there was no dilutive shares therefore, there was no difference between basic and diluted net loss per common shares.

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

	Three months ended September 30,	
in thousands, except share values	**2022**	**2021**
Net income (loss) attributable to InnovAge Holding Corp.	$ (13,073)	$ 7,686
Weighted average common shares outstanding (basic)	135,566,117	135,516,513
EPS (basic)	**$ (0.10)**	**$ 0.06**
Dilutive shares	—	—
Weighted average common shares outstanding (diluted)	135,566,117	135,516,513
EPS (diluted)	**$ (0.10)**	**$ 0.06**

Note 13: 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.

The Company evaluates performance and allocates capital resources to each segment based on an operating model that is designed to maximize the provision of services 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:

	September 30, 2022			September 30, 2021		
(In thousands)	**PACE**	**All other[(1)]**	**Totals**	**PACE**	**All other[(1)]**	**Totals**
Capitation revenue	$ 170,931	$ —	$ 170,931	$ 172,554	$ —	$ 172,554
Other service revenue	77	210	287	9	507	516
Total revenues	171,008	210	171,218	172,563	507	173,070
External provider costs	96,237	—	96,237	90,012	—	90,012
Cost of care, excluding depreciation and amortization	53,411	146	53,557	40,101	627	40,728
Center-Level Contribution Margin	21,360	64	21,424	42,450	(120)	42,330
Overhead costs[(2)]	34,574	20	34,594	27,391	(14)	27,377
Depreciation and amortization	3,326	107	3,433	3,185	108	3,293
Interest expense, net	(557)	(46)	(603)	(496)	(51)	(547)
Other expense (income)	37	—	37	(493)	—	(493)
Income (Loss) Before Income Taxes	$ (17,060)	$ (109)	$ (17,169)	$ 10,885	$ (265)	$ 10,620

(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 14: Related Party Transactions

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 September 30, 2022 and June 30, 2022, $0.7 million was recorded in Deposits and other. Additionally, the General Partner is paid an administration fee of $35,000 per year.

Note 15: Subsequent Events

The Company has evaluated subsequent events through 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, 2022 ("2022 10-K").

Overview

InnovAge Holding Corp. ("InnovAge") became a public company in March 2021. As of September 30, 2022, the Company served approximately 6,540 PACE participants, and operated 18 PACE centers across Colorado, California, New Mexico, Pennsylvania, and Virginia.

Trends and Uncertainties Affecting the Company

During fiscal year 2022, the U.S. and global economies experienced adverse macroeconomic effects in part resulting from the ongoing effects of the COVID-19 pandemic, as discussed in more detail below. These effects included inflation and increased wages due to labor shortages. In fiscal year 2022, in response to high levels of inflation, we began to implement various mitigation strategies to reduce costs of operation, including consolidating services and price negotiations with providers and vendors. The effects of inflation, after accounting for these mitigation strategies, were immaterial to our financial results for the three months ended September 30, 2022. However, we expect inflation is likely to continue for most or all of fiscal year 2023, and even though we expect to continue mitigation efforts, there can be no assurance that our strategies will be sufficient.

In addition, the increased wage pressure, exacerbated by the labor shortage, increased the cost of providing care and our overall operating expenses. The combination of increased wage pressure and labor shortage amongst healthcare personnel, and specifically, trained personnel, has impacted and may continue to impact our expenses and ability to adhere to the complex government laws and regulations that apply to our business. Operating expenses increased $26.4 million, or 16.4%, for the three months ended September 30, 2022 compared to 2021 due to, in part, the increased cost of care and related cost per participant. We continue to evaluate increased costs and methods to mitigate or offset such costs.

Impact of Macroeconomic Conditions and COVID-19

The COVID-19 pandemic altered the behavior of businesses and people, the effects of which, to some extent, continue on federal, state and local economies.

Expenses. The virus has and continues to impact older adults, especially those with chronic illnesses, which describes our participants. The United States experienced supply chain issues with respect to personal protective equipment ("PPE") and other medical supplies during the height of the pandemic. Global logistics network challenges resulted in higher prices for medical supplies we require. While 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, supply chain disruptions have begun to alleviate and prices for certain medical supplies have begun to normalize.

Labor market. The COVID-19 pandemic has and continues to exacerbate difficulties to hire additional healthcare professionals, causing certain of our centers to be understaffed or staffed with personnel that requires training. In fiscal year 2022, we experienced workforce and labor shortages, within all of our centers. We recognize that our participant-facing staff is critical to delivering quality care. As such, we made market adjustments to certain roles to increase retention and improve our ability to hire. These adjustments resulted in an increase in cost of care further impacted by additional staffing related to compliance and remediation efforts. This increase in conjunction with higher headcount has contributed to increased cost of care for the three months ended September 30, 2022 as discussed in “Results of Operations” below. We continue to assess key roles and benchmarks to market while monitoring trends in the labor market.

For additional information on the various risks posed by macroeconomic events and the ongoing COVID-19 pandemic, please see the section entitled “Risk Factors” included in Part I, Item 1A of our 2022 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 ability to effectively implement remediation efforts in our centers as a result of our recent audits.* The Company’s priority is to remediate the deficiencies raised in the audit processes in California, Colorado and New Mexico. As part of its actions to do so, the Company has worked with the appropriate authorities to make the necessary changes within the Company to increase care coordination and care documentation among our centers, including working to fill critical personnel gaps at our centers, standardizing the process of our Interdisciplinary Care Teams (“IDTs”), strengthening our home care network and reliability, improving timelines of scheduling and coordinating care with providers outside our centers, among others. See “Audit Processes and Remediation Efforts” below.

- *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 2.35 based on InnovAge data as of September 30, 2022; 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. 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 76% participant satisfaction rating as of July 1, 2022 and average participant tenure was 3.2 years as of September 30, 2022, 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 5.7% 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 87% of our revenue in the three months ended September 30, 2022. 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, California and Colorado limit our ability to grow our participant census and impact Center-level Contribution Margin.

- *Our ability to expand via acquisition or de novo centers within existing and new markets.* 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. On February 14, 2022, CMS denied our application to develop the previously announced PACE center in Terre Haute, Indiana, which was projected to open in fiscal year 2024 based on deficiencies detected during CMS' 2021 audits of our Sacramento and Colorado PACE programs. In addition, we have committed to CMS and the Agency for Healthcare Administration in the State of Florida, that we will proactively pause remaining steps with respect to de novo centers to focus on remediating deficiencies raised in the audit processes.

- *Execute tuck-in acquisitions.* From fiscal year 2019 through fiscal year 2021, we 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. Historically, when integrating acquired programs, we worked closely with key constituencies, including local governments, health systems and senior housing providers, to enable continuity of high-quality care for participants. Once restrictions on our ability to open de novo centers are lifted or resolved, we intend to resume execution of tuck-in acquisitions.

- *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 also expect to incur additional expenses for the foreseeable future in connection with current and future audits to our centers, remediation plans and current and potential legal and regulatory proceedings. 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 Risk Adjustment Factor 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.

Audit Processes and Remediation Efforts

We are routinely subject to, and will continue to be subject to, various governmental inspections, reviews and audits. Set forth below is a summary of the ongoing audits at our centers and updates on such audit processes.

Colorado. In December 2021, each of CMS and the Colorado Department of Health Care Policy & Financing ("HCPF") suspended new enrollments at the Company's Colorado centers, based on deficiencies related to participant provision of services detected in the joint audit initiated in May and June 2021. In January and February 2022, we submitted corrective action plans ("CAP") to each of these agencies, which have been accepted and, in June 2022, both CMS and HCPF began monitoring the implementation of the CAPs. In October 2022, the Company submitted an "Attestation" to CMS stating that it believes it has rectified the deficiencies and complied with the CAPs. CMS will begin validating compliance in December 2022. HCPF will collaborate with CMS but has not provided timing. Timing and results of validation are uncertain and there can be no assurance that the agencies will agree with us or release us from sanctions.

California. On May 10, 2021, CMS began an audit of our Sacramento, California center. In September 2021, CMS determined to suspend new enrollments at our Sacramento center based on deficiencies detected in the audit related to participant provision of services. In that same month, we were further notified that the Department of Health Care Services ("DHCS") of the State of California had reached the same determination. In October 2021, we submitted a CAP to each of these agencies and have since been executing the CAPs. In October 2022, the Company submitted "Attestations" to CMS and DHCS, stating that it believes it has rectified the deficiencies and complied with the CAPs. CMS will begin validating compliance in November 2022. DHCS has not provided a start date. Timing and results of validation are uncertain and there can be no assurance that the agencies will agree with us or release us from sanctions.

In January 2022, DHCS notified us that it was suspending the State Attestations with respect to de novo centers in the State of California until such time as the enrollment sanctions are lifted.

In March 2022, CMS and DHCS began separate audits of our San Bernardino, California center. In September 2022, CMS issued a final audit report identifying certain deficiencies previously noted in preliminary results. CMS has verbally notified us that no enforcement actions will be taken. We are implementing corrective actions ("iCARs"), and are currently working on the audit close process.

New Mexico. In November 2021, CMS began an audit of our Albuquerque, New Mexico center. In July 2022, CMS verbally notified us that no enforcement actions will be taken, and in October 2022, CMS issued a final audit report. To address the deficiencies related to participant provision of services identified in the audit, we are implementing iCARs are currently working with CMS on the audit close out process.

Kentucky, Indiana and Florida. The States of Kentucky and Indiana have taken actions to suspend our ability to open de novo centers in those states, and we have committed to regulatory agencies in the State of Florida, that we will proactively pause remaining steps with respect to planned de novo centers in that state.

The Company's priority is to remediate the deficiencies raised in the audit processes and to return to growth as a company, both for the short- and long-term. We continue to work with the appropriate authorities to make the necessary changes within the Company to increase care coordination and care documentation among our centers.

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 amendments have been executed for the periods (i) January 1, 2021 through December 31, 2022 for California and (ii) July 1, 2022 through June 30, 2023 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 current amendment. For a discussion of our revenue recognition policies, please see *Critical Accounting Estimates* below and Note 2 "Summary of Significant Accounting Policies" to our consolidated financial statements included in our 2022 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. Prior to June 30, 2022 we generated fee-for-service revenue from providing home-care services to non-PACE patients in their homes, for which we billed the patient or their insurance plan on a fee-for-service basis. We no longer offer in-home care services. For a discussion of our revenue recognition policies, please see *Critical Accounting Estimates* below and Note 2, "Summary of Significant Accounting Policies" to our consolidated financial statements included in our 2022 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 and skilled nursing facility), 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 salaries, wages and benefits for IDT and other 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. Other 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, including our employee-related costs, is directly related to the number of participants cared for in a center. The remainder of our cost of care is fixed relative to the number of participants we serve, such as occupancy and insurance expenses. As a result, as revenue increases due to census growth, cost of care, excluding depreciation and amortization, moderately 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.

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 2022 10-K.

Results of Operations

The following table sets forth our consolidated results of operations for the periods presented:

	Three months ended September 30, 2022	2021
	in thousands	
Revenues		
Capitation revenue	$ 170,931	$ 172,554
Other service revenue	287	516
Total revenues	171,218	173,070
Expenses		
External provider costs	96,237	90,012
Cost of care, excluding depreciation and amortization	53,557	40,728
Sales and marketing	4,413	6,293
Corporate, general and administrative	30,181	21,084
Depreciation and amortization	3,433	3,293
Total expenses	187,821	161,410
Operating Income (Loss)	$ (16,603)	$ 11,660
Other Income (Expense)		
Interest expense, net	(603)	(547)
Other income (expense)	37	(493)
Total other expense	(566)	(1,040)
Income (Loss) Before Income Taxes	(17,169)	10,620
Provision (Benefit) for Income Taxes	(3,470)	2,996
Net Income (Loss)	$ (13,699)	$ 7,624
Less: net loss attributable to noncontrolling interests	(626)	(62)
Net Income (Loss) Attributable to InnovAge Holding Corp.	$ (13,073)	$ 7,686

Revenues

	Three months ended September 30, 2022	2021	$ Change	% Change
		in thousands		
Capitation revenue	$ 170,931	$ 172,554	$ (1,623)	(0.9)%
Other service revenue	287	516	(229)	(44.4)%
Total revenues	$ 171,218	$ 173,070	$ (1,852)	(1.1)%

Capitation revenue. Capitation revenue was $170.9 million for the three months ended September 30, 2022, a decrease of $1.6 million, or 0.9%, compared to $172.6 million for the three months ended September 30, 2021. This decrease was driven by a 5.6% decrease in member months partially offset by a 4.9% increase in capitation rates. The decrease in member months is primarily due to disenrollments and our inability to enroll new participants at our Sacramento, California and Colorado centers as a result of the sanctions. The increase in capitation rates was primarily driven by an annual increase in Medicaid capitation rates as determined by the States and Medicare capitation rates as a result of increased risk score and county rates.

Other service revenue. Other service revenue was $0.3 million for the three months ended September 30, 2022, a decrease of $0.2 million, or 44.4%, from $0.5 million for the three months ended September 30, 2021. The decrease is primarily due to less fee-for-service revenue as a result of winding down our in-home care services during fiscal year 2022.

Operating Expenses

	Three months ended September 30, 2022	2021	$ Change	% Change
		in thousands		
External provider costs	$ 96,237	$ 90,012	$ 6,225	6.9 %
Cost of care (excluding depreciation and amortization)	53,557	40,728	12,829	31.5 %
Sales and marketing	4,413	6,293	(1,880)	(29.9)%
Corporate, general, and administrative	30,181	21,084	9,097	43.1 %
Depreciation and amortization	3,433	3,293	140	4.3 %
Total operating expenses	$ 187,821	$ 161,410	$ 26,411	16.4 %

External provider costs. External provider costs were $96.2 million for the three months ended September 30, 2022, an increase of $6.2 million, or 6.9%, compared to $90.0 million for the three months ended September 30, 2021. The increase is primarily driven by an increase of $11.2 million, or 13.2%, in cost per participant partially offset by a decrease of $5.0 million, or 5.6%, in member months. The increase in cost per participant is primarily driven by a $7.7 million increase associated with increased housing utilization and cost per day as mandated by certain states.

Cost of care (excluding depreciation and amortization). Cost of care (excluding depreciation and amortization) expense was $53.6 million for the three months ended September 30, 2022, an increase of $12.8 million, or 31.5%, compared to $40.7 million for the three months ended September 30, 2021, primarily due to an increase of $15.1 million, or 39.3%, in cost per participant partially offset by a decrease of $2.3 million, or 5.6%, in member months. Of the total variance, the increase was primarily driven by (i) a $7.8 million increase salaries, wages and benefits associated with increased headcount and higher wage rates due to the ongoing competitive labor market, (ii) $1.0 million in third party audit and compliance support, (iii) $1.3 million in increased fleet and contract transportation as a result of higher average daily attendance, increase in external appointments, and higher fuel costs, and (iv) $0.6 million in de novo costs.

Sales and marketing. Sales and marketing expenses were $4.4 million for the three months ended September 30, 2022, a decrease of $1.9 million, or 29.9%, compared to $6.3 million for the three months ended September 30, 2021, primarily due to a $1.3 million reduction in marketing spend and $0.5 million associated with fewer headcount within the sales department, both as a result of sanctions in our Colorado and Sacramento centers.

Corporate, general and administrative. Corporate, general and administrative expenses were $30.2 million for the three months ended September 30, 2022, an increase of $9.1 million, or 43.1%, compared to $21.1 million for the three months ended September 30, 2021. The increase was primarily due to (i) a $3.1 million increase in employee compensation and benefits as the result of an increase in headcount, to support compliance and bolster organizational capabilities, and (ii) $5.1 million in third party costs associated with strengthening organizational capabilities, implementing our core provider initiatives, and assessing our risk-bearing payor capabilities.

Other Income (Expense)

	Three months ended September 30, 2022	2021	$ Change	% Change
		in thousands		
Interest expense, net	$ (603)	$ (547)	$ (56)	10.2 %
Other income (expense)	37	(493)	530	107.5 %
Total other expense	$ (566)	$ (1,040)	$ 474	45.6 %

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 $0.6 million for the three months ended September 30, 2022, an increase of $0.1 million, or 10.2%, compared to $0.5 million for the three months ended September 30, 2021. The increase was primarily due to a higher average interest rate, partially offset by a lower outstanding debt balance. For additional information regarding our outstanding indebtedness, see Note 8, "Long-Term Debt" to our condensed consolidated financial statements.

Other income (expense). Other income (expense) consists primarily of the net proceeds received from the sale of or disposal of property and equipment. Other income (expense) was $0.04 million for the three months ended September 30, 2022, an increase of $0.5 million, or 107.5%, compared to $(0.5 million) for the three months ended September 30, 2021. The increase is primarily due to the recognition of a loss on disposal of assets of $0.5 million during the three months ended September 30, 2021 related to the write off of certain assets in conjunction with a move to a new facility at our Roanoke, Virginia center.

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 three months ended September 30, 2022 and 2021, we reported benefit for income taxes of $3.5 million and a provision for income taxes of $3.0 million, respectively. The decrease of $6.5 million is primarily due (i) our pretax book loss recognized during the three months ended September 30, 2022, as compared to pretax book income recognized during the three months ended September 30, 2021 and (ii) certain permanent differences between the financial and tax accounting treatment of (a) the Section 162(m) limitation on compensation of five highest paid officers, (b) income from entities not subject to tax, and (c) disallowed stock options related to profit unit interests.

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.

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 September 30, 2022 and 2021, we reported net income (loss) of ($13.7 million) and $7.6 million, respectively, consisting of (i) income (loss) from operations of ($16.6 million) and $11.7 million, respectively, (ii) other expense of $0.6 million and $1.0 million, respectively, and (iii) a benefit for income taxes of $3.5 million and provision of $3.0 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.

	Three months ended September 30,	
	2022	**2021**
	dollars in thousands	
Key Business Metrics:		
Centers	18	18
Census[a]	6,540	6,990
Total Member Months[a]	19,740	20,910
Center-level Contribution Margin	$ 21,424	$ 42,330
Center-level Contribution Margin as a % of revenue	12.5 %	24.5 %
Non-GAAP Measures:		
Adjusted EBITDA[b]	$ (3,815)	$ 18,212
Adjusted EBITDA Margin[b]	(2.2)%	10.5 %

(a) Amounts are approximate.

(b) 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 and Adjusted EBITDA Margin.”

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 $21.4 million and $42.3 million for the three months ended September 30, 2022 and 2021, respectively.

Adjusted EBITDA and Adjusted EBITDA Margin

We define Adjusted EBITDA as net income (loss) 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, class action litigation, M&A transaction and integration, business optimization, and electronic medical record ("EMR") implementation. Adjusted EBITDA margin is Adjusted EBITDA expressed as a percentage of our total revenue less any exceptional, one time revenue items. For the three months ended September 30, 2022 and 2021, net loss was $13.7 million and net income was $7.6 million, respectively, representing a year-over-year decrease of 279.7%. Adjusted EBITDA was ($3.8 million) and $18.2 million, for the three months ended September 30, 2022 and 2021, respectively, representing a year-over-year decrease of 120.9%. For the three months ended September 30, 2022, net loss margin was 8.0%, as compared to net income margin of 4.4% for the three months ended September 30, 2021. For the three months ended September 30, 2022, our Adjusted EBITDA margin was negative 2.2%, as compared to our Adjusted EBITDA margin for the three months ended September 30, 2021 of 10.5%. The decrease in Adjusted EBITDA and Adjusted EBITDA margin is primarily from (i) increased center-level headcount and wage rates associated with a competitive labor market, (ii) increased housing utilization and rates as mandated by the states, and (iii) higher corporate, general, and administrative expenses, primarily attributable to increased headcount to support compliance and to bolster our organizational capabilities.

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 and noncash expenses, 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.

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 September 30,	
	2022	2021
Net income (loss)	$ (13,699)	$ 7,624
Interest expense, net	603	547
Depreciation and amortization	3,433	3,293
Provision (benefit) for income tax	(3,470)	2,996
Stock-based compensation	1,300	958
Class action litigation[a]	(46)	—
M&A and de novo development[b]	286	327
Business optimization[c]	7,188	2,117
EMR implementation[d]	590	350
Adjusted EBITDA	$ (3,815)	$ 18,212

(a) Reflects charges/(credits) related to litigation by stockholders.

(b) Reflects charges related to M&A transaction and integrations, and de novo center developments.

(c) Reflects charges related to business optimization initiatives. Such charges related to one-time investments in projects designed to enhance our technology and compliance systems, improve and support the efficiency and effectiveness of our operations, and third party support to address efforts to remediate deficiencies in audits. For the three months ended September 30, 2022 this includes (i) $0.7 million related to consultants and contractors performing audit and other related services at sanctioned centers, (ii) $1.6 million of charges related to government investigations, and (iii) $4.3 million of costs associated with third party consultants as we implement our core provider initiatives, assess our risk-bearing payor capabilities, and strengthen our enterprise capabilities.

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

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 September 30, 2022, we had cash and cash equivalents of $188.2 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 EMR vendor, with respect to which we expect to incur non-recurring implementation costs over the next 9 months, and ongoing costs through 2026, and third party support to address remediation efforts, and (iv) income tax payments, which are generally due on a quarterly and annual basis. We also will continue investing in the effective implementation of corrective remediation plans (CAPs) and other corrective initiatives as a result of deficiencies found during audits at some of our centers, and our ability to continually provide necessary and quality services to our participants. In the long term, 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 if they are opened. Collectively, these obligations are expected to represent a significant liquidity requirement of our Company on both a short-term (next 12 months) and long-term (beyond 12 months) basis.

Our cash obligations consist of repayments of long-term debt and obligations under operating and capital leases. As of September 30, 2022, we had $72.6 million of long-term debt outstanding. As of September 30, 2022, we had future minimum operating lease payments under non-cancellable leases through the year 2032 of $30.4 million. We also had non-cancellable finance lease agreements with third parties through the year 2027 with future minimum payments of $14.5 million. For additional information, see Note 7, “Leases”, Note 8, “Long Term Debt”, and Note 9, “Commitments and Contingencies” in our condensed consolidated financial statements.

We believe that our cash and cash equivalents and our cash flows from operations, available funds, and access to financing sources, including our 2021 Credit Agreement and Revolving Credit Facility (each discussed and defined below), will be sufficient to fund our operating and capital needs for the next 12 months and beyond. 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, our ability to retain and grow the number of PACE participants, subject to our ability to effectively remediate deficiencies identified in our Colorado and Sacramento 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.

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. Principal on the Term Loan Facility is paid each calendar quarter in an amount equal to 1.25% of the initial term loan on closing date.

Any outstanding principal amounts under the 2021 Credit Agreement accrue interest at a variable interest rate. As of September 30, 2022, the interest rate on the Term Loan Facility was 3.38%. 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 September 30, 2022, 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 September 30, 2022, we also had $2.3 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 three months ended September 30, 2022 and 2021 are summarized as follows:

	Three months ended September 30,		
	2022	**2021**	**$ Change**
in thousands			
Net cash provided by operating activities	$ 13,127	$ 20,559	$ (7,432)
Net cash used in investing activities	(7,666)	(5,042)	(2,624)
Net cash used in financing activities	(1,668)	(1,452)	(216)
Net change in cash, cash equivalents and restricted cash	$ 3,793	$ 14,065	$ (10,272)

Operating Activities. The change in net cash provided by operating activities was primarily due to the net effect of (i) net loss of $13.7 million in the current year period compared to a net income of $7.6 million in the prior year period, as described further above, and (ii) a net increase in working capital primarily attributable to pre-payment for services.

Investing Activities. Investing activities were made up of approximately $7.7 million in purchases of property and equipment.

Financing activities. The increase in net cash used in financing activities was primarily due to an increase in principal payments on capital leases.

Emerging Growth Company and Smaller Reporting Company

We qualify as an "emerging growth company" pursuant to the provisions of the Jumpstart Our Business Startups ("JOBS") Act and a "smaller reporting company" as defined by the Exchange Act. For as long as we are an "emerging growth company" or a "smaller reporting 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" or "smaller reporting 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 intend to 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 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 estimates 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 estimates to be critical accounting estimates. 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 estimates regarding our critical accounting estimates, see "Critical Accounting Estimates" in the 2022 Annual 10-K. With the exception of the adoption of ASC 842 – Leases, as more thoroughly described in Note 7 "Leases", 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 September 30, 2022, we had total outstanding debt of $70.3 million in principal amount under the Term Loan Facility, $2.3 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, 2022, we had total outstanding debt of $71.3 million in principal amount under the Term Loan Facility and $2.3 million under the Convertible Term Loan. As of September 30, 2022, the interest rate on the Term Loan Facility was 3.83%.

We had cash and cash equivalents of $188.2 million and $184.4 million as of September 30, 2022 and June 30, 2022, 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 September 30, 2022.

Changes to our Internal Controls over Financial Reporting

There have been no changes in internal control over financial reporting during the quarter ended September 30, 2022 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

For information regarding our material pending legal proceedings, refer to Note 9 to our Condensed Consolidated Financial Statements located in Item 1 of Part I of this Quarterly Report on Form 10-Q.

Item 1.A Risk Factors

There have been no material changes to the risk factors previously disclosed in our 2022 10-K.

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

None.

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).
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: November 8, 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: November 8, 2022

By: /s/ Patrick Blair
Name: Patrick Blair
Title: *President and 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: November 8, 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 September 30, 2022 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: November 8, 2022

By:	/s/ Patrick Blair
Name:	Patrick Blair
Title:	*President and 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 September 30, 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: November 8, 2022

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