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Wilsonville, Oregon 97070
503/570-3667
fax: 503/783-2481
lawlopardo@avamere.com

February 28, 2020

By UPS and Submission Via Biscom

Mr. Andrew Stolfi
Insurance Commissioner
c/o Ryan Keeling
Oregon Department of Consumer and Business Services
350 Winter Street NE, Fourth Floor
Salem, OR 97301-3883

Re: Form A Statement Filed by Rimborso, LLC Regarding the Acquisition of Control of or Merger with Marquis Advantage, Inc.

Dear Mr. Keeling:

On behalf of Rimborso, LLC, an Oregon limited liability company, (the "Applicant"), please find enclosed one original of a Form A Statement Regarding the Acquisition of Control of or Merger with a Domestic Insurer (the "Form A"), which is being filed with the Oregon Department of Consumer and Business Services (the "Department") in connection with a proposed transaction by which Applicant is to acquire an ownership interest in Marquis Advantage, Inc. (the "Insurer"), as is described in detail in the Form A (the "Proposed Transaction").

The Form A contains confidential and/or proprietary information that, if disclosed, would cause competitive harm to the Applicant. The Applicant hereby respectfully requests that the NAIC biographical affidavits and background checks in Exhibit B and the redacted portions of Exhibit E be afforded confidential treatment and be excepted from disclosure pursuant to all applicable provisions of law, including, but not limited to, ORS 192.345(2), ORS 192.355(2)(a) and ORS 192.355(4). The NAIC biographical affidavits and background checks provided as Exhibit B to the Form A are being submitted to the Department in confidence and contain certain information that is not otherwise available to the public, are subject to financial privacy and individual privacy protections, and should be afforded confidential treatment. All biographical affidavits and background checks are being provided with the express understanding that the confidentiality of such information contained therein will be safeguarded and such individuals will be protected from any and all unwarranted invasions of personal privacy, pursuant to all applicable provisions of law, including but not limited to, ORS 192.355(2)(a), ORS 192.355(4) and ORS 192.377.

The confidential materials have been included in this package and have been marked “Confidential.” In addition, the full, unredacted version of the Form A uploaded by Applicant on Biscom contains these confidential materials. Please contact us if you have any questions or concerns regarding the Applicant’s request for confidential treatment of any of these materials.

The Applicant requests that (i) such materials be afforded confidential treatment, (ii) the Applicant be notified in advance of any proposed disclosure of such confidential materials by the Department, and (iii) the Applicant be given a reasonable opportunity to seek a protective order or take other action to prevent or limit any such disclosure.

Should you have any questions or require further information, please do not hesitate to contact me at (503) 570-3667 or lawlopardo@avamere.com, or my associate Kevin Hill at (503) 783-7244 or klhill@avamere.com.

Best Regards,

Lawrence Lopardo
Chief Legal Officer, Rimborso, LLC

Enclosures

FORM A
STATEMENT REGARDING THE
ACQUISITION OF CONTROL OF OR MERGER WITH A DOMESTIC INSURER

Name of Domestic Insurer:
Marquis Advantage, Inc.

Name of Acquiring Person (Applicant):
Rimborso, LLC

Filed with the Department of Consumer and Business Services of the State of Oregon

Dated: February 28, 2020

Name, Title, address and telephone number of Individual to Whom Notices and Correspondence Concerning this Statement Should be Addressed:

For Insurer: Marquis Advantage, Inc, Patrick J. Hurd, Senior Vice President and General Counsel, AllyAlign Health, Inc., Highwoods One 10900 Nuckols Road, Suite 110, Glen Allen, VA 23060, 804-729-3323

For Applicant: Rimborso, LLC, Lawrence Lopardo, Chief Legal Officer, 25117 SW Parkway, Wilsonville, OR 97070, 503-570-3667

ITEM 1. METHOD OF ACQUISITION

State the name and address of the domestic insurer to which this application relates and a brief description of how control is to be acquired.

Marquis Advantage, Inc.
4560 SE International Way, Suite 100
Milwaukie, OR 97222

Marquis Advantage, Inc. also operates under the assumed business name of AgeRight Advantage Health Plan, which assumed business name has been registered with the Oregon Secretary of State.

Marquis Advantage, Inc. currently has one-thousand (1,000) shares of common stock issued and outstanding. Applicant intends to acquire four hundred (400) shares of the common stock of the Insurer with consideration consisting of cash. No new shares will be issued by the insurer. Applicant will acquire three hundred ten (310) shares of common stock of the insurer from

current stockholder AllyAlign Health, Inc. and ninety (90) shares of common stock of the insurer from current stockholder Marquis Companies I, Inc. in exchange for \$328,000, payable to sellers in proportion to their ownership of the shares acquired by Applicant. In addition, upon closing of the transaction, Applicant will pay \$1,472,000 in cash to Insurer in return for a subordinated surplus note. Following the transaction, Applicant will own 40% of the issued and outstanding shares of common stock of the Insurer. See Item 7 for pre and post-transaction entity ownership tables.

ITEM 2. IDENTITY AND BACKGROUND OF THE APPLICANT

(a) State the name and address of the applicant seeking to acquire control over the insurer. ANS: The Applicant is Rimborso, LLC, with a principal place of business at 25117 SW Parkway Ave., Suite F, Wilsonville, OR 97070. As noted below in Item 2(c), the Applicant is wholly owned by Avamere Group, LLC, an Oregon limited liability company. Avamere Group, LLC is owned by the Karl Rickard Miller, Jr. Revocable Trust, the Dillon Family Trust, and The Odermott Family Revocable Trust in the percentages noted in Exhibit A.

(b) If the applicant is not an individual, state the nature of its business operations for the past five years or for such lesser period as such person and any predecessors thereof have been in existence. Briefly describe the business intended to be done by the applicant and the applicant's subsidiaries. ANS: Applicant is newly created and has not done any business in the past. Applicant will only own part of Insurer. It does not have subsidiaries.

(c) Furnish a chart or listing clearly presenting the identities of the interrelationships among the applicant and all affiliates of the applicant. ANS: Attached as Exhibit A.

Indicate in such chart or listing the percentage of voting securities of each such person which is owned or controlled by the applicant or by any other such person. If control of any person is maintained other than by the ownership or control of voting securities, indicate the basis of such control. As to each person specified in such chart or listing indicate the type of organization (e.g. corporation, trust, partnership) and the state or other jurisdiction of domicile. If court proceedings involving a reorganization or liquidation are pending with respect to any such person, indicate which person, and set forth the title of the court, nature of proceedings and the date when commenced.

ANS: Applicant's owner is Avamere Group, LLC, an Oregon limited liability company. It is owned as indicated in the chart. The owners' domiciles are:

- Oregon: Miller Trust, Dillon Trust
- Washington: Odermott Trust

ITEM 3. IDENTITY AND BACKGROUND OF INDIVIDUALS ASSOCIATED WITH THE APPLICANT

On the biographical affidavit, *include a third party background check*, and state the following with respect to (1) the acquiring party if the applicant is an individual or (2) if the

applicant is not an individual, all persons who are directors, executive officers or owners of 10 percent or more of the voting securities of the applicant:

(a) Name and business address.

(b) Present principal business activity, occupation or employment including position and office held and the name, principal business and address of any corporation or other organization in which such employment is carried on.

(c) Material occupations, positions, offices or employment during the last five years, giving the starting and ending dates of each and the name, principal business and address of any business corporation or other organization in which each such occupation, position, office or employment was carried on; if any such occupation, position, office or employment required licensing by or registration with any federal, state or municipal governmental agency, indicate such fact, the current status of such licensing or registration, and an explanation of any surrender, revocation, suspension or disciplinary proceedings in connection therewith.

(d) Whether or not such person has ever been convicted in a criminal proceeding (excluding minor traffic violations) during the last ten years and, if so, give the date, nature of conviction, name and location of court, and penalty imposed or other disposition of the case.

ANS: See Exhibit B attached hereto.

ITEM 4. NATURE, SOURCE AND AMOUNT OF CONSIDERATION

(a) Describe the nature, source and amount of funds or other considerations used or to be used in effecting the merger or other acquisition of control. If any part of the same is represented or is to be represented by funds or other consideration borrowed or otherwise obtained for the purpose of acquiring, holding or trading securities, furnish a description of the transaction, the names of the parties thereto, the relationship, if any, between the borrower and the lender, the amounts borrowed or to be borrowed, and copies of all agreements, promissory notes and security arrangements relating thereto.

ANS: The consideration for the transaction will be cash. The Applicant's parent company, Avamere Group, LLC, will make a cash contribution to the Applicant to provide the transaction consideration.

(b) Explain the criteria used in determining the nature and amount of such consideration.

ANS: Each of the sellers party to the transaction as well as the Insurer agreed that consideration consisting of cash was the most desirable and effective form of consideration for the transaction. The Insurer plans to use the cash provided by the Applicant in return for the subordinated surplus note for operating expenses and to partially pay down existing debt. Regarding the amount of the amount of the transaction, the parties agreed to the Insurer's valuation as described in Item 6 of this Form A, and because Applicant will be acquiring forty percent (40%) of the outstanding

securities of the Insurer, the consideration amount was set at forty percent (40%) of the valuation amount.

Avamere Group, LLC has cash available for the transaction which it will contribute to the Applicant.

(c) If the source of the consideration is a loan made in the lender's ordinary course of business and if the applicant wishes the identity of the lender to remain confidential, the applicant must specifically request that the identity be kept confidential.

ANS: Not applicable.

ITEM 5. FUTURE PLANS OF INSURER

Describe any plans or proposals which the applicant may have to declare an extraordinary dividend, to liquidate the insurer, to sell its assets to or merge it with any person or persons or to make any other material change in its business operations or corporate structure or management.

ANS: The insurer has no current plans or proposals to declare an extraordinary dividend, to liquidate the insurer, to sell its assets to or merge it with any person or persons or to make any other material change in its business operations or corporate structure or management.

ITEM 6. VOTING SECURITIES TO BE ACQUIRED

State the number of shares of the insurer's voting securities which the applicant, its affiliates and any person listed in Item 3 plan to acquire, and the terms of the offer, request, invitation, agreement or acquisition, and a statement as to the method by which the fairness of the proposal was arrived at.

ANS: Marquis Advantage, Inc. currently has one-thousand (1,000) shares of common stock issued and outstanding. Applicant intends to acquire four hundred (400) shares of the common stock of the Insurer with consideration consisting of cash. No new shares will be issued by the insurer. Applicant will acquire three hundred ten (310) shares of common stock of the insurer from current stockholder AllyAlign Health, Inc. and ninety (90) shares of common stock of the insurer from current stockholder Marquis Companies I, Inc. in exchange for \$328,000, payable to sellers in proportion to their ownership of the shares acquired by Applicant. In addition, upon closing of the transaction, Applicant will pay \$1,472,000 in cash to Insurer in return for a subordinated surplus note. Following the transaction, Applicant will own 40% of the issued and outstanding shares of common stock of the Insurer.

All parties to the transaction agreed upon a current valuation of the insurer of \$4,500,000. While common valuation methods of "a dollar amount per member" and/or a "multiple of EBITDA" were considered, the \$4,500,000 was agreed upon with high consideration to a) the initial capitalization requirements of approximately \$4,000,000 plus \$500,000 of additional value due to taking the plan from start-up to current membership level of 450-500 members. The parties believe that this was a conservative approach to reaching the entity's value. The agreement is an

arms-length transaction in that the Applicant is in no way a related party to either selling shareholder each of the selling shareholders is receiving the same price per share as consideration for the sale of their shares.

ITEM 7. OWNERSHIP OF VOTING SECURITIES

State the amount of each class of any voting security of the insurer that is beneficially owned or concerning which there is a right to acquire beneficial ownership by the applicant, its affiliates or any person listed in Item 3.

ANS: This is a purchase of common stock at the percentage interest and number of shares set forth in the tables below.

Pre- Transaction

Shareholders and Addresses	Percentage Interest	Number of Shares
AllyAlign Health, Inc. Highwoods One, Suite 110 10900 Nuckols Road Glen Allen, VA 23060	40%	400
Marquis Companies I, Inc. 4560 SE International Way Ste 100 Milwaukie, OR 97222	60%	600

Post- Transaction

Shareholders and Addresses	Percentage Interest	Number of Shares
AllyAlign Health, Inc. Highwoods One, Suite 110 10900 Nuckols Road Glen Allen, VA 23060	9%	90
Marquis Companies I, Inc. 4560 SE International Way Ste 100 Milwaukie, OR 97222	51%	510
Avamere Health Services, LLC 25115 SW Parkway Ave b Wilsonville, OR 97070	40%	400

ITEM 8. CONTRACTS, ARRANGEMENTS OR UNDERSTANDINGS WITH RESPECT TO VOTING SECURITIES OF THE INSURER

Give a full description of any contracts, arrangements or understandings with respect to any voting security of the insurer in which the applicant, its affiliates or any person listed in Item 3 is involved, including but not limited to transfer of any of the securities, joint ventures, loan or option arrangements, puts or calls, guarantees of loans, guarantees against loss or guarantees of profits, division of losses or profits, or the giving or withholding of proxies. The description shall

identify the persons with whom the contracts, arrangements or understandings have been entered into.

ANS: The Applicant and the existing shareholders of the Insurer intend to enter into an Amended and Restated Shareholders' Rights Agreement (the "Shareholders' Rights Agreement") upon the closing of the transaction. The parties to the Shareholders' Rights Agreement are the Insurer, the existing shareholders (Marquis Companies I, Inc. and AllyAlign Health, Inc.), and the Applicant. The Shareholders' Rights Agreement provides that no shareholder may pledge, mortgage, hypothecate or otherwise transfer as security any of its Shares without the prior written approval of all other shareholders. The Shareholders' Rights Agreement also provides a proportional purchase option to each shareholder in the event a shareholder has an event requiring the sale or other disposition of such shareholder's shares. In addition, Marquis Companies I, Inc. holds a call option by which it may acquire all of the shares owned by AllyAlign Health, Inc. Should Marquis Companies I, Inc. exercise such option, Applicant has the right to participate proportionally in such acquisition.

ITEM 9. RECENT PURCHASES OF VOTING SECURITIES

Describe any purchases of any voting securities of the insurer by the applicant, its affiliates or any person listed in Item 3 during the 12 calendar months preceding the filing of this statement. Include in the description the dates of purchase, the names of the purchasers, and the consideration paid or agreed to be paid therefor. State whether any such shares so purchased are hypothecated.

ANS: None, aside from the transaction that is the subject of this application.

ITEM 10. RECENT RECOMMENDATIONS TO PURCHASE

Describe any recommendations to purchase any voting security of the insurer made by the applicant, its affiliates or any person listed in Item 3, or by, anyone based upon interviews or at the suggestion of the applicant, its affiliates or any person listed in Item 3, during the 12 calendar months preceding the filing of this statement.

ANS: We understand this question to ask if applicant (or other named persons) has made a recommendation to a third party. The answer is No.

ITEM 11. AGREEMENTS WITH BROKER-DEALERS

Describe the terms of any agreement, contract or understanding made with any broker-dealer as to solicitation of voting securities of the insurer for tender and the amount of any fees, commissions or other compensation to be paid to broker-dealers with regard thereto.

ANS: None

ITEM 12. FINANCIAL STATEMENTS AND EXHIBITS

(a) Financial statements, exhibits, and three-year financial projections of the insurer shall be attached to this statement as an appendix, but list under this item the financial statements and exhibits so attached.

ANS: See Exhibit C (Financial statements of the insurer for fiscal year 2019 through October 31, 2019 and the Statutory Financial Statements with Independent Auditors' Reports Thereon for fiscal years ending December 31, 2017 and 2018) and Exhibit D (three-year financial projections) attached hereto.

(b) The financial statements shall include the annual financial statements of the persons identified in Item 2(c) for the preceding five fiscal years (or for such lesser period as such applicant and its affiliates and any predecessors thereof shall have been in existence), and similar information covering the period from the end of such person's last fiscal year, if such information is available. The statements may be prepared on either an individual basis, or, unless the Director otherwise requires, on a consolidated basis if such consolidated statements are prepared in the usual course of business.

ANS: See the unaudited financial statements of Avamere Group, LLC for fiscal year 2019 through October 31, 2019 and the audited financial statements of Avamere Group, LLC for 2014 through 2018 attached hereto as Exhibit E.

The annual financial statements of the applicant shall be accompanied by the certificate of an independent public accountant to the effect that such statements present fairly the financial position of the applicant and the results of its operations for the year then ended, in conformity with generally accepted accounting principles **or** with requirements of insurance or other accounting principles prescribed or permitted under law. If the applicant is an insurer that is actively engaged in the business of insurance, the financial statements need not be certified if they are based on the Annual Statement of the person filed with the insurance department of the person's domiciliary state and are in accordance with the requirements of insurance or other accounting principles prescribed or permitted under the law and regulations of the domiciliary state.

ANS: The Applicant has no financial history. It is newly formed.

(c) File as exhibits copies of all tender offers for, requests or invitations for, tenders of, exchange offers for, and agreements to acquire or exchange any voting securities of the insurer and (if distributed) of additional soliciting material relating thereto, any proposed employment, consultation, advisory or management contracts concerning the insurer, annual reports to the stockholders of the insurer and the applicant for the last two fiscal years, and any additional documents or papers required by Form A or OAR 836-027-0030 or 836-027-0040.

ANS: See the Management Agreement attached hereto as Exhibit F. No forma annual reports have been prepared or filed with the equity holders of the insurer, but the annual audited financial statements attached hereto as Exhibit C have been provided to equity holders.

ITEM 13. AGREEMENT REQUIREMENTS FOR ENTERPRISE RISK MANAGEMENT

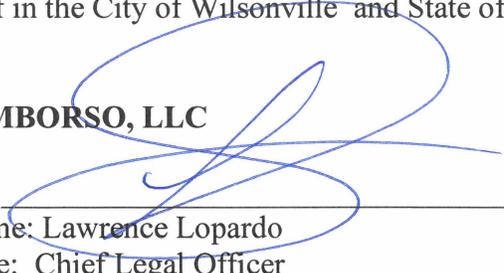
Applicant agrees to provide, to the best of its knowledge and belief, the information required by Form F within 15 days after the end of the month in which the acquisition of control occurs.

ITEM 14. SIGNATURE AND CERTIFICATION

Pursuant to the requirements of ORS 732.517 to 732.592 Rimborso, LLC has caused this application to be duly signed on its behalf in the City of Wilsonville and State of Oregon on the 28th day of February, 2020.

(SEAL)

RIMBORSO, LLC

BY 

Name: Lawrence Lopardo

Title: Chief Legal Officer

Attest:

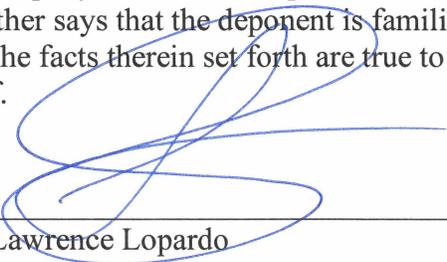
BY 

Name: Robert Thomas

Title: Chief Operations Officer

CERTIFICATION

The undersigned deposes and says that the undersigned deponent has duly executed the attached application dated February 28, 2020, for and on behalf of Rimborso, LLC; that the deponent is the Chief Legal Officer of such company and that the deponent is authorized to execute and file the instrument. Deponent further says that the deponent is familiar with the instrument and the contents thereof, and that the facts therein set forth are true to the best of the deponent's knowledge, information and belief.

BY 

Name: Lawrence Lopardo

FORM A - LIST OF EXHIBITS

EXHIBIT A – Chart of Applicant’s Affiliates

EXHIBIT B – Biographical Affidavits and Background Checks

EXHIBIT C – Insurer Financial Statements

EXHIBIT D – Insurer Three-Year Projections

EXHIBIT E – Applicant Financial Statements

EXHIBIT F – Management Agreement

EXHIBIT A

Chart of Applicant's Affiliates

Rick Miller Trust 62.36%; Rick Dillon Trust 31.18%; Ron Odermott Trust 6.45%

Avamere Group, LLC

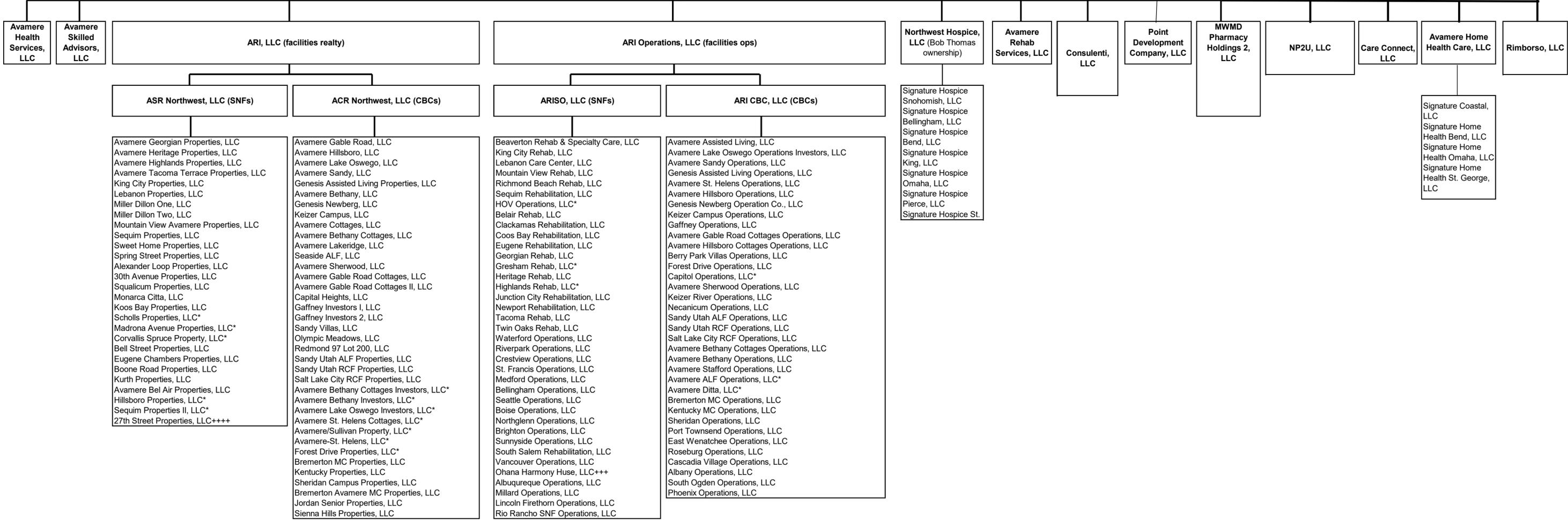


EXHIBIT B

Biographical Affidavits and Background Checks

(Submitted confidentially under separate cover)

Biographical Information

All persons who are directors, executive officers or owners of 10 percent or more of the voting securities of the applicant:

1. Karl Rickard Miller, Jr, Chief Executive Officer/beneficial owner of more than 10% of voting securities of Avamere Group, LLC (“Group”), owner of applicant
 - a. Business Address: 25117 SW Parkway, Wilsonville, OR 97070
 - b. Employer is Avamere Health Services, LLC (“AHS”), another wholly owned subsidiary of Group
 - c. Same employment in last 5 years
2. Richard Dillon, beneficial owner of more than 10% of voting securities
 - a. Business Address: 25117 SW Parkway, Wilsonville, OR 97070
 - b. Employer is AHS; job is Specials Projects Director
 - c. Same employment in last 5 years
3. Ronald Odermott, Chief Financial Officer
 - a. Business Address: 25117 SW Parkway, Wilsonville, OR 97070
 - b. Employer is AHS
 - c. Same employment in last 5 years
 - d. Licensed CPA in Oregon; no discipline
4. Robert Thomas, Chief Operations Officer
 - a. Business Address: 25117 SW Parkway, Wilsonville, OR 97070
 - b. Employer is AHS, since 2018
 - c. Prior 4 years employer was Avamere Home Health Care, LLC, another wholly owned subsidiary of Group. Position: President
5. Lawrence Lopardo, Chief Legal Officer
 - a. Business Address: 25117 SW Parkway, Wilsonville, OR 97070
 - b. Employer is AHS
 - c. Same employment in last 5 years
 - d. Licensed attorney in Oregon, Washington, California; no discipline

In the last 10 years, none of these have any criminal convictions aside from minor traffic violations.

EXHIBIT C

Insurer Financial Statements



10/31/19	Current Month 2019						YTD 2019					
						Variance						Variance
	Actual	PMPM	Prior Year	PMPM	Act V PY	PMPM V	Actual YTD	PMPM	Prior Year YTD	PMPM	Act V PY	PMPM V
<i>Membership</i>												
<i>Average Membership</i>												
Premium Revenue												
Part C												
Part D												
Reinsurance												
Total Revenue												
Medical Expenses												
SNF, Therapy, NP & Incentives												
Hospital Inpatient												
Emergency Room & Ambulance												
Outpatient & Professional												
Reinsurance Recovery												
IBNR Margin												
Pharmacy												
Total Medical Expense												
Administrative Expenses												
AAH Fee												
Partner Fee												
Actuarial Expenses												
Other Expenses												
Total Administrative Expenses												
Net Income (Loss)												
<i>MLR</i>												
<i>Risk Score</i>												
<i>ADK</i>												
<i>Admin Ratio</i>												
<i>Part D Loss Ratio</i>												
<i>Combined Ratio</i>												
Balance Sheet												
Adjusted Capital and Surplus												
RBC Estimate												
Excess(Deficit)												
RBC Requirement												

Marquis Advantage, Inc. dba AgeRight Advantage Health Plan
Profit and Loss - Restated Revenue and Medical Actual

Month Ending Actual Restated Results												YTD	YTD %
01/31/18	02/28/18	03/31/18	04/30/18	05/31/18	06/30/18	07/31/18	08/31/18	09/30/18	10/31/18	11/30/18	12/31/18		

Member Months

Premium Revenue:

- Revenue - Part C Premiums
- Revenue - Part D Premiums
- Revenue - Risk Corridor
- Revenue - Member Premiums
- Reinsurance Fees

Total Revenue

Medical Expense:

Partner Medical Expense

- Partner- Plan NP
- Bonus- NP
- Bonus- PCP
- Gain Share - Facility
- Subtotal Partner Medical Expense*
- % of Revenue*

All Other Medical Expense

- Hospital/medical benefits- Inpatient
- SNF
- Professional- Specialist
- Therapy
- Ambulance
- Surgery- Outpatient
- Pathology and Laboratory
- Radiology
- DME/Supplies and Devices
- Behavioral Health
- Observation
- Other Claims
- Home Health
- Primary Care Physician
- Emergency room
- Reinsurance Recovery Expense
- Explicit Margin
- Continuation of Benefits
- Prescription drugs
- Prescription drug rebates
- Subtotal Other Medical Expense*
- % of Revenue*

Total Medical Expense

Medical Loss Ratio

Gross Margin

Operating Expenses

- Bank Charges
- Bad Debt Expense
- Credentialing Fees
- Insurance Expense
- Legal Fees
- Professional Fees - AAH
- Professional Fees - Actuarial
- Professional Fees - Medical Director
- Professional Fees - Other
- CMS User Fee
- Loss Adjustment Expense
- Meals and Entertainment
- Postage Expense
- PBM Admin Expense
- Sales and Marketing
- Outside Printing
- Taxes & Licenses Expense
- Telecom Expense
- Income Taxes
- Travel - Air
- Travel - Meals
- Travel - Lodging
- Income Tax Expense

Total Operating Expenses

- Interest Income
- Interest Expense

Net Interest

Net Income (Loss)

**Marquis Advantage, Inc. dba AgeRight Advantage Health Plan
Balance Sheet**

Month Ending Actual Reported Results											
01/31/19	02/28/19	03/31/19	04/30/19	05/31/19	06/30/19	07/31/19	08/31/19	09/30/19	10/31/19	11/30/19	12/31/19

Assets

Current Assets

Cash and Cash Equivalents

- 11120 - Marquis Advantage Checking (XXX 6444)
- 11121 - Marquis US Bank (XXX 2270)
- 11122 - Marquis Advantage Disbursements (XXX 1520)
- 11123 - Marquis US Bank Money Market

Total Cash and Cash Equivalents

Accounts Receivable, Net

Accounts Receivable

- 12000 - Accounts Receivable (A/R)
- 12005 - Allowance for Bad Debt
- 12010 - Accrued Revenue
- 12020 - Accrued Revenue Risk Adjustment
- 12030 - Accrued Revenue Risk Corridor
- 13110 - Interest Receivable
- 13120 - Reinsurance Receivable
- 13140 - Accounts Receivable - Part D LICs
- 13145 - Accounts Receivable - Part D CGDP

Total Accounts Receivable

Total Accounts Receivable, Net

Deferred Tax Assets

- 15300 - Deferred tax asset

Total Deferred Tax Assets

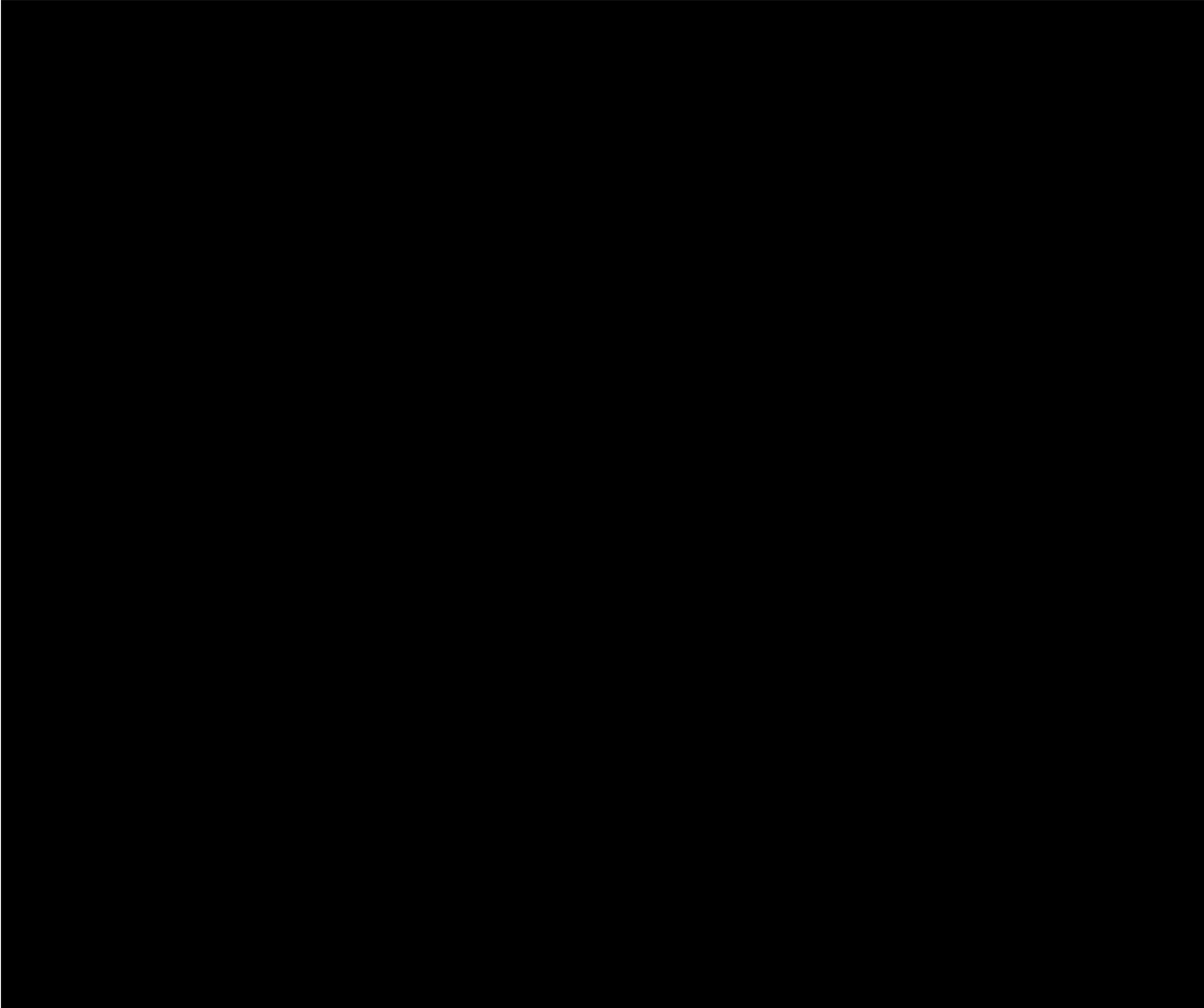
Other Current Assets

- 13100 - Other Receivables
- 13130 - Pharmacy Rebate Receivable
- 13155 - Due from Parent
- 13160 - Tax Receivable
- 13200 - Prepaid Expenses

Total Other Current Assets

Total Current Assets

Total Assets



Marquis Advantage, Inc. dba AgeRight Advantage Health Plan
Balance Sheet

Month Ending Actual Reported Results											
01/31/19	02/28/19	03/31/19	04/30/19	05/31/19	06/30/19	07/31/19	08/31/19	09/30/19	10/31/19	11/30/19	12/31/19

Liabilities and Equity

Liabilities

Current Liabilities

Accounts Payable

21000 - Accounts Payable (A/P)

Total Accounts Payable

Accrued Liabilities

21100 - Accrued Expenses

21110 - Accrued Loss Adjustment Expense

21150 - Accrued Claims Payables

21152 - Accrued Incentive Payables

21155 - Accrued Pharmacy Payables

21170 - Part D Coverage GAP Discount

21180 - Part D Reinsurance Payables

21200 - IBNR Reserve

21201 - IBNR Reserve- Explicit Margin

21202 - IBNR Reserve- COB

Total Accrued Liabilities

Income Tax Payable

21450 - Income taxes payable

Total Income Tax Payable

Other Current Liabilities

21600 - Unearned Premiums

Total Other Current Liabilities

Total Current Liabilities

Total Liabilities

Stockholders Equity

Partners Equity

31200 - Surplus Notes

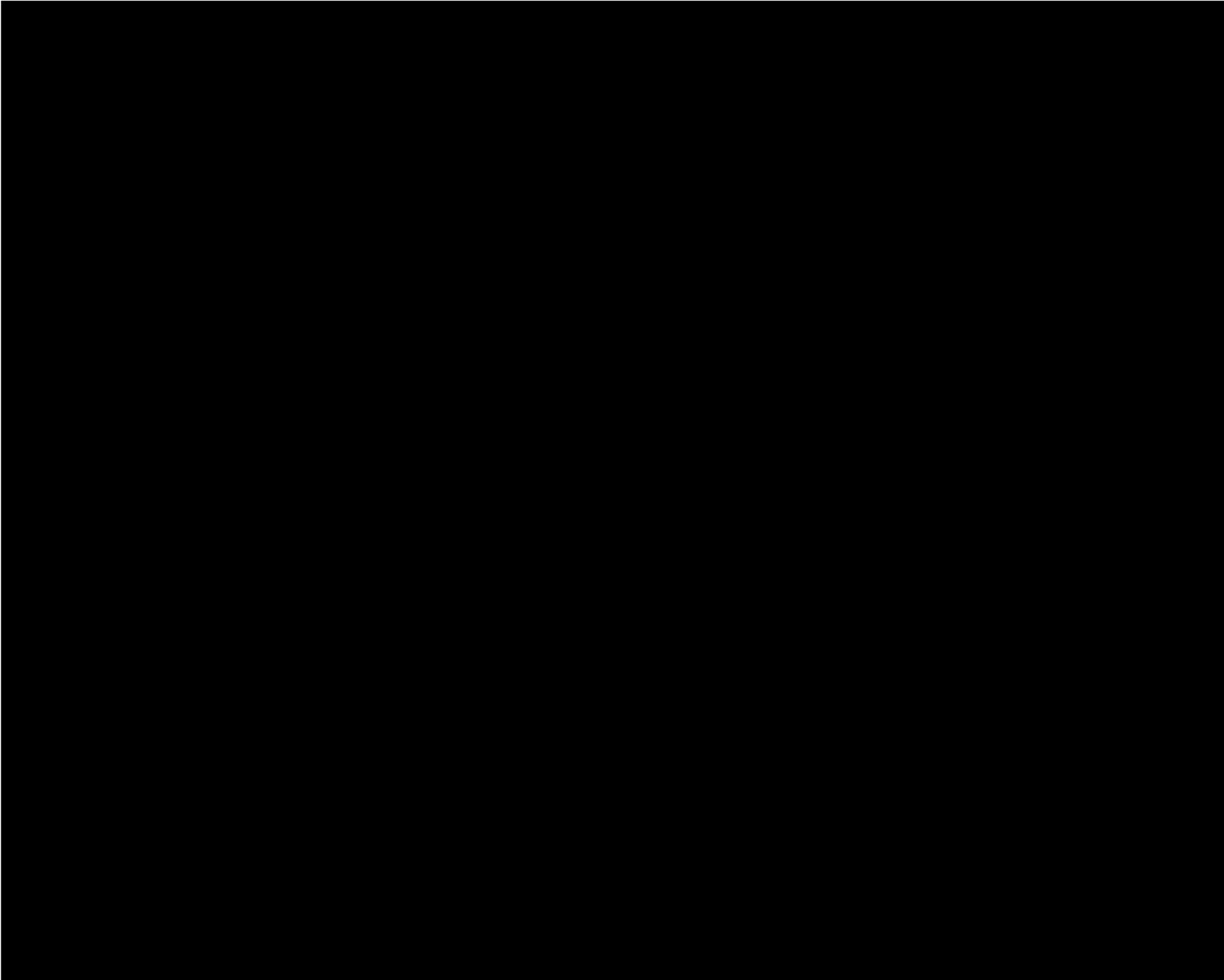
3200 - Member Contribution - AllyAlign Health

32100 - Member Contribution - Marquis

Total Partners Equity

Deferred tax provision

38000 - Deferred tax provision



Marquis Advantage, Inc. dba AgeRight Advantage Health Plan
Balance Sheet

Month Ending Actual Reported Results												
	01/31/19	02/28/19	03/31/19	04/30/19	05/31/19	06/30/19	07/31/19	08/31/19	09/30/19	10/31/19	11/30/19	12/31/19
Total Deferred tax provision												
Retained Earnings												
39000 - Retained Earnings												
Total Retained Earnings												
Net Income (Loss)												
Total Stockholders Equity												
Total Liabilities and Equity												

Marquis Advantage, Inc. dba AgeRight Advantage Health Plan
Cash Flow Statement

Month Ending Actual Reported Results											
01/31/19	02/28/19	03/31/19	04/30/19	05/31/19	06/30/19	07/31/19	08/31/19	09/30/19	10/31/19	11/30/19	12/31/19

Cash Flows from Operating Activities:

Net Income (Loss)
 Adjustments to reconcile net loss to net cash used in operating activities:
 Depreciation
 Amortization
 Stock-based Compensation

Changes in Operating Assets and Liabilities:

Changes in Net Accounts Receivable
 Changes in Accounts Receivable
 Changes in Allowance for Doubtful Accounts
 Change in Inventory
 Changes in Prepaid Expenses and Other Assets
 Changes to Accounts Payable
 Changes to Sales and Used Tax Payable
 Changes to Accrued Liabilities and Other Liabilities
 Changes to Accrued Income Taxes Liabilities
 Changes to Deferred Income Taxes Assets
 Changes to Deferred Revenue
 Changes to Intercompany
 Changes to Intercompany Receivable
 Changes to Intercompany Payable
 Net cash provided by operating Activities

Cash Flows from Investing Activities

Capital Expenditures
 Net sales (purchases) of ST investments
 Purchase of long term investments and other assets
 Investment in Subsidiary
 Net cash provided by investing activities

Cash Flows from Financing Activities

Changes in Debt Proceeds
 Changes in Capital Stock
 Net cash provided by financing activities

Net increase (decrease) in cash

Cash - Beginning of Period

Cash - End of Period



BALANCE SHEET

Oct-19

...

	Cash and Cash Equivalents	
	Short-term Investments	
	Premiums Receivable	
	Investment Income Receivables	
	Health Care Receivables	
	Amounts Due from Affiliates	
	Aggregate Write-ins for Current Assets	
	TOTAL CURRENT ASSETS	
OTHER ASSETS		
	Restricted Cash and Other Assets	
	Long-term Investments	
	Amounts Due from Affiliates	
	Aggregate Write-ins for Other Assets	
	TOTAL OTHER ASSETS	
PROPERTY AND EQUIPMENT		
	Land, Building and Improvements	
	Furniture and Equipment	
	Leasehold Improvements	
	Aggr Write-ins for Other Property and Equipment	
	TOTAL PROPERTY AND EQUIPMENT	
TOTAL ASSETS		
CURRENT LIABILITIES		
	Accounts Payable	
	Claims Payable	
	Accrued Medical Incentive Pool	
	Unearned Premiums	
	Loans & Notes Payable	
	Amounts Due Affiliates	
	Aggr Write-ins for Current Liabilities	
	TOTAL CURRENT LIABILITIES	
	WORKING CAPITAL	
OTHER LIABILITIES		
	Loans and Notes Payble	
	Amounts Due to Affiliates	
	Aggregate Write-ins for Other Liabilities	
	TOTAL OTHER LIABILITIES	
TOTAL LIABILITIES		
NET WORTH		
	Common Stock	
	Preferred Stock	
	Paid-in Surplus	
	Contributed Capital	
	Surplus Notes	
	Contingency Reserves	
	Retained Earnings/Fund Balance	
	Aggr Write-ins for Other Net Worth Items	
TOTAL NET WORTH		
TOTAL LIABILITIES AND NET WORTH		
RBC RESULTS		
TOTAL NET WORTH		
ADJUSTMENTS		
TOTAL ADJUSTED CAPITAL AND SURPLUS		
AUTHORIZED CONTROL LEVEL RBC		
RBC RATIO		
Requirement		
Excess (Deficit)		
	Affiliate Risk - H0	
	Asset Risk - H1 (Cash)	
	Underwriting Risk - H2 (Revenue and Expenses)	
	Credit Risk - H3	
	Business Risk - H4 (Admin)	
	12 Month Moving UW Risk Revenue (Excluding FEHBP)	
	UW Risk Factor	
	12 Month Moving Medical Expenses (Excluding FEHBP)	
	Managed Care Discount Factor	
	12 Month Moving FEHBP Medical Expenses	
	12 Month Moving Administrative Expenses	
	Administrative Expense Factor	
	Combined Ratio	
RBC Requirement		

MARQUIS ADVANTAGE, INC.

Statutory Financial Statements

December 31, 2018 and 2017

(With Independent Auditors' Report Thereon)

LBMC

**MAKE A GOOD
BUSINESS BETTER**

MARQUIS ADVANTAGE, INC.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Marquis Advantage, Inc.:

We have audited the accompanying statutory financial statements of Marquis Advantage, Inc. dba AgeRight Advantage (an Oregon corporation) (the "Company"), which comprise the statutory statements of admitted assets, liabilities, and capital and surplus as of December 31, 2018 and 2017, and the related statutory statements of income, changes in capital and surplus, and cash flows for the years then ended, and the related notes to the statutory financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these statutory financial statements in accordance with the accounting practices prescribed or permitted by the Oregon Department of Consumer and Business Services. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of statutory financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these statutory financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the statutory financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statutory financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the statutory financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the statutory financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the statutory financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the statutory financial statements referred to in the first paragraph present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended, in accordance with the accounting practices prescribed or permitted by the Oregon Department of Consumer and Business Services as described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the statutory financial statements, which describes the basis of accounting. The statutory financial statements are prepared by Marquis Advantage, Inc. on the basis of the accounting practices prescribed or permitted by the Oregon Department of Consumer and Business Services, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of the Oregon Department of Consumer and Business Services. Our opinion is not modified with respect to that matter.

Restrictions on Use

The report is intended solely for the information and use of the board of directors, the stockholders and management of Marquis Advantage, Inc. and for filing with the Oregon Department of Consumer and Business Services and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

LBMC, PC

Brentwood, Tennessee
April 27, 2019

MARQUIS ADVANTAGE, INC.

Statutory Statements of Admitted Assets, Liabilities, and Capital and Surplus

December 31, 2018 and 2017

Admitted Assets

2018

2017

Admitted Assets:

Bond

Cash and cash equivalents

Total cash and invested assets

Other admitted assets:

Accounts receivable

Pharmaceutical rebate receivable

Deferred tax asset

Total other admitted assets

Liabilities and Capital and Surplus

Liabilities:

Losses and loss adjustment expenses

Liability for amounts held under uninsured plans

Accrued medical incentive pool and bonus amounts

Accrued expenses and other liabilities

Accounts payable

Accrued federal income taxes

Total liabilities

Capital and surplus:

Capital stock, \$1 par value; 1,000,000 shares
authorized and 300,000 shares outstanding

Paid-in surplus

Unassigned deficit

Total capital and surplus



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

MARQUIS ADVANTAGE, INC.

Statutory Statements of Income

Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Revenue:		
Net premium income		
Change in unearned premium reserves		
Total revenue		
Expenses:		
Medical expenses		
Medical incentive pool and bonus amounts		
General administrative expenses		
Total expenses		
Net investment income		
Net income (loss) before income taxes		
Income tax expense (benefit)		
Net income		

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

MARQUIS ADVANTAGE, INC.

Statutory Statements of Changes in Capital and Surplus

Years Ended December 31, 2018 and 2017

	Capital <u>Stock</u>	Paid-In <u>Surplus</u>	Unassigned <u>Deficit</u>	Total Capital and <u>Surplus</u>
Balance at December 31, 2016				
Change in non-admitted assets				
Change in deferred income tax				
Net income				
Balance at December 31, 2017				
Change in non-admitted assets				
Change in deferred income tax				
Net income				
Balance at December 31, 2018				

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

MARQUIS ADVANTAGE, INC.

Statutory Statements of Cash Flows

Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operations:		
Premiums collected net of reinsurance		
Benefit and loss related payments		
Commissions and expenses paid		
Federal income taxes		
Cash (used by) from underwriting		
Net investment income received		
Net cash (used by) from operations		
Cash flows from investments:		
Proceeds of matured bond		
Cost of investment in bond		
Net cash from (used by) investments		
Net change in cash and cash equivalents		
Cash and cash equivalents at beginning of year		
Cash and cash equivalents at end of year		

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

MARQUIS ADVANTAGE, INC.

Notes to the Statutory Financial Statements

December 31, 2018 and 2017

(1) Nature of operations

Marquis Advantage, Inc. dba AgeRight Advantage (the "Company") was formed on November 30, 2015 by Marquis Companies I, Inc. and AllyAlign Health, Inc. ("Stockholders") to develop, form, own, operate and manage a healthcare maintenance organization ("HMO") and an Institutional Special Needs Plan ("ISNP") in the state of Oregon. An ISNP is a Medicare Advantage Special Needs Plan established by the Medicare Modernization Act of 2003. An ISNP limits enrollment to members with specific diseases or characteristics and tailors benefits to best meet those needs. The Company's ISNP will limit enrollment to Medicare patients who live or are expected to live in a long-term care facility for 90 days or longer and who meet an institutional level of care. The ISNP was available for enrollment beginning in October 2016 for healthcare coverage beginning January 2017.

(2) Summary of significant accounting policies

(a) Basis of accounting

The accompanying statutory financial statements have been prepared in conformity with accounting practices prescribed or permitted by the Oregon Department of Consumer and Business Services, which vary in some respects from accounting principles generally accepted in the United States of America ("GAAP"). Prescribed statutory accounting principles include the Accounting Practices and Procedures Manual, as amended from time to time, which reflects the National Association of Insurance Commissioners' ("NAIC") adoption of Statutory Accounting Principles ("SAP"), as well as state laws, regulations, and general administrative rules of the NAIC. Permitted statutory accounting principles include all accounting practices that are not prescribed, but are allowed by the domiciliary state insurance department. The Company did not employ any prescribed or permitted statutory accounting practices that differ from NAIC SAP in 2018 and 2017.

The following highlights the significant variances between SAP followed by the Company and GAAP. The effect of these variances has not been determined but is presumed to be material. The more significant differences are as follows:

- Investments in bonds are generally carried at amortized cost; while under GAAP, they are carried at fair value based on their classification according to the Company's ability and intent related to those securities.
- The non-admitted portions of accounts receivable and prepaid expenses are excluded from the statement of admitted assets, liabilities, and capital and surplus and changes therein are recorded directly to unassigned deficit. Under GAAP, these assets are recognized in the balance sheet.
- Under GAAP, the reporting of assets and liabilities related to reinsured contracts is presented on a gross basis; such assets and liabilities are reported net of reinsurance under SAP.

MARQUIS ADVANTAGE, INC.

Notes to the Statutory Financial Statements

December 31, 2018 and 2017

- The statutory statements of cash flows include certain activities in the investing and financing sections that would be included in the operations section under GAAP. Also, for statutory purposes, all cash accounts and investments purchased with less than one year to maturity at the purchase date are cash equivalents.
- Under GAAP, surplus notes are reported as liabilities, while under NAIC SAP, surplus notes are reported in a separate caption within surplus.
- Under GAAP, interest on surplus notes is accrued as an expense and reported as a liability based on the contractual due dates of the surplus notes, while under NAIC SAP, interest on surplus notes is reported as an expense and reported as a liability when the Oregon Department of Consumer and Business Services approves payment.
- Deferred federal income taxes are provided for the tax effects of certain income and expense items recognized for income tax purposes in different years than for financial reporting purposes. The change in the deferred income tax asset or liability is reflected in unassigned deficit. GAAP requires the change to be reported in income. Admittance testing may result in a charge to capital and surplus for non-admitted portions of the deferred income tax asset. For GAAP reporting, a valuation allowance may be recorded against the deferred income tax asset as a direct charge to income.

(b) Investments

Bonds are valued at amortized cost using the scientific interest method as prescribed by the NAIC. Short-term investments are carried at cost, which approximates fair value. Cost used for determining realized gains or losses is determined on the specific identification method. Investment income is recorded when earned. For investments carried at fair value, unrealized gains and losses are recorded to unassigned deficit.

Management of the Company monitors its fixed maturity securities for impairment. Management of the Company evaluates factors such as payment performance, general market conditions, financial condition of the issuer, the length of time and the extent to which the market value has been below amortized cost, intent and ability to hold securities, and various other subjective factors. To the extent management of the Company determines that a security is deemed to be other than temporarily impaired the difference between amortized cost and fair value is charged to income as a realized investment loss. As of December 31, 2017, management of the Company does not believe its security was impaired. The security matured during 2018, and no securities were held as of December 31, 2018.

MARQUIS ADVANTAGE, INC.

Notes to the Statutory Financial Statements

December 31, 2018 and 2017

The estimated fair values of fixed maturity securities are based on quoted market prices, if available, as provided by a national third party pricing service. For fixed maturities not actively traded, fair values are estimated using values obtained from independent pricing services, broker quotes or market values of comparable securities.

(c) Cash and cash equivalents

Cash and cash equivalents included [REDACTED] and [REDACTED] of cash on deposit with financial institutions as of December 31, 2018 and 2017, respectively. Cash and cash equivalents are carried at cost, which approximates market.

(d) Accounts receivable

Accounts receivable are amounts receivable relating to pharmaceutical rebate, risk adjustment receivable, reinsurance receivable and low income cost sharing programs. Management does not consider it necessary to reduce the carrying amount of accounts receivables by a valuation allowance.

(e) Losses and loss adjustment expenses

A liability for unpaid claims, including claim adjustment expenses and an estimate of incurred but not reported claims, is accrued when insured events occur, based on the estimated ultimate cost of settling the claims. Such liabilities are necessarily based on estimates, and while management believes the amount is adequate, the ultimate liability may be in excess of or less than the amounts provided.

(f) Income taxes

Current income taxes incurred are charged to the statutory statements of income based upon tax returns for the current year and tax contingencies for current and all prior years, to the extent not previously provided.

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the statutory financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Gross deferred income tax assets and liabilities are measured using enacted tax rates and are considered for admitted asset status according to the admissibility tests, as set forth by the NAIC. Changes in deferred income tax assets and deferred income tax liabilities, including changes attributable to changes in tax rates, are recognized as a component of deficit.

A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded.

MARQUIS ADVANTAGE, INC.

Notes to the Statutory Financial Statements

December 31, 2018 and 2017

(g) Revenue

All of the Company's revenues relate to Medicare enrollees under the Medicare Advantage contract with the Centers for Medicare & Medicaid Services ("CMS") providing hospital, medical and prescription drug coverage.

Hospital and medical coverage

Revenue from hospital and medical coverage is recorded in the month during which members are entitled to the service. Payments collected in advance are deferred.

The Company recognizes an accrual for retroactive changes from CMS for revenue resulting from changes in risk adjustment scores for prior periods. These accruals are continually monitored and adjusted, and as settlements are made with CMS or accruals adjusted, differences are recognized in current earnings.

Prescription drug coverage

Revenues from prescription drug coverage are recognized ratably over the periods in which eligible individuals are entitled to receive prescription drug benefits.

(h) Medicare Part D subsidies

CMS provides low-income premium subsidies which represent cost reimbursements. Amounts received for these subsidies are not reflected as revenues but as a reduction in medical expenses on the statutory statements of income. Payments received in advance are accounted for as deposits, with the related liability recorded in amounts held under uninsured plans on the accompanying statutory statements of admitted assets, liabilities and capital and surplus. The amounts held under uninsured plans for subsidies due to CMS were [REDACTED] and [REDACTED] at December 31, 2018 and 2017, respectively .

(i) Premium deficiency reserve

The Company establishes reserves when future premiums and current reserves are not sufficient to cover future claim payments and expenses for the remainder of the contract period. There was no premium deficiency reserve at December 31, 2018 and 2017.

MARQUIS ADVANTAGE, INC.

Notes to the Statutory Financial Statements

December 31, 2018 and 2017

(j) Medical loss ratio

The Company is subject to the minimum loss ratio rebate provisions of the Patient Protection and Affordable Care Act ("PPACA"). PPACA will require payments to members covered under the Company's comprehensive medical insurance if certain minimum medical loss ratios ("MLR") are met. Since the accrual reflects the amount of the rebate that would be payable based on year-to-date estimated MLRs, the amount of the rebate will fluctuate as actual claim experience develops each calendar quarter. The Company did not accrue any MLR rebate as of December 31, 2018 and 2017.

(k) Use of estimates

The preparation of financial statements in conformity with statutory accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(l) Risks and uncertainties

Certain risks and uncertainties are inherent in the Company's day-to-day operations and in the process of preparing its statutory basis financial statements. The more significant of those risks and uncertainties are presented below and throughout the notes to the statutory financial statements.

- *Statutory Financial Statements* - The preparation of statutory basis financial statements in conformity with accounting practices prescribed or permitted by the NAIC and the Oregon Department of Consumer and Business Services requires management to make estimates and assumptions that affect the reported amounts of admitted assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates included in the statutory financial statements include the liability for claims incurred and unpaid. Actual results could differ from those estimates.
- *Loss Reserves* - The Company estimates losses and loss adjustment expenses ("LAE") based on the accumulation of case estimates for direct claims and incidents reported, net of applicable policy deductibles and deduction of amounts for reinsurance ceded on reported claims and incidents. The LAE is provided by estimating future expenses to be incurred in settlement of the claims provided for in the reserve for losses, net of reinsurance ceded. Actual results could differ from these estimates.

MARQUIS ADVANTAGE, INC.

Notes to the Statutory Financial Statements

December 31, 2018 and 2017

- **Reinsurance** - A reinsurance contract does not relieve the Company from its obligations to insureds. Failure of the reinsurer to honor its obligations could result in losses to the Company; consequently, allowances are established for amounts deemed uncollectible. The Company evaluates the financial condition of its reinsurer to minimize its exposure to significant losses from reinsurer insolvencies. Management believes that any liability arising from this contingency would not be material to the Company's financial position.
- **External Factors** - The Company is highly regulated by the state of Oregon in which it is domiciled. Such regulations, among other things, limit the amount of dividends and impose restrictions on the amount and types of investments.

The NAIC has developed risk-based capital ("RBC") standards that relate an insurer's reported statutory capital and surplus to the risks inherent in its overall operations. The RBC formula uses the statutory annual statement to calculate the minimum indicated capital level to protect the Company from the various risks that it faces. The NAIC model law calls for various levels of regulatory action based on the magnitude of an indicated RBC deficiency, if any. The Company continues to monitor its internal capital requirements and the NAIC's RBC requirements. The Company has determined that its capital level is in excess of the minimum capital requirements for all RBC action levels. Further, management believes that the Company's capital levels are sufficient to support the level of risk inherent to the operations.

(m) Reclassifications

Certain reclassifications have been made to the 2017 statutory financial statements in order for them to conform to the 2018 presentation. These reclassifications have no effect on net income as previously reported.

(n) Events occurring after reporting date

The Company has evaluated events and transactions that occurred between December 31, 2018 and April 27, 2019, which is the date that the statutory financial statements were available to be issued, for possible recognition or disclosure in the statutory financial statements.

MARQUIS ADVANTAGE, INC.

Notes to the Statutory Financial Statements

December 31, 2018 and 2017

(3) Assets and liabilities measured at fair value

Fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, fair value accounting standards establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity including quoted market prices in active markets for identical assets (Level 1), or significant other observable inputs (Level 2) and the reporting entity's own assumptions about market participant assumptions (Level 3). The Company does not have any fair value measurements using significant unobservable inputs (Level 3) as of December 31, 2018 and 2017.

There were no assets at fair value as of December 31, 2018. The following table sets forth by level, within the fair value hierarchy, the Company's assets at fair value as of December 31, 2017:

Type of Financial Instrument	Aggregate Fair Value	Admitted Assets	(Level 1)	(Level 2)	(Level 3)	Not Practicable (Carrying Value)	Net Asset Value (NAV) Included in Level 2
█	█	█	█	█	█	█	█

(4) Investments

The Company held no investments at December 31, 2018. The Company held one U.S. Treasury note with a carrying value of █ at December 31, 2017, which matured during 2018. Differences between market value and carrying value are not significant to the statutory financial statements.

Net investment income for the years ended December 31, 2018 and 2017, is comprised of the following:

	2018	2017
U.S. government securities and agencies	█	█
Cash and cash equivalents	█	█
Gross investment income	█	█
Investment expenses	█	█
Net investment income	█	█

(5) Pharmaceutical rebate receivable

Navitus Health Solutions, LLC ("Navitus") collects rebates pursuant to contracts with pharmaceutical manufacturers that are directly attributable to the Formulary and Covered product utilization. The Company's share of rebates on covered products is in proportion to its pharmacy utilization. On a quarterly basis, Navitus pays the Company's rebates on a pass-through basis and includes 100% of rebates collected by Navitus.

MARQUIS ADVANTAGE, INC.

Notes to the Statutory Financial Statements

December 31, 2018 and 2017

In accordance with SSAP No. 84, the Company has estimated pharmaceutical rebates receivable recorded as a reduction to medical expenses on the statutory statements of income. In determining its estimate, the Company utilizes historical information relative to pharmaceutical rebates received as well as considering contractual changes in rebate amounts and changes in membership. While the Company records the total estimated pharmaceutical rebates receivable, it only admits the estimate for the last quarter of the reporting date, billed amounts from the third quarter of the reporting date, and amounts collected within two months after the reporting date from the first and second quarter of the reporting date as an asset on the accompanying statutory statements of admitted assets, liabilities, and capital and surplus.

The detail of the estimated amounts and the related collections is as follows:

Quarter	Estimated Pharmacy Rebates		Rebates Collected Within Days of Billing		
	Admitted	Estimated	0 - 90	91 - 180	More Than 180
2018	██████████	██████████	██████████	██████████	██████████
2017	██████████	██████████	██████████	██████████	██████████

(6) Healthcare reform

The PPACA imposes a mandatory annual fee on health insurers that write certain types of health insurance on U.S. risks for each calendar year beginning on or after January 1, 2014. The annual fee is allocated to health insurers based on the ratio of the amount of an insurer's net premium revenues written during the preceding calendar year to the amount of health insurance for all U.S. health risk for those certain lines of business that is written during the preceding calendar year.

The Company's health insurance premiums did not exceed the minimum threshold of \$25,000,000 in 2018 and 2017 and, therefore, the Company was not subject to the annual fee.

(7) Credit risk and other concentrations

The Company generally maintains cash on deposit at banks in excess of federally insured amounts. The Company has not experienced any losses in such accounts and management believes the Company is not exposed to any significant credit risk related to cash.

The Company's revenues for the years ended December 31, 2018 and 2017 were for insureds residing in the state of Oregon.

MARQUIS ADVANTAGE, INC.

Notes to the Statutory Financial Statements

December 31, 2018 and 2017

(8) Liability for losses and loss adjustment expenses

Activity in the liability for losses and LAE during 2018 and 2017 is summarized as follows:

	<u>2018</u>	<u>2017</u>
Reserve for losses and LAE at beginning of year		
Incurred related to:		
Current year		
Prior years		
Total incurred		
Paid related to:		
Current year		
Prior years		
Total paid		
Reserve for losses and LAE at end of year		

(9) Reinsurance activities

The Company cedes claims in excess of \$150,000 to a reinsurance company for the purpose of limiting its maximum loss exposure through the diversification of its risk. The reinsurance contract does not relieve the Company from its obligations to insureds as the primary insurer. Failure of the reinsurer to honor its obligations could result in losses to the Company. The Company evaluates the financial condition of its reinsurer before entering into reinsurance arrangement. As of December 31, 2018 and 2017, there were no amounts in recoverables on paid and unpaid losses by the reinsurance company. The reinsurance company has an A+ rating from a nationally recognized rating agency.

MARQUIS ADVANTAGE, INC.

Notes to the Statutory Financial Statements

December 31, 2018 and 2017

The following table summarizes the extent to which the Company is managing its business through the use of reinsurance for the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Premiums earned:		
Direct and assumed		
Ceded to reinsurer		
Net		
Losses and LAE incurred:		
Direct and assumed		
Ceded to reinsurer		
Net		

(10) Income taxes

The components of incurred income tax (benefit) expense for the years ended December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Federal income tax (benefit) expense		
Income tax benefit on realized losses		
Total income tax (benefit) expense		

MARQUIS ADVANTAGE, INC.

Notes to the Statutory Financial Statements

December 31, 2018 and 2017

The components of the net deferred tax asset (liability) are as follows:

As of December 31, 2018

Ordinary Capital Total

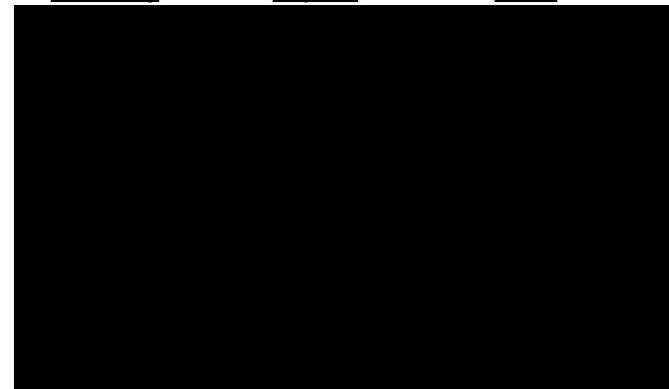
- 1a Gross deferred tax assets
- 1b Statutory valuation allowance adjustment
- 1c Adjusted gross deferred tax assets (1a-1b)
- 1d Deferred tax assets nonadmitted
- 1e Subtotal (net deferred tax assets) (1c-1d)
- 1f Deferred tax liabilities
- 1g Net admitted adjusted deferred tax assets/(net deferred tax liability) (1e-1f)

A large black rectangular redaction box covers the data for the year 2018, obscuring the values for Ordinary, Capital, and Total for all line items from 1a to 1g.

As of December 31, 2017

Ordinary Capital Total

- 1a Gross deferred tax assets
- 1b Statutory valuation allowance adjustment
- 1c Adjusted gross deferred tax assets (1a-1b)
- 1d Deferred tax assets nonadmitted
- 1e Subtotal (net deferred tax assets) (1c-1d)
- 1f Deferred tax liabilities
- 1g Net admitted adjusted deferred tax assets/(net deferred tax liability) (1e-1f)

A large black rectangular redaction box covers the data for the year 2017, obscuring the values for Ordinary, Capital, and Total for all line items from 1a to 1g.

MARQUIS ADVANTAGE, INC.

Notes to the Statutory Financial Statements

December 31, 2018 and 2017

Information used in Statement of Statutory Accounting Principles ("SSAP") 101, paragraph 9.A.2:

	December 31, <u>2018</u>	December 31, <u>2017</u>
Ratio percentage used to determine recovery period and threshold limitation amount		
Amount of adjusted capital and surplus used to determine recovery period and threshold limitation		

Applying the federal statutory rate of 21%, the more significant book to tax adjustments at December 31, 2018 and 2017, respectively, were for the following:

	<u>2018</u>	<u>2017</u>	<u>Change</u>
<u>Deferred Tax Assets</u>			
Ordinary			
Discounting of unpaid losses			
Unearned premium reserve			
Non admitted assets			
Net operating loss carry-forward			
Other (including items <5% of total ordinary tax assets)			
Subtotal			
Statutory valuation allowance adjustment			
Nonadmitted			
Admitted ordinary deferred tax assets			
<u>Deferred Tax Liabilities</u>			
Ordinary			
Other (including items <5% of total ordinary tax assets)			
Subtotal			
Deferred tax liabilities			
Net deferred tax assets/liabilities			

The Company has operating loss carryforwards of approximately as of December 31, 2018.

MARQUIS ADVANTAGE, INC.

Notes to the Statutory Financial Statements

December 31, 2018 and 2017

(11) Related party transactions

The Company has an Administrative Services Agreement ('ASA') with a stockholder under which the stockholder administers the Company's HMO and ISNP. The Company paid certain fees for administrative services amounting to \$1,086,973 and \$800,508 to AllyAlign Health, Inc. during 2018 and 2017, respectively. Additionally, the Company paid certain fees amounting to [REDACTED] and [REDACTED] during 2018 and 2017, respectively, to the stockholders of Marquis Companies I, Inc.

(12) Statutory requirements

Under the insurance regulations of the state of Oregon, the Company may pay a dividend if the dividend does not result in the Company having less capital and surplus than required by the state of Oregon. The Company did not pay dividends during 2018 and 2017. The minimum capital and surplus required by the state of Oregon as of December 31, 2018 was \$2,500,000.

AllyAlign Health and Marquis Companies I, Inc. maintain surplus notes in the aggregate amount of [REDACTED] with the Company. The surplus notes were created through retaining the implementation fees due to AllyAlign Health and Marquis Companies I, Inc. The repayment of the principal in whole or in part may be made only from the surplus profits of the Company, as required by Oregon law, and only (1) as authorized by the Company and (2) as specifically approved in advance by the Oregon Insurance Commissioner. The notes are subordinated to all other liabilities of the Company of a higher priority under the Oregon insurance law for the classification of surplus or contribution notes. The surplus notes have an interest rate at the Wall Street Journal Prime rate (5.50% at December 31, 2018) and, subject to the approval of the Oregon Insurance Commissioner, is scheduled to be repaid in full on January 1, 2026 in 20 semi-annual payments of which the first nine payments will consist of interest only and the final eleven payments will consist of principal and interest.

EXHIBIT D

Insurer Three-Year Projections

UNIFORM CERTIFICATE OF AUTHORITY APPLICATION

Instructions

1. Enter the Applicant Company Name below
2. Enter the first full year of the proformas (start with 1st full year of operation).
3. Select the states to be completed for proformas by clicking the check boxes on the right and then click on the "Create Selected State Worksheets" button below.
4. Complete all sections of the proforma statements contained on each tab below.
5. Note that several tabs contain worksheets for 3 years of data. Be sure to complete all years of data.
6. Do not "Cut" and "Paste" cells in the worksheets. Use "Copy" and "Paste" instead.

- | | | | |
|-----------------------------|----------------------|-----------------------------|---------------------|
| <input type="checkbox"/> AK | Alaska | <input type="checkbox"/> MT | Montana |
| <input type="checkbox"/> AL | Alabama | <input type="checkbox"/> NC | North Carolina |
| <input type="checkbox"/> AR | Arkansas | <input type="checkbox"/> ND | North Dakota |
| <input type="checkbox"/> AS | American Samoa | <input type="checkbox"/> NE | Nebraska |
| <input type="checkbox"/> AZ | Arizona | <input type="checkbox"/> NH | New Hampshire |
| <input type="checkbox"/> CA | California | <input type="checkbox"/> NJ | New Jersey |
| <input type="checkbox"/> CO | Colorado | <input type="checkbox"/> NM | New Mexico |
| <input type="checkbox"/> CT | Connecticut | <input type="checkbox"/> NV | Nevada |
| <input type="checkbox"/> DC | District Of Columbia | <input type="checkbox"/> NY | New York |
| <input type="checkbox"/> DE | Delaware | <input type="checkbox"/> OH | Ohio |
| <input type="checkbox"/> FL | Florida | <input type="checkbox"/> OK | Oklahoma |
| <input type="checkbox"/> GA | Georgia | <input type="checkbox"/> OR | Oregon |
| <input type="checkbox"/> GU | Guam | <input type="checkbox"/> PA | Pennsylvania |
| <input type="checkbox"/> HI | Hawaii | <input type="checkbox"/> PR | Puerto Rico |
| <input type="checkbox"/> IA | Iowa | <input type="checkbox"/> RI | Rhode Island |
| <input type="checkbox"/> ID | Idaho | <input type="checkbox"/> SC | South Carolina |
| <input type="checkbox"/> IL | Illinois | <input type="checkbox"/> SD | South Dakota |
| <input type="checkbox"/> IN | Indiana | <input type="checkbox"/> TN | Tennessee |
| <input type="checkbox"/> KS | Kansas | <input type="checkbox"/> TX | Texas |
| <input type="checkbox"/> KY | Kentucky | <input type="checkbox"/> UT | Utah |
| <input type="checkbox"/> LA | Louisiana | <input type="checkbox"/> VA | Virginia |
| <input type="checkbox"/> MA | Massachusetts | <input type="checkbox"/> VI | U.S. Virgin Islands |
| <input type="checkbox"/> MD | Maryland | <input type="checkbox"/> VT | Vermont |
| <input type="checkbox"/> ME | Maine | <input type="checkbox"/> WA | Washington |
| <input type="checkbox"/> MI | Michigan | <input type="checkbox"/> WI | Wisconsin |
| <input type="checkbox"/> MN | Minnesota | <input type="checkbox"/> WV | West Virginia |
| <input type="checkbox"/> MO | Missouri | <input type="checkbox"/> WY | Wyoming |
| <input type="checkbox"/> MS | Mississippi | | |

Go to OR

Enter the Applicant Company Name:

Marquis Advantage, Inc. dba AgeRight Advantage Health Plan

Year 1: 2019

Year 2: 2020

Year 3: 2021

If states were added to this spreadsheet in error:

1. Select the states to be deleted by clicking the check boxes on the right.
2. Click on the "Delete Selected State Worksheets" button above

button above.

Updated: 10/07/2016

Marquis Advantage, Inc. dba AgeRight Advantage Health Plan
(Health Company)
Pro Forma Statutory Balance Sheet (Nationwide)

(In Thousands)

	2019	2020	2021
Admitted Assets			
1. Bonds			
2. Stock			
3. Real Estate/Mortgage Investments			
4. Affiliated Investments			
5. Affiliated Receivables			
6. Cash/Cash Equivalents			
7. Aggregate write in for assets			
8. Total Assets(1+2+3+4+5+6+7)			
Liabilities			
9. Losses (Unpaid Claims for Accident and Health Policies)			
10. Unpaid claims adjustment expenses			
11. Reserve for Accident and Health Policies			
12. Ceded Reinsurance Payable			
13. Payable to Parents, Subsidiaries & Affiliates			
14. MLR rebates			
15. Premiums received in advanced			
16. All other Liabilites			
17. Total Liabilities (9+10+11+12+13+14+15+16)			
Capital and Surplus			
18. Capital Stock			
19. Gross Paid In and Contributed Surplus			
20. Surplus Notes			
21. Unassigned Surplus			
22. Other Items(elaborate)			
23. Total Capital and Surplus(18+19+20+21+22)			

Risk-Based Capital Analysis

24. Authorized Control Level Risk-Based Capital

25. Calculated Risk-Based Capital (23/24)



Marquis Advantage, Inc. dba Agef
 (Health Company)
 Pro Forma Statutory Profit & Loss Statement (Nationwide)
 (In Thousands)

	2019	2020	2021
1. Member months			
2. Net Premium Income			
3. Fee for Service			
4. Risk Revenue			
5. Change in unearned premium reserves			
6. Aggregate write in for other health related revenue			
7. Aggregate write in for other non-health related revenue			
8. Total (L2+L3+L4+L5+L6+L7)			
Hospital and Medical:			
9. Hospital/Medical Benefits			
10. Other professional Services			
11. Prescription Drugs			
12. Aggregate write ins for other hospital/medical			
13. Subtotal (L9+L10+L11+L12)			
Less:			
14. Reinsurance recoveries			
15. Total hospital and Medical (L13 -L14)			
16. Non health claims			
17. Claims adjustment expenses			
18. General admin expenses			
19. Increase in reserves for accident and health contacts			
20. Total underwriting deductions (L15+L16+L17+L18+L19)			
21. Net underwriting gain or loss (L8 -L20)			
22. Net investment income earned			
23. Aggregate write in for other income or expenses			
24. Federal Income Taxes			
25. Net Realized Capital Gains (Losses)			
26. Less Capital Gains Tax			
27. Net Income (L21+L22+L23-L24+L25)			
28. Prior YE Surplus			
29. Net Income			
30. Capital Increases			
31. Other Increases (Decreases)			
32. Dividends to Stockholders			
33. YE Surplus (L28+L29+L30+L31-L32)			
*Itemize in Assumptions			

Marquis Advantage, Inc. dba AgeRight Advantage Health Plan
(Health Company)
Pro Forma Statutory Cash Flow Statement
(In Thousands)

2019

2020

2021

Cash From Operations

1. Premiums Collected Net of Reinsurance
2. Benefits Paid
3. Underwriting Expenses Paid
- 4. Total Cash From Underwriting (L1-L2-L3)**

5. Net Investment Income
6. Other Income
7. Dividends to Policyholders
8. Federal and Foreign Income Taxes (Paid) Recovered
- 9. Net Cash From Operations (L4+L5+L6-L7+L8)**

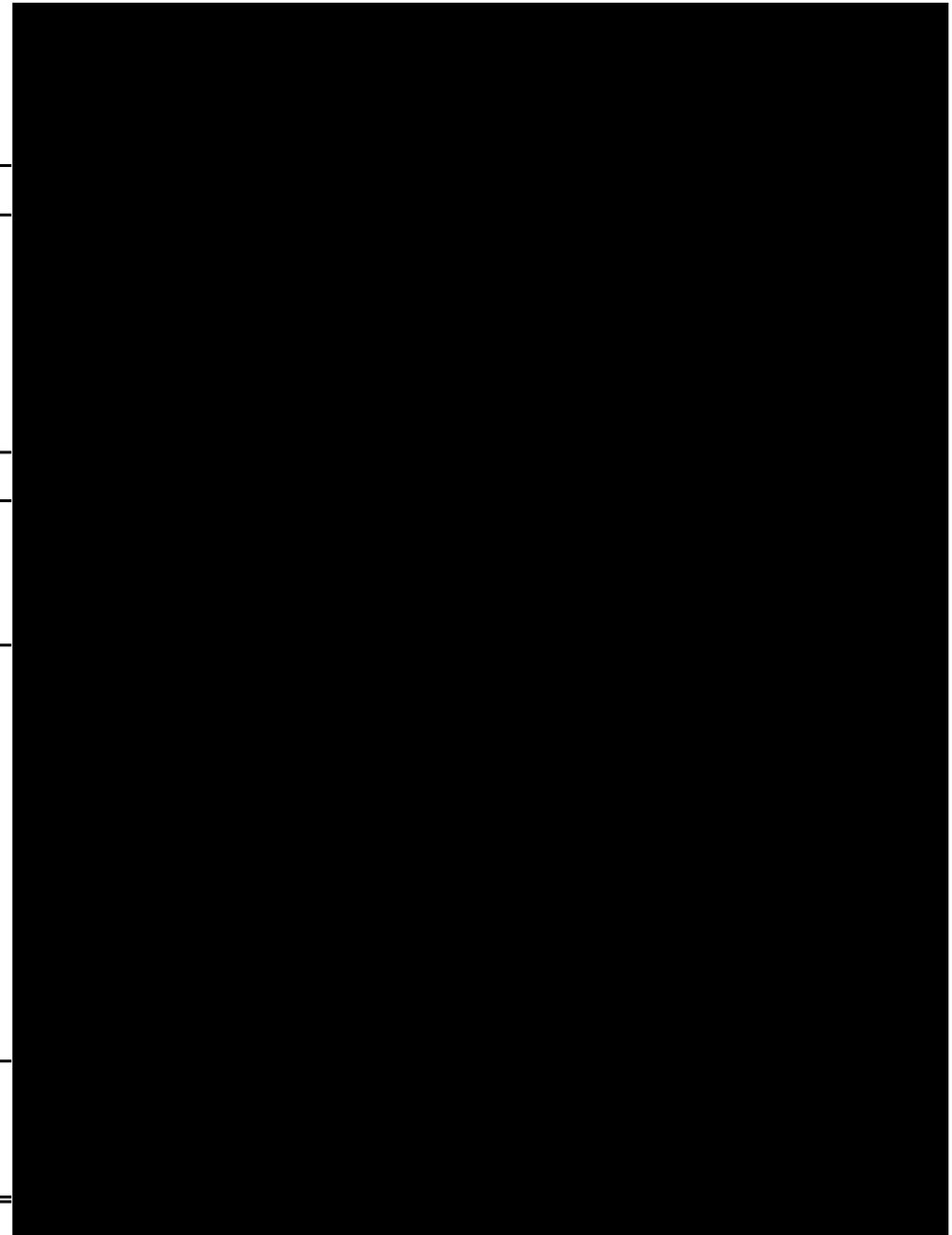
Cash From Investments

- 10. Net Cash from Investments**

Cash From Financing and Misc Sources

11. Capital and paid in Surplus
12. Surplus Notes
13. Borrowed Funds
14. Dividends
15. Other Cash Provided (Applied)
- 16. Net Cash from Financing and Misc Sources
(L11+L12+L13-L14+L15)**

- 17. Net Change in Cash, Cash Equivalents and Short -Term
Investments (L9+L10+L16)**



- 15. Non health claims
- 16. Claims adjustment expenses
- 17. General admin expenses
- 18. Increase in reserves for accident
and health contracts
- 19. Aggregate write in for Other Expenses
- 20. Total underwriting deductions**
(L14 : L19)
- 21. Net underwriting Gain (Loss) (L7-L20)**

**Nationwide
Year 1**

**Marquis Advantage, Inc. dba AgeRight Advantage Health Plan
(Health Company)
Planned Premium Volume by Line of Business
(Amounts in Whole Dollars)**

Description	Direct Premiums	Assumed Premiums	Ceded Premiums	Net Premiums
1. Comprehensive (hospital and medical)				
2. Medicare Supplement				
3. Dental only				
4. Vision only				
5. Federal Employees Health Plan				
6. Medicare				
7. Medicaid				
8. Other health				
9. Total (L1+L2+L3+L4+L5+L6+L7+L8)				

**Nationwide
Year 2**

**Marquis Advantage, Inc. db:
(Health Company)
Planned Premium Volume by Line of Business
(Amounts in Whole Dollars)**

Description	Direct Premiums	Assumed Premiums	Ceded Premiums	Net Premiums
1. Comprehensive (hospital and medical)				
2. Medicare Supplement				
3. Dental only				
4. Vision only				
5. Federal Employees Health Plan				
6. Medicare				
7. Medicaid				
8. Other health				
9. Total (L1+L2+L3+L4+L5+L6+L7+L8)				

**Nationwide
Year 3**

**Marquis Advantage, Inc. db:
(Health Company)
Planned Premium Volume by Line of Business
(Amounts in Whole Dollars)**

	Direct	Assumed	Ceded	Net
--	--------	---------	-------	-----

Description	Premiums	Premiums	Premiums	Premiums
1. Comprehensive (hospital and medical)				
2. Medicare Supplement				
3. Dental only				
4. Vision only				
5. Federal Employees Health Plan				
6. Medicare				
7. Medicaid				
8. Other health				
9. Total (L1+L2+L3+L4+L5+L6+L7+L8)	<hr/> <hr/>			

Nationwide

Year 1

Marquis Advantage, Inc. dba AgeRight Advantage Health Plan
 (Health Company)
 Preliminary MLR
 (In Thousands)

	Individual Comprehensive	Small group comprehensive	Large Group comprehensive	Individual mini-med	Small group mini-med	Large Group mini-med	Total
1. Premiums earned							
2. Federal taxes/Federal assessments							
3. State insurance, premium, and other taxes							
4. Regulatory authority license and fees							
5. Adjusted premium earned (L1-L2-L3-L4)							
6. Incurred claims excluding prescription drugs							
7. Prescription drugs							
8. Pharmaceutical rebates							
9. State stop loss, market stabilization and claim/census based assessments							
10. Incurred medical incentive pools and bonuses							
11. Total incurred claims (L6+L7-L8-L9+L10)							
12. Deductible abuse detection/recovery expenses							
13. Improved health outcomes							
14. Activities to prevent hospital readmissions							
15. Improve patient safety and reduce medical errors							
16. Wellness and health promotion activities							
17. QI Health information technology expenses							
18. Total expenses incurred for improving health quality (L13+L14+L15+L16+L17)							
19 Preliminary MLR (L11+L12+L18/L5)							

Nationwide

Year 2

Marquis Advantage, Inc. dba AgeRight Advantage Health Plan
 (Health Company)
 Preliminary MLR
 (In Thousands)

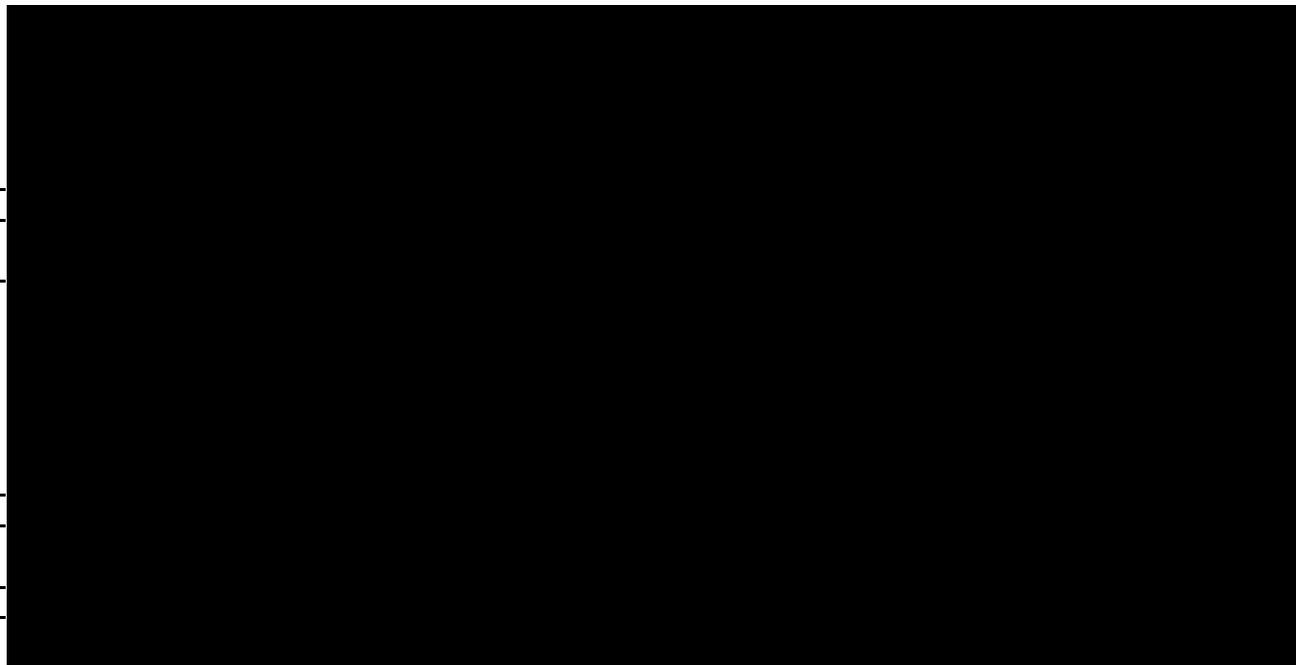
	Individual Comprehensive	Small group comprehensive	Large Group comprehensive	Individual mini-med	Small group mini-med	Large Group mini-med	Total
1. Premiums earned							
2. Federal taxes/Federal assessments							
3. State insurance, premium, and other taxes							
4. Regulatory authority license and fees							
5. Adjusted premium earned (L1-L2-L3-L4)							

- 6. Incurred claims excluding prescription drugs
- 7. Prescription drugs
- 8. Pharmaceutical rebates
- 9. State stop loss, market stabilization and claim/census based assessments
- 10. Incurred medical incentive pools and bonuses
- 11. Total incurred claims (L6+L7-L8L-9+L10)**

12. Deductible abuse detection/recovery expenses

- 13. Improved health outcomes
- 14. Activities to prevent hospital readmissions
- 15. Improve patient safety and reduce medical errors
- 16. Wellness and health promotion activities
- 17. QI Health information technology expenses
- 18. Total expenses incurred for improving health quality (L13+L14+L15+L16+L17)**

19 Preliminary MLR (L11+L12+L18/L5)



Nationwide
Year 3

Marquis Advantage
(Health Company)
Preliminary MLR
(In Thousands)

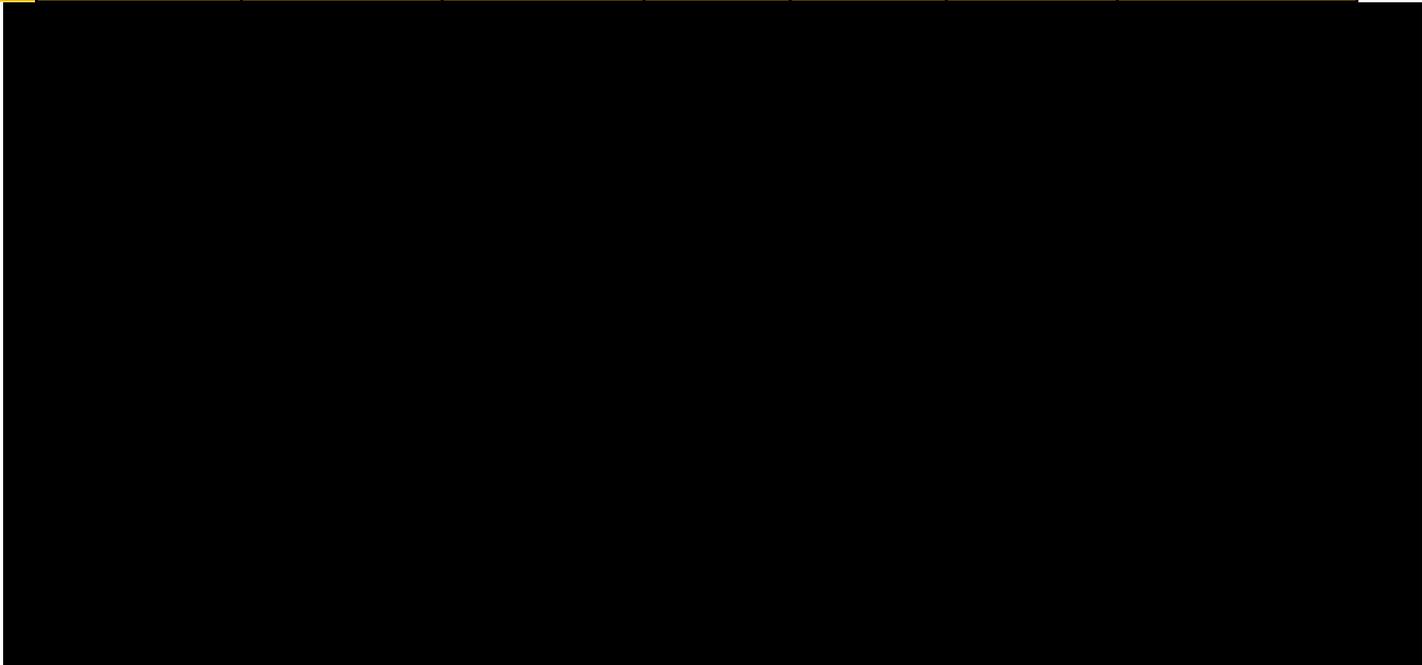
	Individual Comprehensive	Small group comprehensive	Large Group comprehensive	Individual mini-med	Small group mini-med	Large Group mini-med	Total
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- 1. Premiums earned
- 2. Federal taxes/Federal assessments
- 3. State insurance, premium, and other taxes
- 4. Regulatory authority license and fees
- 5. Adjusted premium earned (1-2-3-4)**

- 6. Incurred claims excluding prescription drugs
- 7. Prescription drugs
- 8. Pharmaceutical rebates
- 9. State stop loss, market stabilization and claim/census based assessments
- 10. Incurred medical incentive pools and bonuses
- 11. Total incurred claims (6+7-8-9+10)**

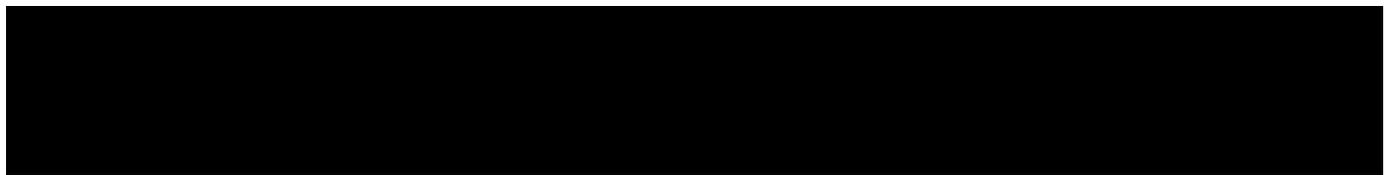
12. Deductible abuse detection/recovery expenses

- 13. Improved health outcomes
- 14. Activities to prevent hospital readmissions
- 15. Improve patient safety and reduce medical errors
- 16. Wellness and health promotion activities
- 17. QI Health information technology expenses



18. Total expenses incurred for improving health quality (L13+L14+L15+L16+L17)

19 Preliminary MLR (L11+L12+L18/L5)



UCAA Proforma Financial Statements Assumptions

List all of the relevant assumptions used to create the proformas.

Note, assumptions enclosed within the Plan of Operation need not be disclosed again here.

Members:

Membership is based on projected eligible residents in the contracted long term care institutions within the planned service area.

Assumptions

The expansion facilities have a similar membership build as the original group of facilities

Revenue:

Revenue is based on the average medicare rates per member by county times the relevant population HCC score.

Assumptions

I-SNP HCC Score (C&D)	2.398
-----------------------	-------

Revenue is shown net of reinsurance fees.

MLR:

Administrative:

Oregon
Year 1

Marquis Advantage, Inc. dba AgeRight Advantage Health Plan
(Health Company)
Planned Premium Volume by Line of Business
(Amounts in Whole Dollars)

Description	Direct Premiums	Assumed Premiums	Ceded Premiums	Net Premiums
1. Comprehensive (hospital and medical)				
2. Medicare Supplement				
3. Dental only				
4. Vision only				
5. Federal Employees Health Plan				
6. Medicare				
7. Medicaid				
8. Other health				
9. Total (L1+L2+L3+L4+L5+L6+L7+L8)				

Oregon
Year 2

Marquis Advantage, Inc. c
(Health Company)
Planned Premium Volume by Line of Business
(Amounts in Whole Dollars)

Description	Direct Premiums	Assumed Premiums	Ceded Premiums	Net Premiums
1. Comprehensive (hospital and medical)				
2. Medicare Supplement				
3. Dental only				
4. Vision only				
5. Federal Employees Health Plan				
6. Medicare				
7. Medicaid				
8. Other health				
9. Total (L1+L2+L3+L4+L5+L6+L7+L8)				

Oregon
Year 3

Marquis Advantage, Inc. c
(Health Company)
Planned Premium Volume by Line of Business
(Amounts in Whole Dollars)

Description	Direct Premiums	Assumed Premiums	Ceded Premiums	Net Premiums
-------------	-----------------	------------------	----------------	--------------

Description

- 1. Comprehensive (hospital and medical)
- 2. Medicare Supplement
- 3. Dental only
- 4. Vision only
- 5. Federal Employees Health Plan
- 6. Medicare
- 7. Medicaid
- 8. Other health
- 9. Total (L1+L2+L3+L4+L5+L6+L7+L8)**

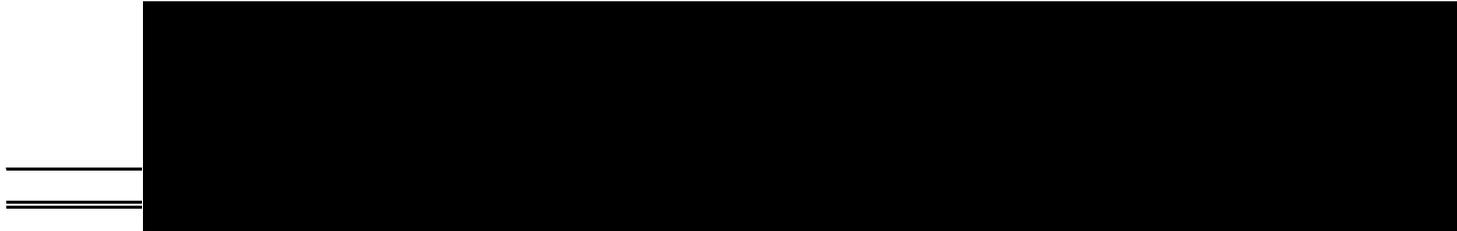


EXHIBIT E

Applicant Financial Statements



REPORT OF INDEPENDENT AUDITORS AND
CONSOLIDATED FINANCIAL STATEMENTS WITH
SUPPLEMENTARY INFORMATION

AVAMERE GROUP, LLC

December 31, 2018 and 2017

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	PAGE
Report of Independent Auditors	1–2
Consolidated Financial Statements	
Consolidated balance sheets	3–4
Consolidated statements of income	5–6
Consolidated statements of shareholders' and members' equity/deficit	7
Consolidated statements of cash flows	8–9
Notes to consolidated financial statements	10–37
Supplementary Information	
December 31, 2018	
Consolidating balance sheet	38–39
Consolidating schedule of income	40–41
December 31, 2017	
Consolidating balance sheet	42–43
Consolidating schedule of income	44–45

Report of Independent Auditors

The Shareholders and Members of
Avamere Group, LLC

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Avamere Group, LLC, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of income, statements of shareholders' and members' equity/deficit, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Avamere Group, LLC as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion of the consolidated financial statements as a whole. The consolidating schedules in the supplementary information are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and are not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations, and cash flows for the individual companies.

The consolidating schedules are the responsibility of management and were derived from and relate to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating schedules have been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidating schedules or to the consolidating schedules themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating schedules are fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Mass Adams LLP

Portland, Oregon

March 20, 2019

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Avamere Group, LLC

Consolidated Balance Sheets

ASSETS

December 31,

2018

2017

CURRENT ASSETS

Cash and cash equivalents (a)
 Designated cash
 Accounts receivable, net of allowance for bad debt of
 ██████████ in 2018 and ██████████ in 2017 (a)
 Other accounts receivable
 Current portion of notes receivable
 Current portion of insurance recovery receivable
 Inventory
 Prepaid expenses
 Other current assets

Total current assets

PROPERTY AND EQUIPMENT

Land and land improvements
 Buildings
 Leasehold improvements
 Furniture, fixtures, and equipment
 Vehicles
 Construction in progress

Accumulated depreciation and amortization

Total property and equipment

OTHER ASSETS

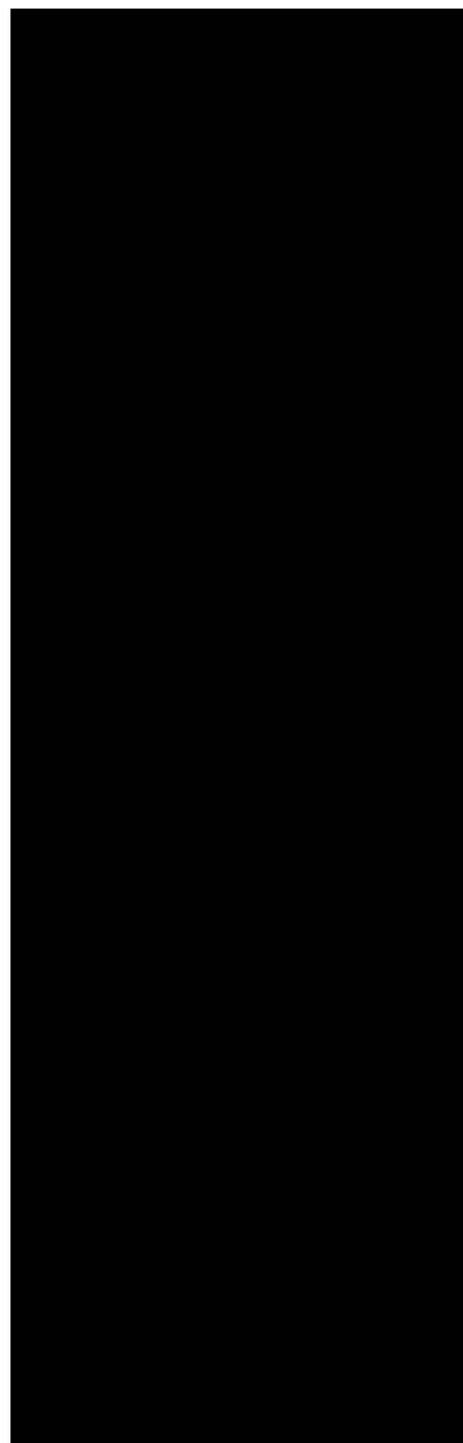
Letters of credit
 Intangible assets, net of accumulated amortization
 of ██████████ in 2018 and ██████████ in 2017 (a)
 Goodwill
 Notes receivable, net of current portion
 Insurance recovery receivable, net of current portion
 Investment in other entities

Total other assets

Total assets

(a) As of December 31, 2018 and 2017, the assets listed above include amounts from Premere Rehab, LLC (consolidated variable interest entity) as follows:

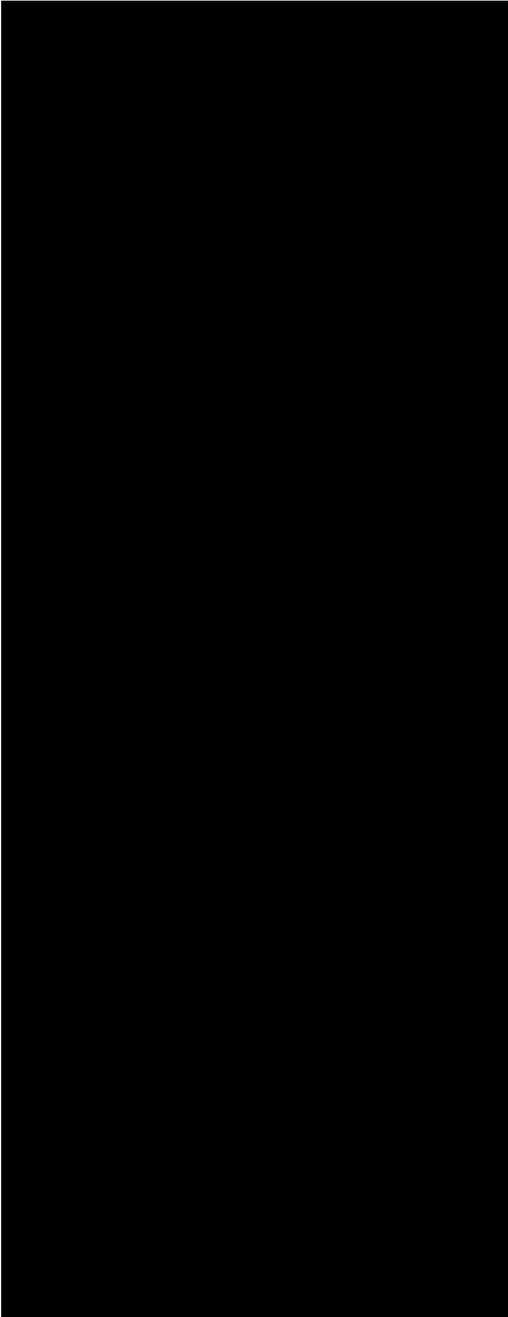
Cash and cash equivalents
 Accounts receivable, net
 Intangibles, net



Avamere Group, LLC
Consolidated Balance Sheets

LIABILITIES AND SHAREHOLDERS' AND MEMBERS' DEFICIT

	December 31,	
	2018	2017
CURRENT LIABILITIES		
Lines of credit (b)		
Accounts payable		
Accrued payroll, taxes and benefits (b)		
Accrued business and property taxes		
Other accrued liabilities		
Current portion of litigation reserve		
Current portion of capital leases		
Current portion of long term debt		
Current portion of deferred gain on sale		
Current portion of deferred rent		
Total current liabilities		
LONG TERM DEBT AND OTHER LIABILITIES		
Litigation reserve, net of current portion		
Capital leases, net of current portion		
Long term debt, net of current portion		
Deferred gain on sale, net of current portion		
Deferred rent		
Total long term debt and other liabilities		
Total liabilities		
SHAREHOLDERS' AND MEMBERS' EQUITY/DEFICIT		
Common stock		
Retained earnings/members' equity/deficit		
Total equity attributable to Avamere Group, LLC		
Non-controlling interest		
Total shareholders' and members' equity/deficit		
Total liabilities and shareholders' and members' equity/deficit		
(b) As of December 31, 2018 and 2017, the liabilities listed above include amounts from Premere Rehab, LLC (consolidated variable interest entity) as follows:		
Lines of credit		
Accrued payroll, taxes and benefits		



Avamere Group, LLC

Consolidated Statements of Income

Years Ended December 31,

2018

2017

OPERATING REVENUE

Resident care – Medicaid
Resident care – Third-party payors
Resident care – Medicare
Resident care – Private
Resident care – Veteran
Miscellaneous facility revenue

Resident care revenue

Therapy
Home health/home care
Hospice
Management operations
Nurse practitioner

Ancillary revenue

Provision for bad debts

Management fee revenue
Miscellaneous revenue
Development fee revenue
Rental income

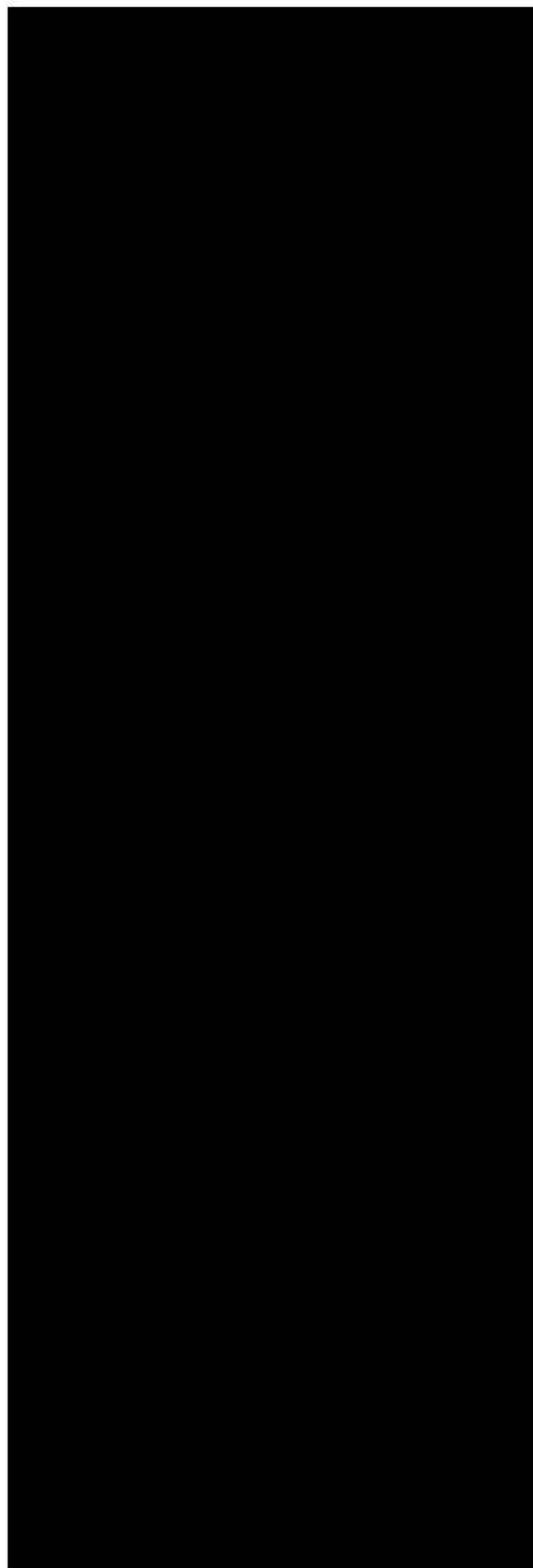
Total other operating revenue

Net operating revenue

OPERATING EXPENSES

Ancillary expense
Nursing services
Administration
Rent
Dietary
Plant operations and maintenance
Property taxes and insurance
Housekeeping
Depreciation and amortization
Social services
Interest
Activities
Laundry and linen
Medical records
Miscellaneous expense
Restorative care
Income taxes
Impairment of intangible assets

Total operating expenses



Avamere Group, LLC
Consolidated Statements of Income

Years Ended December 31,

2018 2017

NON-OPERATING REVENUE AND EXPENSES

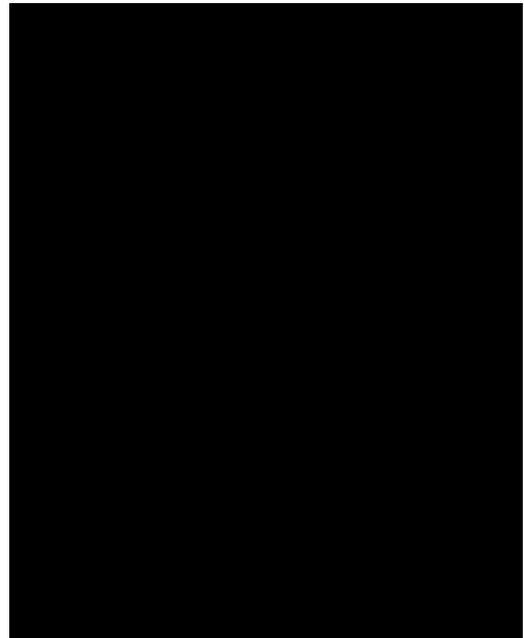
- Miscellaneous revenue
- Miscellaneous expense
- Investment income
- Donations
- Recognition of deferred gain on sale of assets
- Gain on sale of investments in other entities
- Loss on closure and sale of home health and hospice entities
- (Loss) gain on disposal of property and equipment

Total non-operating revenue and expenses

NET INCOME

NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTEREST

NET INCOME ATTRIBUTABLE TO AVAMERE GROUP, LLC



Avamere Group, LLC
Consolidated Statements of Shareholders' and Members' Equity/Deficit

	<u>Common Stock</u>	<u>Retained Earnings/ Members' Equity/Deficit</u>	<u>Non-controlling Interest</u>	<u>Total</u>
Beginning balance, January 1, 2017				
Contributions				
Distributions/draws				
Net income				
Ending balance, December 31, 2017				
Contributions				
Distributions/draws				
Net income				
Ending balance, December 31, 2018				

Avamere Group, LLC

Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income		
Adjustments to reconcile net income to net cash from operating activities		
Provision for bad debt		
Depreciation and amortization		
Investment income		
Donation of land held for future development		
Recognition of deferred gain on sale of assets		
Gain on sale of investments in other entities		
Impairment of intangible asset		
Loss (gain) on sale of property and equipment		
Loss on abandoned projects		
Interest earned on letter of credit		
Loss on closure and sale of home health and hospice entities		
Deferred rent		
Amortization of debt issuance costs		
Changes in assets and liabilities		
Designated cash		
Accounts receivable		
Other accounts receivable		
Insurance recovery receivable		
Inventory		
Prepaid expenses		
Other current assets		
Other assets		
Accounts payable		
Accrued payroll, taxes and benefits		
Accrued business and property taxes		
Other accrued liabilities		
Litigation reserve		
Net cash from operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment		
Proceeds from the sale of home health and hospice entities		
Proceeds from the sale of investments in other entities		
Net cash from investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments received on notes receivable		
Borrowings on long-term debt		
Payments on long-term debt		
Deposits on letters of credit		
Net activity on lines of credit		
Payments on capital leases		
Contribution		
Distributions/draws		
Net cash from financing activities		

See accompanying notes.

Avamere Group, LLC
Consolidated Statements of Cash Flows

	<u>Years Ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
CHANGE IN CASH AND CASH EQUIVALENTS		
CASH AND CASH EQUIVALENTS, beginning of year		
CASH AND CASH EQUIVALENTS, end of year		
SUPPLEMENTAL DISCLOSURE OF NON-CASH FLOW INFORMATION		
Conversion of accounts receivable to notes receivable		
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest		

Avamere Group, LLC

Notes to Consolidated Financial Statements

Note 1 – Business and Organization

Avamere Group, LLC (Avamere or the Company) provides a spectrum of healthcare solutions for seniors within 44 communities throughout Oregon, Washington, Idaho, and Colorado. Avamere provides seniors the dignity of choice of quality care services in settings that best meet their needs and preferences through its home health, independent living, assisted living, skilled nursing, memory care, rehabilitation therapy, hospice and nurse practitioner businesses. Avamere’s mission is “To enhance the life of everyone we serve.” Avamere continues to expand the range of services community by community through acquisition, expansion of service businesses, as well as development and construction of new facilities through its development company.

The following entities are included in the consolidated financial statements:

TYPE	LEGAL NAME	LOCATION
HOLDING COMPANIES		
	Avamere Group, LLC (Avamere or the Company)	Wilsonville, OR
	ARI, LLC	Wilsonville, OR
	ARI Operations, LLC	Wilsonville, OR
	ASR Northwest, LLC	Wilsonville, OR
	ACR Northwest, LLC	Wilsonville, OR
	ARISO, LLC	Wilsonville, OR
	ARI CBC, LLC	Wilsonville, OR
	Home Health Advantage, Inc.	Wilsonville, OR
	MWMD Pharmacy Holdings, LLC	Wilsonville, OR
MANAGEMENT COMPANIES		
	Avamere Health Services, LLC (AHS)	Wilsonville, OR
	Avamere Skilled Advisors, LLC (Avamere Living)	Wilsonville, OR
CAMPUS FACILITIES OPERATIONS (Campus)		
	Waterford Operations, LLC	Medford, OR
	Keizer Campus Operations, LLC	Keizer, OR
	Avamere Lake Oswego Operations Investors, LLC	Lake Oswego, OR
COMMUNITY BASED CARE FACILITIES OPERATIONS (CBC)		
	Albany Operations, LLC (Management contract began 2/1/18)	Albany, OR
	Avamere Bethany Cottages Operations, LLC	Portland, OR
	Avamere Bethany Operations, LLC	Portland, OR
	Avamere Gable Road Cottages Operations, LLC	St. Helens, OR
	Avamere Hillsboro Cottages Operations, LLC	Hillsboro, OR
	Avamere Hillsboro Operations, LLC	Hillsboro, OR
	Avamere Sandy Operations, LLC	Sandy, OR
	Avamere Sherwood Operations, LLC	Sherwood, OR
	Avamere St. Helens Operations, LLC	St. Helens, OR
	Avamere Stafford Operations, LLC	Lake Oswego, OR

Avamere Group, LLC

Notes to Consolidated Financial Statements

Note 1 – Business and Organization (continued)

TYPE	LEGAL NAME	LOCATION
COMMUNITY BASED CARE FACILITIES OPERATIONS (CBC) - continued		
	Berry Park Villas Operations, LLC	Oregon City, OR
	Bremerton MC Operations, LLC (Opened November 2017)	Bremerton, WA
	Cascadia Village Operations, LLC (Management contract began 2/1/18)	Sandy, OR
	East Wenatchee Operations, LLC (Management contract began 2/1/18)	Wenatchee, WA
	Forest Drive Operations, LLC	Seaside, OR
	Gaffney Operations, LLC	Oregon City, OR
	Genesis Newberg Operations Co, LLC	Newberg, OR
	Keizer River Operations, LLC	Keizer, OR
	Necanicum Operations, LLC	Seaside, OR
	Port Townsend Operations, LLC (Management contract began 2/1/18)	Port Townsend, WA
	Roseburg Operations, LLC (Management contract began 2/1/18)	Roseburg, OR
SKILLED NURSING FACILITIES OPERATIONS (SNF)		
	Beaverton Rehab & Specialty Care, LLC	Beaverton, OR
	Bellingham Operations, LLC	Bellingham, WA
	Boise Operations, LLC	Boise, ID
	Brighton Operations, LLC	Brighton, CA
	Clackamas Rehabilitation, LLC	Clackamas, OR
	Coos Bay Rehabilitation, LLC	Coos Bay, OR
	Crestview Operations, LLC	Portland, OR
	Eugene Rehabilitation, LLC	Eugene, OR
	Georgian Rehab, LLC	Tacoma, WA
	Heritage Rehab, LLC	Tacoma, WA
	Junction City Rehabilitation, LLC	Junction City, OR
	King City Rehab, LLC	Tigard, OR
	Lebanon Care Center, LLC	Lebanon, OR
	Medford Operations, LLC	Medford, OR
	Mountain View Rehab, LLC	Oregon City, OR
	Newport Rehabilitation, LLC	Newport, OR
	Northglenn Operations, LLC	Northglenn, CO
	Ohana Harmony House, LLC	Bend, OR
	Peckham-Miller, Inc.	Hillsboro, OR
	Richmond Beach Rehab, LLC	Richmond Beach, WA
	Riverpark Operations, LLC	Eugene, OR
	Seattle Operations, LLC	Seattle, WA
	Sequim Rehabilitation, LLC	Sequim, WA
	South Salem Rehabilitation, LLC	Salem, OR
	St. Francis Operations, LLC	Bellingham, WA
	Sunnyside Operations, LLC	Salem, OR
	Tacoma Rehab, LLC	Tacoma, WA
	Twin Oaks Rehab, LLC (Closed in 2018)	Sweet Home, OR
	Vancouver Operations, LLC	Vancouver, WA

Avamere Group, LLC
Notes to Consolidated Financial Statements

Note 1 – Business and Organization (continued)

TYPE	LEGAL NAME	LOCATION
PROPERTY ENTITIES		
	Boone Road Properties, LLC	Salem, OR
	Gladstone Properties, LLC	Gladstone, OR
	MDN Gladstone, LLC	Gladstone, OR
	27th Street Properties, LLC	Bend, OR
	Bremerton MC Properties, LLC	Bremerton, WA
	Avamere Gable Road Cottages II, LLC *	St. Helens, OR
	Bell Street Properties, LLC *	Tacoma, WA
	Eugene Chambers Properties, LLC *	Eugene, OR
	Gaffney Investors 2, LLC *	Oregon City, OR
	Gaffney Investors I, LLC *	Oregon City, OR
	Olympic Meadows, LLC *	Sequim, WA
	Redmond 97 Lot 200, LLC *	Redmond, OR
	Sandy Villas, LLC *	Sandy, OR
	* These properties were donated to charitable organizations during 2017	
SIGNATURE HOME HEALTH / HOSPICE		
	A-One Home Health Services, Inc.	Wilsonville, OR
	Avamere Home Health Care, LLC	Wilsonville, OR
	Northwest Hospice, LLC	Wilsonville, OR
	Prime Home Health, Inc.	Wilsonville, OR
ANCILLARY AND OTHER ENTITIES		
	Avamere Rehab Services, LLC	Wilsonville, OR
	MWMD Pharmacy Solutions 2, LLC	Wilsonville, OR
	NP2U, LLC	Wilsonville, OR
	Northwest Ancillary Investors, LLC	Wilsonville, OR
	Premere Rehab, LLC (Premere)	Wilsonville, OR
	Point Development Company, LLC	Wilsonville, OR

Avamere Group, LLC

Notes to Consolidated Financial Statements

Note 2 – Summary of Significant Accounting Policies

Basis of accounting – The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Principals of consolidation – The consolidated financial statements include the accounts of the Company and all of its wholly-owned and majority-owned subsidiaries. The Company follows authoritative guidance on the Consolidation of Variable Interest Entities (VIE), which addresses consolidation by business enterprises of VIE. The Company has considered its agreements and business activities with related parties in order to determine whether any of the relationships qualify as VIE and whether the Company would be deemed to be the primary beneficiary and be required to consolidate the activities of the VIE in the Company's consolidated financial statements. All significant inter-company balances and transactions have been eliminated in consolidation.

Variable interest entities – Generally accepted accounting principles require a qualitative approach to identifying a controlling financial interest in a VIE and requires an ongoing assessment of the primary beneficiary of the VIE based on an evaluation to determine whether an entity has: (a) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance, and (b) the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. In determining whether an entity has the power to direct the activities of the VIE that most significantly affect the VIE's performance, the guidance requires a reporting entity to assess whether it has an implicit financial responsibility to ensure that a VIE operates as designed. The guidance also requires: (a) separate presentation on the face of the statement of financial position of certain assets and liabilities of a consolidated VIE, (b) disclosure of the significant judgments and assumptions made by an enterprise in its determination as to whether or not the enterprise is the primary beneficiary of a VIE, and (c) additional expanded disclosures regarding the enterprise's involvement with a VIE.

Non-controlling interests – The Company reports its non-controlling interests as a separate component of shareholders' and members' equity. The Company also presents the consolidated net income and the portion of the consolidated net income allocable to the non-controlling interests and to the shareholders or members of the Company separately in its consolidated statements of income. In addition, losses applicable to the non-controlling interest are allocated to the non-controlling interest even when those losses are in excess of the non-controlling interests' investment basis.

Use of estimates – The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include accounts receivable allowance for bad debt, allowance for contractual adjustments, depreciation lives, valuation of goodwill and intangible assets, self-insured medical claims incurred but not reported, and litigation reserve.

Note 2 – Summary of Significant Accounting Policies (continued)

Cash and cash equivalents – The Company considers all highly-liquid investment securities purchased with a maturity of three months or less to be cash equivalents. The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company monitors the credit ratings of the financial institutions in which they hold accounts and has not experienced any losses in such accounts.

Designated cash – The Company has restricted cash for resident trust funds. The resident trust liability is included in accounts payable on the balance sheet. Total resident trust cash and related liability was approximately [REDACTED] and [REDACTED] as of December 31, 2018 and 2017, respectively.

Concentrations of credit risk – Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. The Company maintains its cash balances in commingled accounts with entities having common ownership.

Accounts receivable – The Company grants credit in the normal course of business to private individuals, other businesses, governmental agencies, and insurance companies. The Company performs ongoing credit evaluations and generally does not require collateral. The Company receives payment for services rendered from private pay payors, Medicare and Medicaid programs, Veterans Administration, and third-party payors. Management does not believe there are any credit risks associated with receivables from governmental agencies. Private and other receivables consist of receivables from a large number of payors involved in diverse activities and subject to differing economic conditions, which do not represent any concentrated credit risks to the Company.

Accounts receivable are reduced by an allowance for doubtful accounts and contractual adjustments. In evaluating the collectability of accounts receivable, management analyzes its history and identifies trends to estimate the appropriate allowance for doubtful accounts and provision for bad debts.

For receivables associated with self-pay residents (which includes both residents without insurance and residents with deductible and copayment balances due for which third-party and government coverage exists for part of the bill), the Company records a provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off to provision for bad debt.

The Company also has receivable balances from unrelated third-party entities for services provided by the ancillary entities. The Company assesses the collectability of these accounts based upon historical collections, and known financial issues with the customers. The Company records a provision for bad debts in the period of service based upon this information.

Avamere Group, LLC
Notes to Consolidated Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Management regularly monitors and adjusts its reserves and allowances related to these receivables. Interest is charged on accounts at the discretion of management. The Company's allowance for bad debt was approximately [REDACTED] and [REDACTED] as of December 31, 2018 and 2017, respectively. In addition, the Company's bad debt provision expense was approximately [REDACTED] and \$ [REDACTED] for the years ended December 31, 2018 and 2017, respectively. There was no change in the methodology used by the Company to estimate the allowance for contractual adjustments and bad debt provision in the current year.

The mix of receivables as of December 31, 2018 and 2017 is as follows:

	2018	2017
Private	[REDACTED]	[REDACTED]
Other third-party payers	[REDACTED]	[REDACTED]
Medicaid	[REDACTED]	[REDACTED]
Medicare	[REDACTED]	[REDACTED]
Veterans	[REDACTED]	[REDACTED]
	<u>100%</u>	<u>100%</u>

Other accounts receivable – Other accounts receivable is comprised of the estimated receivable for the Medicare's Bundled Payments for Care Improvement initiative, Medicare cost report settlement estimates, and other miscellaneous receivables.

Inventory – Inventory consists of supplies and is stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

Other current assets – Other current assets are comprised of deposits, funds held in escrow, property taxes, insurance reserves, and other miscellaneous investments.

Investment in other entities – [REDACTED]

Property and equipment – Property and equipment acquisitions are recorded at cost. Major renewals or improvements over \$750 are capitalized, whereas ordinary maintenance and repairs are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows: leasehold improvements and equipment under capital lease – the shorter of the useful life of the assets or length of the lease; furniture, fixture and equipment – 3 to 20 years; and buildings – 27.5 years. Depreciation expense for property and equipment was approximately [REDACTED] and [REDACTED] for the years ended December 31, 2018 and 2017, respectively.

Note 2 – Summary of Significant Accounting Policies (continued)

Impairment of long-lived assets – The Company assesses long-lived assets for impairment in accordance with the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 360 “Property, Plant and Equipment.” A long-lived asset (asset group) shall be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted net cash flows expected to result from the use and eventual disposition of the asset. The amount of impairment loss, if any, is measured as the difference between the net book value of the asset and its estimated fair value. For purposes of these tests, long-lived assets must be grouped with other assets and liabilities for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities.

Intangible assets – Intangible assets subject to amortization include non-compete covenants and customer contracts. Customer contracts are being amortized over the life of the contracts, which range from ten to fifteen years. Indefinite lived intangible assets consist of bed rights, certificates of need, and government authorizations. Management tests these indefinite lived intangible assets for impairment annually. See details of intangible assets at Note 5.

Goodwill – The carrying amount of goodwill as of December 31, 2018 and 2017 reflects the cumulative amount paid, adjusted for any impairment charges, in excess of the fair value of net assets acquired in one or more business combination transactions. Management tests goodwill for impairment annually.

Letters of credit –



Insurance coverage – The Company purchased a claims made general and professional liability insurance policy and real property coverage from an outside carrier. Premiums are expensed on a straight-line basis over a twelve-month period (see Note 12).

The estimated liability for unpaid professional liability claims has been recorded in the consolidated balance sheet at the gross estimated liability. The related estimated insurance recoveries are recorded as a receivable.

Avamere Group, LLC

Notes to Consolidated Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Workers' compensation coverage for Washington employees is insured through the State of Washington, which is paid quarterly via the labor and industries tax, and expenses are accrued monthly. Workers' compensation coverage for all other facilities and entities is insured by an outside insurance carrier. The Company pays a stipulated premium monthly as well as claim costs as they occur, and expenses are accrued monthly.

Common stock – The consolidated financial statements include two corporations, which record common stock. The consolidated financial statements reflect the common stock issued and outstanding in these corporations (see Note 9).

Resident care and ancillary revenue – The Company has agreements with third-party payors that provide for payments at amounts different from its established rates. Resident care revenue, ancillary revenue, and other related service fees are recognized in the period the service is rendered. Resident care and ancillary revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Revenue under third-party payor agreements is subject to audit and retroactive adjustment. Provisions for estimated third-party payor settlements are provided in the period the related services are rendered. Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the year of settlement.

Management fee revenue – Each facility is operated under an agreement with Avamere Living, owned by Avamere. Avamere Living charges a management fee for providing certain administrative support services. These management fees were eliminated during consolidation. The Company also manages other entities. The management fees recognized under these arrangements was approximately [REDACTED] and [REDACTED] for the years ended December 31, 2018 and 2017, respectively.

Medicare bundled payments – In 2015, the Centers for Medicare & Medicaid Services (CMS) selected AHS as an "Awardee Convener" in Medicare's Bundled Payments for Care Improvement (BPCI) initiative. AHS assumes financial responsibility for BPCI initiative patients for a 90-day episode beginning with the initiation of post-acute care services after an acute care hospitalization. AHS only recognizes BPCI gains or losses after the CMS reconciliation process is complete, which occurs nine months following the beginning of the 90-day episode. The Company recorded approximately [REDACTED] and [REDACTED] in gains in 2018 and 2017, respectively. These gains were recorded as follows on the consolidated statement of income:

	2018	2017
Resident care – Medicare	[REDACTED]	[REDACTED]
AHS revenue – ancillary	[REDACTED]	[REDACTED]
Home health/home care – ancillary	[REDACTED]	[REDACTED]

The BPCI program ended on September 30, 2018.

Note 2 – Summary of Significant Accounting Policies (continued)

Advertising – Advertising costs, which are included in administration expenses, are expensed as incurred. Advertising expense was approximately [REDACTED] and \$ [REDACTED] for the years ended December 31, 2018 and 2017, respectively.

Fair value measurements – FASB ASC 820, *Fair Value Measurements and Disclosures*, apply to the following areas (See Note 3):

- Goodwill and indefinite-lived intangible asset impairment testing, which involves the fair value measurement of reporting units, assets, and/or liabilities,
- Nonfinancial long-lived assets (such as property and equipment or land held for future development) measured at fair value for impairment assessment.

Income taxes – The consolidated financial statements include Limited Liability Companies and S-Corporations. Accordingly, all federal income tax attributes are passed through to the Company's shareholders or members. Therefore, no provision is made in the accompanying consolidating financial statements for liabilities for federal, state or local income taxes since such liabilities are the responsibility of the individual partners.

The Company accounts for uncertain tax positions in accordance with ASC 740-10. The Company does not have any entity level uncertain tax positions. The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. Generally, the Company is subject to examination by U.S. federal (or state and local) income tax authorities for three years from the filing of a tax return.

New accounting guidance – In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. As compared to existing guidance on revenue recognition, ASU No. 2014-09 will significantly enhance comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets. The largely principles-based guidance in ASU No. 2014-09 will provide a framework for addressing revenue recognition issues comprehensively for entities that apply U.S. GAAP in addition to those entities that apply International Financial Reporting Standards. The guidance in ASU No. 2014-09 also improves U.S. GAAP by reducing the number of requirements to which an entity must consider in recognizing revenue, as well as requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. The effective date of ASU No. 2014-09 was deferred by ASU No. 2015-14, *Deferral of the Effective Date*, to annual periods beginning after December 15, 2018. Management is currently evaluating the impact of the provisions of ASU No. 2014-09 on the consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which increases transparency and comparability among entities by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements in the financial statements of lessees. This update is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. Management is currently evaluating the impact of the provisions of ASU No. 2016-02 on the consolidated financial statements.

Avamere Group, LLC

Notes to Consolidated Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350)*, to simplify how an entity is required to test goodwill for impairment by eliminating step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill, following procedures required in determining fair value of assets acquired and liabilities assumed in a business combination, with the carrying amount of the goodwill. With the update, an entity should perform its annual or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. This update is effective for fiscal years beginning after December 15, 2021, with early adoption permitted. Management is currently evaluating the impact of the provisions of ASU No. 2017-04 on the consolidated financial statements.

Reclassification – Certain accounts were reclassified in the prior year for consistency and comparison purposes with the current year presentation. Such reclassifications have no effect on previously reported net income.

Subsequent events – Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are available to be issued. The Company recognizes in the consolidated financial statements, the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated balance sheet, including the estimates inherent in the process of preparing the financial statements. The Company's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the consolidated balance sheet date and before consolidated financial statements are available to be issued.

The Company has evaluated subsequent events through March 20, 2019, which is the date the consolidated financial statements were available to be issued (see Note 17).

Note 3 – Fair Value of Assets and Liabilities

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To determine fair value, the Company must maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

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

Level 1 – Quoted prices in active markets for identical assets or liabilities

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices for identical or similar assets or liabilities in inactive markets; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies used for instruments measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheet, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Fair value was determined as follows:

Long-lived assets held and used – In evaluating long-lived assets held and used (generally land, buildings, property and equipment) for impairment purposes, the fair value is determined, whenever possible, by reference to quoted market prices and other market information for similar assets.

In accordance with the provisions of the Impairment or Disposal of Long-Lived Assets Subsection of FASB ASC Subtopic 360-10, long-lived assets and land held for future development were evaluated for impairment. For the years ended December 31, 2018 and 2017, these assets were determined to not be impaired.

Goodwill – In evaluating goodwill for impairment purposes, the fair value of goodwill is determined based on the fair market value of similar sales or an estimated value of three to seven times the annualized earnings before interest, taxes, depreciation and amortization.



Avamere Group, LLC
Notes to Consolidated Financial Statements

Note 3 – Fair Value of Assets and Liabilities (continued)

Intangible assets

Indefinite-lived intangible assets – The fair value of indefinite-lived intangible assets is determined based upon review of sales of similar assets within the market.

Amortizable intangible assets – The fair value of amortizable intangible assets is determined based on discounted expected future cash inflows over the estimated remaining life of the asset.

Avamere Group, LLC
Notes to Consolidated Financial Statements

Note 4 – Notes Receivable

December 31,	
2018	2017

Note receivable from a therapy customer, converted from accounts receivable. Due with an initial payment of [REDACTED] and subsequent monthly payments of [REDACTED] including interest of [REDACTED]. Due in full July 2019.

Note receivable from an unrelated party. Due in monthly interest only payments at [REDACTED] interest, due October 2019.

Note receivable from a therapy customer, converted from accounts receivable. Due in monthly payment of [REDACTED] including interest of [REDACTED] due June 2020.

Note receivable from a therapy customer, converted from accounts receivable. Due in monthly payment of [REDACTED] including interest of [REDACTED] due March 2021.

Note receivable from a therapy customer, converted from accounts receivable. Due in monthly payment of [REDACTED] including interest of [REDACTED] due June 2019.

Note receivable from a therapy customer, converted from accounts receivable with interest of [REDACTED]. Due in monthly payments of [REDACTED] due in July 2019.

Note receivable from a related party in connection with the sale of shares in Home Health Advantage, Inc., accruing interest at [REDACTED] annually, with no scheduled monthly payments. Note will mature and become payable in full, including all interest, contemporaneously with any acquisition of borrower's shares for cash or other consideration once it is converted to cash.

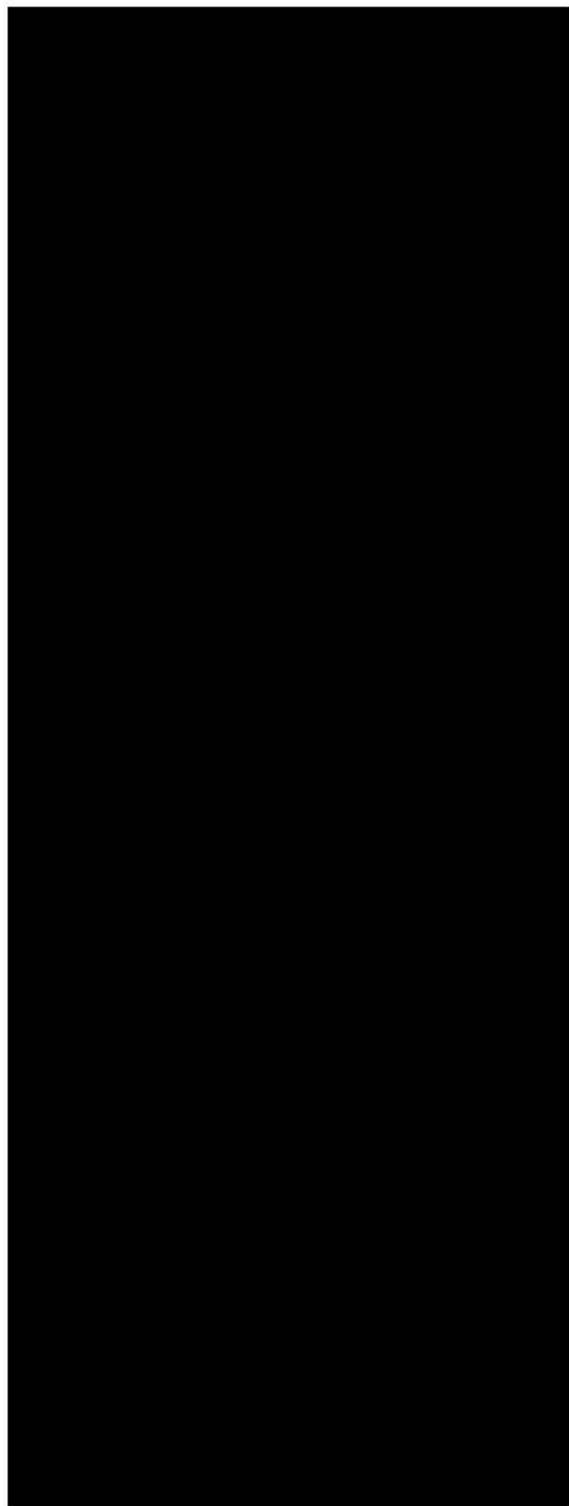
Note receivable from a therapy customer, converted from accounts receivable. Due in monthly payment of [REDACTED] including interest of [REDACTED] collected in full in July 2018.

Note receivable from an unrelated party as a result of the sale of Merit Rehab. Due in monthly payments of \$[REDACTED], including interest at [REDACTED], collected in full in May 2018.

Note receivable from a therapy customer, converted from accounts receivable. Due in monthly payment of [REDACTED] including interest of [REDACTED] collected in full in February 2018.

Total notes receivable
Less current portion of notes receivable

Notes receivable, net



Avamere Group, LLC
Notes to Consolidated Financial Statements

Note 5 – Intangible Assets

Intangible assets are as follows:

	December 31, 2018		
	Gross Carrying Amount	Accumulated Amortization	Intangible Assets, net
Amortizable intangible assets			
Customer contracts			
Non-compete covenants			
Other intangibles			
Indefinite-lived intangible assets			
Bed rights			
Certificate of need			
Government authorizations			
Amortizable intangible assets			
Customer contracts			
Non-compete covenants			
Other intangibles			
Indefinite-lived intangible assets			
Bed rights			
Certificate of need			
Government authorizations			

Note 5 – Intangible Assets (continued)

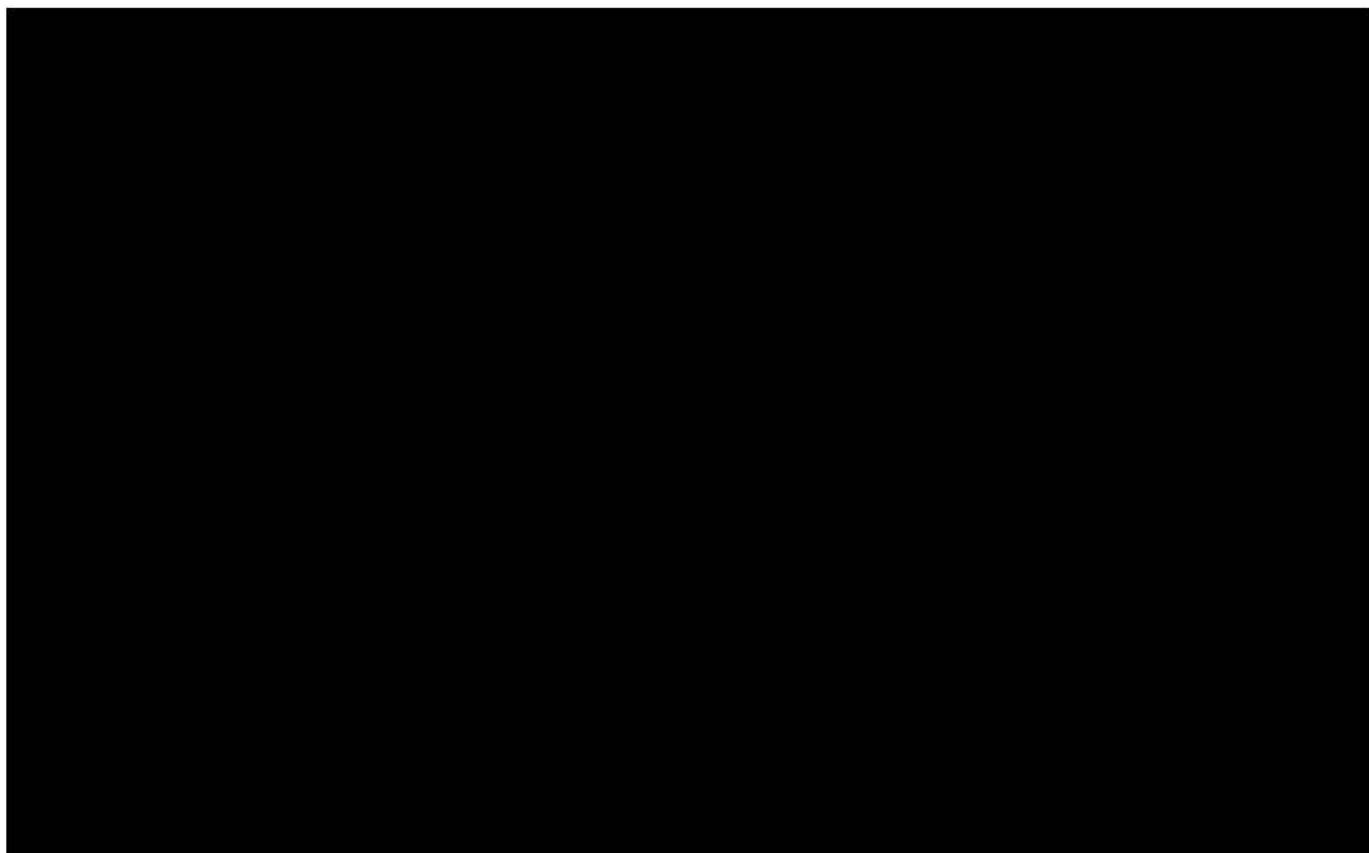
Amortization is computed using the straight-line method over the estimated useful life of the asset. Amortization expense on these assets, for the years ended December 31, 2018 and 2017, was approximately [REDACTED] and \$ [REDACTED], respectively.

Future expected amortization expense for the years ending December 31 are as follows:

2019	[REDACTED]
2020	[REDACTED]

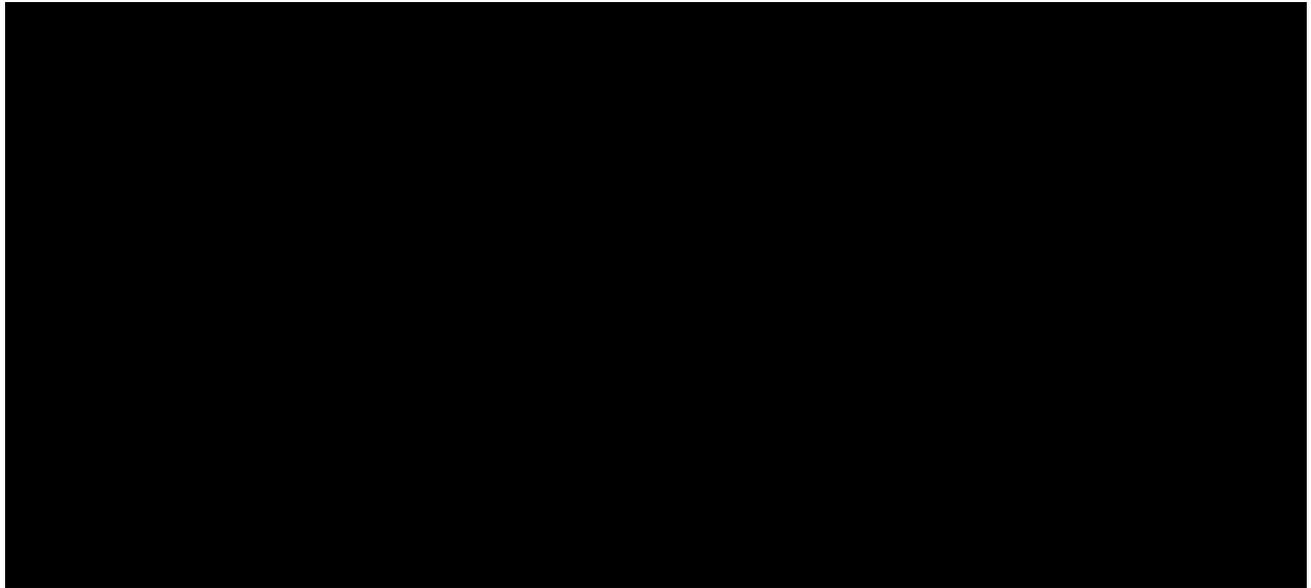


Note 6 – Lines of Credit



Avamere Group, LLC
Notes to Consolidated Financial Statements

Note 6 – Lines of Credit (continued)



Note 7 – Long Term Debt

	December 31,	
	2018	2017

* The LIBOR rate was 2.52% as of December 31, 2018.

** The two-year security treasury rate was 2.50% as of December 31, 2018.

Avamere Group, LLC

Notes to Consolidated Financial Statements

Note 7 – Long Term Debt (continued)

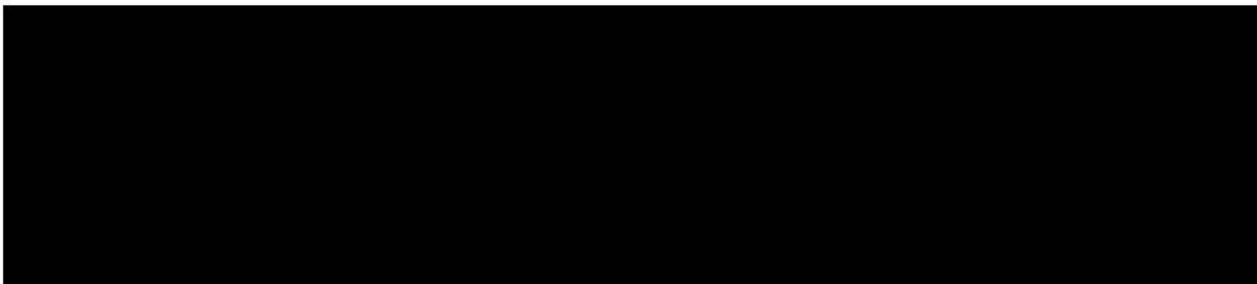
Debt issuance costs – Amortization of debt issuance costs is computed over the terms of the respective debt using the effective interest method. Total debt issuance costs amortized to interest expense was [REDACTED] and [REDACTED] for the year ended December 31, 2018 and 2017, respectively. Accumulated amortization was [REDACTED] and [REDACTED] for the year ended December 31, 2018 and 2017, respectively. Debt issuance costs are being amortized using the straight-line method over the life of the related loan.

Principal maturities of long term debt as of December 31, 2018 are as follows:

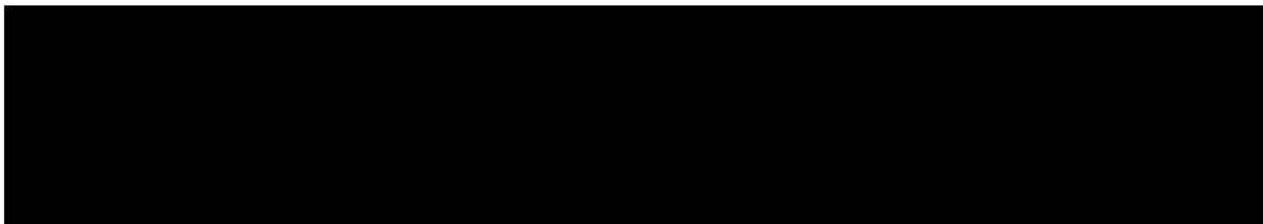
2019
2020
2021
2022
2023



Note 8 – Deferred Gain on Sale



Note 9 – Common Stock, Member Units, and Ownership Transaction



Avamere Group, LLC
Notes to Consolidated Financial Statements

Note 9 – Common Stock, Member Units, and Ownership Transaction (continued)

The Company has the following outstanding Membership Units:

	Avamere Group Membership Units			
	Class A	Class B	Class C	Total
Balance, December 31, 2016				
Units repurchased				
Balance, December 31, 2017				
Units repurchased				
Balance, December 31, 2018				

The following consolidated entities have authorized, issued and outstanding shares of stock as of December 31, 2018 and 2017 as follows:

	Stock Shares as of December 31, 2018			
	Authorized	Issued	Outstanding	Dollar Value
Peckham-Miller, Inc.				
Home Health Advantage, Inc.				
Balance as of December 31, 2018				

	Stock Shares as of December 31, 2017			
	Authorized	Issued	Outstanding	Dollar Value
Peckham-Miller, Inc.				
Home Health Advantage, Inc.				
Balance as of December 31, 2017				

All stock has zero par value.

Note 10 – Pension Plans

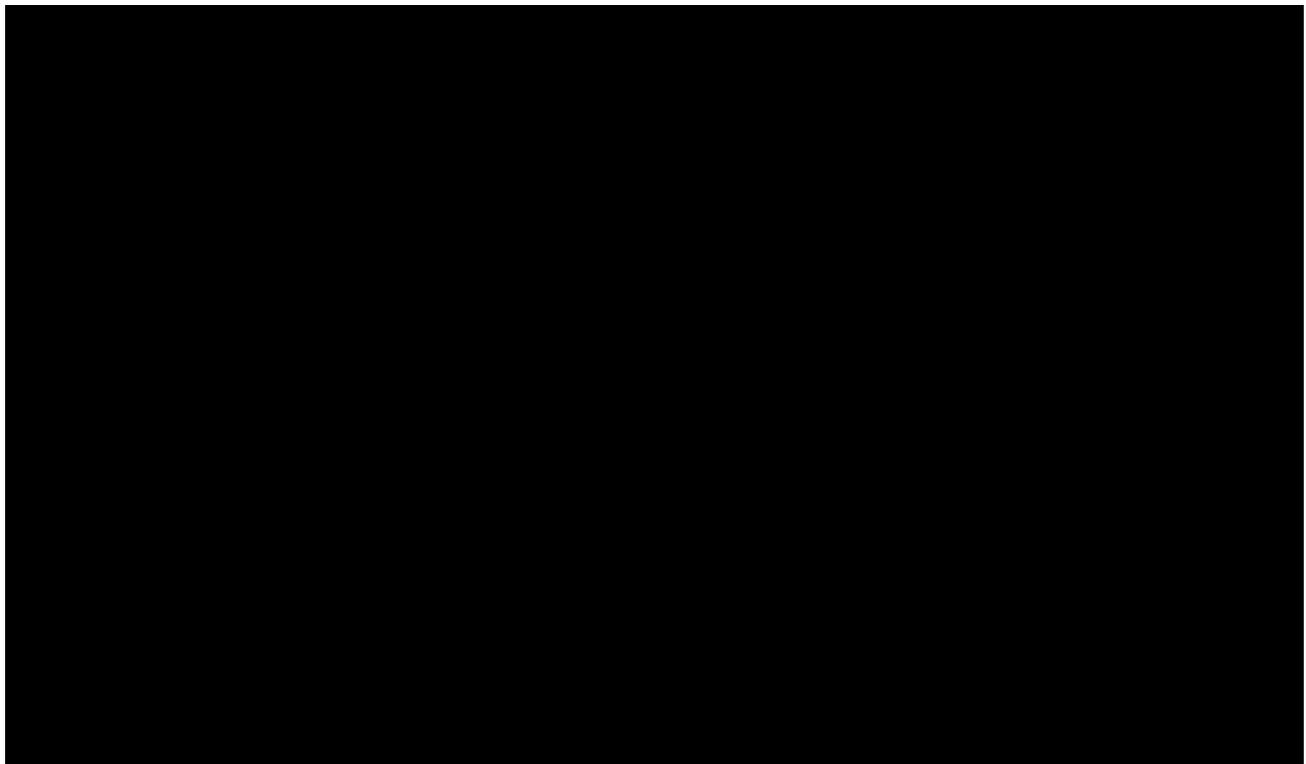
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Avamere Group, LLC
Notes to Consolidated Financial Statements

Note 10 – Pension Plans (continued)



Note 11 – Operating Leases



Avamere Group, LLC
Notes to Consolidated Financial Statements

Note 11 – Operating Leases (continued)

Estimated future minimum payments under the current operating leases at December 31, 2018 are as follows:

	Ventas and Sabra Master Leases	Other Leases	Total
2019	[REDACTED]		
2020			
2021			
2022			
2023			
Thereafter			
	-	=	

Note 12 – Commitments and Contingencies

Industry regulations – The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditations, government health care programs participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayment for patient services previously billed. Management believes the Company is in compliance with fraud and abuse as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions known or unasserted at this time.

Payments from Federal and State Health Care Programs – Entities doing business with governmental payors, including Medicare and Medicaid, are subject to risks unique to the government-contracting environment that are difficult to anticipate and quantify. Revenues are subject to adjustment as a result of examination by government agencies as well as auditors, contractors, and intermediaries retained by the federal, state, or local governments (collectively “Government Agents”). Resolution of such audits or reviews often extends (and in some cases does not even commence until) several years beyond the year in which services were rendered and/or fees received. In accordance with generally accepted accounting principles, to account for the uncertainty around governmental payor regulations and audits, the Company estimates the amount of revenue that will ultimately be received under these programs. The result of future examinations or audits could vary from these estimates.

Avamere Group, LLC

Notes to Consolidated Financial Statements

Note 12 – Commitments and Contingencies (continued)

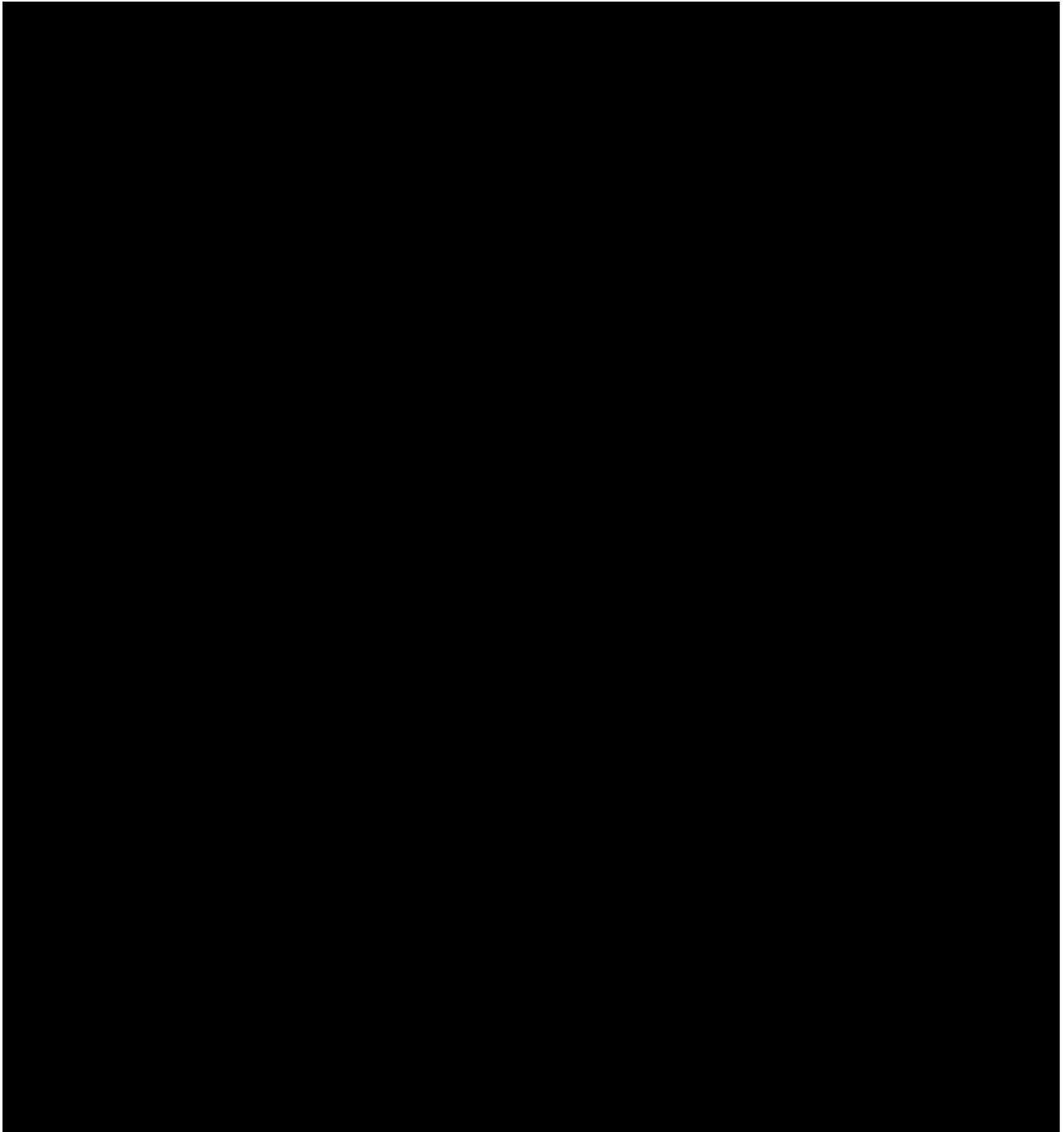
Litigation – Avamere and their related entities are party to various legal actions and administrative proceedings, and subject to various claims arising in the ordinary course of business. The Company does not believe that the ultimate disposition of these matters will have a material adverse effect on the financial position or results of operations.

The Company estimated the total gross liabilities and the related insurance recovery receivable as follows:

	December 31,	
	2018	2017
Estimated litigation liability – current		
Estimated litigation liability – long term		
Total estimated litigation liability		
Estimated insurance recoveries – current		
Estimated insurance recoveries – long term		
Total estimated insurance recoveries		
Estimated net litigation exposure		

Insurance –

Note 12 – Commitments and Contingencies (continued)



Avamere Group, LLC

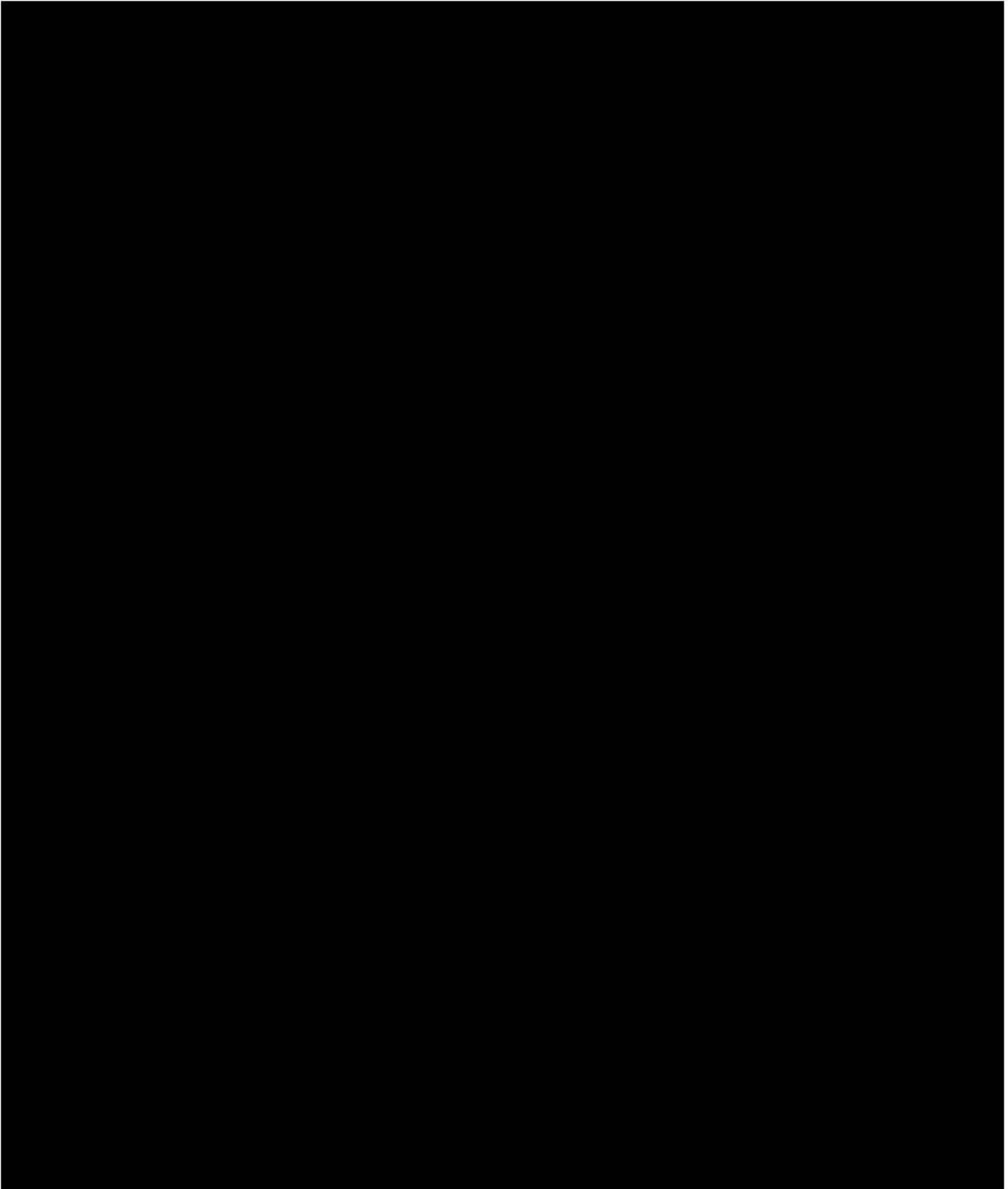
Notes to Consolidated Financial Statements

Note 13 – Business Consolidation

Consolidated variable interest entities – Generally accepted accounting principles require a reporting entity to consolidate a VIE when the reporting entity has a variable interest, or combination of variable interests, that provides it with a controlling financial interest in the VIE. The entity that consolidates a VIE is referred to as the primary beneficiary of that VIE. To determine if the Company should consolidate a VIE, management evaluates the Company's ownership and relationship to determine if they have a controlling financial interest. Variable interests may occur through contractual, ownership, or other financial interest in an entity whose value changes with changes in the fair value of the entity's net assets, exclusive of variable interests. The variable interest may be explicit or implicit. Explicit variable interests are those which directly absorb the variability of a VIE and can include contractual interests such as loans or guarantees as well as equity investments. An implicit variable interest acts the same as an explicit variable interest except it involves the absorbing of variability indirectly, such as through related-party arrangements or implicit guarantees. The analysis includes consideration of the design of the entity, its organizational structure, including decision making ability over the activities that most significantly impact the VIE's economic performance.

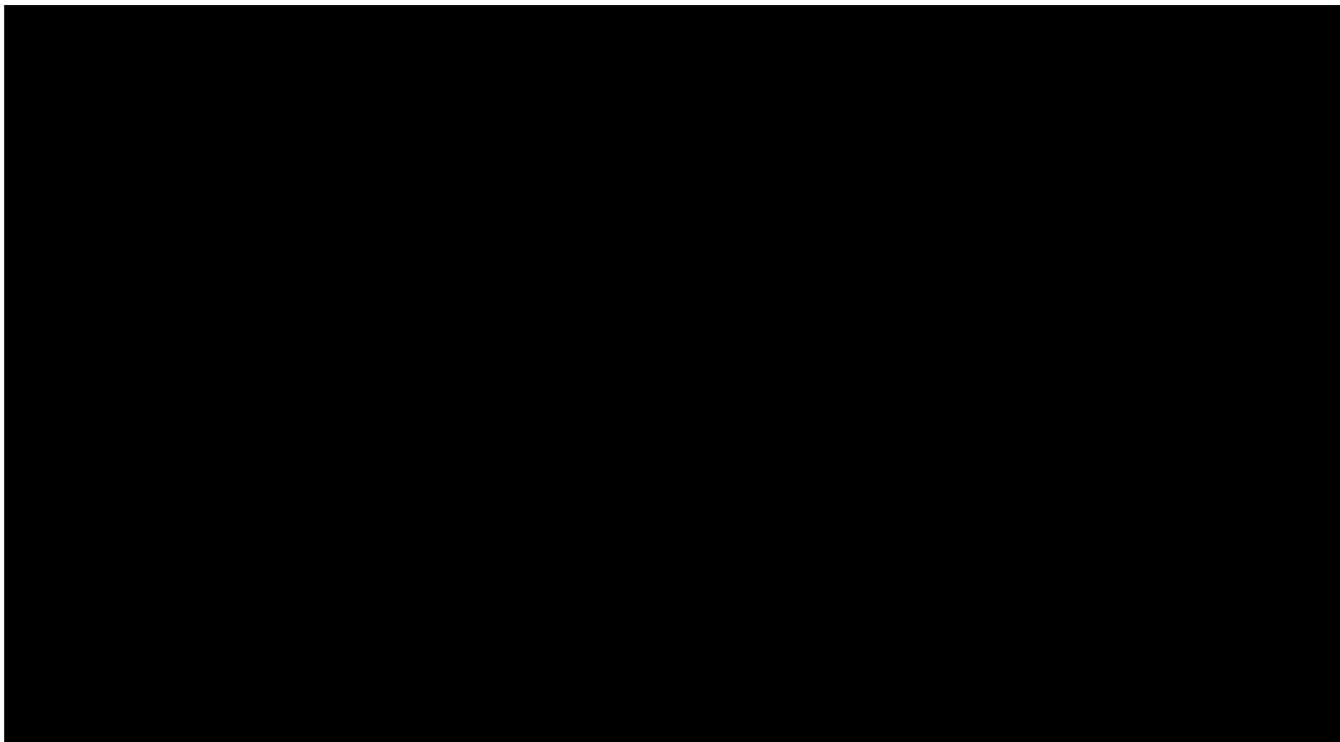
The Company identified Premere as a VIE and has concluded the Company is the primary beneficiary. The Company's consolidated equity is reflected as the controlling financial interest in the accompanying consolidated financial statements.

Note 14 – Acquisitions, Sales and Disposals

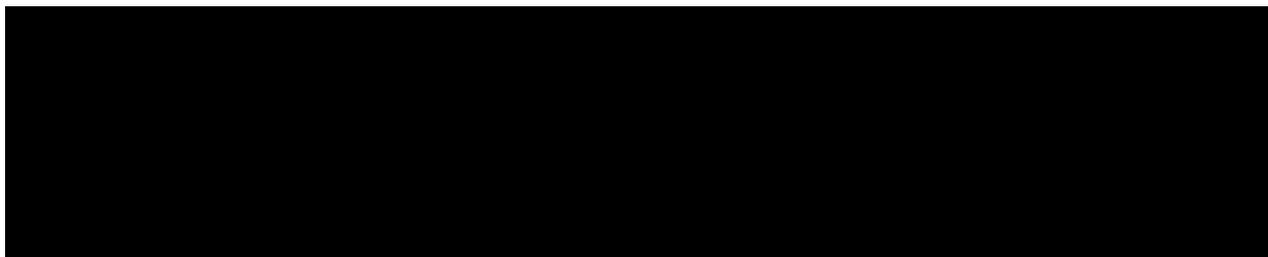


Avamere Group, LLC
Notes to Consolidated Financial Statements

Note 14 – Acquisitions, Sales and Disposals (continued)



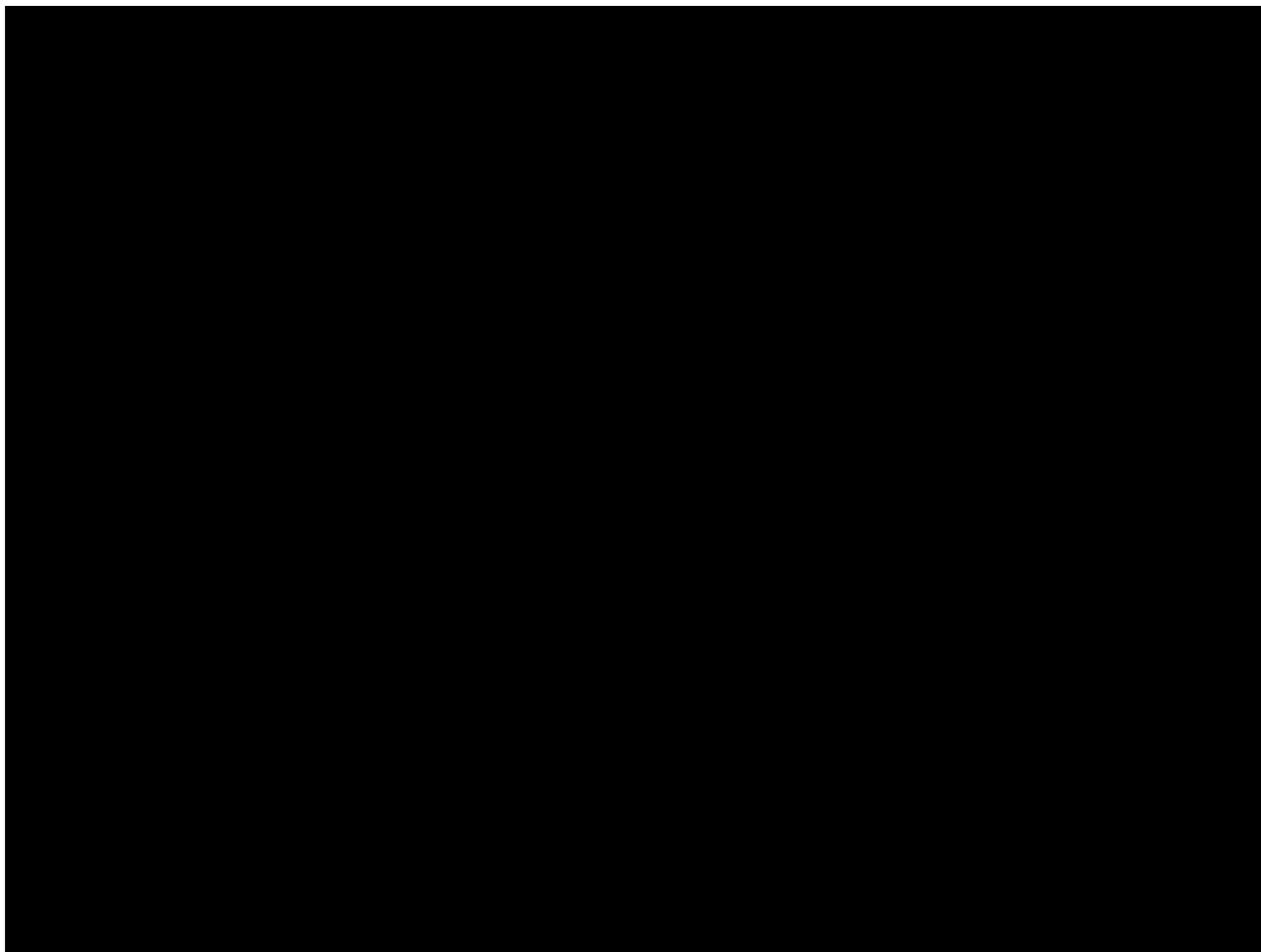
Note 15 – Related Party Transactions



Note 16 – Collective Bargaining Agreements

Certain entities' employees are covered by collective bargaining agreements. The agreement covering these employees are for the following entities and contract periods:

Beginning Ending



Approximately [REDACTED] of the Company's labor force is covered by a collective bargaining agreement as of December 31, 2018.

Avamere Group, LLC
Notes to Consolidated Financial Statements

Note 17 – Subsequent Events



Supplementary Information
(See Report of Independent Auditors)

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Avamere Group, LLC

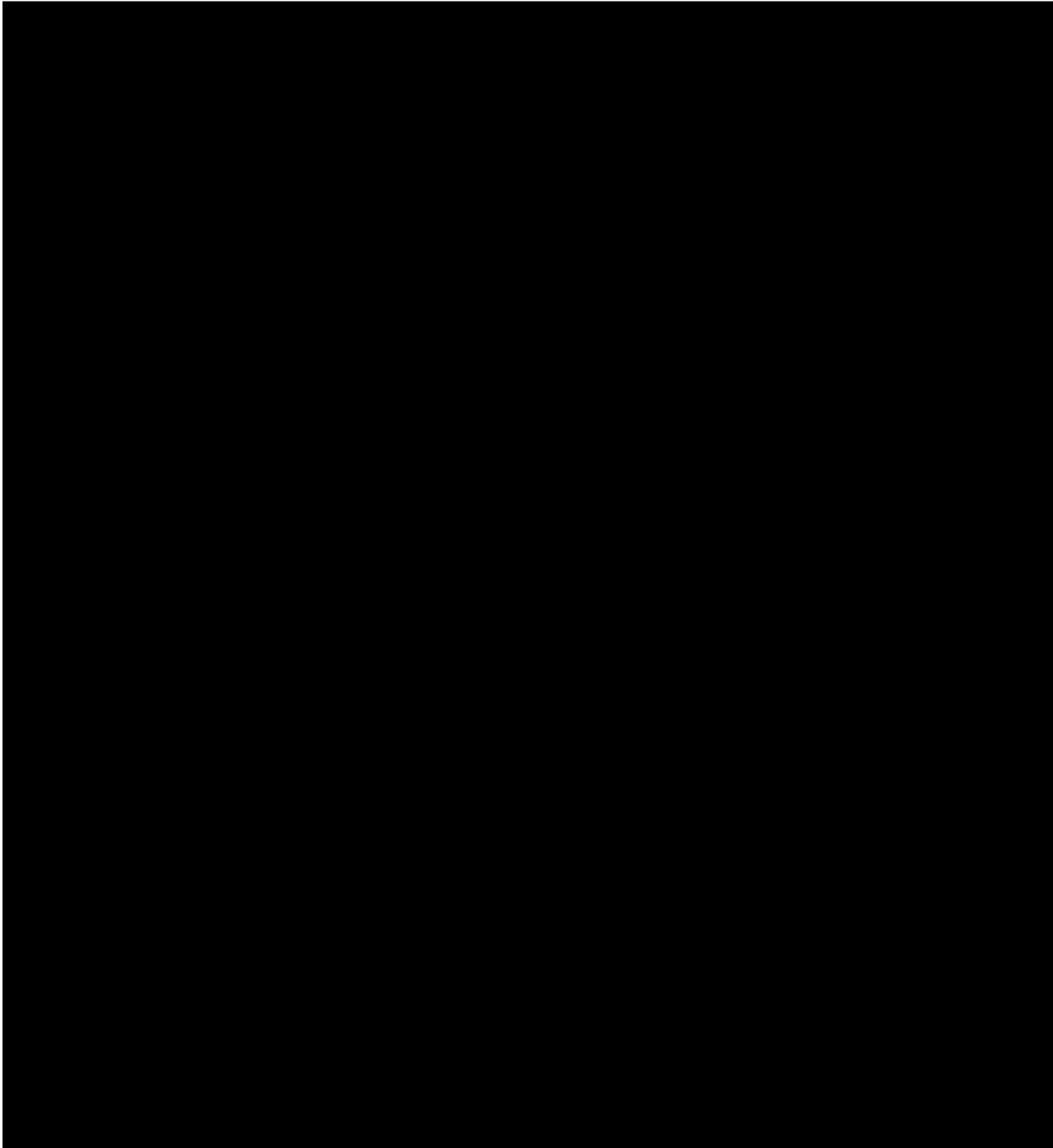
Consolidating Balance Sheet

December 31, 2018

	SNF OPERATIONS 12/31/18	CAMPUS OPERATIONS 12/31/18	CBC OPERATIONS 12/31/18	COMBINED SNF & CBC OPS TOTAL 12/31/18	REHAB OPERATIONS 12/31/18	HOME HEALTH OPERATIONS 12/31/18
Current Assets						
Cash						
Designated Cash						
Accounts Receivable						
Less Allowance for Bad Debt						
Other Accounts Receivable						
Due from Intercompany						
Current Portion of Note Receivable						
Current Portion of Insurance Recovery						
Inventory						
Prepaid Expenses						
Other Current Assets						
Total Current Assets						
Non Current Assets						
Land						
Buildings						
Leasehold Improvements						
Furniture, Fixtures & Equipment						
Vehicles						
Construction in Progress						
Accumulated Depreciation						
Total Property and Equipment						
Letter of Credit						
Intangible Assets						
Accumulated Amortization						
Goodwill						
Notes Receivable						
Insurance Recovery Receivable						
Investment in other entities						
Total Non Current Assets						
Total Assets						
Current Liabilities						
Lines of Credit						
Accounts Payable						
Accrued payroll, taxes and benefits						
Accrued business and property taxes						
Due to Intercompany						
Other Accrued Liabilities						
Current Portion of Litigation Reserve						
Current Portion Capital Leases						
Current Portion Long-Term Debt						
Current Portion Deferred Gain						
Current Portion Deferred Rent						
Total Current Liabilities						
Noncurrent Liabilities						
Litigation reserve						
Long Term Capital Leases						
Long Term Debt						
Long Term Deferred Gain						
Long Term Deferred Rent						
Total Long Term Liabilities						
Total Liabilities						
Equity						
Common Stock						
Members Equity						
Non-Controlling Equity						
Total Equity						
Total Liabilities and Shareholders Equity						

Avamere Group, LLC
Consolidating Balance Sheet
December 31, 2018

HOSPICE OPERATIONS 12/31/18	SIGNATURE PHARMACY 12/31/18	NP2U 12/31/18	MANAGEMENT OPERATIONS 12/31/18	POINT DEVELOPMENT 12/31/18	OTHER BUSINESSES 12/31/18	Sub-total pre-elim 12/31/18	ELIMINATIONS 12/31/18	CONSOLIDATED AVAMERE GROUP 12/31/18
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Avamere Group, LLC

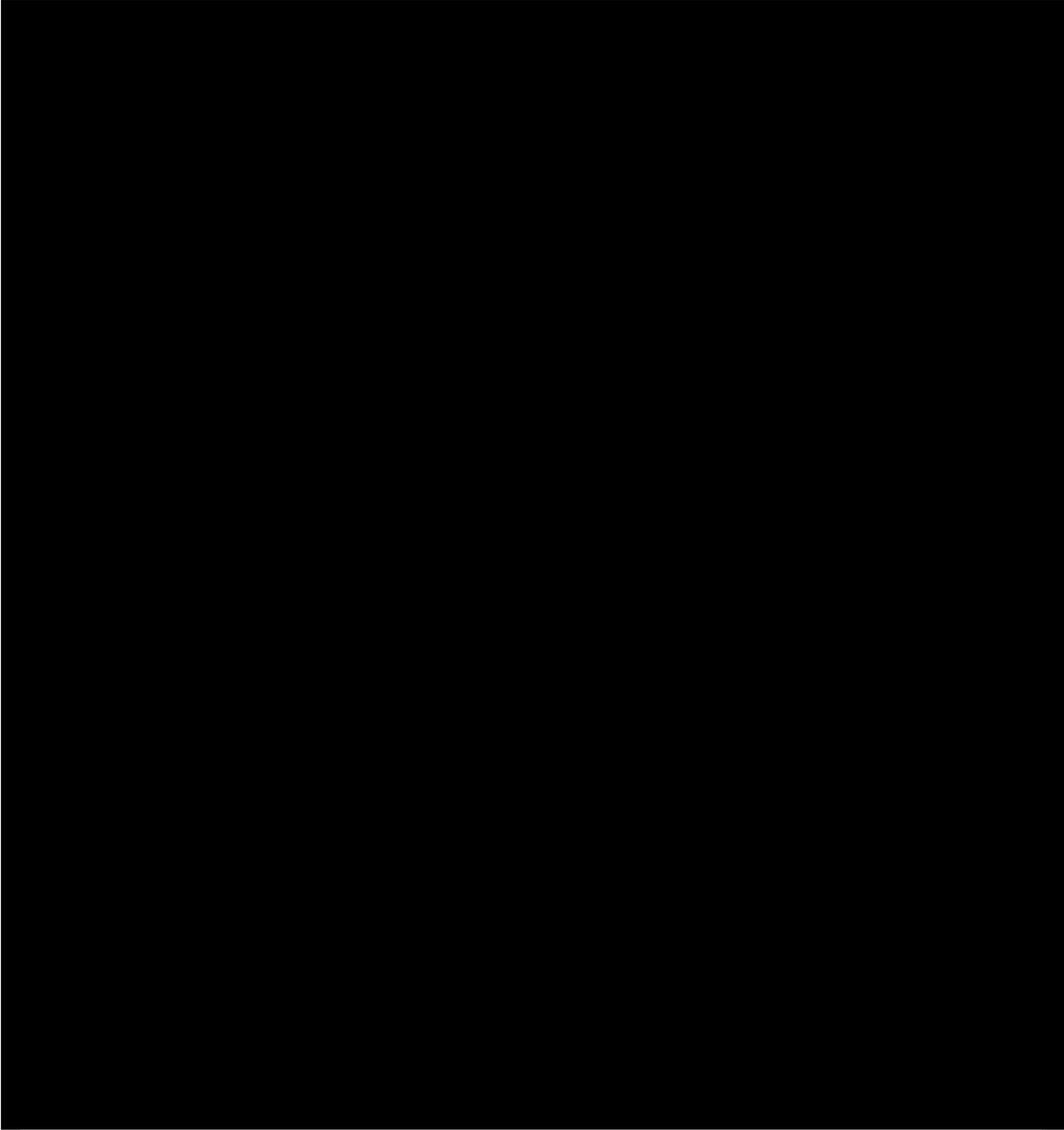
Consolidating Schedule of Income

Year Ending December 31, 2018

	SNF OPERATIONS 12/31/18	CAMPUS OPERATIONS 12/31/18	CBC OPERATIONS 12/31/18	COMBINED SNF & CBC Ops Total 12/31/18	REHAB OPERATIONS 12/31/18	HOME HEALTH OPERATIONS 12/31/18
OPERATING REVENUES						
Resident Care - Medicaid						
Resident Care - Third-party payors						
Resident Care - Medicare						
Resident Care - Private						
Resident Care - Veterans						
Miscellaneous Facility Revenue						
Resident Care Revenue						
Ancillary Revenue						
Provision for Bad Debts						
Management Fee Revenue						
Miscellaneous Revenue						
Development fee revenue						
Rental Income						
Net Operating Revenue						
OPERATING EXPENSES						
Ancillary Expense						
Nursing Services						
Administration						
Rent Expense						
Dietary						
Plant Operations						
Property Taxes & Insurances						
Housekeeping						
Depreciation and Amortization						
Social Services						
Interest						
Activities						
Laundry and Linen						
Medical Records						
Miscellaneous Expense						
Restorative Care						
Income Taxes						
Management Fees						
Total Operating Expenses						
NON-OPERATING REVENUES & EXPENSES						
Miscellaneous Revenue						
Investment Income						
Donations						
Recognition of deferred gain on sale of assets						
Loss on closure and sale of home health and hospice						
(Loss) gain on sale of assets						
Total Non-operating Revenue and Expense						
NET PROFIT (LOSS)						
Net Income Attributable to Non-Controlling Interest						
NET PROFIT (LOSS) Attributable to Avamere Group, L						
Plus Depreciation						
Plus Interest						
Plus Income Taxes						
EBITDA						
Plus Rent						
EBITDAR						

Avamere Group, LLC
Consolidating Schedule of Income
Year Ending December 31, 2018

HOSPICE OPERATIONS 12/31/18	SIGNATURE PHARMACY 12/31/18	NP2U 12/31/18	MANAGEMENT OPERATIONS 12/31/18	POINT DEVELOPMENT 12/31/18	OTHER BUSINESSES 12/31/18	ELIMINATIONS 12/31/18	ACTUAL CONSOLIDATED AVAMERE GROUP 12/31/18
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Avamere Group, LLC

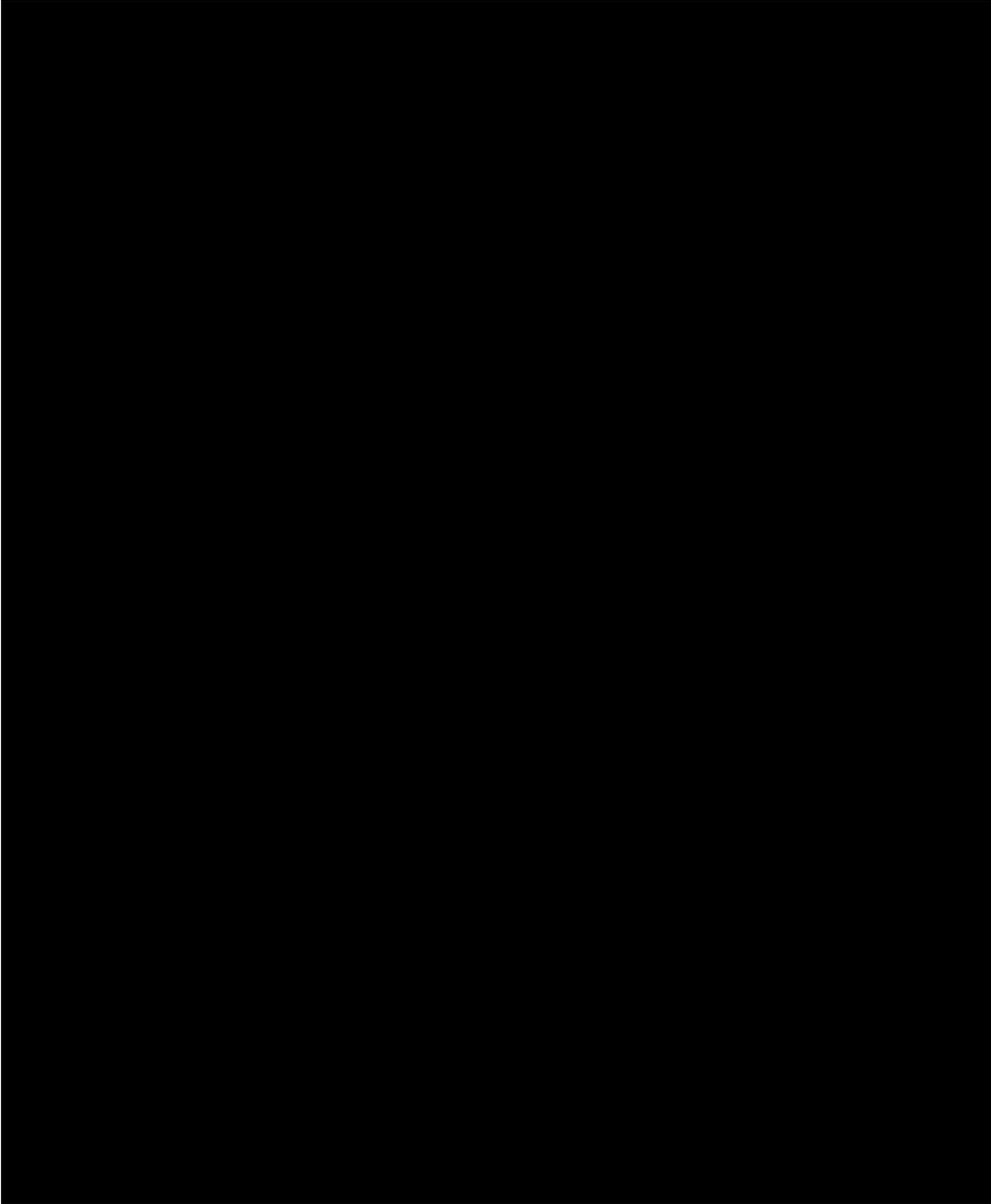
Consolidating Balance Sheet

December 31, 2017

	SNF OPERATIONS 12/31/17	CAMPUS OPERATIONS 12/31/17	CBC OPERATIONS 12/31/17	COMBINED SNF & CBC OPS TOTAL 12/31/17	REHAB OPERATIONS 12/31/17	HOME HEALTH OPERATIONS 12/31/17
Current Assets						
Cash						
Designated Cash						
Accounts Receivable						
Less Allowance for Bad Debt						
Other Accounts Receivable						
Due from Intercompany						
Current Portion of Note Receivable						
Current Portion of Insurance Recovery						
Inventory						
Prepaid Expenses						
Other Current Assets						
Total Current Assets						
Non-Current Assets						
Land and land improvements						
Buildings						
Leasehold Improvements						
Furniture, Fixtures & Equipment						
Vehicles						
Construction in Progress						
Accumulated Depreciation						
Total Property and Equipment						
Letter of Credit						
Intangible Assets						
Accumulated Amortization						
Goodwill						
Notes Receivable						
Insurance Recovery Receivable						
Investment in other entities						
Total Non Current Assets						
Total Assets						
Current Liabilities						
Lines of Credit						
Accounts Payable						
Accrued payroll, taxes and benefits						
Accrued business and property taxes						
Other Accrued Liabilities						
Current Portion of Litigation Reserve						
Current Portion Capital Leases						
Current Portion Long Term Debt						
Current Portion Deferred Gain						
Current Portion of Deferred Rent						
Due to Intercompany						
Total Current Liabilities						
Non-Current Liabilities						
Litigation reserve						
Long Term Capital Leases						
Long Term Debt						
Long Term Deferred Gain						
Deferred Rent						
Total Long Term Liabilities						
Total Liabilities						
Equity						
Common Stock						
Members Equity						
Non-Controlling Equity						
Total Equity						
Total Liabilities and Shareholders Equity						

Avamere Group, LLC
Consolidating Balance Sheet
December 31, 2017

HOSPICE OPERATIONS 12/31/17	SIGNATURE PHARMACY 12/31/17	NP2U 12/31/17	MANAGEMENT OPERATIONS 12/31/17	OTHER BUSINESSES 12/31/17	Sub-total pre-elim 12/31/17	ELIMINATIONS 12/31/17	CONSOLIDATED AVAMERE GROUP 12/31/17
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Avamere Group, LLC

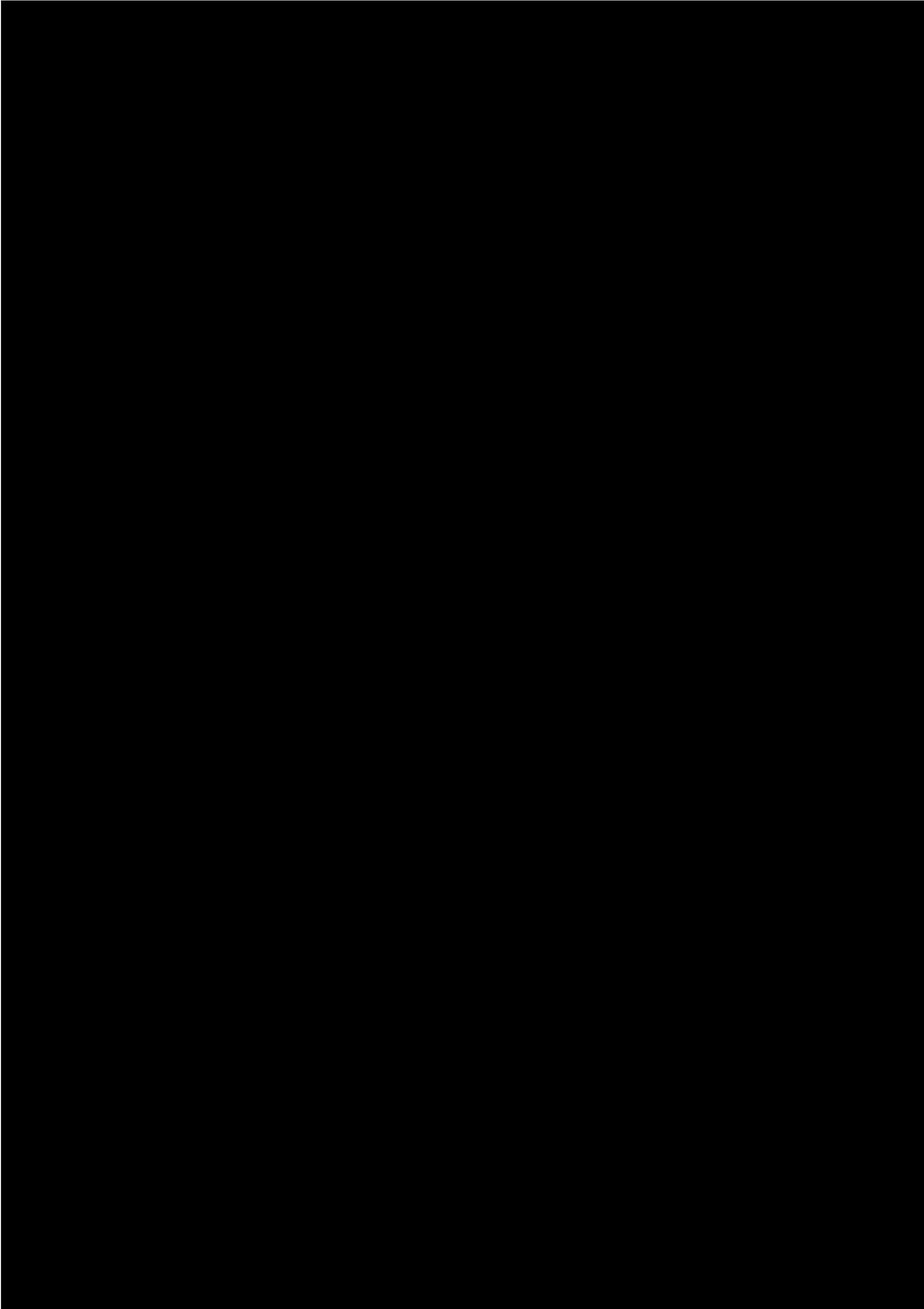
Consolidating Schedule of Income

Year Ending December 31, 2017

	SNF OPERATIONS 12/31/17	CAMPUS OPERATIONS 12/31/17	CBC OPERATIONS 12/31/17	COMBINED SNF & CBC OPS TOTAL 12/31/17	REHAB OPERATIONS 12/31/17	HOME HEALTH OPERATIONS 12/31/17
OPERATING REVENUES						
Resident Care - Medicaid						
Resident Care - Third-party payors						
Resident Care - Medicare						
Resident Care - Private						
Resident Care - Veterans						
Miscellaneous Facility Revenue						
Resident Care Revenue						
Ancillary Revenue						
Provision for Bad Debts						
Management Revenue						
Miscellaneous Revenue						
Rental Income						
Net Operating Revenue						
OPERATING EXPENSES						
Ancillary Expense						
Nursing Services						
Administration						
Rent Expense						
Dietary						
Plant Operations						
Property Taxes & Insurances						
Housekeeping						
Depreciation and Amortization						
Social Services						
Interest						
Activities						
Laundry and Linen						
Medical Records						
Miscellaneous Expense						
Restorative Care						
Income Taxes						
Impairment of Intangible Assets						
Management Fees						
Cost Report Settlements						
Total Operating Expenses						
NON-OPERATING REVENUES & EXPENSES						
Miscellaneous Revenue						
Miscellaneous Expenses						
Investment Income						
Donations						
Recognition of Deferred Gain on Sale of Assets						
Gain on Sale of Investments in Other Entities						
Gain (loss) on Sale of Assets						
Total Non-operating Revenue and Expense						
NET PROFIT (LOSS)						
Net Income Attributable to Non-Controlling Interest						
NET PROFIT (LOSS) Attributable to Avamere Group, LLC						
Plus Depreciation						
Plus Interest						
Plus Income Taxes						
EBITDA						
Plus Rent						
EBITDAR						

Avamere Group, LLC
Consolidating Schedule of Income
Year Ending December 31, 2017

HOSPICE OPERATIONS 12/31/17	SIGNATURE PHARMACY 12/31/17	NP2U 12/31/17	MANAGEMENT OPERATIONS 12/31/17	OTHER BUSINESSES 12/31/17	ELIMINATIONS 12/31/17	ACTUAL CONSOLIDATED AVAMERE GROUP 12/31/17
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MOSSADAMS



REPORT OF INDEPENDENT AUDITORS AND
CONSOLIDATED FINANCIAL STATEMENTS WITH
SUPPLEMENTARY INFORMATION

AVAMERE GROUP, LLC

December 31, 2017 and 2016

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Report of Independent Auditors

The Shareholders and Members of
Avamere Group, LLC

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Avamere Group, LLC, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of income, statements of shareholders' and members' equity/deficit, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Avamere Group, LLC as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion of the consolidated financial statements as a whole. The consolidating schedules in the supplementary information are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and are not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations, and cash flows for the individual companies.

The consolidating schedules are the responsibility of management and were derived from and relate to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating schedules have been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidating schedules or to the consolidating schedules themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating schedules are fairly stated in all material respects in relation to the consolidated financial statements as a whole.

A handwritten signature in blue ink that reads "Moss Adams LLP". The signature is written in a cursive, flowing style.

Portland, Oregon
March 21, 2018

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Avamere Group, LLC

Consolidated Balance Sheets

ASSETS

December 31,

2017

2016

CURRENT ASSETS

Cash and cash equivalents (a)
 Designated cash
 Accounts receivable, net of allowance for bad debt of
 [REDACTED]
 Other accounts receivable
 Current portion of notes receivable
 Current portion of insurance recovery receivable
 Inventory
 Prepaid expenses
 Other current assets

Total current assets

PROPERTY AND EQUIPMENT

Land and land improvements
 Buildings
 Leasehold improvements
 Furniture, fixtures, and equipment
 Vehicles
 Construction in progress

Accumulated depreciation and amortization

Total property and equipment

OTHER ASSETS

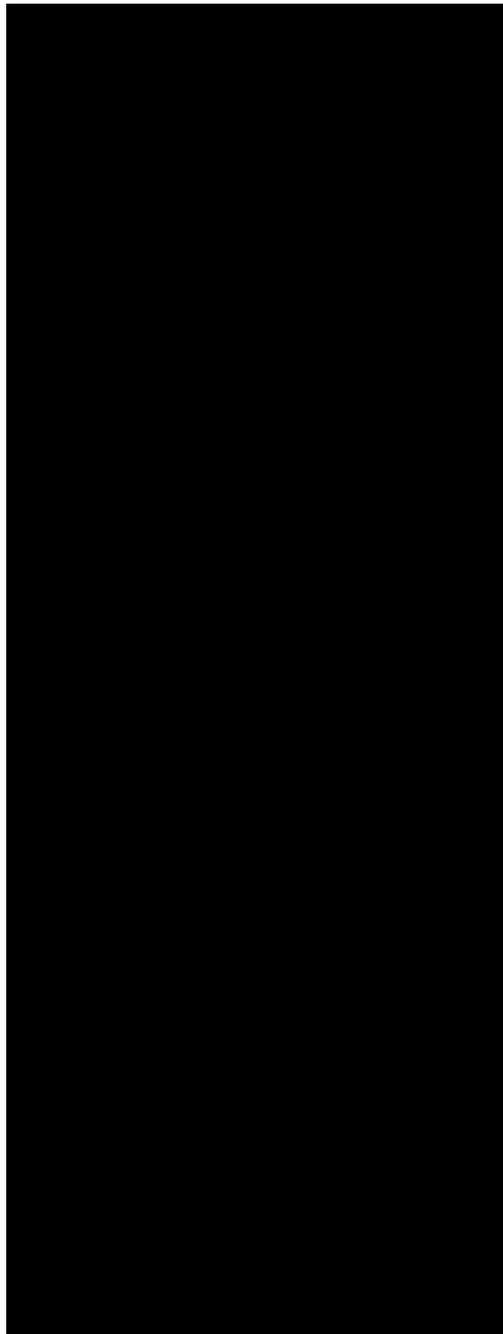
Letters of credit
 Intangible assets, net of accumulated amortization
 of [REDACTED]
 Goodwill
 Land held for future development
 Notes receivable, net of current portion
 Insurance recovery receivable, net of current portion
 Investment in other entities

Total other assets

Total assets

(a) As of December 31, 2017 and 2016, the assets listed above include amounts from Premere Rehab, LLC (consolidated variable interest entity) as follows:

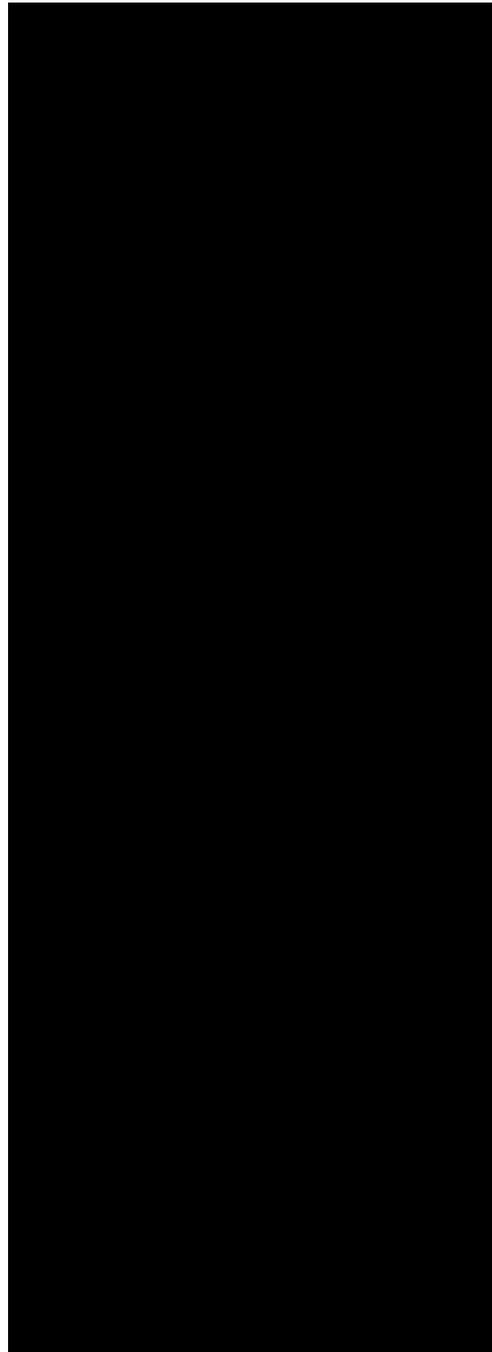
Cash and cash equivalents
 Accounts receivable, net
 Intangibles, net



Avamere Group, LLC
Consolidated Balance Sheets

LIABILITIES AND SHAREHOLDERS' AND MEMBERS' DEFICIT

	December 31,	
	2017	2016
CURRENT LIABILITIES		
Lines of credit (b)		
Accounts payable		
Accrued payroll, taxes and benefits (b)		
Accrued business and property taxes		
Other accrued liabilities		
Current portion of litigation reserve		
Current portion of capital leases		
Current portion of long term debt, net of deferred loans fees of [REDACTED]		
Current portion of deferred gain on sale		
Total current liabilities		
LONG TERM DEBT AND OTHER LIABILITIES		
Litigation reserve, net of current portion		
Capital leases, net of current portion		
Long term debt, net of current portion and deferred loan fees of \$ [REDACTED]		
Deferred gain on sale, net of current portion		
Deferred rent		
Total long term debt and other liabilities		
Total liabilities		
SHAREHOLDERS' AND MEMBERS' EQUITY/DEFICIT		
Common stock		
Retained earnings/members' equity/deficit		
Total equity attributable to Avamere Group, LLC		
Non-controlling interest		
Total shareholders' and members' equity/deficit		
Total liabilities and shareholders' and members' equity/deficit		
(b) As of December 31, 2017 and 2016, the liabilities listed above include amounts from Premere Rehab, LLC (consolidated variable interest entity) as follows:		
Lines of credit		
Accrued payroll, taxes and benefits		



Avamere Group, LLC

Consolidated Statements of Income

	Years Ended December 31,	
	2017	2016
OPERATING REVENUE		
Resident care – Medicare		
Resident care – Medicaid		
Resident care – Private		
Resident care – Third-party payors		
Resident care – Veteran		
Miscellaneous facility revenue		
Resident care revenue		
Therapy		
Home health/home care		
Hospice		
Management operations		
Nurse practitioner		
Ancillary revenue		
Provision for bad debts		
Rental income		
Management revenue		
Miscellaneous revenue		
Total other operating revenue		
Net operating revenue		
OPERATING EXPENSES		
Ancillary expense		
Nursing services		
Administration		
Rent		
Dietary		
Plant operations and maintenance		
Property taxes and insurance		
Housekeeping		
Depreciation and amortization		
Interest		
Social services		
Activities		
Laundry and linen		
Medical records		
Restorative care		
Miscellaneous expense		
Impairment of intangible assets		
Income taxes		
Total operating expenses		

Avamere Group, LLC
Consolidated Statements of Income

	<u>Years Ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
NON-OPERATING REVENUE AND EXPENSES		
Miscellaneous revenue		
Miscellaneous expense		
Investment income		
Donations		
Recognition of deferred gain on sale of assets		
Gain on sale of investments in other entities		
Gain (loss) on disposal of property and equipment		
Total non-operating revenue and expenses		
NET INCOME		
NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTEREST		
NET INCOME ATTRIBUTABLE TO AVAMERE GROUP, LLC		



Avamere Group, LLC
Consolidated Statements of Shareholders' and Members' Equity/Deficit

	<u>Common Stock</u>	<u>Retained Earnings/ Members' Equity/Deficit</u>	<u>Non-controlling Interest</u>	<u>Total</u>
Beginning balance, January 1, 2016				
Contributions				
Distributions/draws				
Net income				
Ending balance, December 31, 2016				
Contributions				
Distributions/draws				
Net income				
Ending balance, December 31, 2017				

Avamere Group, LLC

Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income		
Adjustments to reconcile net income to net cash from operating activities		
Provision for bad debt		
Depreciation and amortization		
Investment income		
Donation of land held for future development		
Recognition of deferred gain on sale of assets		
Gain on sale of investments in other entities		
Impairment of intangible asset		
Gain (Loss) on sale of property and equipment		
Loss on abandoned projects		
Interest earned on letter of credit		
Deferred rent		
Amortization of debt issuance costs		
Changes in assets and liabilities		
Designated cash		
Accounts receivable		
Other accounts receivable		
Insurance recovery receivable		
Inventory		
Prepaid expenses		
Other current assets		
Other assets		
Accounts payable		
Accrued payroll, taxes and benefits		
Accrued business and property taxes		
Other accrued liabilities		
Litigation reserve		
Net cash from operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale of investments in other entities		
Purchase of property and equipment		
Purchase of intangible assets		
Net cash from investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings on note receivable		
Payments received on notes receivable		
Borrowings on long-term debt		
Payments on long-term debt		
Deposits on letters of credit		
Net activity on lines of credit		
Payments on capital leases		
Contribution		
Distributions/draws		
Net cash from financing activities		

Avamere Group, LLC
Consolidated Statements of Cash Flows

CHANGE IN CASH AND CASH EQUIVALENTS

CASH AND CASH EQUIVALENTS, beginning of year

CASH AND CASH EQUIVALENTS, end of year

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

 Cash paid for interest

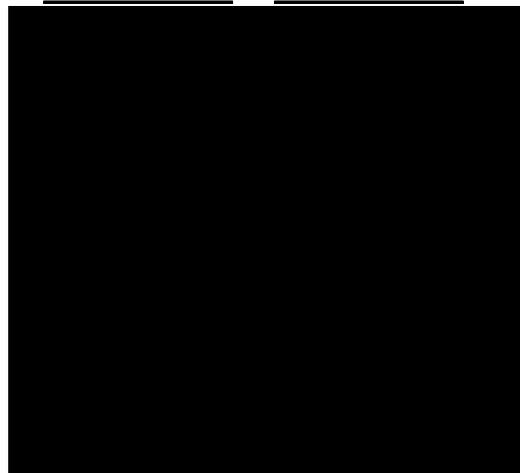
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES

 Purchase of Bremerton in 2016

 Increase in net property and equipment

 Increase in non-controlling interest

Years Ended December 31,
2017 2016



Avamere Group, LLC

Notes to Consolidated Financial Statements

Note 1 – Business and Organization

Avamere Group, LLC (Avamere or the Company) provides a spectrum of healthcare solutions for seniors within 44 communities throughout Oregon, Washington, Idaho, and Colorado. Avamere provides seniors the dignity of choice of quality care services in settings that best meet their needs and preferences through its home health, independent living, assisted living, skilled nursing, memory care, rehabilitation therapy, hospice and nurse practitioner businesses. Avamere’s mission is “To enhance the life of everyone we serve.” Avamere continues to expand the range of services community by community through acquisition, expansion of service businesses, as well as development and construction of new facilities.

The following entities are included in the consolidated financial statements:

TYPE	LEGAL NAME	LOCATION
MANAGEMENT COMPANIES		
	Avamere Health Services, LLC	Wilsonville, OR
	Avamere Skilled Advisors, LLC	Wilsonville, OR
HOLDING COMPANIES		
	Avamere Group, LLC	Wilsonville, OR
	ARI, LLC	Wilsonville, OR
	ARI Operations, LLC	Wilsonville, OR
	ASR Northwest, LLC	Wilsonville, OR
	ACR Northwest, LLC	Wilsonville, OR
	ARISO, LLC	Wilsonville, OR
	ARI CBC, LLC	Wilsonville, OR
	MWMD Pharmacy Holdings, LLC	Wilsonville, OR
CAMPUS FACILITIES OPERATIONS (Campus)		
	Waterford Operations, LLC	Medford, OR
	Keizer Campus Operations, LLC	Keizer, OR
	Avamere Lake Oswego Operations Investors, LLC	Lake Oswego, OR
COMMUNITY BASED CARE FACILITIES OPERATIONS (CBC)		
	Albany Operations, LLC (Management contract begins 2/1/18)	Albany, OR
	Avamere Bethany Cottages Operations, LLC	Portland, OR
	Avamere Bethany Operations, LLC	Portland, OR
	Avamere Gable Road Cottages Operations, LLC	St. Helens, OR
	Avamere Hillsboro Cottages Operations, LLC	Hillsboro, OR
	Avamere Hillsboro Operations, LLC	Hillsboro, OR
	Avamere Sandy Operations, LLC	Sandy, OR
	Avamere Sherwood Operations, LLC	Sherwood, OR
	Avamere St. Helens Operations, LLC	St. Helens, OR
	Avamere Stafford Operations, LLC	Lake Oswego, OR

Avamere Group, LLC

Notes to Consolidated Financial Statements

Note 1 – Business and Organization (continued)

TYPE	LEGAL NAME	LOCATION
COMMUNITY BASED CARE FACILITIES OPERATIONS (CBC) - continued		
	Berry Park Villas Operations, LLC	Oregon City, OR
	Bremerton MC Operations, LLC (Opened November 2017)	Bremerton, WA
	Cascadia Village Operations, LLC (Management contract begins 2/1/18)	Sandy, OR
	East Wenatchee Operations, LLC (Management contract begins 2/1/18)	Wenatchee, WA
	Forest Drive Operations, LLC	Seaside, OR
	Gaffney Operations, LLC	Oregon City, OR
	Genesis Newberg Operations Co, LLC	Newberg, OR
	Keizer River Operations, LLC	Keizer, OR
	Necanicum Operations, LLC	Seaside, OR
	Port Townsend Operations, LLC (Management contract begins 2/1/18)	Port Townsend, WA
	Roseburg Operations, LLC (Management contract begins 2/1/18)	Roseburg, OR
SKILLED NURSING FACILITIES OPERATIONS (SNF)		
	Beaverton Rehab & Specialty Care, LLC	Beaverton, OR
	Bellingham Operations, LLC	Bellingham, WA
	Boise Operations, LLC	Boise, ID
	Brighton Operations, LLC	Brighton, CA
	Clackamas Rehabilitation, LLC	Clackamas, OR
	Coos Bay Rehabilitation, LLC	Coos Bay, OR
	Crestview Operations, LLC	Portland, OR
	Eugene Rehabilitation, LLC	Eugene, OR
	Georgian Rehab, LLC	Tacoma, WA
	Heritage Rehab, LLC	Tacoma, WA
	Junction City Rehabilitation, LLC	Junction City, OR
	King City Rehab, LLC	Tigard, OR
	Lebanon Care Center, LLC	Lebanon, OR
	Medford Operations, LLC	Medford, OR
	Mountain View Rehab, LLC	Oregon City, OR
	Newport Rehabilitation, LLC	Newport, OR
	Northglenn Operations, LLC	Northglenn, CO
	Ohana Harmony House, LLC	Bend, OR
	Peckham-Miller, Inc.	Hillsboro, OR
	Richmond Beach Rehab, LLC	Richmond Beach, WA
	Riverpark Operations, LLC	Eugene, OR
	Seattle Operations, LLC	Seattle, WA
	Sequim Rehabilitation, LLC	Sequim, WA
	South Salem Rehabilitation, LLC	Salem, OR
	St. Francis Operations, LLC	Bellingham, WA
	Sunnyside Operations, LLC	Salem, OR
	Tacoma Rehab, LLC	Tacoma, WA
	Twin Oaks Rehab, LLC	Sweet Home, OR
	Vancouver Operations, LLC	Vancouver, WA

Avamere Group, LLC

Notes to Consolidated Financial Statements

Note 1 – Business and Organization (continued)

TYPE	LEGAL NAME	LOCATION
PROPERTY ENTITIES		
	Avamere Gable Road Cottages II, LLC *	St. Helens, OR
	Bell Street Properties, LLC *	Tacoma, WA
	Boone Road Properties, LLC	Salem, OR
	Eugene Chambers Properties, LLC *	Eugene, OR
	Gaffney Investors 2, LLC *	Oregon City, OR
	Gaffney Investors I, LLC *	Oregon City, OR
	Gladstone Properties, LLC	Gladstone, OR
	MDN Gladstone, LLC	Gladstone, OR
	Olympic Meadows, LLC *	Sequim, WA
	Redmond 97 Lot 200, LLC *	Redmond, OR
	Sandy Villas, LLC *	Sandy, OR
	27th Street Properties, LLC	Bend, OR
	Bremerton MC Properties, LLC	Bremerton, WA
	* These properties were donated to charitable organizations during 2017	
ANCILLARY AND OTHER ENTITIES		
	A-One Home Health Services, Inc.	Wilsonville, OR
	Avamere ALF Operations, LLC	Wilsonville, OR
	Avamere Home Health Care, LLC	Wilsonville, OR
	Avamere Rehab Services, LLC	Wilsonville, OR
	Home Health Advantage, Inc.	Wilsonville, OR
	MWMD Pharmacy Solutions 2, LLC	Wilsonville, OR
	NP2U, LLC	Wilsonville, OR
	Northwest Ancillary Investors, LLC	Wilsonville, OR
	Northwest Hospice, LLC	Wilsonville, OR
	Premere Rehab, LLC	Wilsonville, OR
	Prime Home Health, Inc.	Wilsonville, OR
	Point Development Company, LLC	Wilsonville, OR

Note 2 – Summary of Significant Accounting Policies

Basis of accounting

The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Principals of consolidation

The consolidated financial statements include the accounts of the Company and all of its wholly-owned and majority-owned subsidiaries. The Company follows authoritative guidance on the Consolidation of Variable Interest Entities (VIE), which addresses consolidation by business enterprises of VIE. The Company has considered its agreements and business activities with related parties in order to determine whether any of the relationships qualify as VIE and whether the Company would be deemed to be the primary beneficiary and be required to consolidate the activities of the VIE in the Company's consolidated financial statements. All significant inter-company balances and transactions have been eliminated in consolidation.

Avamere Group, LLC

Notes to Consolidated Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Variable interest entities

Generally accepted accounting principles require a qualitative approach to identifying a controlling financial interest in a VIE and requires an ongoing assessment of the primary beneficiary of the VIE based on an evaluation to determine whether an entity has: (a) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance, and (b) the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. In determining whether an entity has the power to direct the activities of the VIE that most significantly affect the VIE's performance, the guidance requires a reporting entity to assess whether it has an implicit financial responsibility to ensure that a VIE operates as designed. The guidance also requires: (a) separate presentation on the face of the statement of financial position of certain assets and liabilities of a consolidated VIE, (b) disclosure of the significant judgments and assumptions made by an enterprise in its determination as to whether or not the enterprise is the primary beneficiary of a VIE, and (c) additional expanded disclosures regarding the enterprise's involvement with a VIE.

Non-controlling interests

The Company reports its non-controlling interests as a separate component of shareholders' and members' equity. The Company also presents the consolidated net income and the portion of the consolidated net income allocable to the non-controlling interests and to the shareholders or members of the Company separately in its consolidated statements of income. In addition, losses applicable to the non-controlling interest are allocated to the non-controlling interest even when those losses are in excess of the non-controlling interests' investment basis.

Use of estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include accounts receivable allowance for bad debt, allowance for contractual adjustments, depreciation lives, valuation of goodwill and intangible assets, self-insured medical claims incurred but not reported, and litigation reserve.

Cash and cash equivalents

The Company considers all highly-liquid investment securities purchased with a maturity of three months or less to be cash equivalents. The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company monitors the credit ratings of the financial institutions in which they hold accounts and has not experienced any losses in such accounts.

Designated cash

The Company has restricted cash for resident trust funds. The resident trust liability is included in accounts payable on the balance sheet. Total resident trust cash and related liability was approximately [REDACTED] as of December 31, 2017 and 2016, respectively.

Note 2 – Summary of Significant Accounting Policies (continued)

Concentrations of credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. The Company maintains its cash balances in commingled accounts with entities having common ownership.

Accounts receivable

The Company grants credit in the normal course of business to private individuals, other businesses, governmental agencies, and insurance companies. The Company performs ongoing credit evaluations and generally does not require collateral. The Company receives payment for services rendered from private pay payors, Medicare and Medicaid programs, Veterans Administration, and third-party payors. Management does not believe there are any credit risks associated with receivables from governmental agencies. Private and other receivables consist of receivables from a large number of payors involved in diverse activities and subject to differing economic conditions, which do not represent any concentrated credit risks to the Company.

Accounts receivable are reduced by an allowance for doubtful accounts and contractual adjustments. In evaluating the collectability of accounts receivable, management analyzes its history and identifies trends to estimate the appropriate allowance for doubtful accounts and provision for bad debts.

For receivables associated with self-pay residents (which includes both residents without insurance and residents with deductible and copayment balances due for which third-party and government coverage exists for part of the bill), the Company records a provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off to provision for bad debt.

The Company also has receivable balances from unrelated third-party entities for services provided by the ancillary entities. The Company assesses the collectability of these accounts based upon historical collections, and known financial issues with the customers. The Company records a provision for bad debts in the period of service based upon this information.

Management regularly monitors and adjusts its reserves and allowances related to these receivables. Interest is charged on accounts at the discretion of management. The Company's allowance for bad debt was approximately [REDACTED] as of December 31, 2017 and 2016, respectively. In addition, the Company's bad debt provision expense was approximately [REDACTED] for the years ended December 31, 2017 and 2016, respectively. There was no change in the methodology used by the Company to estimate the allowance for contractual adjustments and bad debt provision in the current year.

Avamere Group, LLC
Notes to Consolidated Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

The mix of receivables as of December 31, 2017 and 2016 is as follows:

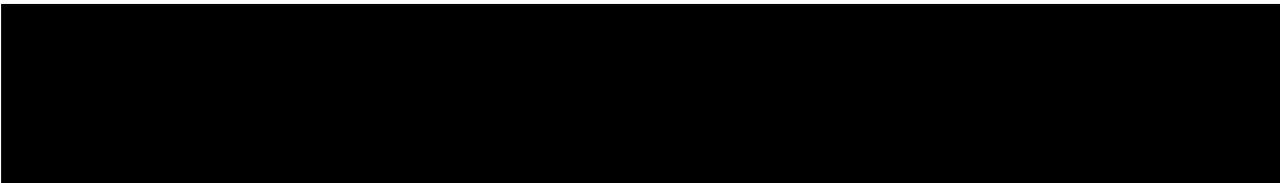
	<u>2017</u>	<u>2016</u>
Private	[REDACTED]	
Other third-party payers		
Medicare		
Medicaid		
Veterans		
	<u>100%</u>	<u>100%</u>

Inventory

Inventory consists of supplies and is stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

Other assets

Other current assets are comprised of deposits, funds held in escrow, property taxes, insurance reserves, and other miscellaneous investments.



Property and equipment

Property and equipment acquisitions are recorded at cost. Major renewals or improvements over \$750 are capitalized, whereas ordinary maintenance and repairs are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows: leasehold improvements and equipment under capital lease – the shorter of the useful life of the assets or length of the lease; furniture, fixture and equipment – 3 to 20 years; and buildings – 27.5 years. Depreciation expense for property and equipment was approximately [REDACTED] for the years ended December 31, 2017 and 2016, respectively.

Note 2 – Summary of Significant Accounting Policies (continued)

Impairment of long-lived assets

The Company assesses long-lived assets for impairment in accordance with the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 360 “Property, Plant and Equipment.” A long-lived asset (asset group) shall be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted net cash flows expected to result from the use and eventual disposition of the asset. The amount of impairment loss, if any, is measured as the difference between the net book value of the asset and its estimated fair value. For purposes of these tests, long-lived assets must be grouped with other assets and liabilities for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities.

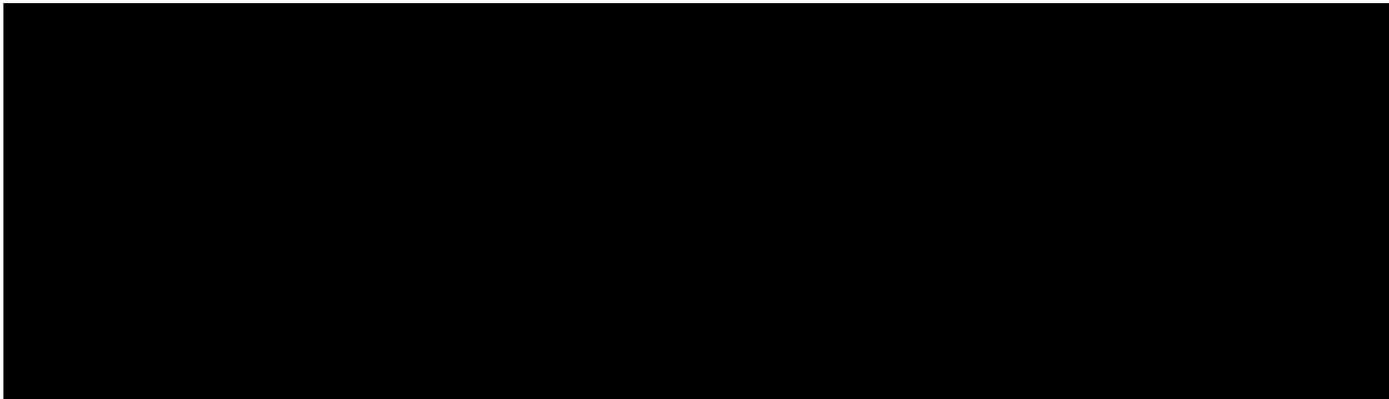
Intangible assets

Intangible assets subject to amortization include non-compete covenants and customer contracts. Customer contracts are being amortized over the life of the contracts, which range from ten to fifteen years. Indefinite lived intangible assets consist of bed rights, certificates of need, and government authorizations. Management tests these indefinite lived intangible assets for impairment annually. See details of intangible assets at Note 5.

Goodwill

The carrying amount of goodwill as of December 31, 2017 and 2016 reflects the cumulative amount paid, adjusted for any impairment charges, in excess of the fair value of net assets acquired in one or more business combination transactions. Management tests goodwill for impairment annually.

Letters of credit



Insurance coverage

The Company purchased a claims made general and professional liability insurance policy and real property coverage from an outside carrier. Premiums are expensed on a straight-line basis over a twelve-month period (see Note 12).

Avamere Group, LLC

Notes to Consolidated Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

The estimated liability for unpaid professional liability claims has been recorded in the consolidated balance sheet at the gross estimated liability. The related estimated insurance recoveries are recorded as a receivable.

Workers' compensation coverage for Washington employees is insured through the state of Washington, which is paid quarterly via the labor and industries tax, and expenses are accrued monthly. Workers' compensation coverage for all other facilities and entities is insured by an outside insurance carrier. The Company pays a stipulated premium monthly as well as claim costs as they occur, and expenses are accrued monthly.

Common stock

The consolidated financial statements include two corporations, which record common stock. The consolidated financial statements reflect the common stock issued and outstanding in these corporations (see Note 9).

Resident care and ancillary revenue

The Company has agreements with third-party payors that provide for payments at amounts different from its established rates. Resident care revenue, ancillary revenue and other related service fees are recognized in the period the service is rendered. Resident care and ancillary revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Revenue under third-party payor agreements is subject to audit and retroactive adjustment. Provisions for estimated third-party payor settlements are provided in the period the related services are rendered. Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the year of settlement.

Management revenue

Each facility is operated under an agreement with Avamere Skilled Advisors, LLC (dba Avamere Living), owned by Avamere. Avamere Living charges a fee for providing certain administrative support services. These fees were eliminated during consolidation. The Company also manages other entities. The revenue recognized under these arrangements was approximately [REDACTED],000 for the years ended December 31, 2017 and 2016, respectively.

Note 2 – Summary of Significant Accounting Policies (continued)

Medicare bundled payments

In 2015, the Centers for Medicare & Medicaid Services (CMS) selected Avamere Health Services, LLC (AHS) as an “Awardee Convener” in Medicare’s Bundled Payments for Care Improvement (BPCI) initiative. AHS’s participation commenced on April 1, 2015. AHS assumes financial responsibility for BPCI initiative patients for a 90-day episode beginning with the initiation of post-acute care services after an acute care hospitalization. AHS only recognizes BPCI gains or losses after the CMS reconciliation process is complete, which occurs nine months following the beginning of the 90-day episode. The Company recorded approximately [REDACTED] in gains in 2017 and 2016, respectively. For the year ended December 31, 2017, [REDACTED] was recorded as AHS revenue in ancillary revenue, [REDACTED] was recorded in Resident Care Medicare revenue and [REDACTED] was recorded as in-home health/home care revenue in ancillary revenue on the consolidated statement of income. For the year ended December 31, 2016, [REDACTED] was recorded as AHS revenue in ancillary revenue and no gain was recorded as Resident Care Medicare revenue or in-home health/home care revenue in ancillary revenue on the consolidated statement of income.

Advertising

Advertising costs, which are included in administration expenses, are expensed as incurred. Advertising expense was approximately [REDACTED] for the years ended December 31, 2017 and 2016, respectively.

Fair value measurements

FASB ASC 820, *Fair Value Measurements and Disclosures*, apply to the following areas:

- Goodwill and indefinite-lived intangible asset impairment testing, which involves the fair value measurement of reporting units, assets, and/or liabilities
- Nonfinancial long-lived assets (such as property and equipment or land held for future development) measured at fair value for impairment assessment.

Income taxes

The consolidated financial statements include Limited Liability Companies and S-Corporations. Accordingly, all federal income tax attributes are passed through to the Company’s shareholders or members. Therefore, no provision is made in the accompanying consolidating financial statements for liabilities for federal, state or local income taxes since such liabilities are the responsibility of the individual partners.

The Company accounts for uncertain tax positions in accordance with ASC 740-10. The Company does not have any entity level uncertain tax positions. The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. Generally, the Company is subject to examination by U.S. federal (or state and local) income tax authorities for three years from the filing of a tax return.

Avamere Group, LLC

Notes to Consolidated Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

New accounting guidance

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. As compared to existing guidance on revenue recognition, ASU No. 2014-09 will significantly enhance comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets. The largely principles-based guidance in ASU No. 2014-09 will provide a framework for addressing revenue recognition issues comprehensively for entities that apply U.S. GAAP in addition to those entities that apply International Financial Reporting Standards. The guidance in ASU No. 2014-09 also improves U.S. GAAP by reducing the number of requirements to which an entity must consider in recognizing revenue, as well as requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. The effective date of ASU No. 2014-09 was deferred by ASU No. 2015-14, *Deferral of the Effective Date*, to annual periods beginning after December 15, 2017. Management is currently evaluating the impact of the provisions of ASU No. 2014-09 on the consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements - Going Concern (Subtopic 205-40) - Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. ASU No. 2014-15 is intended to define management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. This guidance is effective for annual periods ending after December 15, 2016. The Company adopted the provisions of this ASU during the year ending December 31, 2017. The adoption of this update did not have an impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which increases transparency and comparability among entities by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements in the financial statements of lessees. This update is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. Management is currently evaluating the impact of the provisions of ASU No. 2016-02 on the consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350)*, to simplify how an entity is required to test goodwill for impairment by eliminating step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill, following procedures required in determining fair value of assets acquired and liabilities assumed in a business combination, with the carrying amount of the goodwill. With the update, an entity should perform its annual or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. This update is effective for fiscal years beginning after December 15, 2021, with early adoption permitted. Management is currently evaluating the impact of the provisions of ASU No. 2017-04 on the consolidated financial statements.

Note 2 – Summary of Significant Accounting Policies (continued)

Reclassification

Certain accounts were reclassified in the prior year for consistency and comparison purposes with the current year presentation. Such reclassifications have no effect on previously reported net income.

Subsequent events

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are available to be issued. The Company recognizes in the consolidated financial statements, the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated balance sheet, including the estimates inherent in the process of preparing the financial statements. The Company's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the consolidated balance sheet date and before consolidated financial statements are available to be issued.

The Company has evaluated subsequent events through March 21, 2018, which is the date the consolidated financial statements were available to be issued (see Note 16).

Note 3 – Fair Value of Assets and Liabilities

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To determine fair value, the Company must maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

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

Level 1 – Quoted prices in active markets for identical assets or liabilities

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies used for instruments measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheet, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Avamere Group, LLC

Notes to Consolidated Financial Statements

Note 3 – Fair Value of Assets and Liabilities (continued)

Fair value was determined as follows:

Long-lived assets held and used

In evaluating long-lived assets held and used (generally land, buildings, property and equipment) for impairment purposes, the fair value is determined, whenever possible, by reference to quoted market prices and other market information for similar assets.

In accordance with the provisions of the Impairment or Disposal of Long-Lived Assets Subsection of FASB ASC Subtopic 360-10, long-lived assets and land held for future development were evaluated for impairment. For the years ended December 31, 2017 and 2016, these assets were determined to not be impaired.

Goodwill

In evaluating goodwill for impairment purposes, the fair value of goodwill is determined based on the fair market value of similar sales or an estimated value of three to seven times the annualized earnings before interest, taxes, depreciation and amortization.

Goodwill was determined to not be impaired as of December 31, 2017 and 2016.

Intangible assets

Indefinite-lived intangible assets – The fair value of indefinite-lived intangible assets is determined based upon review of sales of similar assets within the market.

Amortizable intangible assets – The fair value of amortizable intangible assets is determined based on discounted expected future cash inflows over the estimated remaining life of the asset.

For the year ended December 31, 2017, indefinite-lived intangible assets (bed rights) were determined to be impaired by approximately [REDACTED] (see Note 5). For the year ended December 31, 2016, the intangible assets were determined to not be impaired.

Avamere Group, LLC
Notes to Consolidated Financial Statements

Note 4 – Notes Receivable

December 31,

2017	2016
------	------

Note receivable from an unrelated party. Due in monthly interest only payments at [REDACTED].

Note receivable from a therapy customer, converted from accounts receivable. Due in monthly payment of [REDACTED].

Note receivable from a therapy customer, converted from accounts receivable. Due in monthly payment of \$ [REDACTED].

Note receivable from a therapy customer, converted from accounts receivable. Due in monthly payment of [REDACTED].

Note receivable from a related party in connection with the sale of shares in [REDACTED] accruing interest at [REDACTED] annually, with no scheduled monthly payments. Note will mature and become payable in full, including all interest, contemporaneously with any acquisition of borrower's shares for cash or other consideration once it is converted to cash.

Note receivable from a therapy customer, converted from accounts receivable. Due in monthly payment of [REDACTED].

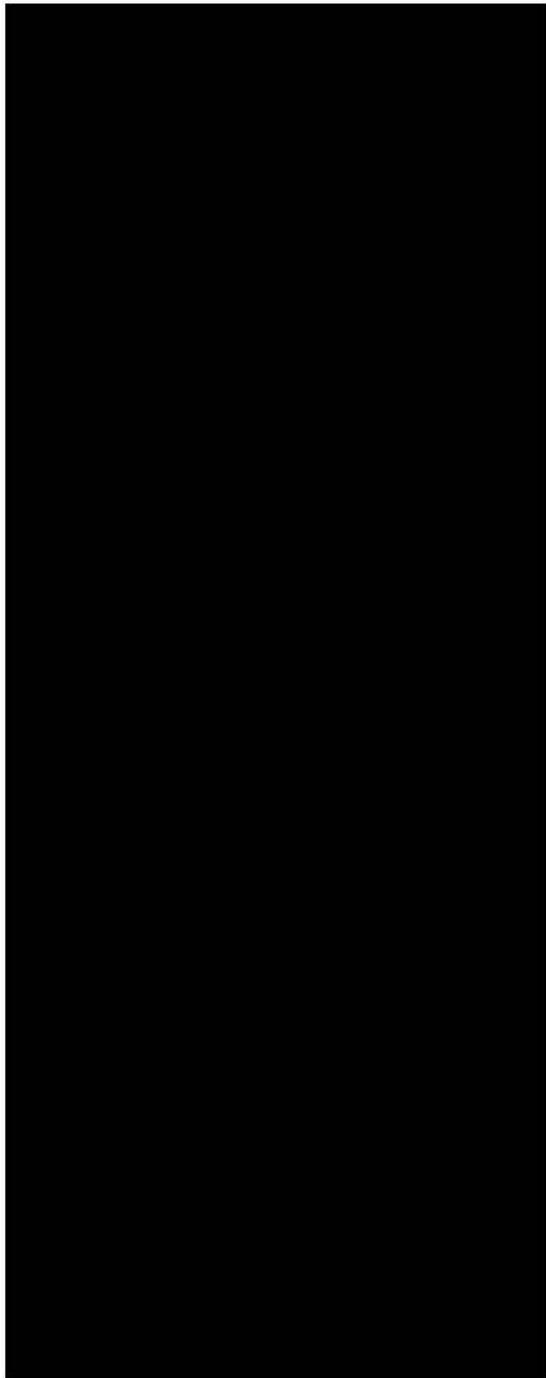
Note receivable from an unrelated party as a result of the sale of Merit Rehab. Due in monthly payments of [REDACTED].

Note receivable from a therapy customer, converted from accounts receivable. Due in monthly payment of [REDACTED].

Note receivable from a therapy customer, converted from accounts receivable with interest of [REDACTED]. This note was paid in full in May 2017.

Note receivable from a therapy customer, converted from accounts receivable with interest of [REDACTED]. This note was paid in full in February 2017.

Less current portion of notes receivable



Avamere Group, LLC
Notes to Consolidated Financial Statements

Note 5 – Intangible Assets

Intangible assets are as follows:

	December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Intangible Assets, net
Amortizable intangible assets			
Customer contracts			
Non-compete covenants			
Other intangibles			
Indefinite-lived intangible assets			
Bed rights			
Certificate of need			
Government authorizations			
Amortizable intangible assets			
Customer contracts			
Non-compete covenants			
Other intangibles			
Indefinite-lived intangible assets			
Bed rights			
Certificate of need			
Government authorizations			

Note 5 – Intangible Assets (continued)

Amortization is computed using the straight-line method over the estimated useful life of the asset. Amortization expense on these assets, for the years ended December 31, 2017 and 2016, was approximately [REDACTED], respectively.

Future expected amortization expense for the years ending December 31 are as follows:

2018
2019
2020

[REDACTED]

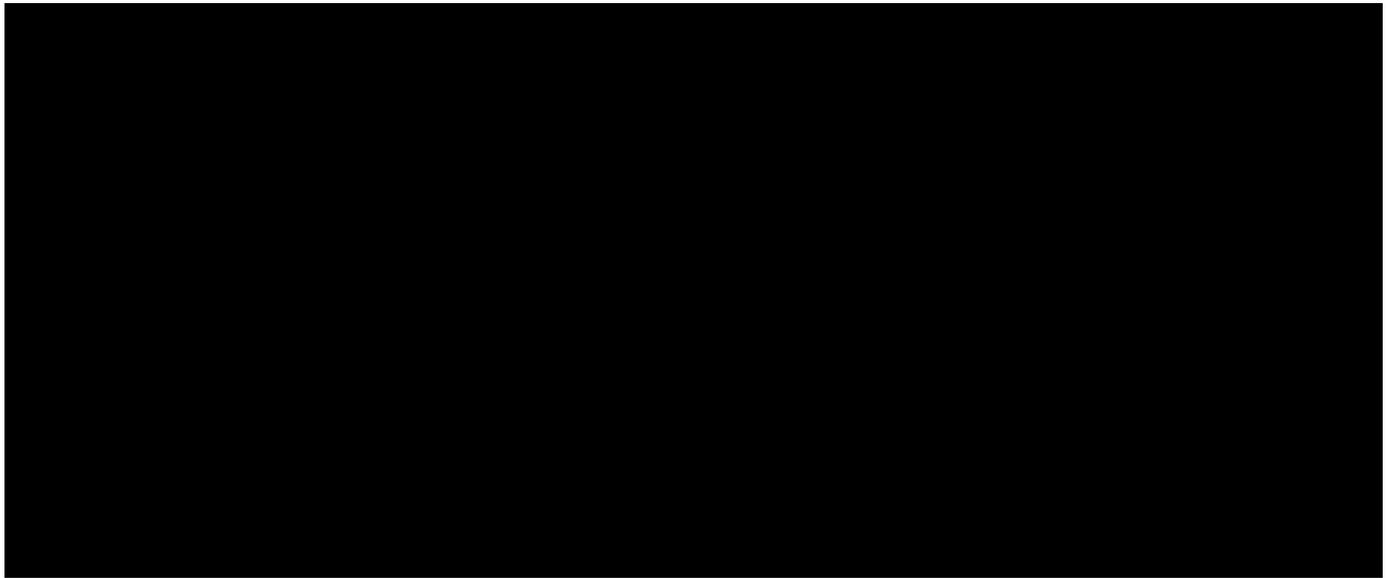
During 2017, the Company recorded intangible asset impairment charges totaling [REDACTED]. These impairment charges are presented as a separately-identified component of operating expenses. After extensive review, the Company concluded that it would not be possible for the bed rights to be placed in service or sold by their expiration date. Accordingly, the Company has written off these bed rights.

Note 6 – Lines of Credit

[REDACTED]

Avamere Group, LLC
Notes to Consolidated Financial Statements

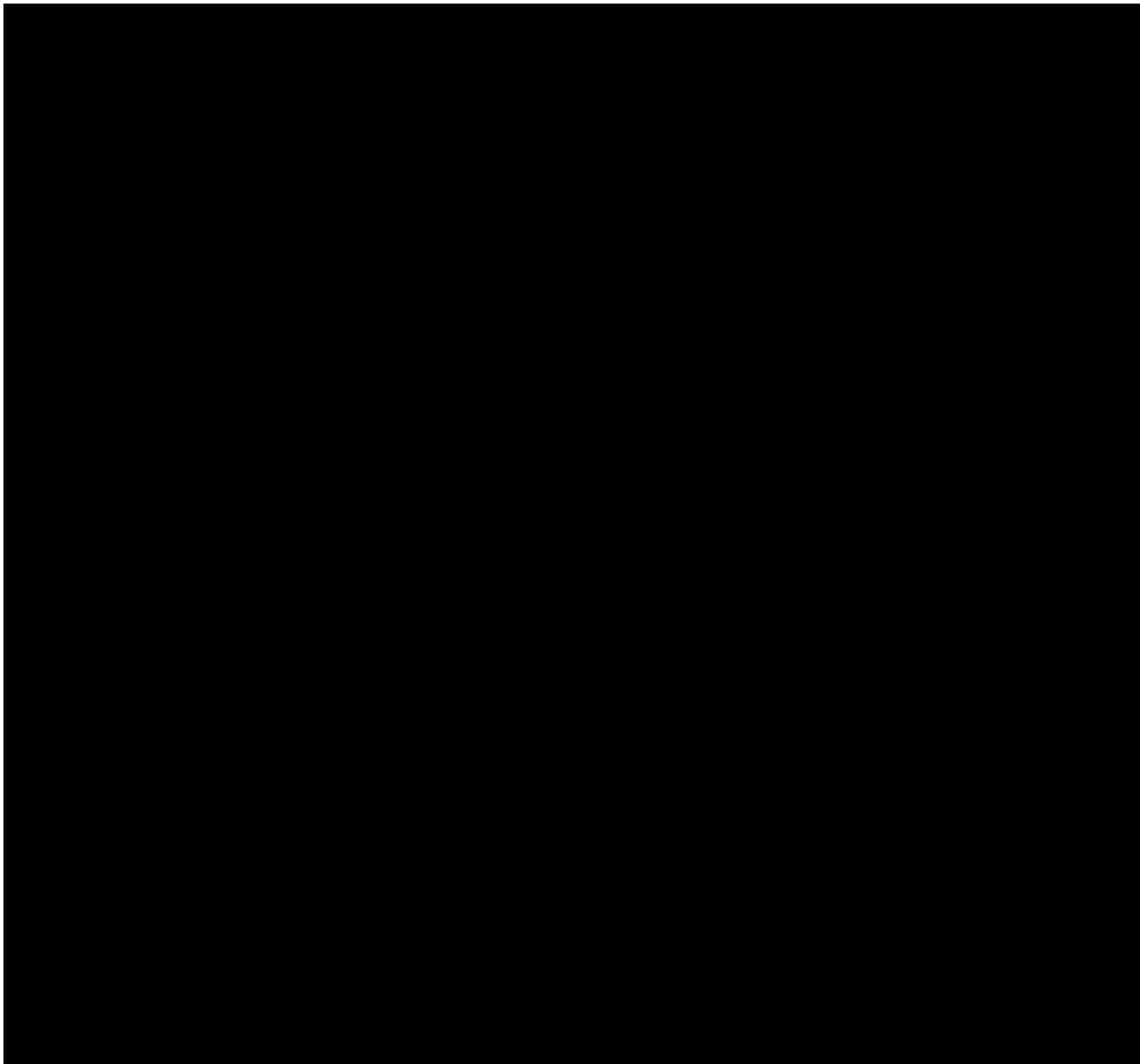
Note 6 – Lines of Credit (continued)



Avamere Group, LLC
Notes to Consolidated Financial Statements

Note 7 – Long Term Debt

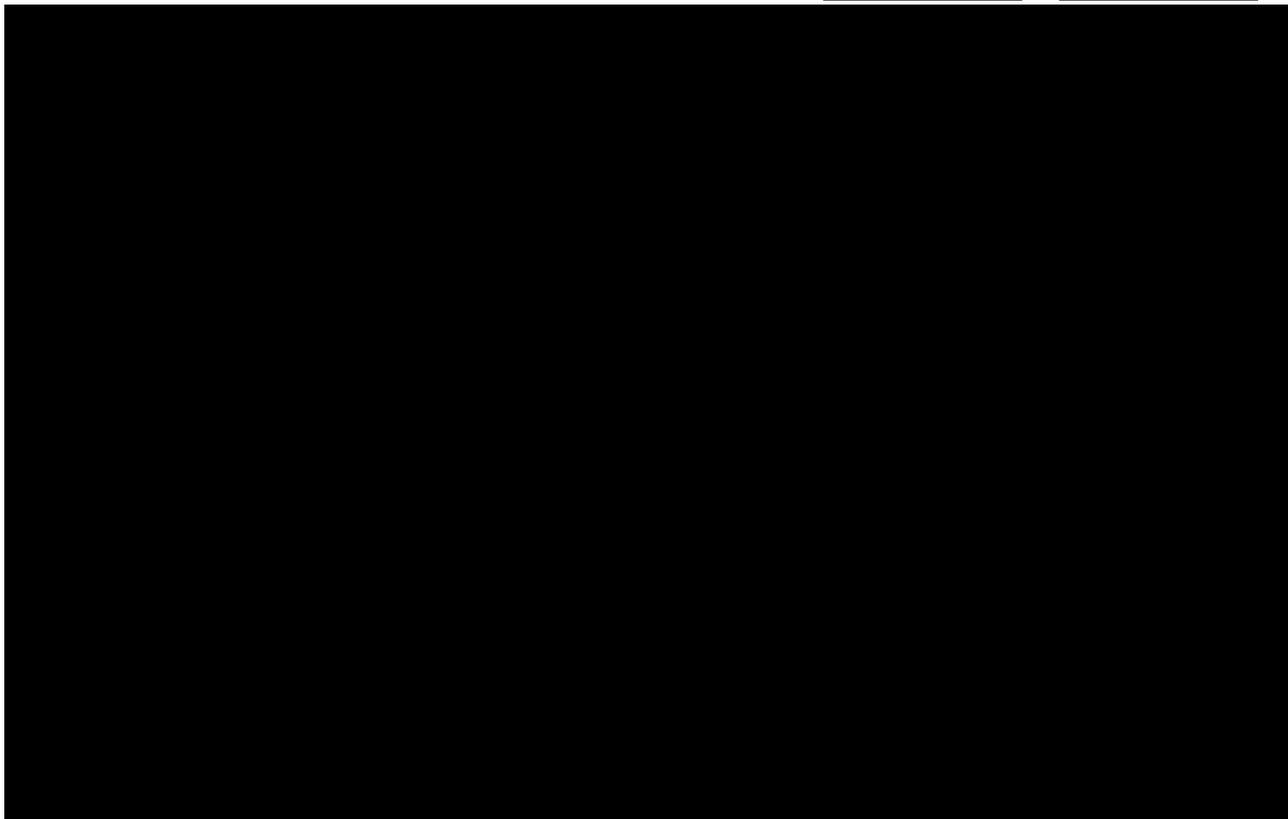
December 31,	
<u>2017</u>	<u>2016</u>



Avamere Group, LLC
Notes to Consolidated Financial Statements

Note 7 – Long Term Debt (continued)

December 31,	
2017	2016

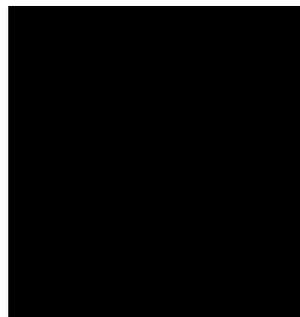


Debt issuance costs

Amortization of debt issuance costs is computed over the terms of the respective debt using the effective interest method. Total debt issuance costs amortized to interest expense was [REDACTED] for the year ended December 31, 2017 and 2016, respectively. Accumulated amortization was [REDACTED] and [REDACTED] for the year ended December 31, 2017 and 2016, respectively. Debt issuance costs are being amortized using the straight-line method over the life of the related loan.

Principal maturities of long term debt as of December 31, 2017 are as follows:

2018
2019
2020
2021
2022
Thereafter



Note 8 – Deferred Gain on Sale



Note 9 – Common Stock, Member Units, and Ownership Transaction



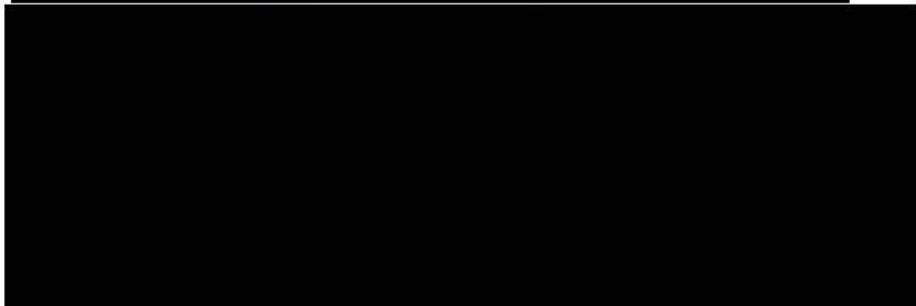
The Company has the following outstanding Membership Units:

Avamere Group Membership Units

Balance, December 31, 2015
Units issued

Balance, December 31, 2016
Units repurchased

Balance, December 31, 2017



Avamere Group, LLC
Notes to Consolidated Financial Statements

Note 9 – Common Stock, Member Units, and Ownership Transaction (continued)

The following consolidated entities have authorized, issued and outstanding shares of stock as of December 31, 2017 and 2016 as follows:

	Stock Shares as of December 31, 2017			
	Authorized	Issued	Outstanding	Dollar Value
Peckham-Miller, Inc. Home Health Advantage, Inc.				
Balance as of December 31, 2017				
Peckham-Miller, Inc. Home Health Advantage, Inc.				
Balance as of December 31, 2016				

All stock has zero par value.

Note 10 – Pension Plans

[Redacted text block]

Note 11 – Operating Leases



Avamere Group, LLC

Notes to Consolidated Financial Statements

Note 12 – Commitments and Contingencies

Industry regulations

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditations, government health care programs participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayment for patient services previously billed. Management believes the Company is in compliance with fraud and abuse as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions known or unasserted at this time.

Payments from Federal and State Health Care Programs

Entities doing business with governmental payors, including Medicare and Medicaid, are subject to risks unique to the government-contracting environment that are difficult to anticipate and quantify. Revenues are subject to adjustment as a result of examination by government agencies as well as auditors, contractors, and intermediaries retained by the federal, state, or local governments (collectively “Government Agents”). Resolution of such audits or reviews often extends (and in some cases does not even commence until) several years beyond the year in which services were rendered and/or fees received. In accordance with generally accepted accounting principles, to account for the uncertainty around governmental payor regulations and audits, the Company estimates the amount of revenue that will ultimately be received under these programs. The result of future examinations or audits could vary from these estimates.

Litigation

Avamere and their related entities are party to various legal actions and administrative proceedings and subject to various claims arising in the ordinary course of business. The Company does not believe that the ultimate disposition of these matters will have a material adverse effect on the financial position or results of operations.

Avamere Group, LLC
Notes to Consolidated Financial Statements

Note 12 – Commitments and Contingencies (continued)

[REDACTED]

[REDACTED]

[REDACTED]

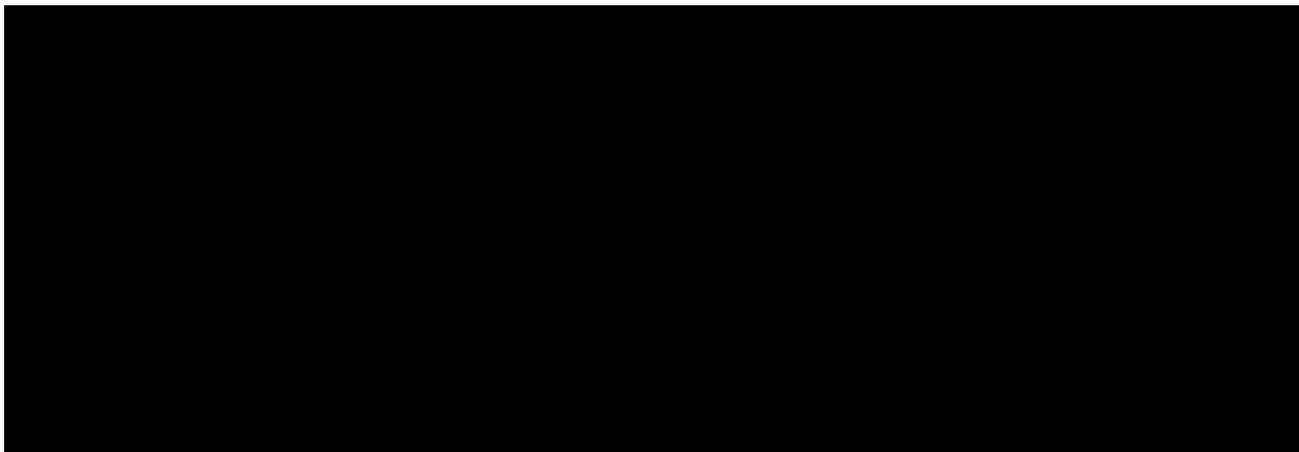
[REDACTED]

Note 13 – Business Consolidation

Consolidated variable interest entities

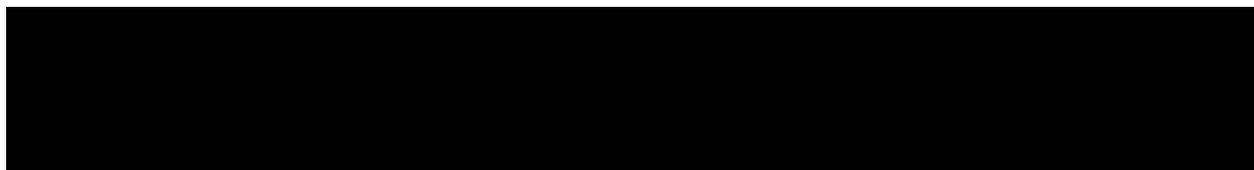
Generally accepted accounting principles require a reporting entity to consolidate a VIE when the reporting entity has a variable interest, or combination of variable interests, that provides it with a controlling financial interest in the VIE. The entity that consolidates a VIE is referred to as the primary beneficiary of that VIE. To determine if the Company should consolidate a VIE, management evaluates the Company's ownership and relationship to determine if they have a controlling financial interest. Variable interests may occur through contractual, ownership, or other financial interest in an entity whose value changes with changes in the fair value of the entity's net assets, exclusive of variable interests. The variable interest may be explicit or implicit. Explicit variable interests are those which directly absorb the variability of a VIE and can include contractual interests such as loans or guarantees as well as equity investments. An implicit variable interest acts the same as an explicit variable interest except it involves the absorbing of variability indirectly, such as through related-party arrangements or implicit guarantees. The analysis includes consideration of the design of the entity, its organizational structure, including decision making ability over the activities that most significantly impact the VIE's economic performance.

The Company identified Premere Rehab, LLC (Premere) as a VIE and has concluded the Company is the primary beneficiary. The Company's consolidated equity is reflected as the controlling financial interest in the accompanying consolidated financial statements.



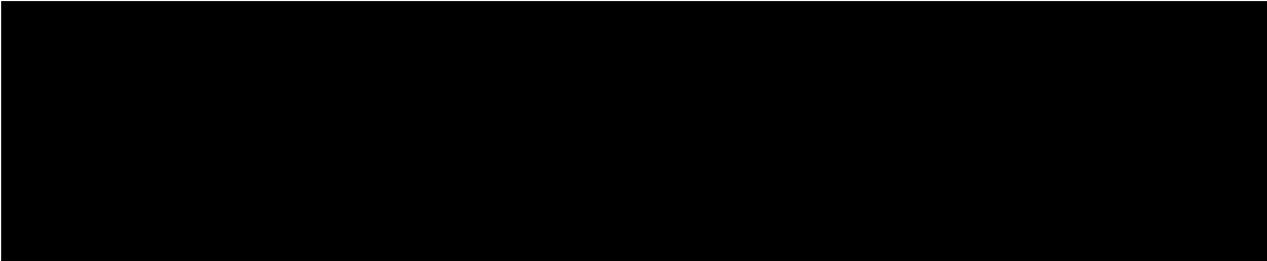
Note 14 – Acquisitions, Sales and Disposals

2017 Activity –

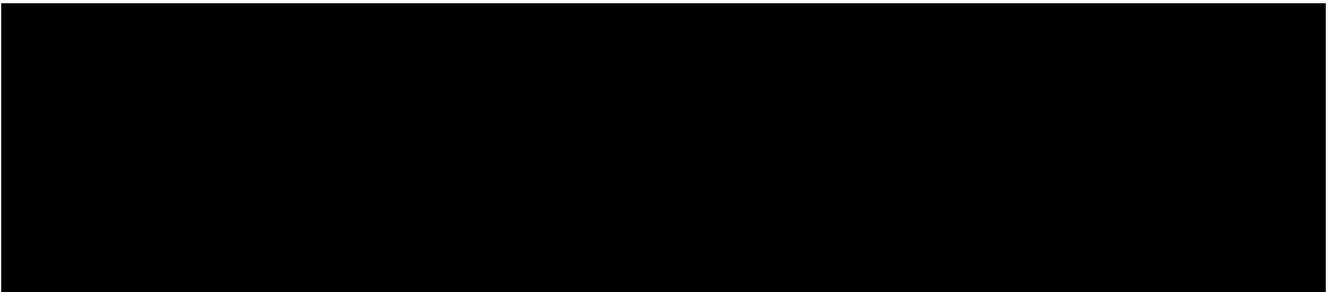


Avamere Group, LLC
Notes to Consolidated Financial Statements

Note 14 – Acquisitions and Sales (continued)



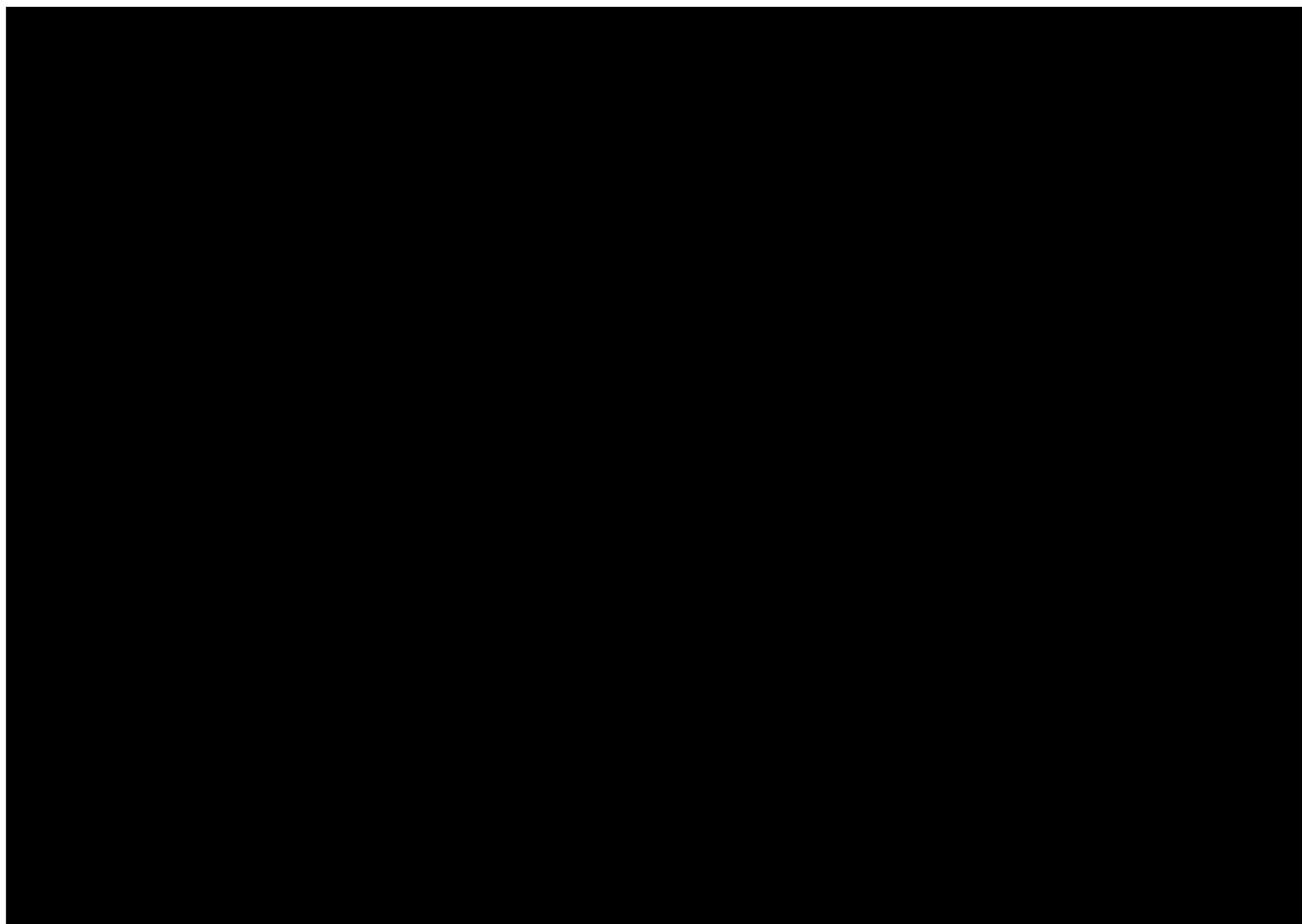
2016 Activity –



Note 15 – Collective Bargaining Agreements

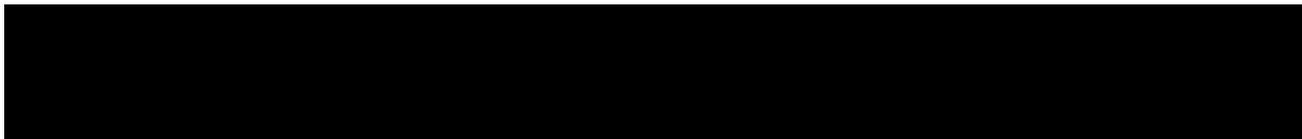
Certain entities' employees are covered by collective bargaining agreements. The agreement covering these employees are for the following entities and contract periods:

Beginning Ending



Approximately [REDACTED] of the Company's labor force is covered by a collective bargaining agreement as of December 31, 2017.

Note 16 – Subsequent Events



Supplementary Information

(See Report of Independent Auditors)

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Avamere Group, LLC

Consolidating Balance Sheet

December 31, 2017

	SNF OPERATIONS 12/31/17	CAMPUS OPERATIONS 12/31/17	CBC OPERATIONS 12/31/17	COMBINED SNF & CBC OPS TOTAL 12/31/17	REHAB OPERATIONS 12/31/17	HOME HEALTH OPERATIONS 12/31/17
Current Assets						
Cash						
Designated Cash						
Accounts Receivable						
Less Allowance for Bad Debt						
Other Accounts Receivable						
Due from Intercompany						
Current Portion of Note Receivable						
Current Portion of Insurance Recovery						
Inventory						
Prepaid Expenses						
Other Current Assets						
Total Current Assets						
Non-Current Assets						
Land and land improvements						
Buildings						
Leasehold Improvements						
Furniture, Fixtures & Equipment						
Vehicles						
Construction in Progress						
Accumulated Depreciation						
Total Property and Equipment						
Letter of Credit						
Intangible Assets						
Accumulated Amortization						
Goodwill						
Notes Receivable						
Insurance Recovery Receivable						
Investment in other entities						
Total Non Current Assets						
Total Assets						
Current Liabilities						
Lines of Credit						
Accounts Payable						
Payroll Payable						
Taxes Payable						
Other Accrued Liabilities						
Current Portion of Litigation Reserve						
Current Portion Capital Leases						
Current Portion Long Term Debt						
Current Portion Deferred Gain						
Due to Intercompany						
Total Current Liabilities						
Non-Current Liabilities						
Litigation Liability						
Long Term Capital Leases						
Long Term Debt						
Long Term Deferred Gain						
Deferred Rent						
Total Long Term Liabilities						
Total Liabilities						
Equity						
Common Stock						
Members Equity						
Non-Controlling Equity						
Total Equity						
Total Liabilities and Shareholders Equity						

Avamere Group, LLC
Consolidating Balance Sheet
December 31, 2017

HOSPICE OPERATIONS 12/31/17	SIGNATURE PHARMACY 12/31/17	NP2U 12/31/17	MANAGEMENT OPERATIONS 12/31/17	OTHER BUSINESSES 12/31/17	Sub-total pre-elim 12/31/17	ELIMINATIONS 12/31/17	CONSOLIDATED AVAMERE GROUP 12/31/17
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Avamere Group, LLC

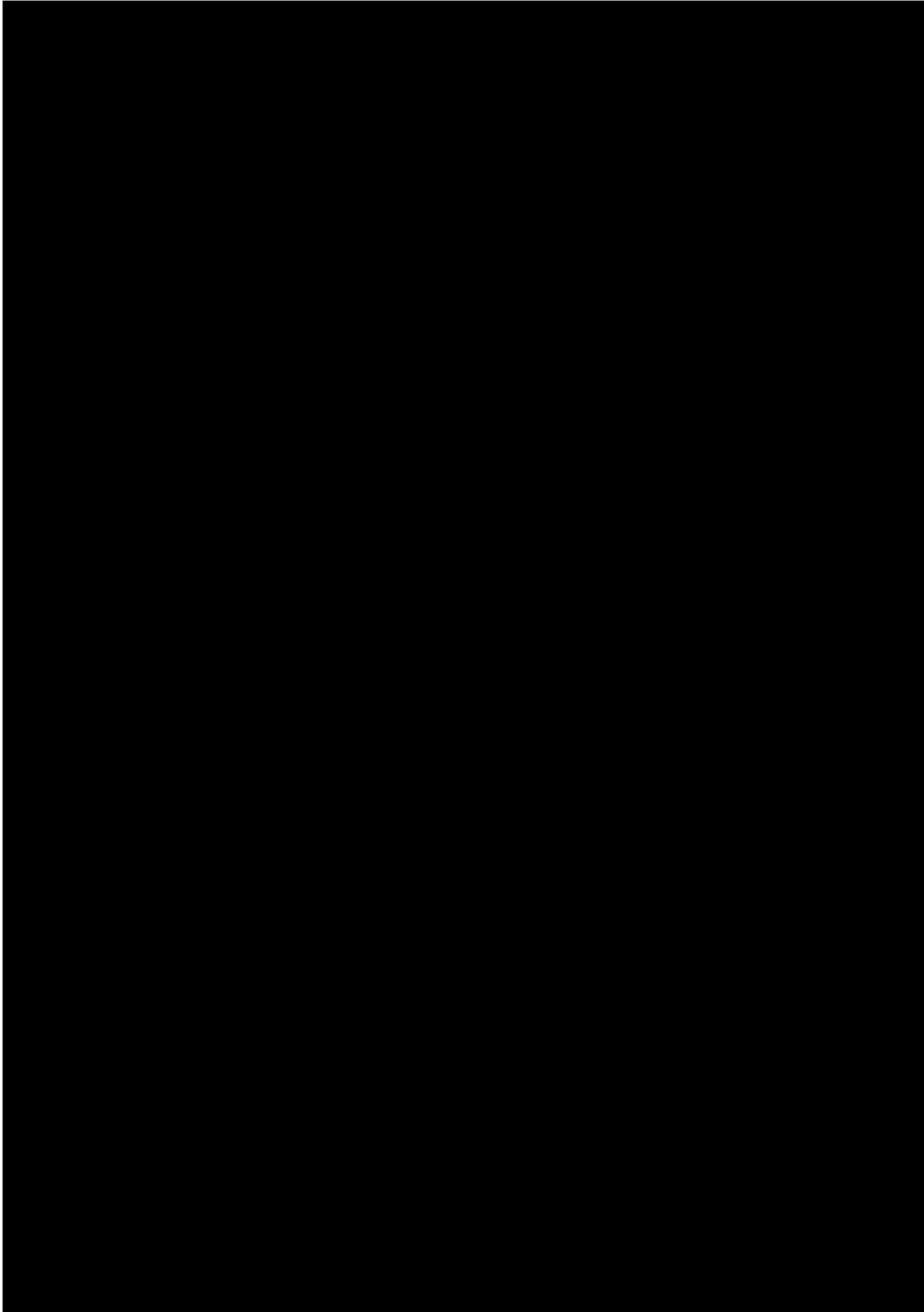
Consolidating Schedule of Income

Year Ending December 31, 2017

	SNF OPERATIONS 12/31/17	CAMPUS OPERATIONS 12/31/17	CBC OPERATIONS 12/31/17	COMBINED SNF & CBC OPS TOTAL 12/31/17	REHAB OPERATIONS 12/31/17	HOME HEALTH OPERATIONS 12/31/17
OPERATING REVENUES						
Resident Care - Medicare						
Resident Care - Medicaid						
Resident Care - Private						
Resident Care - Other						
Resident Care - Veterans						
Miscellaneous Facility Revenue						
Resident Care Revenue						
Ancillary Revenue						
Provision for Bad Debts						
Rental Income						
Management Revenue						
Miscellaneous Revenue						
Net Operating Revenue						
OPERATING EXPENSES						
Ancillary Expense						
Nursing Services						
Administration						
Rent Expense						
Dietary						
Plant Operations						
Property Taxes & Insurances						
Housekeeping						
Depreciation and Amortization						
Interest						
Social Services						
Activities						
Laundry and Linen						
Medical Records						
Restorative Care						
Miscellaneous Expense						
Impairment of Intangible Assets						
Income Taxes						
Management Fees						
Cost Report Settlements						
Total Operating Expenses						
NON-OPERATING REVENUES & EXPENSES						
Miscellaneous Revenue						
Miscellaneous Expenses						
Investment Income						
Donations						
Recognition of Deferred Gain on Sale of Assets						
Gain on Sale of Investments in Other Entities						
Gain/(Loss) on Sale of Assets						
Total Non-operating Revenue and Expense						
NET PROFIT (LOSS)						
Net Income Attributable to Non-Controlling Interest						
NET PROFIT (LOSS) Attributable to Avamere Group, LLC						
Plus Depreciation						
Plus Interest						
Plus Income Taxes						
EBITDA						
Plus Rent						
EBITDAR						

Avamere Group, LLC
Consolidating Schedule of Income
Year Ending December 31, 2017

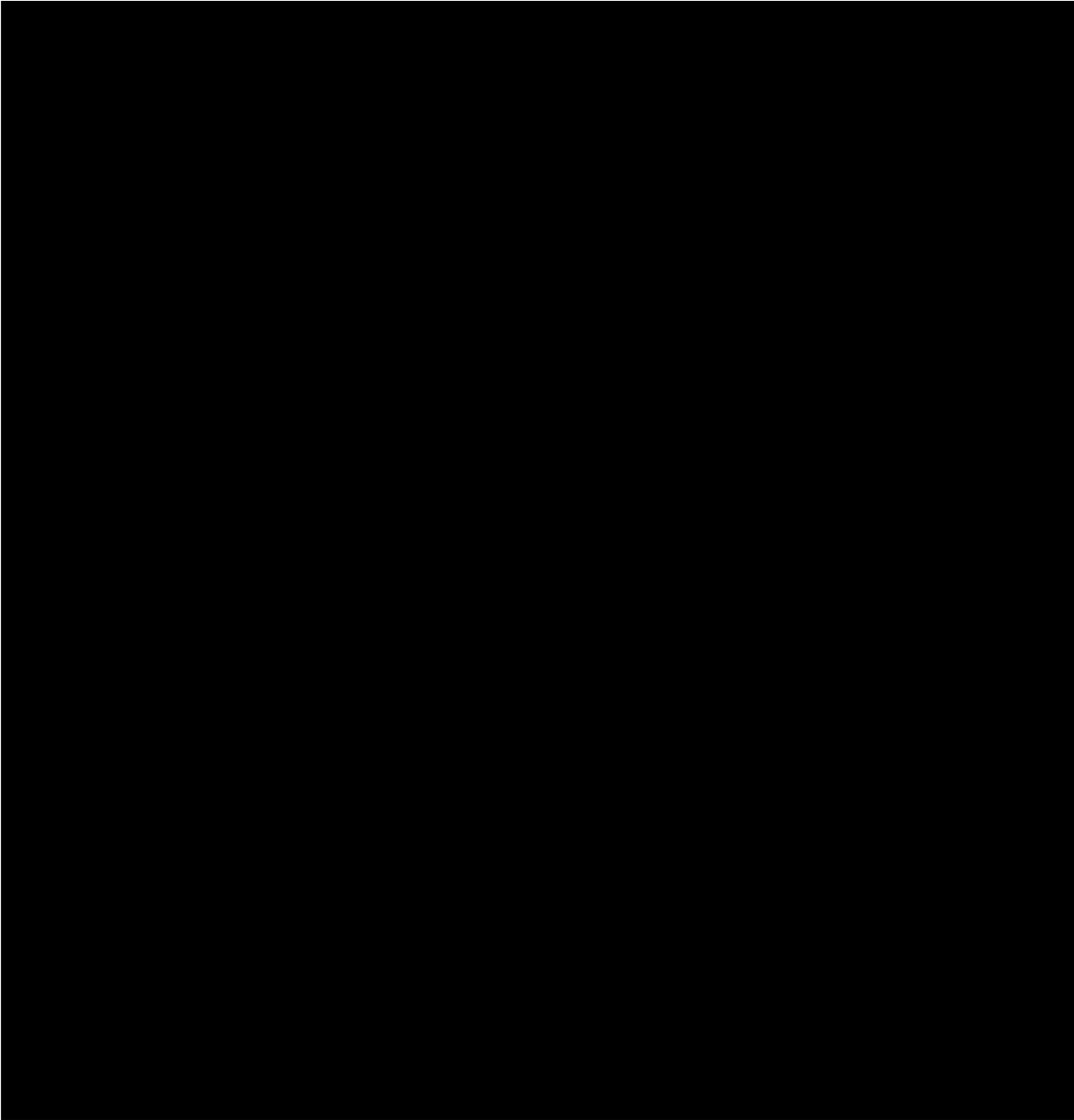
HOSPICE OPERATIONS 12/31/17	SIGNATURE PHARMACY 12/31/17	NP2U 12/31/17	MANAGEMENT OPERATIONS 12/31/17	OTHER BUSINESSES 12/31/17	ELIMINATIONS 12/31/17	ACTUAL CONSOLIDATED AVAMERE GROUP 12/31/17
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See report of independent auditors.

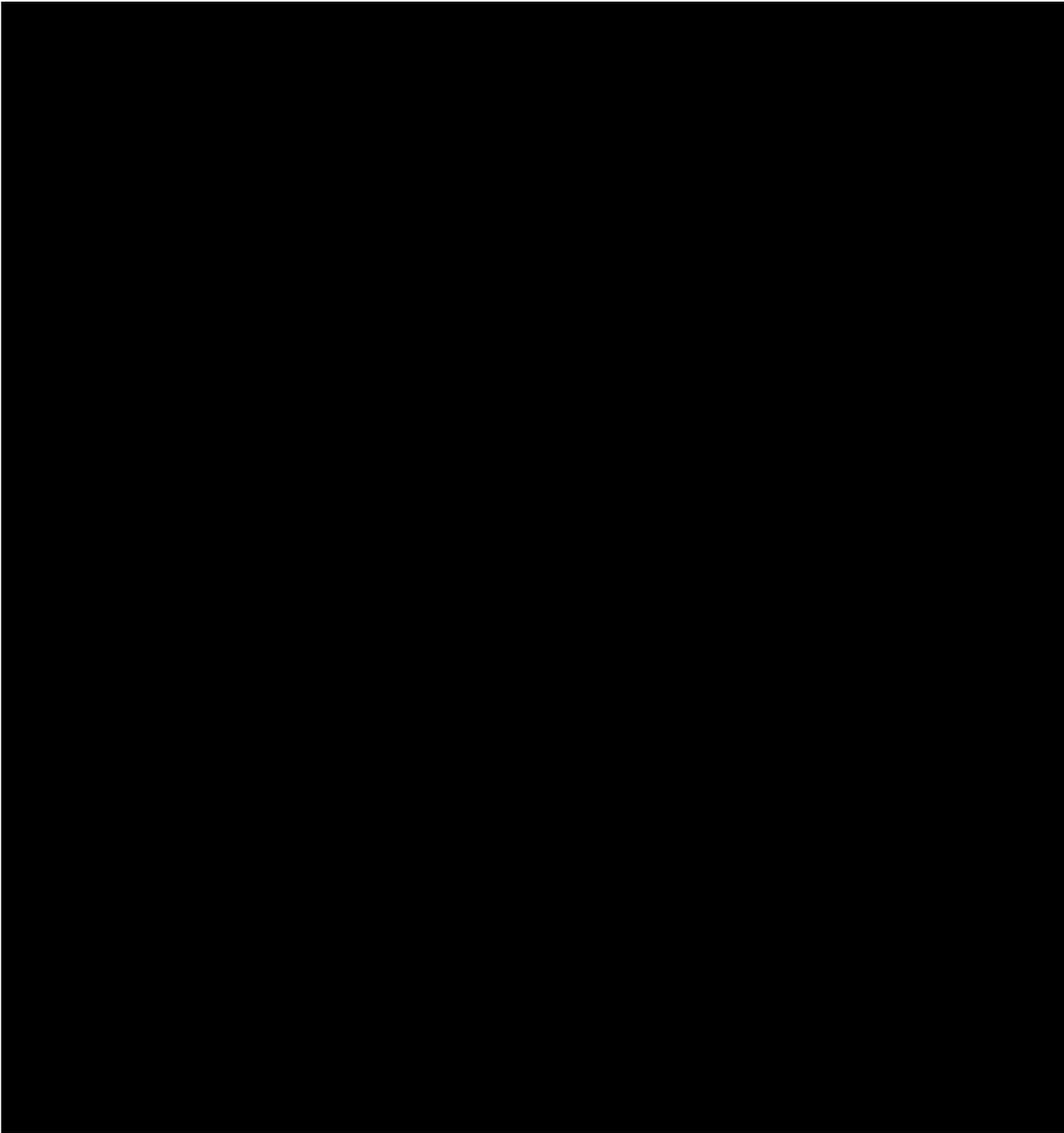
Avamere Group, LLC
Consolidating Balance Sheet
December 31, 2016

SNF OPERATIONS 12/31/16	CAMPUS OPERATIONS 12/31/16	CBC OPERATIONS 12/31/16	COMBINED SNF & CBC OPS TOTAL 12/31/16	REHAB OPERATIONS 12/31/16	HOME HEALTH OPERATIONS 12/31/16
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Avamere Group, LLC
Consolidating Balance Sheet
December 31, 2016

HOSPICE OPERATIONS 12/31/16	SIGNATURE PHARMACY 12/31/16	NP2U 12/31/16	MANAGEMENT OPERATIONS 12/31/16	OTHER BUSINESSES 12/31/16	Sub-total pre-elim 12/31/16	ELIMINATIONS 12/31/16	CONSOLIDATED AVAMERE GROUP 12/31/16
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Avamere Group, LLC

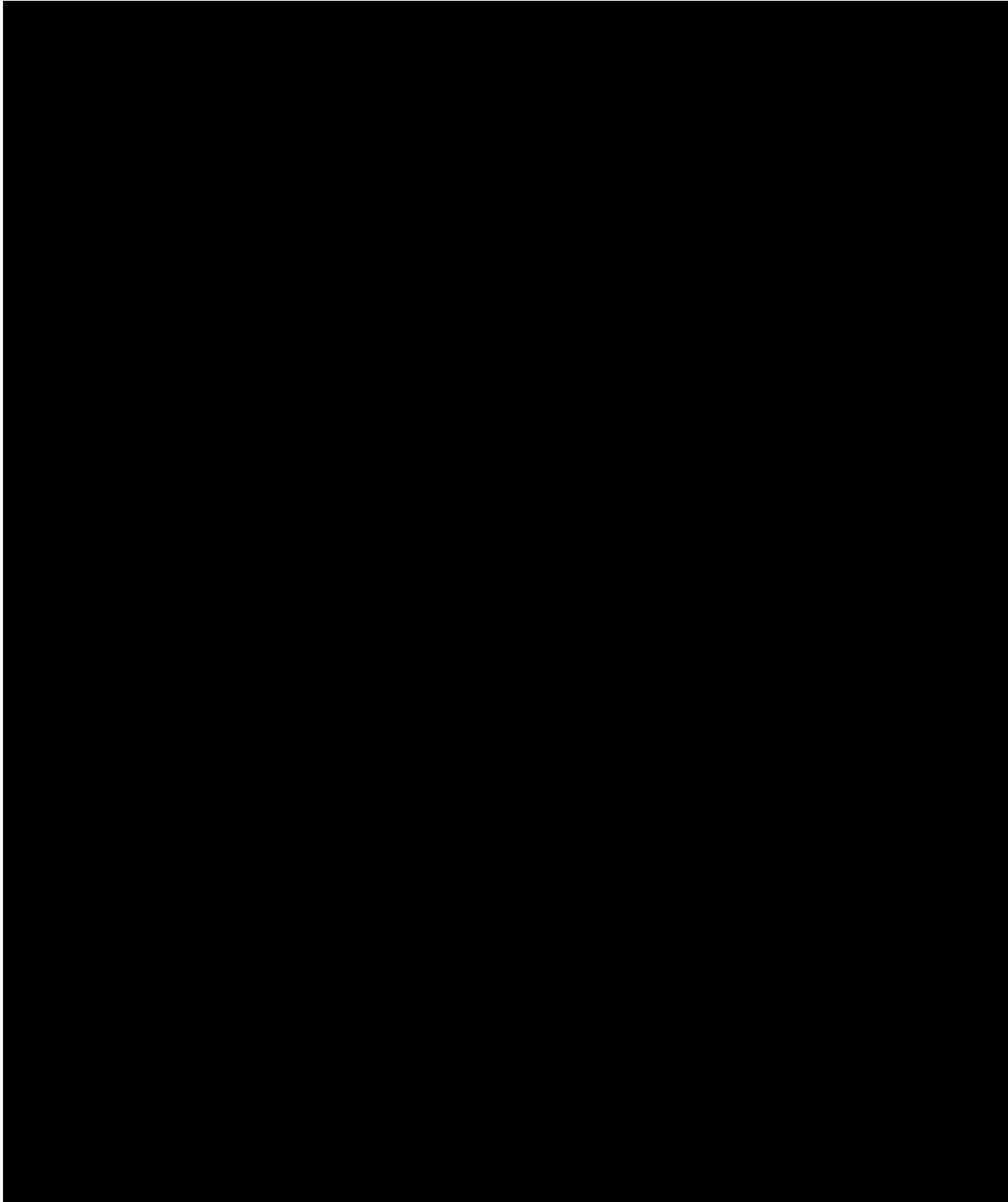
Consolidating Schedule of Income

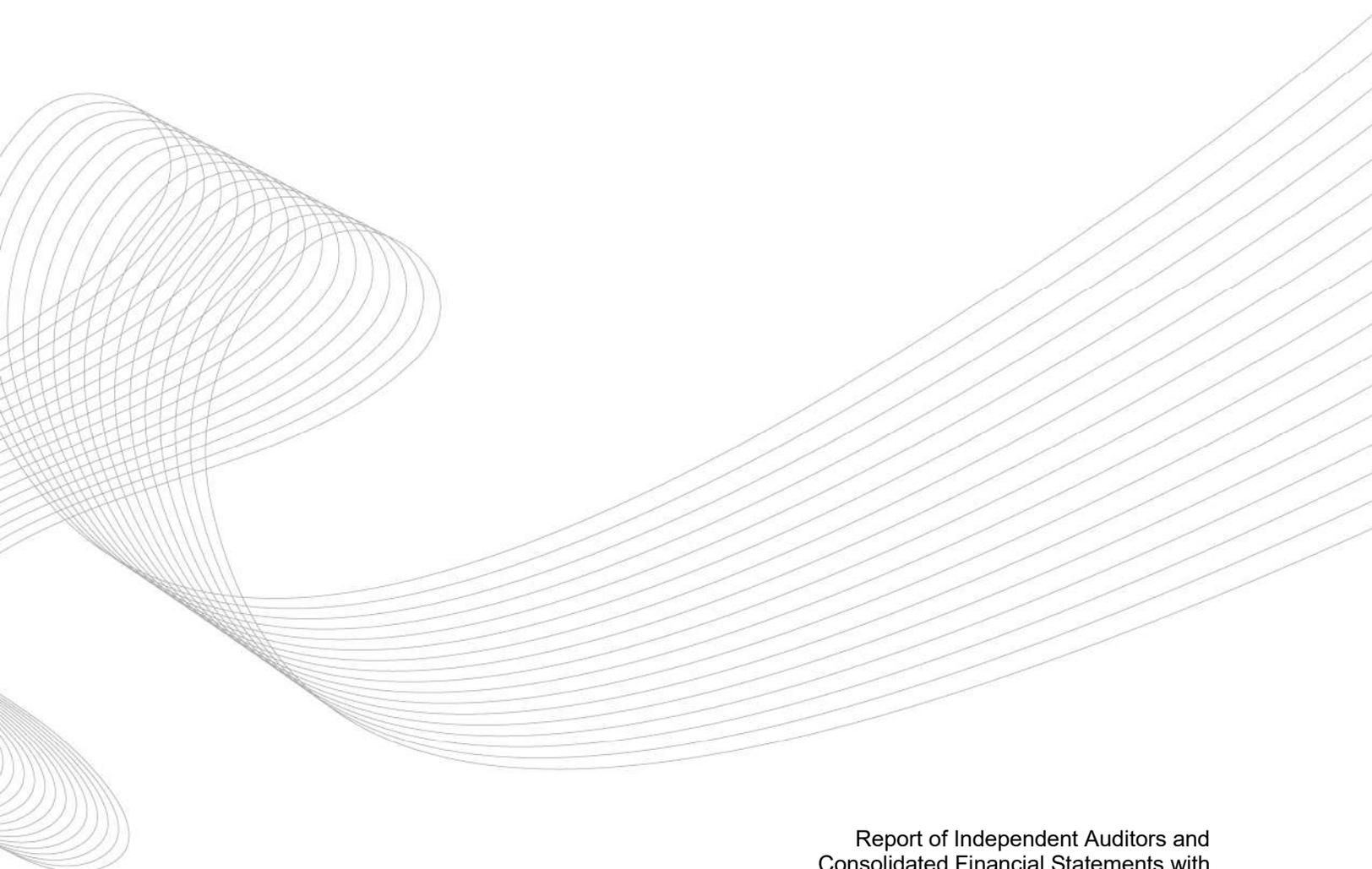
Year Ending December 31, 2016

	SNF OPERATIONS 12/31/16	CAMPUS OPERATIONS 12/31/16	CBC OPERATIONS 12/31/16	COMBINED SNF & CBC OPS TOTAL 12/31/16	REHAB OPERATIONS 12/31/16	HOME HEALTH OPERATIONS 12/31/16
OPERATING REVENUES						
Resident Care - Medicare						
Resident Care - Medicaid						
Resident Care - Private						
Resident Care - Other						
Resident Care - Veterans						
Miscellaneous Facility Revenue						
Resident Care Revenue						
Ancillary Revenue						
Provision for Bad Debts						
Rental Income						
Management Revenue						
Miscellaneous Revenue						
Net Operating Revenue						
OPERATING EXPENSES						
Ancillary Expense						
Nursing Services						
Administration						
Rent						
Dietary						
Plant Operations and maintenance						
Property Taxes & Insurances						
Housekeeping						
Depreciation and Amortization						
Interest						
Social Services						
Activities						
Laundry and Linen						
Medical Records						
Restorative Care						
Miscellaneous Expense						
Income Taxes						
Management Fees						
Total Operating Expenses						
NON-OPERATING REVENUES & EXPENSES						
Miscellaneous Revenue						
Miscellaneous Expenses						
Investment Income						
Donations						
Recognition of Deferred Gain on Sale of Assets						
Gain/(Loss) on Sale of Assets						
Total Non-operating Revenue and Expense						
NET PROFIT (LOSS)						
Net Income Attributable to Non-Controlling Interest						
NET PROFIT (LOSS) Attributable to Avamere Group, LLC						
Plus Depreciation						
Plus Interest						
Plus Income Taxes						
EBITDA						
Plus Rent						
EBITDAR						

Avamere Group, LLC
Consolidating Schedule of Income
Year Ending December 31, 2016

HOSPICE OPERATIONS 12/31/16	SIGNATURE PHARMACY 12/31/16	NP2U 12/31/16	MANAGEMENT OPERATIONS 12/31/16	OTHER BUSINESSES 12/31/16	ELIMINATIONS 12/31/16	ACTUAL CONSOLIDATED AVAMERE GROUP 12/31/16
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Report of Independent Auditors and
Consolidated Financial Statements with
Supplementary Information for

Avamere Group, LLC

December 31, 2016 and 2015

MOSS ADAMS_{LLP}

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

The Shareholders and Members of
Avamere Group, LLC

Report on Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Avamere Group, LLC (an Oregon LLC), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of income, statements of shareholders' and members' equity/deficit, and statements of cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

REPORT OF INDEPENDENT AUDITORS (continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Avamere Group, LLC as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion of the consolidated financial statements as a whole. The consolidating schedules in the supplementary information are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and are not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations, and cash flows for the individual companies.

The consolidating schedules are the responsibility of management and were derived from and relate to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating schedules have been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidating schedules or to the consolidating schedules themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating schedules are fairly stated in all material respects in relation to the consolidated financial statements as a whole.

A handwritten signature in blue ink that reads "Moss Adams LLP".

Portland, Oregon
March 21, 2017

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AVAMERE GROUP, LLC
CONSOLIDATED BALANCE SHEETS

ASSETS

December 31,

2016

2015

CURRENT ASSETS

Cash and cash equivalents (a)
 Designated cash
 Accounts receivable, net of allowance for bad debt of
 [REDACTED]
 Other accounts receivable
 Current portion of notes receivable
 Current portion of insurance recovery receivable
 Inventory
 Prepaid expenses
 Other current assets

Total current assets

PROPERTY AND EQUIPMENT

Land and land improvements
 Buildings
 Leasehold improvements
 Furniture, fixtures, and equipment
 Vehicles
 Construction in progress

Accumulated depreciation and amortization

Total property and equipment

OTHER ASSETS

Letters of credit
 Intangible assets, net of accumulated amortization
 of [REDACTED]
 Goodwill
 Land held for future development
 Notes receivable, net of current portion
 Insurance recovery receivable, net of current portion
 Investment in other entities

Total other assets

Total assets

(a) As of December 31, 2016 and 2015, the assets listed above include amounts from Premere Rehab, LLC (consolidated variable interest e

Cash and cash equivalents
 Accounts receivable, net
 Intangibles, net



AVAMERE GROUP, LLC
CONSOLIDATED BALANCE SHEETS

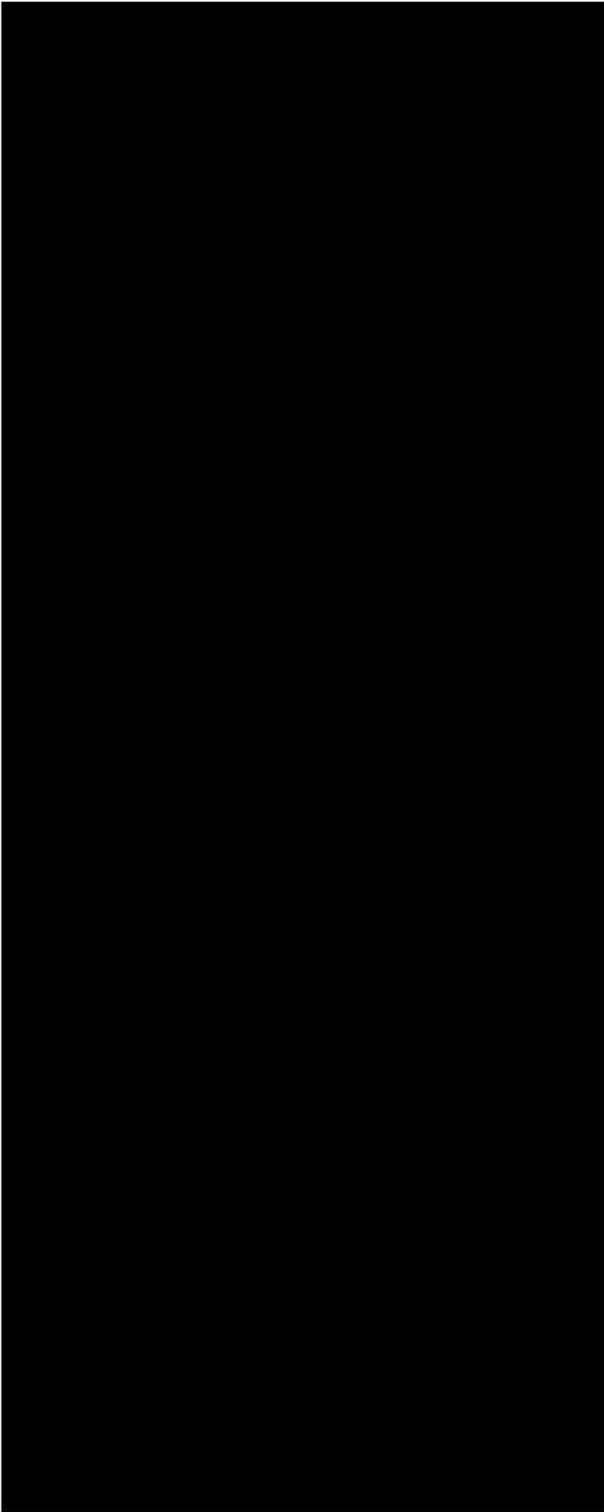
LIABILITIES AND SHAREHOLDERS' AND MEMBERS' DEFICIT

	December 31,	
	2016	2015
CURRENT LIABILITIES		
Lines of credit (b)		
Accounts payable		
Accrued payroll, taxes and benefits (b)		
Accrued business and property taxes		
Other accrued liabilities		
Current portion of litigation reserve		
Current portion of deferred gain on sale		
Current portion of capital leases		
Current portion of long term debt		
Total current liabilities		
LONG TERM DEBT AND OTHER LIABILITIES		
Litigation reserve, net of current portion		
Capital leases, net of current portion		
Long term debt, net of current portion and deferred loan fees of \$56,000 in 2016 and \$98,000 in 2015 (a)		
Deferred gain on sale, net of current portion		
Deferred rent		
Total long term debt and other liabilities		
Total liabilities		
SHAREHOLDERS' AND MEMBERS' EQUITY/DEFICIT		
Common stock		
Retained earnings/members' equity/deficit		
Total equity attributable to Avamere Group, LLC		
Non-controlling interest		
Total shareholders' and members' equity/deficit		
Total liabilities and shareholders' and members' equity/deficit		

(b) As of December 31, 2016 and 2015, the liabilities listed above include amounts from Premere Rehab, LLC (consolidated variable interest entity).
Lines of credit
Accrued payroll, taxes and benefits

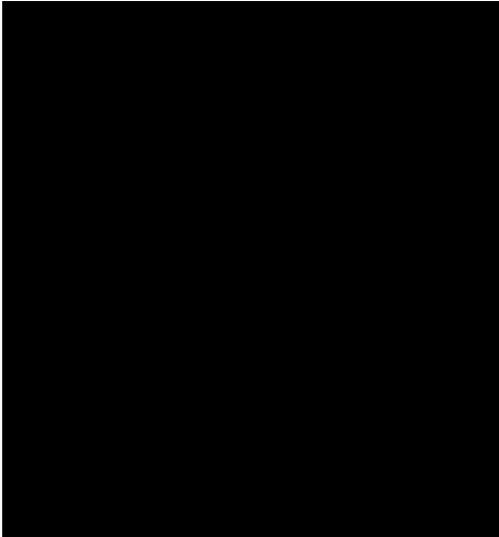
AVAMERE GROUP, LLC
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,	
	2016	2015
OPERATING REVENUE		
Resident care – Medicare		
Resident care – Medicaid		
Resident care – Private		
Resident care – Third-party payors		
Resident care – Veteran		
Miscellaneous facility revenue		
Resident care revenue		
Therapy		
Home health/home care		
Hospice		
Nurse practitioner		
Ancillary revenue		
Provision for bad debts		
Rental income		
Management revenue		
Miscellaneous revenue		
Total other operating revenue		
Net operating revenue		
OPERATING EXPENSES		
Ancillary expense		
Nursing services		
Administration		
Rent		
Dietary		
Plant operations and maintenance		
Depreciation and amortization		
Property taxes and insurance		
Housekeeping		
Social services		
Interest		
Activities		
Laundry and linen		
Medical records		
Restorative care		
Miscellaneous expense		
Income taxes		
Total operating expenses		



AVAMERE GROUP, LLC
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,	
	2016	2015
NON-OPERATING REVENUE AND EXPENSES		
Miscellaneous revenue		
Miscellaneous expense		
Investment income		
Donations		
Recognition of deferred gain on sale of assets		
Gain (loss) on sale of assets		
Total non-operating revenue and expenses		
NET INCOME		
NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTEREST		
NET INCOME ATTRIBUTABLE TO AVAMERE GROUP, LLC		



AVAMERE GROUP, LLC
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' AND MEMBERS' EQUITY/DEFICIT

	<u>Common Stock</u>	<u>Retained Earnings/ Members' Equity/Deficit</u>	<u>Non-controlling Interest</u>	<u>Total</u>
Beginning balance, January 1, 2015				
Contributions				
Distributions/draws				
Net income				
Ending balance, December 31, 2015				
Contributions				
Distributions/draws				
Net income				
Ending balance, December 31, 2016				

AVAMERE GROUP, LLC
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income		
Adjustments to reconcile net income to net cash		
from operating activities		
Provision for bad debt		
Depreciation and amortization		
Investment income		
Recognition of deferred gain on sale of assets		
Loss (gain) on sale of assets		
Loss on abandoned projects		
Interest earned on letter of credit		
Deferred rent		
Amortization of debt issuance costs		
Changes in assets and liabilities		
Designated cash		
Accounts receivable		
Other accounts receivable		
Insurance recovery receivable		
Inventory		
Prepaid expenses		
Other current assets		
Other assets		
Accounts payable		
Accrued payroll, taxes and benefits		
Accrued business and property taxes		
Other accrued liabilities		
Litigation reserve		
Net cash from operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment		
Proceeds from sale of assets and land held for development		
Purchase of goodwill		
Purchase of intangible assets		
Net cash from investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings on note receivable		
Payments received on notes receivable		
Borrowings on long-term debt		
Payments on long-term debt		
Deposits on letters of credit		
Net activity on lines of credit		
Payments on capital leases		
Contribution		
Distributions/draws		
Net cash from financing activities		
CHANGE IN CASH AND CASH EQUIVALENTS		
CASH AND CASH EQUIVALENTS, beginning of year		
CASH AND CASH EQUIVALENTS, end of year		

AVAMERE GROUP, LLC
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2016	2015
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest		
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES		
Purchase of Bremerton in 2016		
Increase in net property and equipment		
Increase in non-controlling interest		
Purchase of Access Home Health and Hospice in 2015		
Increase in inventory		
Increase in capital leases		
Increase in net property and equipment		
Increase in intangible assets		
Increase in goodwill		
Increase in long-term debt		
Purchase of Mill Creek Home Health and Hospice in 2015		
Increase in net property and equipment		
Increase in intangible assets		
Increase in goodwill		
Increase in long-term debt		

AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Business and Organization

Avamere Group, LLC (Avamere or the Company) provides a spectrum of healthcare solutions for seniors within the 44 communities throughout Oregon, Washington, Idaho, and Colorado. In addition, through its home health, independent living, assisted living, skilled nursing, memory care, rehabilitation therapy, hospice and nurse practitioner businesses, Avamere provides seniors choices of quality care services in settings that best meet their needs and preferences. Avamere’s mission is “To enhance the life of everyone we serve.” For seniors, they offer the dignity of a choice in setting and the confidence of high quality care provided by dedicated professionals. Avamere expands the range of services community by community through acquisition, expansion of service businesses, as well as development and construction of new facilities.

The following entities are included in the consolidated financial statements:

TYPE	LEGAL NAME	LOCATION
MANAGEMENT COMPANIES		
	Avamere Health Services, LLC	Wilsonville, OR
	Avamere Skilled Advisors, LLC	Wilsonville, OR
HOLDING COMPANIES		
	Avamere Group, LLC	Wilsonville, OR
	ARI, LLC	Wilsonville, OR
	ARI Operations, LLC	Wilsonville, OR
	ASR Northwest, LLC	Wilsonville, OR
	ACR Northwest, LLC	Wilsonville, OR
	ARISO, LLC	Wilsonville, OR
	ARI CBC, LLC	Wilsonville, OR
	MWMD Pharmacy Holdings, LLC	Wilsonville, OR
CAMPUS FACILITIES OPERATIONS (Campus)		
	Waterford Operations, LLC	Medford, OR
	Keizer Campus Operations, LLC	Keizer, OR
	Avamere Lake Oswego Operations Investors, LLC	Lake Oswego, OR
COMMUNITY BASED CARE FACILITIES OPERATIONS (CBC)		
	Avamere Bethany Operations, LLC	Portland, OR
	Avamere Hillsboro Operations, LLC	Hillsboro, OR
	Genesis Newberg Operations Co, LLC	Newberg, OR
	Avamere Sandy Operations, LLC	Sandy, OR
	Avamere Sherwood Operations, LLC	Sherwood, OR
	Avamere St. Helens Operations, LLC	St. Helens, OR
	Avamere Stafford Operations, LLC	Lake Oswego, OR
	Forest Drive Operations, LLC	Seaside, OR
	Gaffney Operations, LLC	Oregon City, OR
	Avamere Bethany Cottages Operations, LLC	Portland, OR

AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Business and Organization (continued)

TYPE	LEGAL NAME	LOCATION
COMMUNITY BASED CARE FACILITIES OPERATIONS (CBC) - continued		
	Avamere Hillsboro Cottages Operations, LLC	Hillsboro, OR
	Avamere Gable Road Cottages Operations, LLC	St. Helens, OR
	Berry Park Villas Operations, LLC	Oregon City, OR
	Keizer River Operations, LLC	Keizer, OR
	Necanicum Operations, LLC	Seaside, OR
SKILLED NURSING FACILITIES OPERATIONS (SNF)		
	Beaverton Rehab & Specialty Care, LLC	Beaverton, OR
	Belair Rehab, LLC (Closed March 2010)	Tacoma, WA
	Bellingham Operations, LLC	Bellingham, WA
	Boise Operations, LLC	Boise, ID
	Brighton Operations, LLC	Brighton, CA
	Clackamas Rehabilitation, LLC	Clackamas, OR
	Coos Bay Rehabilitation, LLC	Coos Bay, OR
	Crestview Operations, LLC	Portland, OR
	Eugene Rehabilitation, LLC	Eugene, OR
	Georgian Rehab, LLC	Tacoma, WA
	Heritage Rehab, LLC	Tacoma, WA
	Junction City Rehabilitation, LLC	Junction City, OR
	King City Rehab, LLC	Tigard, OR
	Lebanon Care Center, LLC	Lebanon, OR
	Medford Operations, LLC	Medford, OR
	Mountain View Rehab, LLC	Oregon City, OR
	Newport Rehabilitation, LLC	Newport, OR
	Northglenn Operations, LLC	Northglenn, CO
	Peckham-Miller, Inc.	Hillsboro, OR
	Richmond Beach Rehab, LLC	Richmond Beach, WA
	Riverpark Operations, LLC	Eugene, OR
	Seattle Operations, LLC	Seattle, WA
	Sequim Rehabilitation, LLC	Sequim, WA
	South Salem Rehabilitation, LLC	Salem, OR
	Sunnyside Operations, LLC	Salem, OR
	St. Francis Operations, LLC	Bellingham, WA
	Tacoma Rehab, LLC	Tacoma, WA
	Twin Oaks Rehab, LLC	Sweet Home, OR
	Vancouver Operations, LLC	Vancouver, WA
	Ohana Harmony House, LLC	Bend, OR
	Bremerton MC Operations, LLC (under construction)	Bremerton, WA

AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Business and Organization (continued)

TYPE	LEGAL NAME	LOCATION
PROPERTY ENTITIES		
	Avamere Bel Air Properties, LLC	Tacoma, WA
	Avamere Gable Road Cottages II, LLC	St. Helens, OR
	Bell Street Properties, LLC	Tacoma, WA
	Boone Road Properties, LLC	Salem, OR
	Eugene Chambers Properties, LLC	Eugene, OR
	Gaffney Investors 2, LLC	Oregon City, OR
	Gaffney Investors I, LLC	Oregon City, OR
	Gladstone Properties, LLC	Gladstone, OR
	Kurth Properties, LLC (Sold in 2015)	South Salem, OR
	MDN Gladstone, LLC	Gladstone, OR
	Olympic Meadows, LLC	Sequim, WA
	Parkway Courtyard, LLC (Sold in 2015)	Wilsonville, OR
	Redmond 97 Lot 200, LLC	Redmond, OR
	Sandy Villas, LLC	Sandy, OR
	27th Street Properties, LLC	Bend, OR
	Bremerton MC Properties, LLC	Bremerton, WA
ANCILLARY AND OTHER ENTITIES		
	A-One Home Health Services, Inc.	Wilsonville, OR
	Avamere ALF Operations, LLC	Wilsonville, OR
	Avamere Home Health Care, LLC	Wilsonville, OR
	Avamere Rehab Services, LLC	Wilsonville, OR
	Home Health Advantage, Inc.	Wilsonville, OR
	MWMD Pharmacy Solutions 2, LLC	Wilsonville, OR
	NP2U, LLC	Wilsonville, OR
	Northwest Ancillary Investors, LLC	Wilsonville, OR
	Northwest Hospice, LLC	Wilsonville, OR
	Premere Rehab, LLC	Wilsonville, OR
	Prime Home Health, Inc.	Wilsonville, OR

AVAMERE GROUP, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies

Basis of accounting – The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Principals of consolidation – The consolidated financial statements include the accounts of the Company and all of its wholly-owned and majority-owned subsidiaries. The Company follows authoritative guidance on the Consolidation of Variable Interest Entities (VIE), which addresses consolidation by business enterprises of VIE. The Company has considered its agreements and business activities with related parties in order to determine whether any of the relationships qualify as VIE and whether the Company would be deemed to be the primary beneficiary and be required to consolidate the activities of these VIE in the Company's consolidated financial statements. All significant inter-company balances and transactions have been eliminated in consolidation.

Variable interest entities – Generally accepted accounting principles require a qualitative approach to identifying a controlling financial interest in a VIE and requires an ongoing assessment of the primary beneficiary of the VIE based on an evaluation to determine whether an entity has: (a) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance, and (b) the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. In determining whether an entity has the power to direct the activities of the VIE that most significantly affect the VIE's performance, the guidance requires a reporting entity to assess whether it has an implicit financial responsibility to ensure that a VIE operates as designed. The guidance also requires: (a) separate presentation on the face of the statement of financial position of certain assets and liabilities of a consolidated VIE, (b) disclosure of the significant judgments and assumptions made by an enterprise in its determination as to whether or not the enterprise is the primary beneficiary of a VIE, and (c) additional expanded disclosures regarding the enterprise's involvement with a VIE.

Non-controlling interests – The Company reports its non-controlling interests as a separate component of shareholders' and members' equity. The Company also presents the consolidated net income and the portion of the consolidated net income allocable to the non-controlling interests and to the shareholders or members of the Company separately in its consolidated statements of income. In addition, losses applicable to the non-controlling interest are allocated to the non-controlling interest even when those losses are in excess of the non-controlling interests' investment basis.

Use of estimates – The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include accounts receivable allowance for bad debt, allowance for contractual adjustments, depreciation lives, valuation of goodwill and intangible assets, self-insured medical claims incurred but not reported, and litigation reserve.

AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

Cash and cash equivalents – The Company considers all highly-liquid investment securities purchased with a maturity of three months or less to be cash equivalents. The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company monitors the credit ratings of the financial institutions in which they hold accounts and has not experienced any losses in such accounts.

Designated cash – The Company has restricted cash for resident trust funds. The resident trust liability is included in accounts payable on the balance sheet. Total resident trust cash and related liability was approximately [REDACTED] of December 31, 2016 and 2015, respectively.

Concentrations of credit risk – Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. The Company maintains its cash balances in commingled accounts with entities having common ownership.

Accounts receivable – The Company grants credit in the normal course of business to private individuals, other businesses, governmental agencies, and insurance companies. The Company performs ongoing credit evaluations and generally does not require collateral. The Company receives payment for services rendered from private pay payors, Medicare and Medicaid programs, Veterans Administration, and third-party payors. Management does not believe there are any credit risks associated with receivables from governmental agencies. Private and other receivables consist of receivables from a large number of payors involved in diverse activities and subject to differing economic conditions, which do not represent any concentrated credit risks to the Company.

Accounts receivable are reduced by an allowance for doubtful accounts and contractual adjustments. In evaluating the collectability of accounts receivable, management analyzes its past history and identifies trends to estimate the appropriate allowance for doubtful accounts and provision for bad debts.

For receivables associated with self-pay residents (which includes both residents without insurance and residents with deductible and copayment balances due for which third-party and government coverage exists for part of the bill), the Company records a provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off to provision for bad debt.

The Company also has receivable balances from unrelated third-party entities for services provided by the ancillary entities. The Company assesses the collectability of these accounts based upon historical collections, and known financial issues with the customers. The Company records a provision for bad debts in the period of service based upon this information.

AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

Management regularly monitors and adjusts its reserves and allowances related to these receivables. Interest is charged on accounts at the discretion of management. The Company’s allowance for bad debt was approximately \$ [REDACTED] as of December 31, 2016 and 2015, respectively. In addition, the Company’s bad debt provision expense was approximately [REDACTED] for the years ended December 31, 2016 and 2015, respectively. There was no change in the methodology used by the Company to estimate the allowance for contractual adjustments and bad debt provision in the current year.

The mix of receivables as of December 31, 2016 and 2015 is as follows:

	2016	2015
Private	[REDACTED]	
Other third-party payers		
Medicare		
Medicaid		
Veterans		
	<u>100%</u>	<u>100%</u>

Inventory – Inventory consists of supplies and is stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

Other assets – Other current assets are comprised of deposits, funds held in escrow, property taxes, insurance reserves, and other miscellaneous investments.

Investment in other entities - [REDACTED]

Property and equipment – Property and equipment acquisitions are recorded at cost. Major renewals or improvements over \$750 are capitalized, whereas ordinary maintenance and repairs are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows: leasehold improvements and equipment under capital lease – the shorter of the useful life of the assets or length of the lease; furniture, fixture and equipment – 3 to 20 years; and buildings – 27.5 years. Depreciation expense for property and equipment was approximately [REDACTED] and [REDACTED] for the years ended December 31, 2016 and 2015, respectively.

AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

Impairment of long-lived assets – The Company assesses long-lived assets for impairment in accordance with the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 360 “Property, Plant and Equipment.” A long-lived asset (asset group) shall be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted net cash flows expected to result from the use and eventual disposition of the asset. The amount of impairment loss, if any, is measured as the difference between the net book value of the asset and its estimated fair value. For purposes of these tests, long-lived assets must be grouped with other assets and liabilities for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities.

Intangible assets – Intangible assets subject to amortization include non-compete covenants and customer contracts. Customer contracts are being amortized over the life of the contracts, which range from ten to fifteen years. Indefinite lived intangible assets consist of bed rights, certificates of need, and government authorizations. Management tests these indefinite lived intangible assets for impairment annually. See details of intangible assets at Note 5.

Goodwill – The carrying amount of goodwill as of December 31, 2016 and 2015 reflects the cumulative amount paid, adjusted for any impairment charges, in excess of the fair value of net assets acquired in one or more business combination transactions. Management tests goodwill for impairment annually.

Letters of credit –



Insurance coverage – The Company purchased a claims made general and professional liability insurance policy and real property coverage from an outside carrier. Premiums are expensed on a straight-line basis over a twelve-month period (see Note 12).

AVAMERE GROUP, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

Workers' compensation coverage for Washington employees is insured through the state of Washington, which is paid quarterly via the labor and industries tax, and expenses are accrued monthly. Workers' compensation coverage for all other facilities and entities is insured by an outside insurance carrier. The Company pays a stipulated premium monthly as well as claim costs as they occur, and expenses are accrued monthly.

The estimated liability for unpaid professional liability claims has been recorded in the consolidated balance sheet at the gross estimated liability. The related estimated insurance recoveries are recorded as a receivable.

Common stock – The consolidated financial statements include two corporations, which record common stock. The consolidated financial statements reflect the common stock issued and outstanding in these corporations (see Note 9).

Resident care and ancillary revenue – The Company has agreements with third-party payors that provide for payments at amounts different from its established rates. Resident care revenue, ancillary revenue and other related service fees are recognized in the period the service is rendered. Resident care and ancillary revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Revenue under third-party payor agreements is subject to audit and retroactive adjustment. Provisions for estimated third-party payor settlements are provided in the period the related services are rendered. Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the year of settlement.

Management revenue – Each facility is operated under an agreement with Avamere Skilled Advisors, LLC (dba Avamere Living), owned by Avamere. Avamere Living charges a fee for providing certain administrative support services. These fees were eliminated during consolidation. The Company also manages other entities. The revenue recognized under these arrangements was approximately [REDACTED] and [REDACTED] for the years ended December 31, 2016 and 2015, respectively.

Medicare bundled payments – In 2015, the Centers for Medicare & Medicaid Services (CMS) selected Avamere Health Services, LLC (AHS) as an "Awardee Convener" in Medicare's Bundled Payments for Care Improvement (BPCI) initiative. AHS's participation commenced on April 1, 2015. AHS assumes financial responsibility for BPCI initiative patients for a 90-day episode beginning with the initiation of post-acute care services after an acute care hospitalization. AHS only recognizes BPCI gains or losses after the CMS reconciliation process is complete, which occurs nine months following the beginning of the 90 day episode. AHS recorded approximately [REDACTED] in gains in 2016 and 2015, respectively, which is included in resident care Medicare and in home health/home care revenue on the consolidated statement of income.

Advertising – Advertising costs, which are included in administration expenses, are expensed as incurred. Advertising expense was approximately [REDACTED] for the years ended December 31, 2016 and 2015, respectively.

AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

Fair value measurements – FASB ASC 820, *Fair Value Measurements and Disclosures*, apply to the following areas:

- Goodwill and indefinite-lived intangible asset impairment testing, which involves the fair value measurement of reporting units, assets, and/or liabilities
- Nonfinancial long-lived assets (such as property and equipment or land held for future development) measured at fair value for impairment assessment

Income taxes – The consolidated financial statements include Limited Liability Companies and S-Corporations. Accordingly, all federal income tax attributes are passed through to the Company's shareholders or members. Therefore, no provision is made in the accompanying consolidating financial statements for liabilities for federal, state or local income taxes since such liabilities are the responsibility of the individual partners.

The Company accounts for uncertain tax positions in accordance with ASC 740-10. The Company does not have any entity level uncertain tax positions. The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. Generally, the Company is subject to examination by U.S. federal (or state and local) income tax authorities for three years from the filing of a tax return.

Adoption of new accounting policies – In April 2015, FASB issued Accounting Standards Update (ASU) No. 2015-03, which simplifies the presentation of debt issuance costs. ASU 2015-03 requires that debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct reduction from the carrying amount of debt liability. These costs are amortized to interest expense over the life of related debt. The Company adopted ASU 2015-03 on a retrospective basis. The reclassifications reduced total assets and debt at December 31, 2016 and 2015 by [REDACTED] respectively (see Note 7).

Reclassification – Certain accounts were reclassified in the prior year for consistency and comparison purposes with the current year presentation. Such reclassifications have no effect on previously reported net income.

Subsequent events – Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are available to be issued. The Company recognizes in the consolidated financial statements, the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated balance sheet, including the estimates inherent in the process of preparing the financial statements. The Company's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the consolidated balance sheet date and before consolidated financial statements are available to be issued.

The Company has evaluated subsequent events through March 21, 2017, which is the date the consolidated financial statements were available to be issued.

AVAMERE GROUP, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 – Fair Value of Assets and Liabilities

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To determine fair value, the Company must maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

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

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies used for instruments measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheet, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Fair value was determined as follows:

Long-lived assets held and used – In evaluating long-lived assets held and used (generally land, buildings, property and equipment) for impairment purposes, the fair value is determined, whenever possible, by reference to quoted market prices and other market information for similar assets.

In accordance with the provisions of the Impairment or Disposal of Long-Lived Assets Subsection of FASB ASC Subtopic 360-10, long-lived assets and land held for future development were evaluated for impairment. For the years ended December 31, 2016 and 2015, these assets were determined to not be impaired.

Goodwill – In evaluating goodwill for impairment purposes, the fair value of goodwill is determined based on the fair market value of similar sales or an estimated value of three to seven times the annualized earnings before interest, taxes, depreciation and amortization.

Goodwill was determined to not be impaired as of December 31, 2016 and 2015.

AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 – Fair Value of Assets and Liabilities (continued)

Intangible assets –

Indefinite-lived intangible assets – The fair value of indefinite-lived intangible assets is determined based upon review of sales of similar assets within the market.

Amortizable intangible assets – The fair value of amortizable intangible assets is determined based on discounted expected future cash inflows over the estimated remaining life of the asset.

For the years ended December 31, 2016 and 2015, the intangible assets were determined to not be impaired.

AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 – Notes Receivable

December 31,	
2016	2015

Note receivable from an unrelated party. Due in monthly interest only payments at 6% interest, due October 2017.

Note receivable from a related party in connection with the sale of shares in [REDACTED] accruing interest at [REDACTED] annually, with no scheduled monthly payments. Note will mature and become payable in full, including all interest, contemporaneously with any acquisition of borrower's shares for cash or other consideration once it is converted to cash.

Note receivable from an unrelated party as a result of the sale of [REDACTED]. Due in monthly payments of [REDACTED], including interest at [REDACTED] due April 2018.

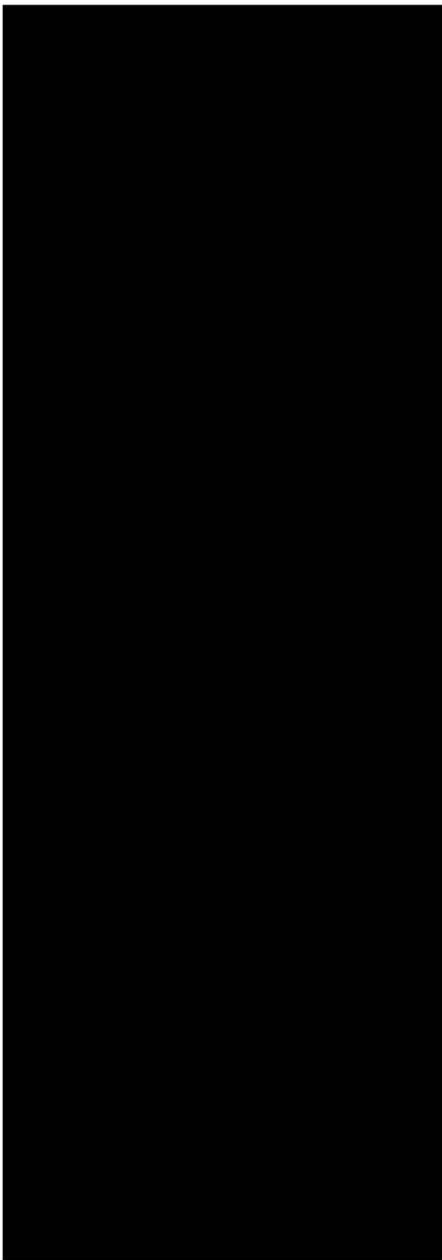
Note receivable from a therapy customer, converted from accounts receivable, payment is due including interest of [REDACTED]

Note receivable from a therapy customer, converted from accounts receivable. Due in monthly payment of [REDACTED] including interest of [REDACTED] due June 2018.

Note receivable from a therapy customer, converted from accounts receivable. Due in monthly payment of [REDACTED] including interest of [REDACTED] due February 2017.

Note receivable from an unrelated party as the result of a sale in 2011. Personally guaranteed by the buyers. Due in monthly payments of [REDACTED] including interest at [REDACTED] paid off in November 2016.

Less current portion of notes receivable



AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 – Intangible Assets

Intangible assets are as follows:

	December 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Intangible Assets, net
Amortizable intangible assets	[REDACTED]		
Customer contracts			
Non-compete covenants			
Other intangibles			
Indefinite-lived intangible assets			
Bed rights			
Certificate of need			
Government authorizations			
Amortizable intangible assets			
Customer contracts			
Non-compete covenants			
Other intangibles			
Indefinite-lived intangible assets			
Bed rights			
Certificate of need			
Government authorizations			

AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 - Intangible Assets (continued)

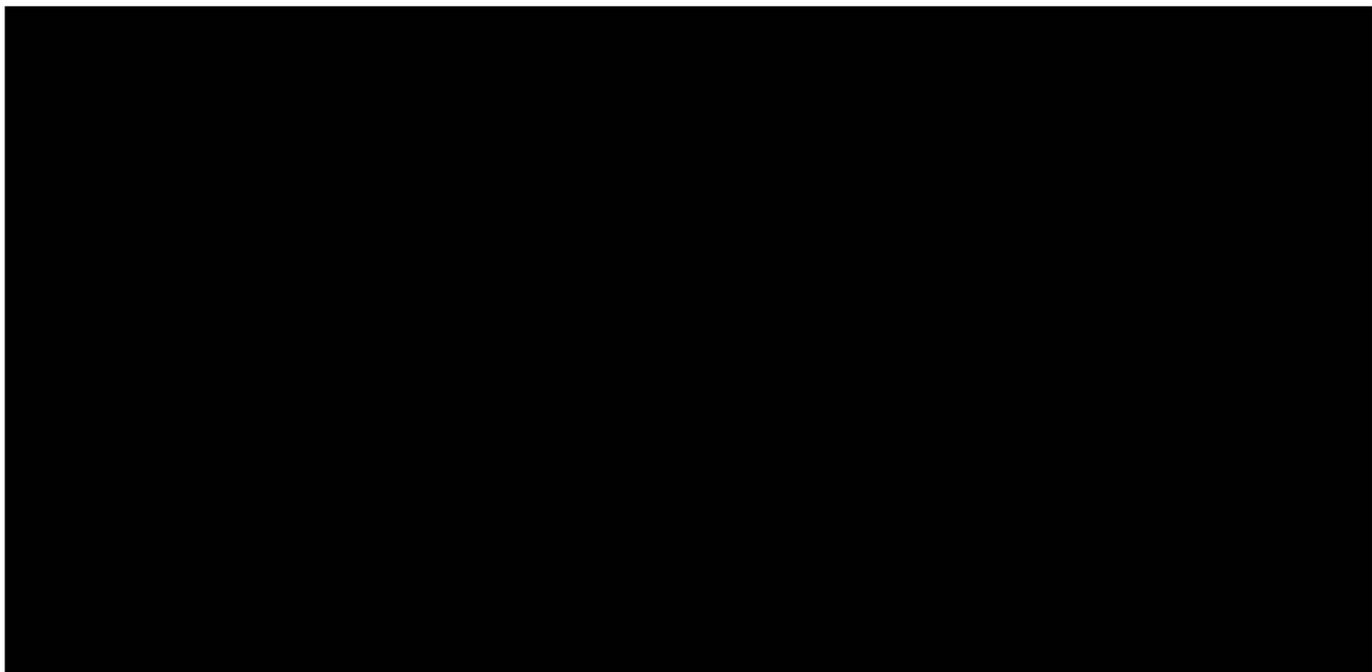
Amortization is computed using the straight-line method over the estimated useful life of the asset. Amortization expense on these assets, for the years ended December 31, 2016 and 2015, was approximately \$ [REDACTED], respectively.

Future expected amortization expense for the years ending December 31 are as follows:

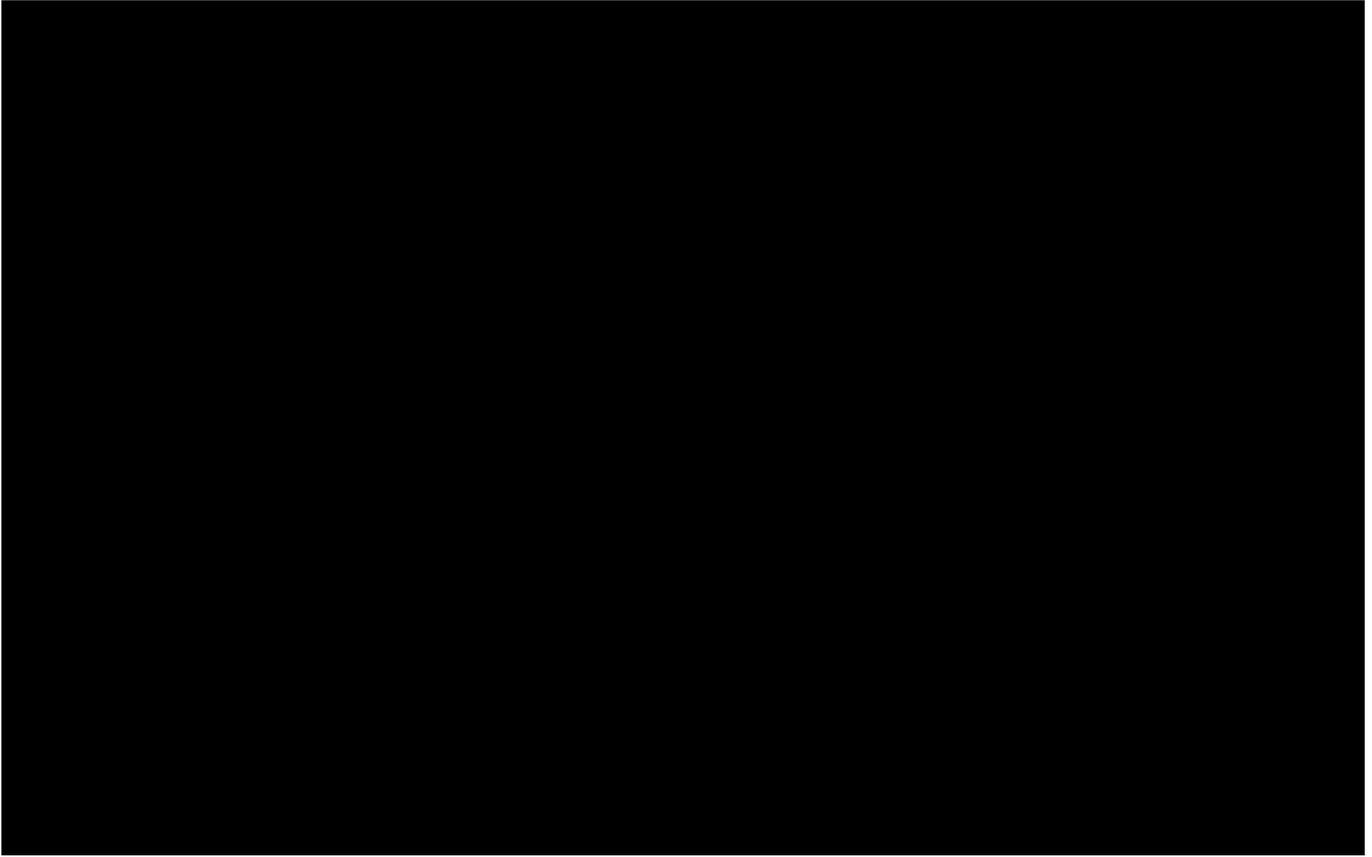
2017
2018
2019
2020



Note 6 - Lines of Credit



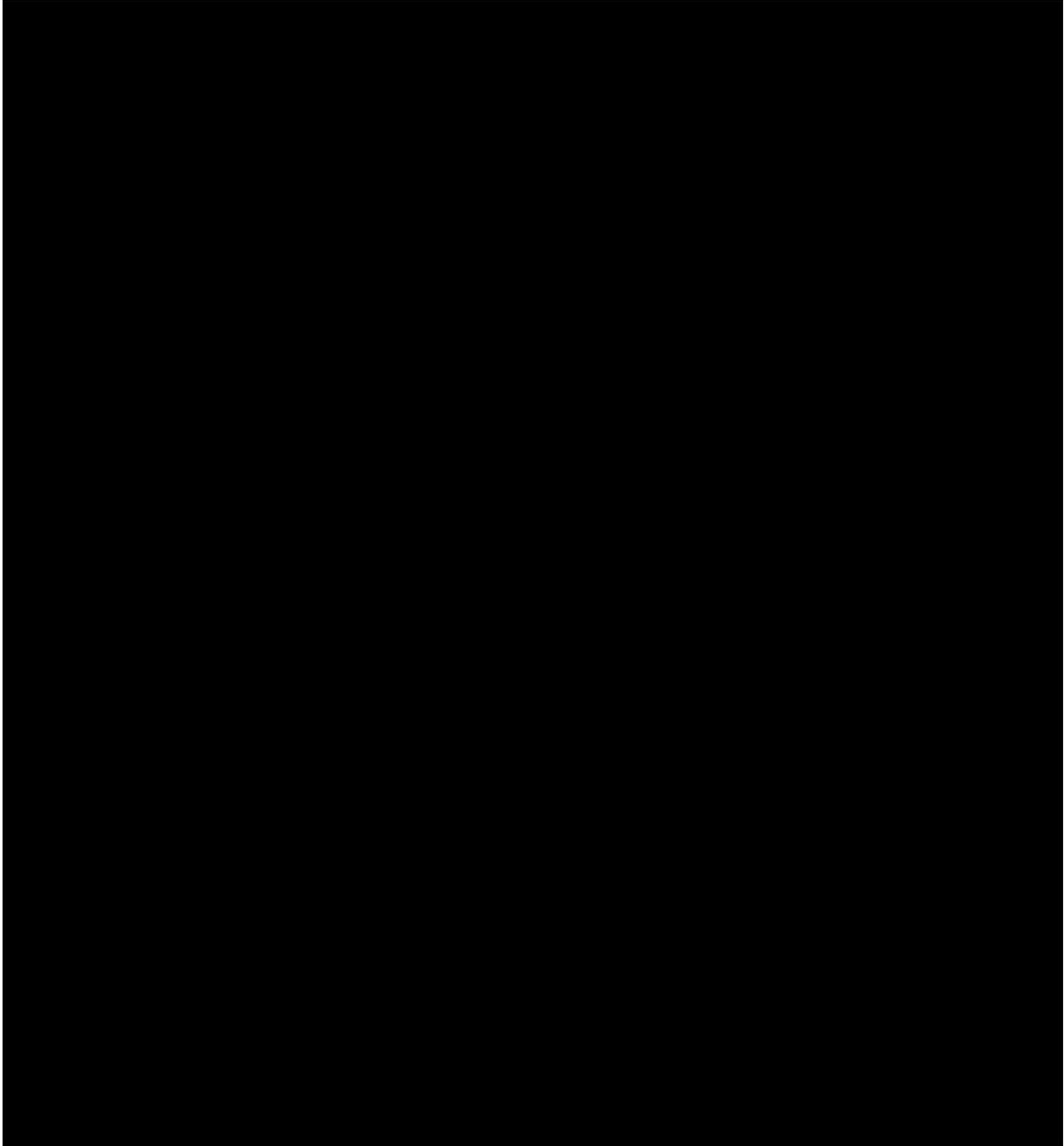
Note 6 – Lines of Credit (continued)



AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 - Long Term Debt

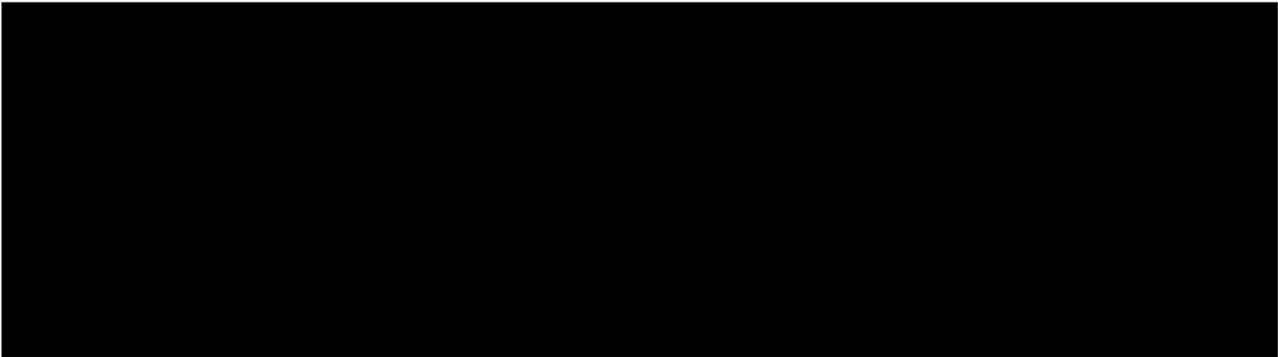
December 31,	
2016	2015



AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 - Long Term Debt (continued)

December 31,	
2016	2015



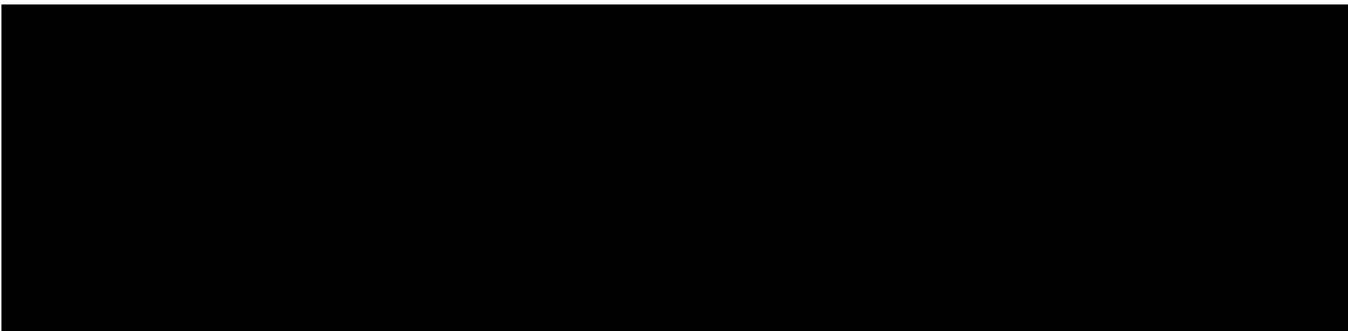
Debt issuance costs - Amortization of debt issuance costs is computed over the terms of the respective debt using the effective interest method. Total debt issuance costs amortized to interest expense was [redacted] for the year ended December 31, 2016 and 2015, respectively. Accumulated amortization was [redacted] for the year ended December 31, 2016 and 2015, respectively. Debt issuance costs are being amortized using the straight-line method over the life of the related loan.

Principal maturities of long term debt as of December 31, 2016 are as follows:

2017
2018
2019
2020
2021
Thereafter

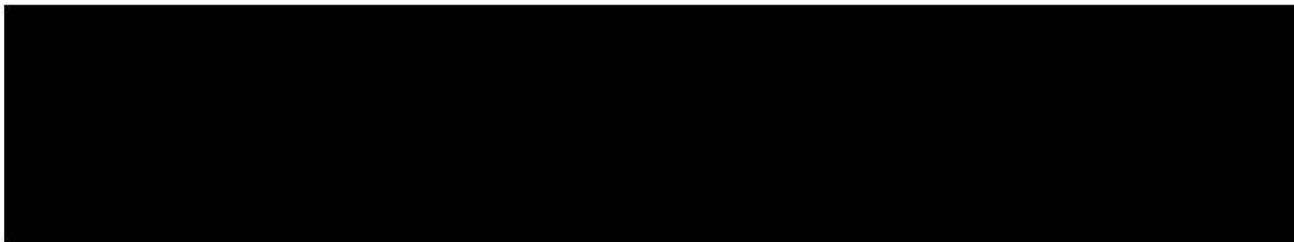


Note 8 - Deferred Gain on Sale



AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 – Common Stock, Member Units, and Ownership Transaction



The Company has the following issued and outstanding Membership Units:

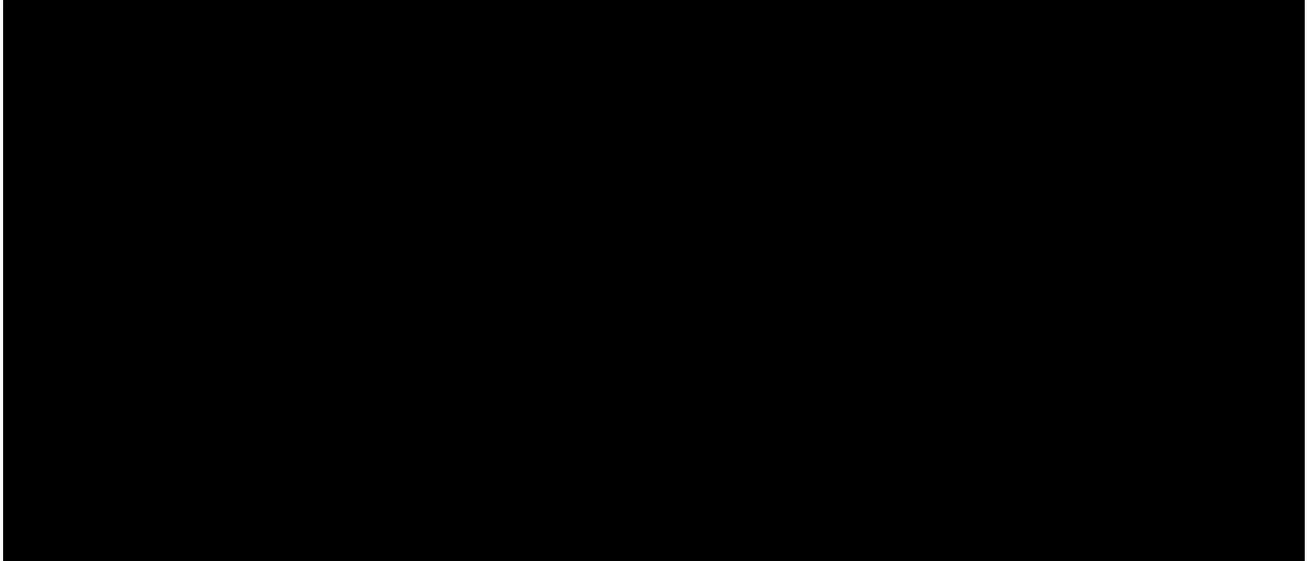
	Avamere Group Membership Units			
	Class A	Class B	Class C	Total
Balance, December 31, 2014				
Units issued				
Balance, December 31, 2015				
Units issued				
Balance, December 31, 2016				

The following consolidated entities have authorized, issued and outstanding shares of stock as of December 31, 2016 and 2015 as follows:

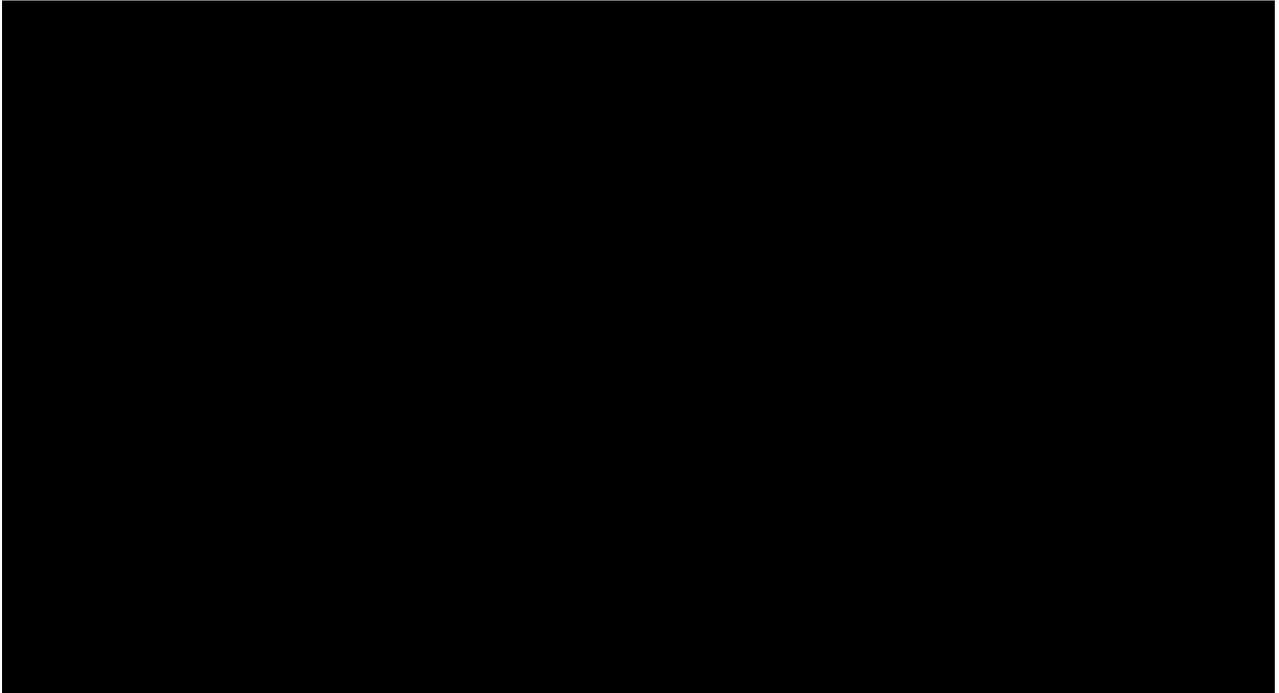
	Stock Shares as of December 31, 2016			
	Authorized	Issued	Outstanding	Dollar Value
Peckham-Miller, Inc.				
Home Health Advantage, Inc.				
Balance as of December 31, 2016				
Peckham-Miller, Inc.				
Home Health Advantage, Inc.				
Balance as of December 31, 2015				

All stock has zero par value.

Note 10 - Pension Plans

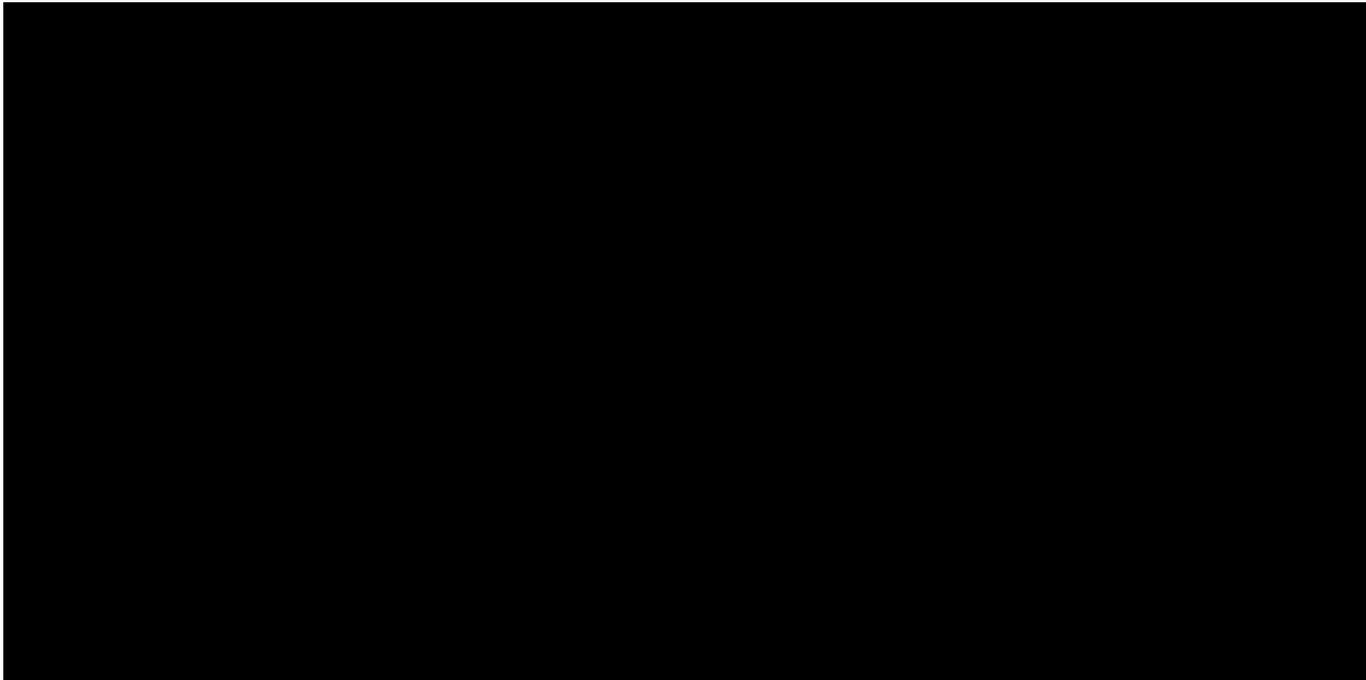


Note 11 - Operating Leases



AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 – Operating Leases (continued)

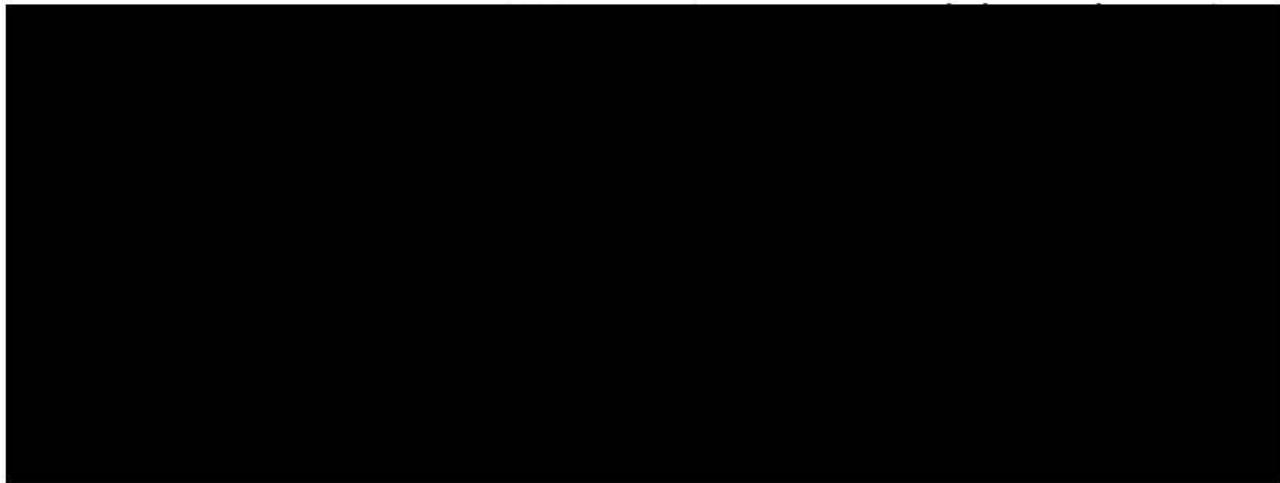


Note 12 – Commitments and Contingencies

Industry regulations – The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditations, government health care programs participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayment for patient services previously billed. Management believes that the Company is in compliance with fraud and abuse as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions known or unasserted at this time.

Payments from Federal and State Health Care Programs – Entities doing business with governmental payors, including Medicare and Medicaid, are subject to risks unique to the government-contracting environment that are difficult to anticipate and quantify. Revenues are subject to adjustment as a result of examination by government agencies as well as auditors, contractors, and intermediaries retained by the federal, state, or local governments (collectively “Government Agents”). Resolution of such audits or reviews often extends (and in some cases does not even commence until) several years beyond the year in which services were rendered and/or fees received. In accordance with generally accepted accounting principles, to account for the uncertainty around governmental payor regulations and audits, the Company estimates the amount of revenue that will ultimately be received under these programs. The result of future examinations or audits could vary from these estimates.

Note 12 - Commitments and Contingencies (continued)



Litigation - Avamere and their related entities are party to various legal actions and administrative proceedings and subject to various claims arising in the ordinary course of business. The Company does not believe that the ultimate disposition of these matters will have a material adverse effect on the financial position or results of operations. The Company estimated the total gross liabilities and the related insurance recovery receivable as follows:

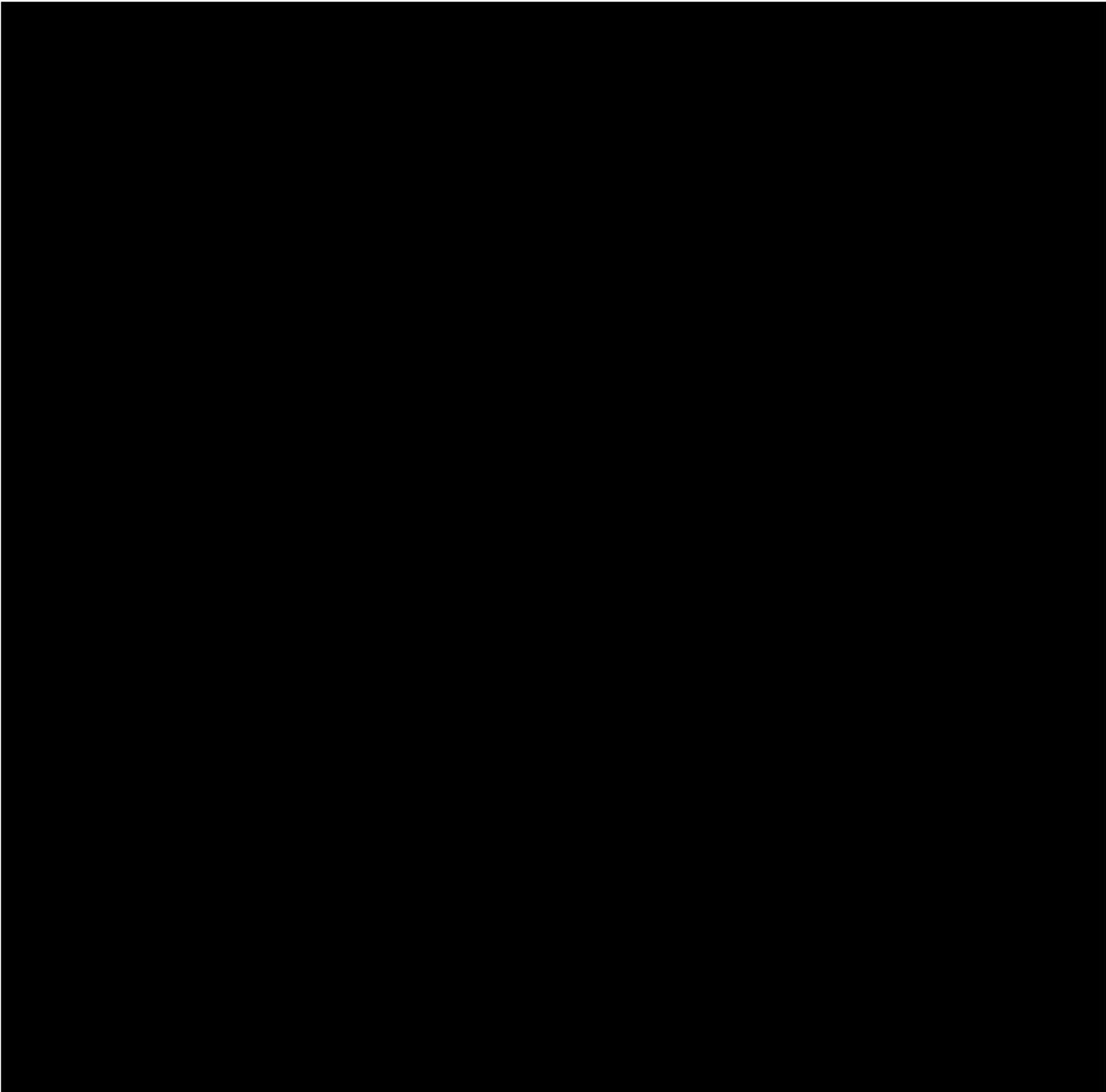
	December 31,	
	2016	2015
Estimated litigation liability - current	[REDACTED]	
Estimated litigation liability - long-term		
Total estimated litigation liability		
Estimated insurance recoveries - current		
Estimated insurance recoveries - long-term		
Total estimated insurance recoveries		
Net litigation exposure		

Insurance - [REDACTED]



AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12 - Commitments and Contingencies (continued)



Note 12 – Commitments and Contingencies (continued)

Note 13 – Business Consolidation

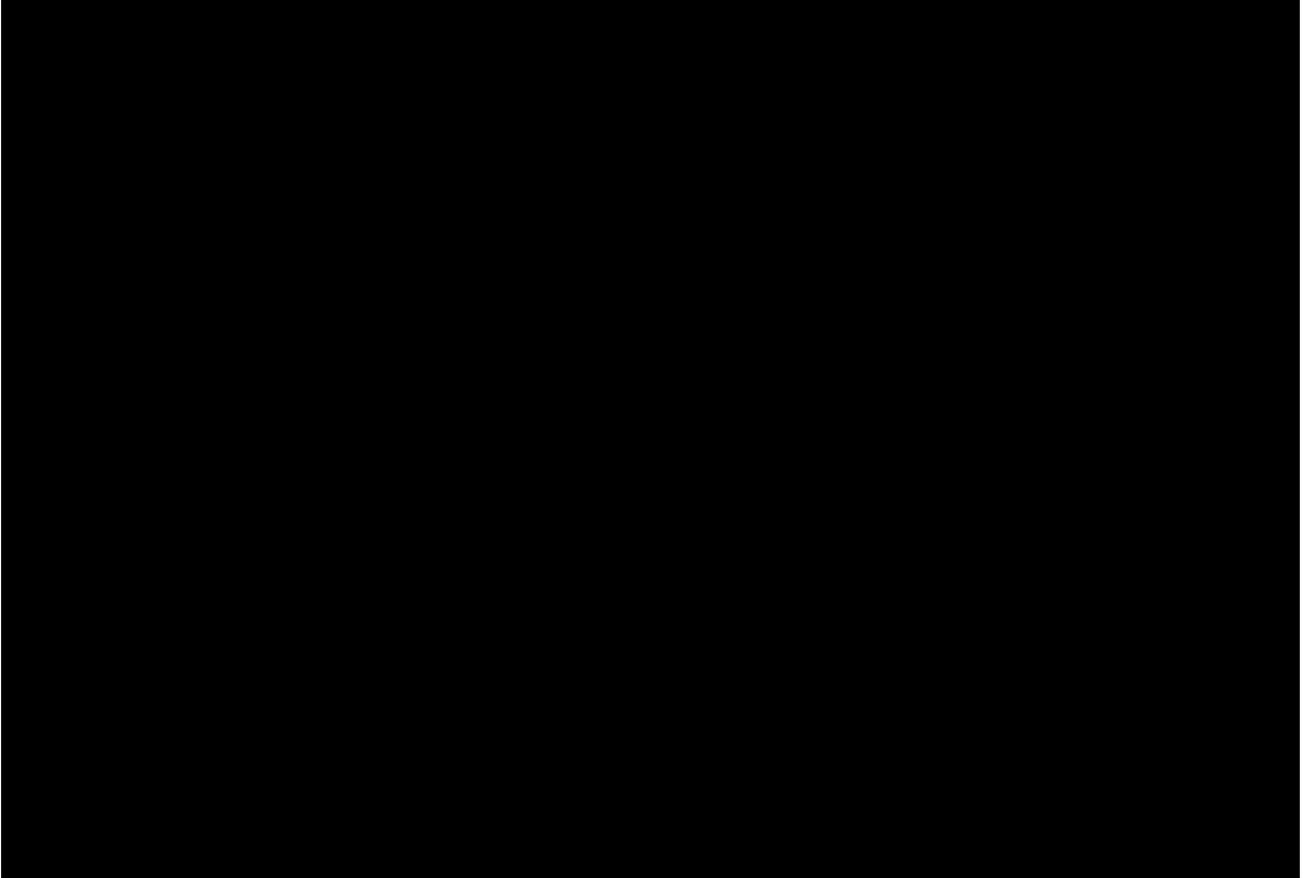
Consolidated variable interest entities – Generally accepted accounting principles require a reporting entity to consolidate a VIE when the reporting entity has a variable interest, or combination of variable interests, that provides it with a controlling financial interest in the VIE. The entity that consolidates a VIE is referred to as the primary beneficiary of that VIE. To determine if the Company should consolidate a VIE, management evaluates the Company’s ownership and relationship to determine if they have a controlling financial interest. Variable interests may occur through contractual, ownership, or other financial interest in an entity whose value changes with changes in the fair value of the entity’s net assets, exclusive of variable interests. The variable interest may be explicit or implicit. Explicit variable interests are those which directly absorb the variability of a VIE and can include contractual interests such as loans or guarantees as well as equity investments. An implicit variable interest acts the same as an explicit variable interest except it involves the absorbing of variability indirectly, such as through related-party arrangements or implicit guarantees. The analysis includes consideration of the design of the entity, its organizational structure, including decision making ability over the activities that most significantly impact the VIE’s economic performance.

The Company identified Premere Rehab, LLC (Premere) as a VIE and has concluded the Company is the primary beneficiary. The Company’s consolidated equity is reflected as the controlling financial interest in the accompanying consolidated financial statements.

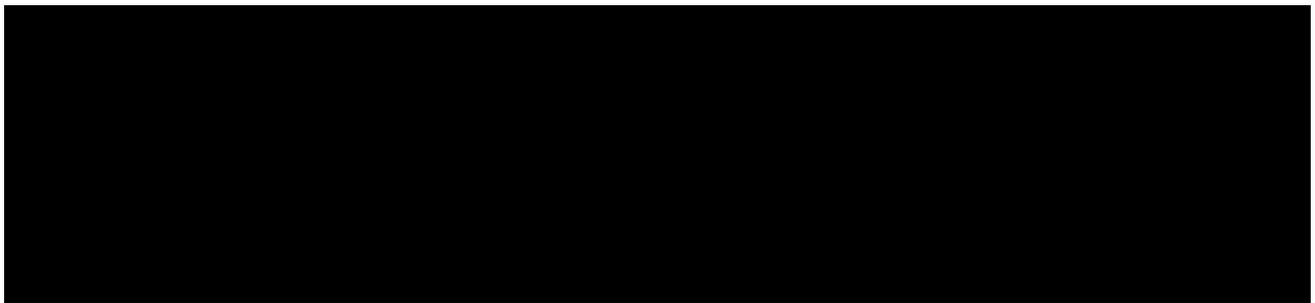
AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14 – Acquisitions and Sales

2016 Activity –



Note 15 – Real Estate Activities



AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16 – Collective Bargaining Agreements

Certain entities' employees are covered by collective bargaining agreements. The agreement covering these employees are for the following entities and contract periods:

	<u>Beginning</u>	<u>Ending</u>

Approximately [REDACTED] of the Company's labor force is covered by a collective bargaining agreement as of December 31, 2016. [REDACTED]

[REDACTED]

Note 17 – Subsequent Events

[REDACTED]

SUPPLEMENTARY INFORMATION
(See Report of Independent Auditors)

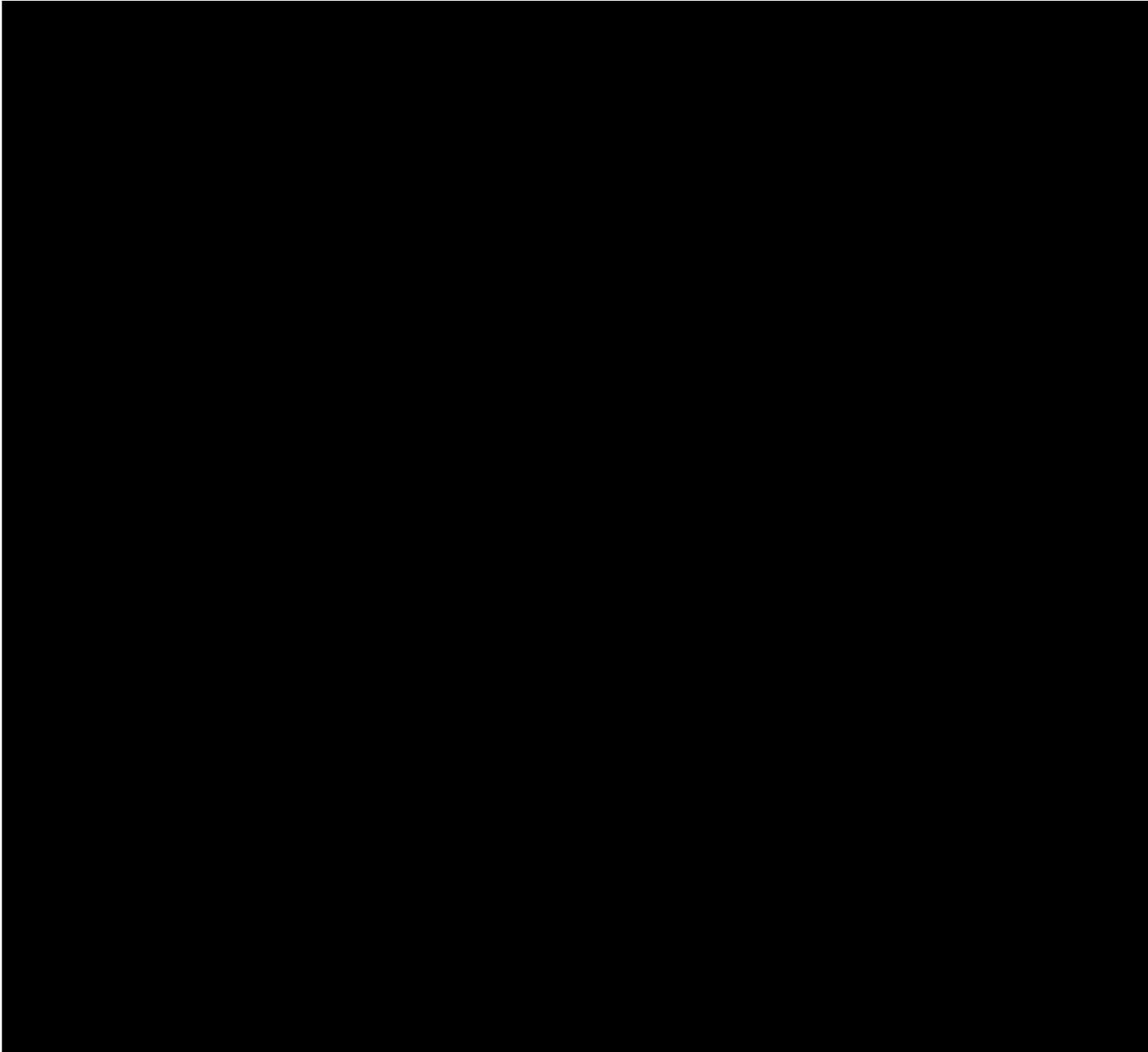
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AVAMERE GROUP, LLC
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2016

	SNF OPERATIONS 12/31/16	CAMPUS OPERATIONS 12/31/16	CBC OPERATIONS 12/31/16	COMBINED SNF & CBC OPS TOTAL 12/31/16	REHAB OPERATIONS 12/31/16
Current Assets					
Cash and Cash Equivalents					
Designated Cash					
Accounts Receivable					
Less Allowance for Bad Debt					
Other Accounts Receivable					
Due from Intercompany					
Current Portion of Note Receivable					
Current Portion of Insurance Recovery Receivable					
Inventory					
Prepaid Expenses					
Other Current Assets					
Total Current Assets					
Property and Equipment					
Land and Land Improvements					
Buildings					
Leasehold Improvements					
Furniture, Fixtures & Equipment					
Vehicles					
Construction in Progress					
Accumulated Depreciation and Amortization					
Total Property and Equipment					
Letters of Credit					
Intangible Assets					
Accumulated Amortization					
Goodwill					
Land Held for Future Development					
Notes Receivable, net of current portion					
Insurance Recovery Receivable, net of current portion					
Long-Term from Intercompany					
Investment in Other Entities					
Total Non Current Assets					
Total Assets					
Current Liabilities					
Lines of Credit					
Accounts Payable					
Payroll Payable					
Taxes Payable					
Due to Intercompany					
Other Accrued Liabilities					
Current Portion of Litigation Reserve					
Current Portion Deferred Gain on Sale					
Current Portion Capital Leases					
Current Portion Long-Term Debt					
Total Current Liabilities					
Noncurrent Liabilities					
Litigation Reserve, net of current portion					
Capital Leases, net of current portion					
Long Term Debt, net of current portion and deferred loan fee					
Long Term Due to Intercompany					
Deferred Gain on Sale, net of current portion					
Deferred Rent					
Total Long Term Liabilities					
Total Liabilities					
Equity					
Common Stock					
Members Equity					
Non-Controlling Equity					
Total Equity					
Total Liabilities and Shareholders Equity					

AVAMERE GROUP, LLC
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2016

HOME HEALTH OPERATIONS	HOSPICE OPERATIONS	SIGNATURE PHARMACY	NP2U	MANAGEMENT OPERATIONS	OTHER BUSINESSES	Sub-total pre-elim	ELIMINATIONS	CONSOLIDATED AVAMERE GROUP
12/31/16	12/31/16	12/31/16	12/31/16	12/31/16	12/31/16	12/31/16	12/31/16	12/31/16

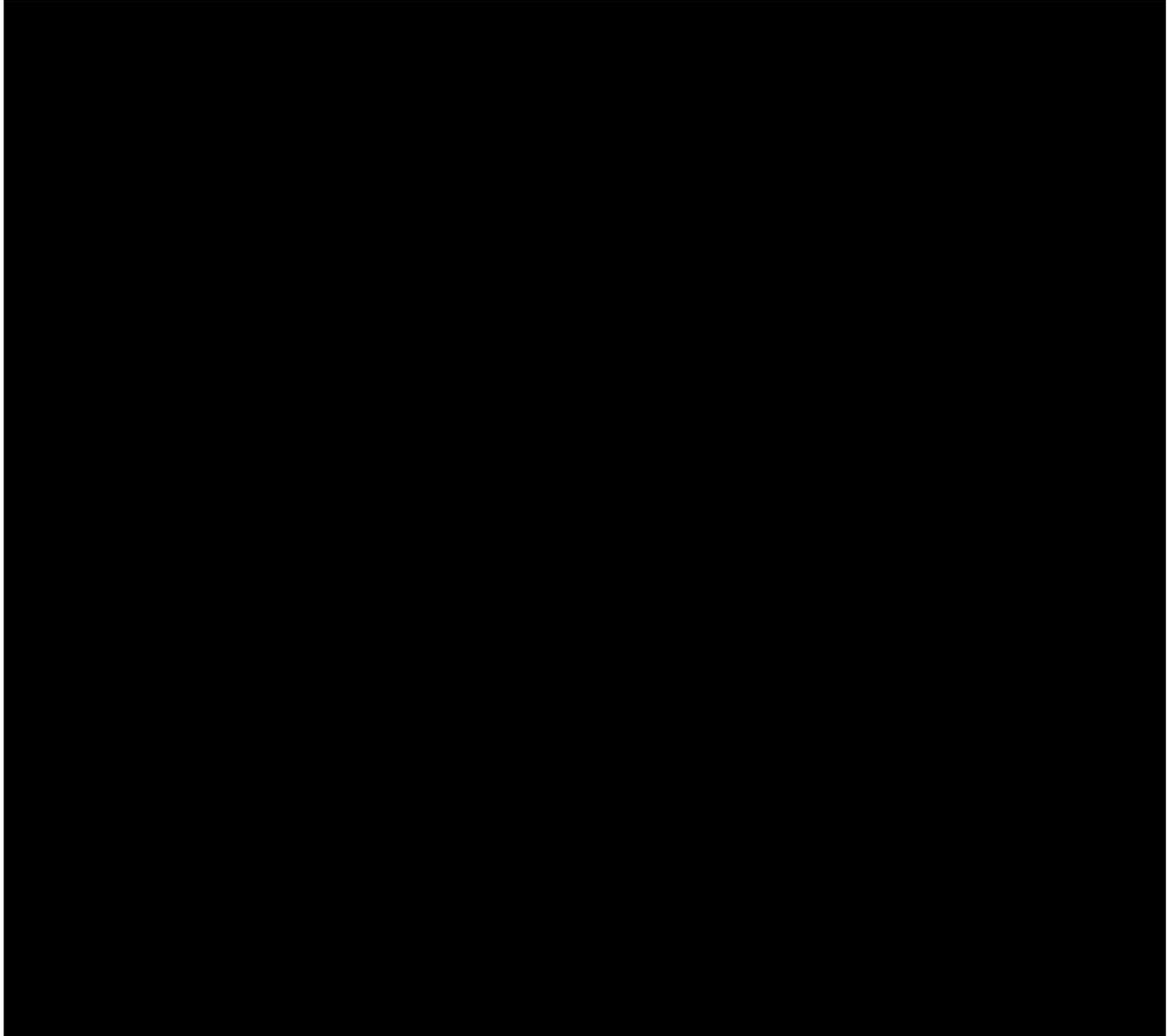


AVAMERE GROUP, LLC
CONSOLIDATING SCHEDULE OF INCOME
YEAR ENDING DECEMBER 31, 2016

	SNF OPERATIONS 12/31/16	CAMPUS OPERATIONS 12/31/16	CBC OPERATIONS 12/31/16	COMBINED SNF & CBC Ops Total 12/31/16	REHAB OPERATIONS 12/31/16
OPERATING REVENUES					
Resident Care - Medicare					
Resident Care - Medicaid					
Resident Care - Private					
Resident Care - Other					
Resident Care - Veterans					
Miscellaneous Facility Revenue					
Resident Care Revenue					
Ancillary Revenue					
Provision for Bad Debts					
Rental Income					
Management Revenue					
Miscellaneous Revenue					
Net Operating Revenue					
OPERATING EXPENSES					
Ancillary Expense					
Nursing Services					
Administration					
Rent Expense					
Dietary					
Plant Operations					
Depreciation and Amortization					
Property Taxes and Insurances					
Housekeeping					
Social Services					
Interest					
Activities					
Laundry and Linen					
Medical Records					
Restorative Care					
Miscellaneous Expense					
Income Taxes					
Cost Report Settlements					
Management Fees					
Total Operating Expenses					
NON-OPERATING REVENUES & EXPENSES					
Miscellaneous Revenue					
Miscellaneous Expenses					
Investment Income					
Donations					
Recognition of deferred gain on sale of assets					
Gain (loss) on sale of assets					
Total Non-operating Revenue and Expense					
NET INCOME (LOSS)					
Net Income Attributable to Non-Controlling Interest					
NET INCOME (LOSS) Attributable to Avamere Group, LLC					
Plus Depreciation					
Plus Interest					
Plus Income Taxes					
EBITDA					
Plus Rent					
EBITDAR					

AVAMERE GROUP, LLC
CONSOLIDATING SCHEDULE OF INCOME
YEAR ENDING DECEMBER 31, 2016

HOME HEALTH OPERATIONS 12/31/16	HOSPICE OPERATIONS 12/31/16	SIGNATURE PHARMACY 12/31/16	NP2U 12/31/16	MANAGEMENT OPERATIONS 12/31/16	OTHER BUSINESSES 12/31/16	ELIMINATIONS 12/31/16	ACTUAL CONSOLIDATED AVAMERE GROUP 12/31/16
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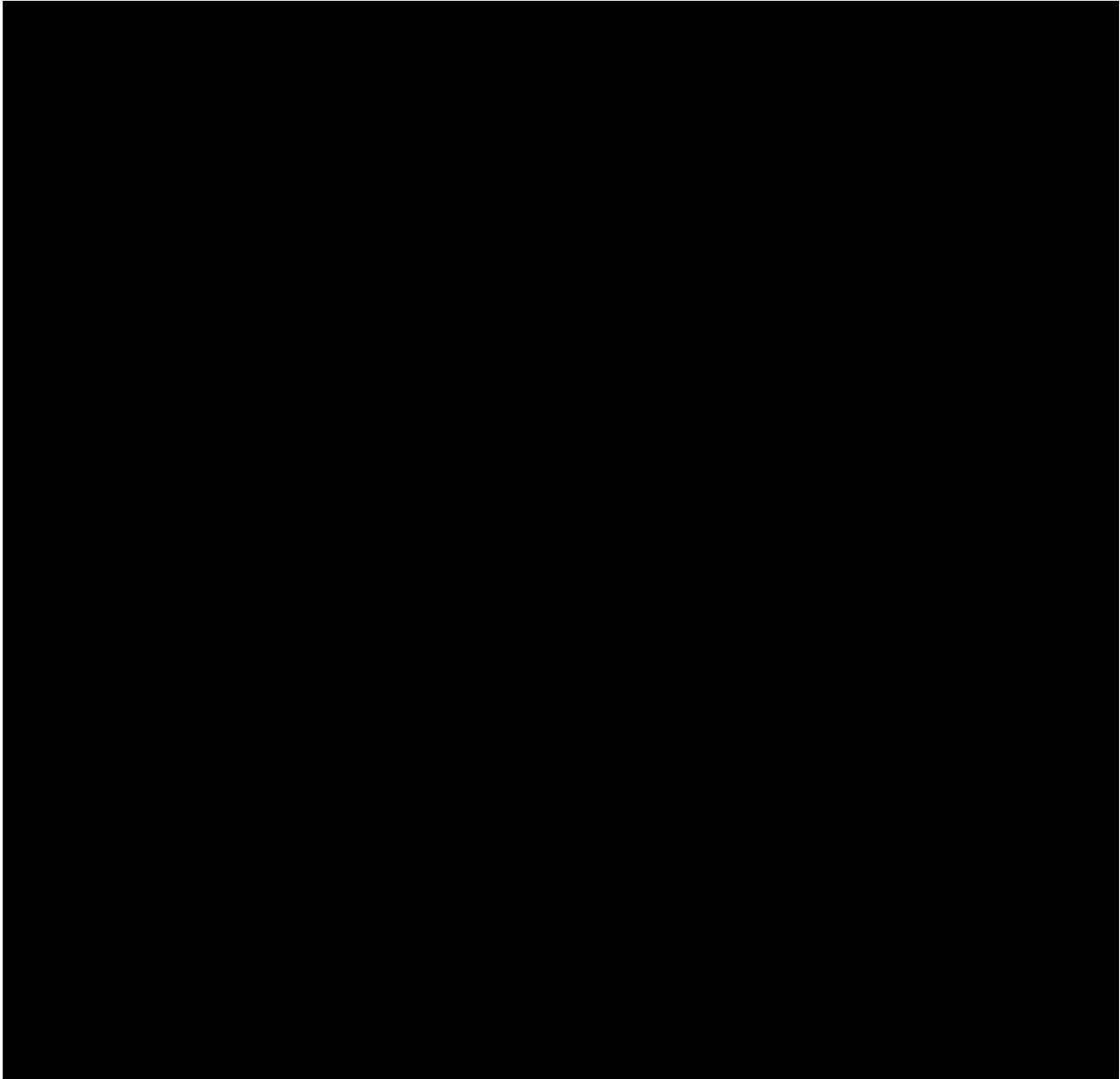


AVAMERE GROUP, LLC
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2015

	SNF OPERATIONS 12/31/15	CAMPUS OPERATIONS 12/31/15	CBC OPERATIONS 12/31/15	COMBINED SNF & CBC OPS TOTAL 12/31/15	REHAB OPERATIONS 12/31/15	HOME HEALTH OPERATIONS 12/31/15
Current Assets						
Cash and Cash Equivalents						
Designated Cash						
Accounts Receivable						
Less Allowance for Bad Debt						
Other Accounts Receivable						
Due from Intercompany						
Current Portion of Notes Receivable						
Current Portion of Insurance Recovery Receivable						
Inventory						
Prepaid Expenses						
Other Current Assets						
Total Current Assets						
Property and Equipment						
Land and Land Improvements						
Buildings						
Leasehold Improvements						
Furniture, Fixtures & Equipment						
Vehicles						
Construction in Progress						
Accumulated Depreciation and Amortization						
Total Property and Equipment						
Letters of Credit						
Intangible Assets						
Accumulated Amortization						
Goodwill						
Land Held for Future Development						
Notes Receivable, net of current portion						
Insurance Recovery Receivable, net of current portion						
Long-Term from Intercompany						
Investment in Other Entities						
Total Other Assets						
Total Assets						
Current Liabilities						
Lines of Credit						
Accounts Payable						
Payroll Payable						
Taxes Payable						
Due to Intercompany						
Other Accrued Liabilities						
Current Portion of Litigation Reserve						
Current Portion Deferred Gain on Sale						
Current Portion Capital Leases						
Current Portion Long-Term Debt						
Total Current Liabilities						
Noncurrent Liabilities						
Litigation Reserve, net of current portion						
Capital Leases, net of current portion						
Long Term Debt, net of current portion and deferred loan						
Long Term Due to Intercompany						
Deferred Gain on Sale, net of current portion						
Deferred Rent						
Total Long Term Liabilities						
Total Liabilities						
Equity						
Common Stock						
Members Equity						
Non-Controlling Equity						
Total Equity						
Total Liabilities and Shareholders Equity						

AVAMERE GROUP, LLC
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2015

HOSPICE OPERATIONS 12/31/15	SIGNATURE PHARMACY 12/31/15	NP2U 12/31/15	MANAGEMENT OPERATIONS 12/31/15	OTHER BUSINESSES 12/31/15	Sub-total pre-elim 12/31/15	ELIMINATIONS 12/31/15	CONSOLIDATED AVAMERE GROUP 12/31/15
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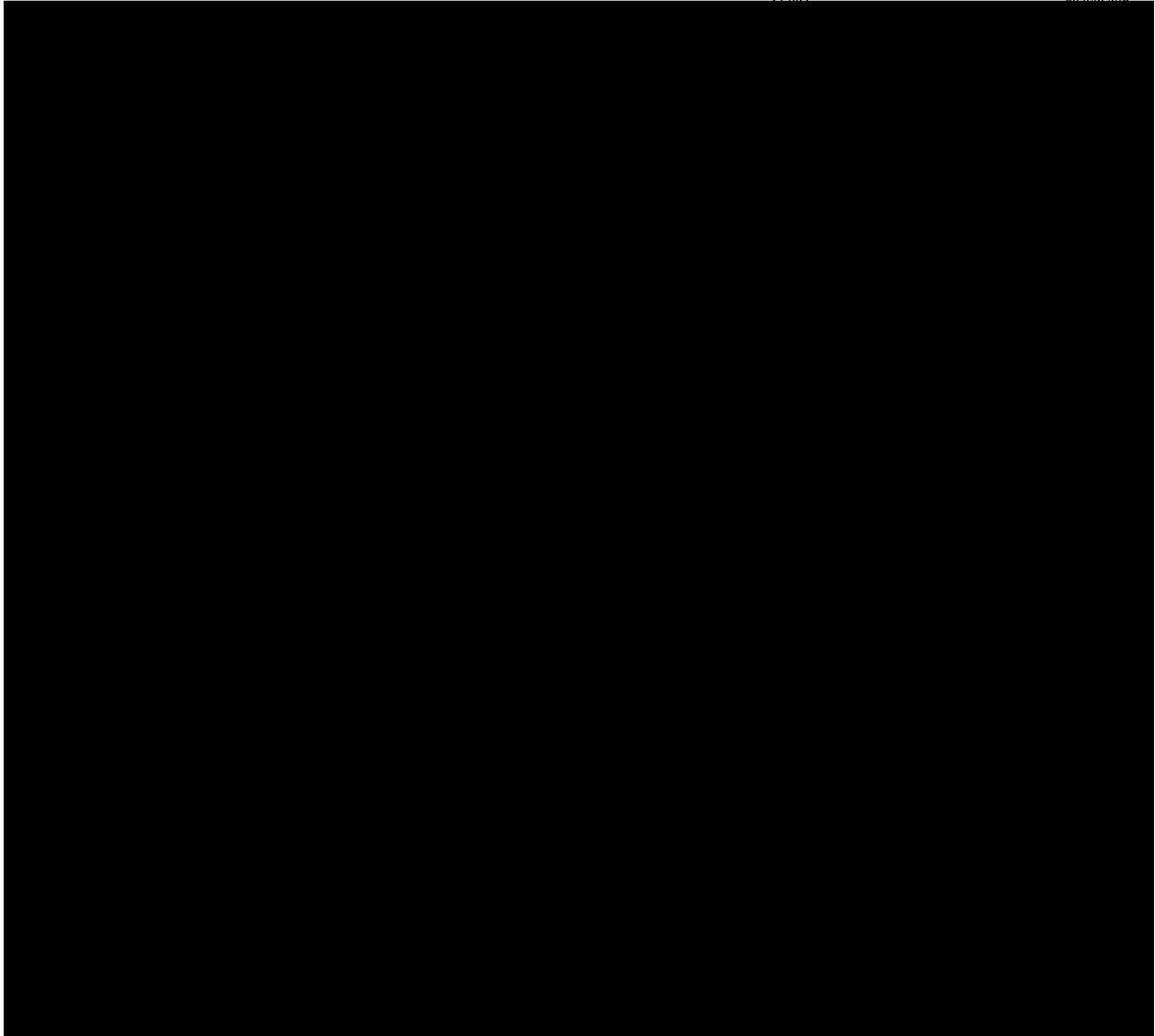


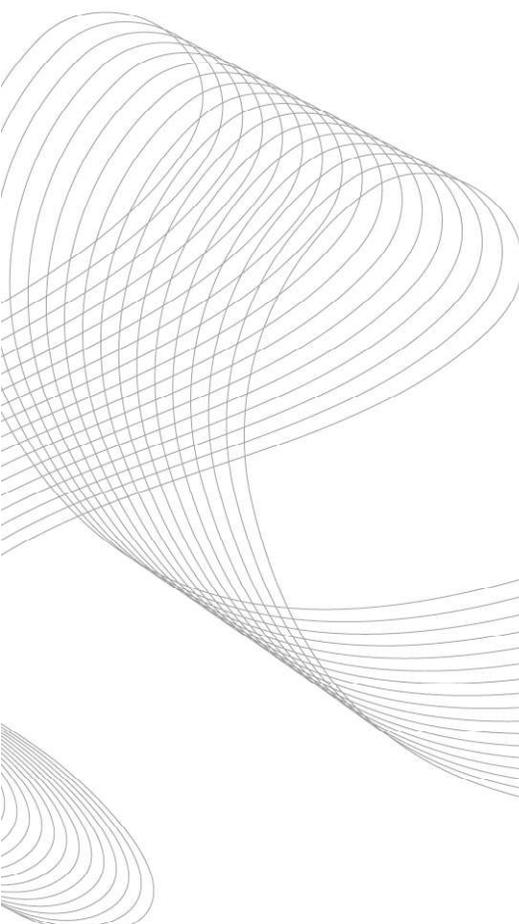
AVAMERE GROUP, LLC
CONSOLIDATING SCHEDULE OF INCOME
YEAR ENDING DECEMBER 31, 2015

	SNF OPERATIONS 12/31/15	CAMPUS OPERATIONS 12/31/15	CBC OPERATIONS 12/31/15	COMBINED SNF & CBC Ops Total 12/31/15	REHAB OPERATIONS 12/31/15	HOME HEALTH OPERATIONS 12/31/15
OPERATING REVENUES						
Resident Care - Medicare						
Resident Care - Medicaid						
Resident Care - Private						
Resident Care - Other						
Resident Care - Veterans						
Miscellaneous Facility Revenue						
Resident Care Revenue						
Ancillary Revenue						
Provision for Bad Debts						
Rental Income						
Management Revenue						
Miscellaneous Revenue						
Net Operating Revenue						
OPERATING EXPENSES						
Ancillary Expense						
Nursing Services						
Administration						
Rent Expense						
Dietary						
Plant Operations						
Depreciation and Amortization						
Property Taxes and Insurances						
Housekeeping						
Social Services						
Interest						
Activities						
Laundry and Linen						
Medical Records						
Restorative Care						
Miscellaneous Expense						
Income Taxes						
Management Fees						
Total Operating Expenses						
NON-OPERATING REVENUES & EXPENSES						
Miscellaneous Revenue						
Miscellaneous Expenses						
Investment Income						
Donations						
Recognition of deferred gain on sale of assets						
Gain (loss) on sale of assets						
Total Non-operating Revenue and Expense						
NET INCOME (LOSS)						
Net Income Attributable to Non-Controlling Interest						
NET INCOME (LOSS) Attributable to Avamere Group, LLC						
Plus Depreciation						
Plus Interest						
Plus Income Taxes						
EBITDA						
Plus Rent						
EBITDAR						

AVAMERE GROUP, LLC
CONSOLIDATING SCHEDULE OF INCOME
YEAR ENDING DECEMBER 31, 2015

HOSPICE OPERATIONS 12/31/15	SIGNATURE PHARMACY 12/31/15	NP2U 12/31/15	MANAGEMENT OPERATIONS 12/31/15	OTHER BUSINESSES 12/31/15	ELIMINATIONS 12/31/15	ACTUAL CONSOLIDATED AVAMERE GROUP 12/31/15
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Report of Independent Auditors and
Consolidated Financial Statements with
Supplementary Information for

Avamere Group, LLC

December 31, 2015 and 2014

MOSS ADAMS_{LLP}

Certified Public Accountants | Business Consultants

Acumen. Agility. Answers.

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REPORT OF INDEPENDENT AUDITORS

The Shareholders and Members of
Avamere Group, LLC

We have audited the accompanying consolidated financial statements of Avamere Group, LLC (an Oregon LLC), which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income, statements of shareholders' and members' equity/deficit, and statements of cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

REPORT OF INDEPENDENT AUDITORS (continued)

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Avamere Group, LLC as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 14, due to a change in ownership structure for certain entities under common control, the 2014 operating results for certain entities which were previously unconsolidated have been retrospectively consolidated to reflect operating results for the year ended December 31, 2014. In addition, the balance sheets of these entities have been added to the balances as of December 31, 2014.

Report on Consolidating Information

Our audits were conducted for the purpose of forming an opinion of the consolidated financial statements as a whole. The consolidating information in the supplementary information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and it is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations, and cash flows for the individual companies.

The consolidating information is the responsibility of management and was derived from and relates to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidating financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidating financial statements or to the consolidating financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.



Portland, Oregon
March 22, 2016

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AVAMERE GROUP, LLC
CONSOLIDATED BALANCE SHEETS

ASSETS

December 31,

2015

2014

CURRENT ASSETS

Cash and cash equivalents (a)
 Designated cash
 Accounts receivable, net of allowance for bad debt of
 [REDACTED]
 Other accounts receivable
 Current portion of notes receivable
 Current portion of insurance recovery receivable
 Inventory
 Prepaid expenses
 Other current assets

Total current assets

PROPERTY AND EQUIPMENT

Land
 Buildings
 Leasehold improvements
 Furniture, fixtures, and equipment
 Vehicles
 Construction in progress

Accumulated depreciation and amortization

Total property and equipment

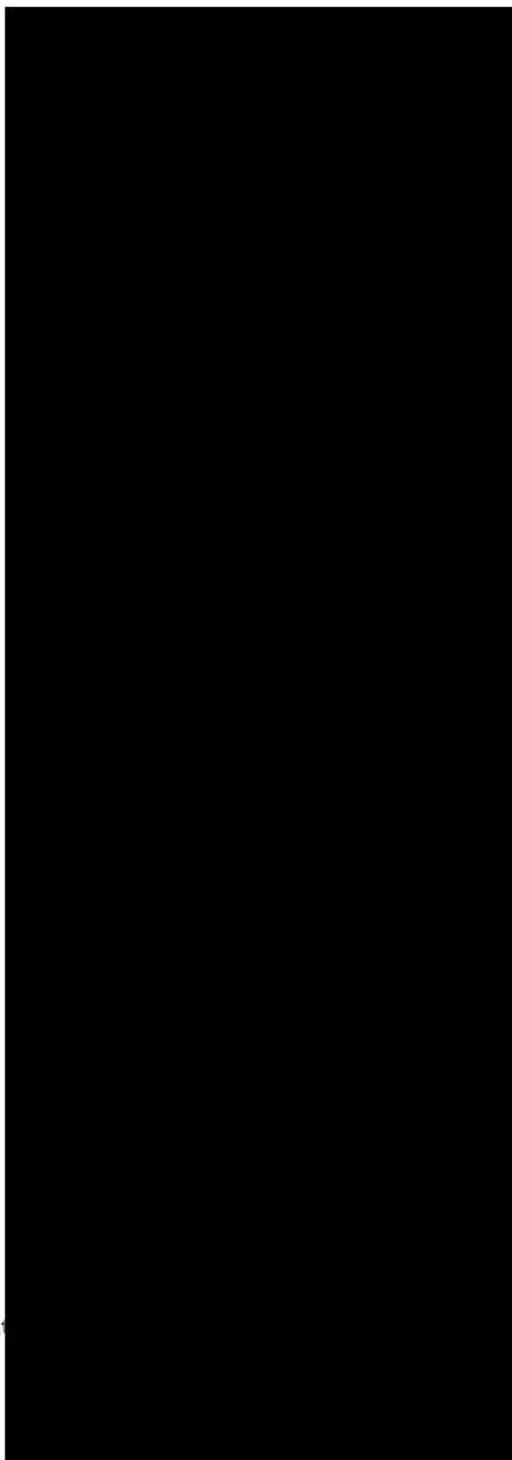
OTHER ASSETS

Letter of credit
 Intangible assets, net of accumulated amortization
 [REDACTED]
 Goodwill
 Land held for future development
 Notes receivable, net of current portion
 Insurance recovery receivable, net of current portion
 Other assets

Total other assets

Total assets

(a) As of December 31, 2015 and 2014, the assets listed above include amounts from Premere Rehab, LLC (consolidated variable interest entity).
 Cash and cash equivalents
 Accounts receivable, net
 Intangibles, net



AVAMERE GROUP, LLC
CONSOLIDATED BALANCE SHEETS

LIABILITIES AND SHAREHOLDERS' AND MEMBERS' DEFICIT

December 31,

2015

2014

CURRENT LIABILITIES

Lines of credit (b)
Accounts payable
Accrued payroll, taxes and benefits (b)
Accrued business and property taxes
Other accrued liabilities
Current portion of litigation reserve
Current portion of deferred gain on sale
Current portion of capital leases
Current portion of long term debt

Total current liabilities

LONG TERM DEBT AND OTHER LIABILITIES

Litigation reserve, net of current portion
Capital leases, net of current portion
Long term debt, net of current portion
Deferred gain on sale, net of current portion
Deferred rent

Total long term debt and other liabilities

Total liabilities

SHAREHOLDERS' AND MEMBERS' EQUITY/DEFICIT

Common stock
Retained earnings/members' equity/deficit

Total equity attributable to Avamere Group, LLC
Non-controlling interest

Total shareholders' and members' equity/deficit

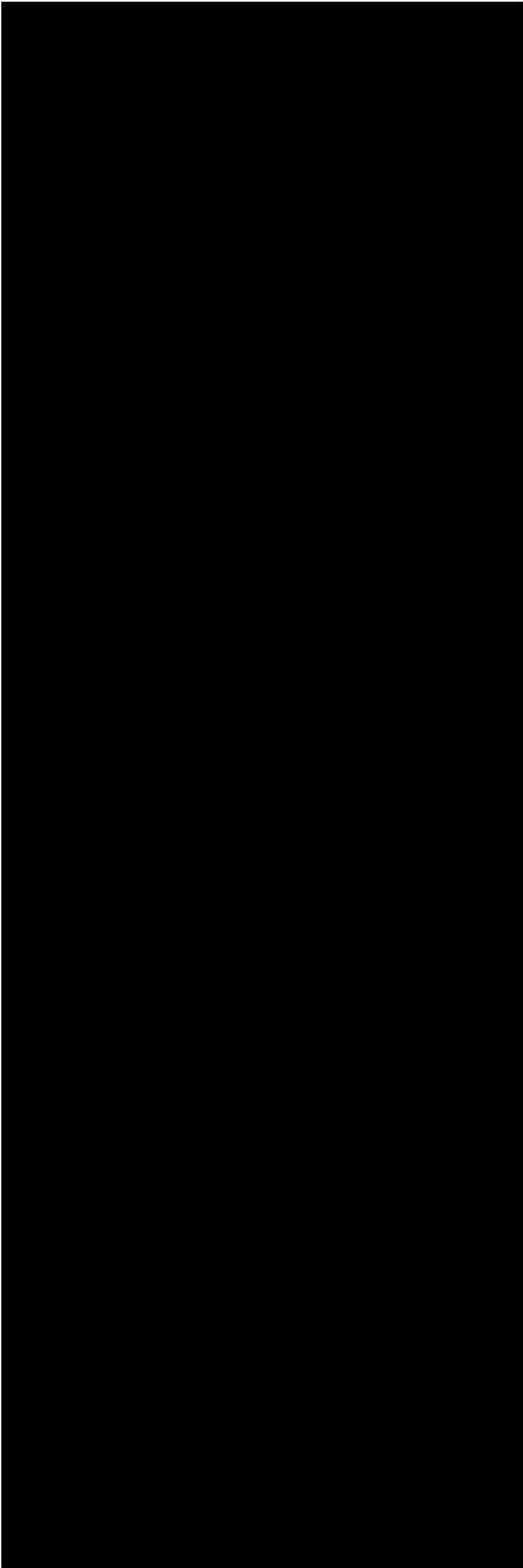
Total liabilities and shareholders' and members'
equity/deficit

(b) As of December 31, 2015 and 2014, the liabilities listed above include amounts from Premere Rehab, LLC (consolidated variable interest entity

Lines of credit
Accrued payroll, taxes and benefits

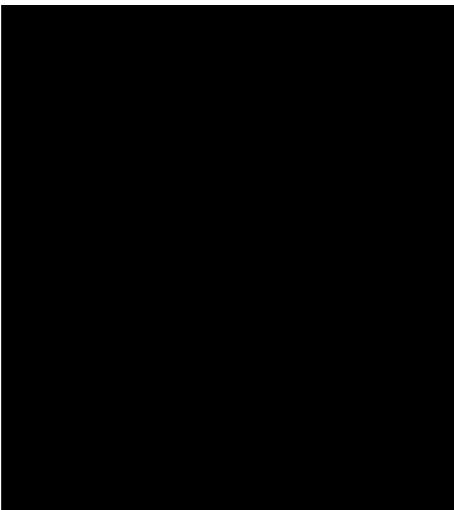
AVAMERE GROUP, LLC
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,	
	2015	2014
OPERATING REVENUE		
Resident care – Medicare		
Resident care – Medicaid		
Resident care – Private		
Resident care – Third-party payors		
Resident care – Veteran		
Miscellaneous facility revenue		
Resident care revenue		
Therapy		
Home health/home care		
Hospice		
Nurse practitioner		
Management operations		
Ancillary revenue		
Provision for bad debts		
Rental income		
Management revenue		
Miscellaneous revenue		
Total other operating revenue		
Net operating revenue		
OPERATING EXPENSES		
Ancillary expense		
Nursing services		
Administration		
Rent		
Dietary		
Plant operations and maintenance		
Depreciation and amortization		
Property taxes and insurance		
Housekeeping		
Social services		
Activities		
Interest		
Laundry and linen		
Medical records		
Restorative care		
Miscellaneous expense		
Income taxes		
Total operating expenses		



AVAMERE GROUP, LLC
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,	
	2015	2014
NON-OPERATING REVENUE AND EXPENSES		
Miscellaneous revenue		
Miscellaneous expense		
Investment income		
Donations		
Gain on sale of assets		
Total non-operating revenue and expenses		
NET INCOME		
NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTEREST		
NET INCOME ATTRIBUTABLE TO AVAMERE GROUP, LLC		



AVAMERE GROUP, LLC
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' AND MEMBERS' EQUITY/DEFICIT

	<u>Common Stock</u>	<u>Retained Earnings/ Members' Equity/Deficit</u>	<u>Non-controlling Interest</u>	<u>Total</u>
Beginning balance, January 1, 2014				
Contributions				
Distributions/draws				
Transfer between controlling and non-controlling				
Net income				
Ending balance, December 31, 2014				
Contributions				
Distributions/draws				
Net income				
Ending balance, December 31, 2015				

AVAMERE GROUP, LLC
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income		
Adjustments to reconcile net income to net cash		
from operating activities		
Change in provision for bad debt		
Depreciation and amortization		
Investment income		
Gain on sale of assets		
Interest earned on letter of credit		
Deferred rent		
Changes in assets and liabilities		
Designated cash		
Accounts receivable		
Other accounts receivable		
Insurance recovery receivable		
Inventory		
Prepaid expenses		
Other current assets		
Other assets		
Accounts payable		
Accrued payroll and payroll benefits		
Accrued business and property taxes		
Other accrued liabilities		
Insurance reserve		
Net cash from operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment		
Proceeds from sale of assets and land held for development		
Purchase of goodwill		
Purchase of intangible assets		
Net cash from investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings on note receivable		
Payments received on notes receivable		
Borrowings on long-term debt		
Payments on long-term debt		
Deposits on letter of credit		
Net activity on lines of credit		
Payments on capital leases		
Contribution		
Distributions/draws		
Net cash from financing activities		
CHANGE IN CASH AND CASH EQUIVALENTS		
CASH AND CASH EQUIVALENTS, beginning of year		
CASH AND CASH EQUIVALENTS, end of year		

AVAMERE GROUP, LLC
CONSOLIDATED STATEMENTS OF CASH FLOWS

	December 31,	
	2015	2014
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest		
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES		
Purchase of Access Home Health and Hospice in 2015		
Increase in inventory		
Increase in capital leases		
Increase in net property and equipment		
Increase in intangible assets		
Increase in goodwill		
Increase in long-term debt		
Purchase of Mill Creek Home Health and Hospice in 2015		
Increase in net property and equipment		
Increase in intangible assets		
Increase in goodwill		
Increase in long-term debt		
Construction of Boone Road in 2014		
Increase in net property and equipment and long-term debt		
Sale of Merit Rehab in 2014		
Reduction in accounts receivable, net		
Reduction in net property and equipment		
Reduction in net goodwill		
Reduction in accounts payable		
Non-cash distribution to owners		
Increase in notes receivable		
Reduction in retained earnings		
Purchase of XL Hospice in 2014		
Increase in net property and equipment		
Increase in intangible assets		
Increase in goodwill		
Increase in long-term debt		
Contribution of Parkway Courtyard LLC in 2014		
Increase in net property and equipment		
Increase in intangible assets		
Increase in long-term debt		
Contribution to equity		
Net transfer of land held for future development to land in 2014		



AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Business and Organization

Avamere Group, LLC (Avamere or the Company) provides a spectrum of healthcare solutions for seniors which includes 42 communities throughout Oregon, Washington, Idaho, and Colorado. Through its home health, independent living, assisted living, skilled nursing, dementia care, rehabilitation therapy, hospice and nurse practitioner businesses, Avamere provides seniors choices of quality care services in settings that best meet their needs and preferences. Avamere’s mission is “To enhance the life of everyone we serve.” For seniors, they offer the dignity of a choice in setting and the confidence of high quality care provided by dedicated professionals. Avamere expands the range of services community by community through acquisition, expansion of service businesses, as well as development and construction of new facilities.

The following entities are included in the consolidated financial statements:

TYPE	LEGAL NAME	LOCATION
MANAGEMENT COMPANIES		
	Avamere Health Services, LLC	Wilsonville, OR
	Avamere Skilled Advisors, LLC	Wilsonville, OR
HOLDING COMPANIES		
	Avamere Group, LLC	Wilsonville, OR
	ARI, LLC	Wilsonville, OR
	ARI Operations, LLC	Wilsonville, OR
	ASR Northwest, LLC	Wilsonville, OR
	ACR Northwest, LLC	Wilsonville, OR
	ARISO, LLC	Wilsonville, OR
	ARI CBC, LLC	Wilsonville, OR
	MWMD Pharmacy Holdings, LLC	Wilsonville, OR
CAMPUS FACILITIES OPERATIONS (Campus)		
	Waterford Operations, LLC	Medford, OR
	Keizer Campus Operations, LLC	Keizer, OR
	Avamere Lake Oswego Operations Investors, LLC	Lake Oswego, OR
COMMUNITY BASED CARE FACILITIES OPERATIONS (CBC)		
	Avamere Bethany Operations, LLC	Portland, OR
	Avamere Hillsboro Operations, LLC	Hillsboro, OR
	Genesis Newberg Operations Co, LLC	Newberg, OR
	Avamere Sandy Operations, LLC	Sandy, OR
	Avamere Sherwood Operations, LLC	Sherwood, OR
	Avamere St. Helens Operations, LLC	St. Helens, OR
	Avamere Stafford Operations, LLC	Lake Oswego, OR
	Forest Drive Operations, LLC	Seaside, OR
	Gaffney Operations, LLC	Oregon City, OR
	Avamere Bethany Cottages Operations, LLC	Portland, OR

AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Business and Organization (continued)

TYPE	LEGAL NAME	LOCATION
COMMUNITY BASED CARE FACILITIES OPERATIONS (CBC) - continued		
	Avamere Hillsboro Cottages Operations, LLC	Hillsboro, OR
	Avamere Gable Road Cottages Operations, LLC	St. Helens, OR
	Berry Park Villas Operations, LLC	Oregon City, OR
	Keizer River Operations, LLC	Keizer, OR
	Necanicum Operations, LLC	Seaside, OR
SKILLED NURSING FACILITIES OPERATIONS (SNF)		
	Beaverton Rehab & Specialty Care, LLC	Beaverton, OR
	Belair Rehab, LLC (Closed March 2010)	Tacoma, WA
	Bellingham Operations, LLC	Bellingham, WA
	Boise Operations, LLC	Boise, ID
	Brighton Operations, LLC	Brighton, CA
	Clackamas Rehabilitation, LLC	Clackamas, OR
	Coos Bay Rehabilitation, LLC	Coos Bay, OR
	Crestview Operations, LLC	Portland, OR
	Eugene Rehabilitation, LLC	Eugene, OR
	Georgian Rehab, LLC (Closed January 2015)	Lakewood, WA
	Heritage Rehab, LLC	Tacoma, WA
	Junction City Rehabilitation, LLC	Junction City, OR
	King City Rehab, LLC	Tigard, OR
	Lebanon Care Center, LLC	Lebanon, OR
	Medford Operations, LLC	Medford, OR
	Mountain View Rehab, LLC	Oregon City, OR
	Newport Rehabilitation, LLC	Newport, OR
	Northglenn Operations, LLC	Northglenn, CO
	Peckham-Miller, Inc.	Hillsboro, OR
	Richmond Beach Rehab, LLC	Richmond Beach, WA
	Riverpark Operations, LLC	Eugene, OR
	Seattle Operations, LLC	Seattle, WA
	Sequim Rehabilitation, LLC	Sequim, WA
	South Salem Rehabilitation, LLC	Salem, OR
	Sunnyside Operations, LLC	Salem, OR
	St. Francis Operations, LLC	Bellingham, WA
	Tacoma Rehab, LLC	Tacoma, WA
	Twin Oaks Rehab, LLC	Sweet Home, OR
	Vancouver Operations, LLC	Vancouver, WA
	Ohana Harmony House, LLC	Bend, OR

AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Business and Organization (continued)

TYPE	LEGAL NAME	LOCATION
PROPERTY ENTITIES		
	Avamere Bel Air Properties, LLC	Tacoma, WA
	Avamere Gable Road Cottages II, LLC	St. Helens, OR
	Bell Street Properties, LLC	Tacoma, WA
	Boone Road Properties, LLC	Salem, OR
	Eugene Chambers Properties, LLC	Eugene, OR
	Gaffney Investors 2, LLC	Oregon City, OR
	Gaffney Investors I, LLC	Oregon City, OR
	Gladstone Properties, LLC	Gladstone, OR
	Kurth Properties, LLC (Sold in 2015)	South Salem, OR
	MDN Gladstone, LLC	Gladstone, OR
	Olympic Meadows, LLC	Sequim, WA
	Parkway Courtyard, LLC (Sold in 2015)	Wilsonville, OR
	Redmond 97 Lot 200, LLC	Redmond, OR
	Sandy Villas, LLC	Sandy, OR
	27th Street Properties, LLC	Bend, OR
ANCILLARY AND OTHER ENTITIES		
	A-One Home Health Services, Inc.	Wilsonville, OR
	Avamere ALF Operations, LLC	Wilsonville, OR
	Avamere Home Health Care, LLC	Wilsonville, OR
	Avamere Outpatient Services, LLC (Sold in 2014)	Wilsonville, OR
	Avamere Rehab Services, LLC	Wilsonville, OR
	Home Health Advantage, Inc.	Wilsonville, OR
	MWMD Pharmacy Solutions 2, LLC	Wilsonville, OR
	NP2U, LLC	Wilsonville, OR
	Northwest Ancillary Investors, LLC	Wilsonville, OR
	Northwest Hospice, LLC	Wilsonville, OR
	Northwest Mobile Services, LLC	Wilsonville, OR
	Premere Rehab, LLC	Wilsonville, OR
	Prime Home Health, Inc.	Wilsonville, OR

AVAMERE GROUP, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies

Principals of consolidation – The consolidated financial statements include the accounts of the Company and all of its wholly-owned and majority-owned subsidiaries. The Company follows authoritative guidance on the Consolidation of Variable Interest Entities (VIEs), which addresses consolidation by business enterprises of VIEs. The Company has considered its agreements and business activities with related parties in order to determine whether any of the relationships qualify as VIEs and whether the Company would be deemed to be the primary beneficiary and be required to consolidate the activities of these VIEs in the Company's consolidated financial statements. All significant inter-company balances and transactions have been eliminated in consolidation. The consolidated financial statements have been prepared on the accrual method of accounting.

Variable interest entities – Generally accepted accounting principles require a qualitative approach to identifying a controlling financial interest in a VIE and requires an ongoing assessment of the primary beneficiary of the VIE based on an evaluation to determine whether an entity has: (a) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance, and (b) the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. In determining whether an entity has the power to direct the activities of the VIE that most significantly affect the VIE's performance, the guidance requires a reporting entity to assess whether it has an implicit financial responsibility to ensure that a VIE operates as designed. The guidance also requires: (a) separate presentation on the face of the statement of financial position of certain assets and liabilities of a consolidated VIE, (b) disclosure of the significant judgments and assumptions made by an enterprise in its determination as to whether or not the enterprise is the primary beneficiary of a VIE, and (c) additional expanded disclosures regarding the enterprise's involvement with a VIE.

Non-controlling interests – The Company reports its non-controlling interests as a separate component of shareholders and members' equity. The Company also presents the consolidated net income and the portion of the consolidated net income allocable to the non-controlling interests and to the shareholders or members of the Company separately in its consolidated statements of income. In addition, losses applicable to the non-controlling interest are allocated to the non-controlling interest even when those losses are in excess of the non-controlling interests' investment basis.

Use of estimates – The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include accounts receivable allowance for bad debt, depreciation lives, valuation of goodwill and intangible assets, self-insured medical claims incurred but not reported, and litigation reserve.

AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

Cash and cash equivalents – The Company considers all highly-liquid investment securities purchased with a maturity of three months or less to be cash equivalents. The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company monitors the credit ratings of the financial institutions in which they hold accounts and has not experienced any losses in such accounts.

Designated cash – The Company has restricted cash for resident trust funds. The resident trust liability is included in accounts payable on the balance sheet. Total resident trust cash and related liability was approximately [REDACTED] of December 31, 2015 and 2014, respectively.

Concentrations of credit risk – Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. The Company maintains its cash balances in a commingled account with entities having common ownership.

Accounts receivable – The Company grants credit in the normal course of business to private individuals, other businesses, governmental agencies, and insurance companies. The Company performs ongoing credit evaluations and generally does not require collateral. The Company receives payment for services rendered from private pay payors, Medicare and Medicaid programs, Veterans Administration, and third-party payors. Management does not believe there are any credit risks associated with receivables from governmental agencies. Private and other receivables consist of receivables from a large number of payors involved in diverse activities and subject to differing economic conditions, which do not represent any concentrated credit risks to the Company.

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, management analyzes its past history and identifies trends to estimate the appropriate allowance for doubtful accounts and provision for bad debts.

For receivables associated with self-pay residents (which includes both residents without insurance and residents with deductible and copayment balances due for which third-party and government coverage exists for part of the bill), the Company records a provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off to provision for bad debt.

The Company also has receivable balances from unrelated third-party entities for services provided by the ancillary entities. The Company assesses the collectability of these accounts based upon historical collections, and known financial issues with the customers. The Company records a provision for bad debts in the period of service based upon this information.

AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

Management regularly monitors and adjusts its reserves and allowances related to these receivables. Interest is charged on accounts at the discretion of management. The Company’s allowance for bad debt was approximately [REDACTED] as of December 31, 2015 and 2014, respectively. In addition, the Company’s bad debt provision expense was approximately [REDACTED] for the years ended December 31, 2015 and 2014, respectively. There was no change in the methodology used by the Company to estimate the allowance for contractual adjustments and bad debt provision in the current year.

The mix of receivables as of December 31, 2015 and 2014 is as follows:

	2015	2014
Private	[REDACTED]	
Medicare		
Other third-party payers		
Medicaid		
Veterans		
	<u>100%</u>	<u>100%</u>

Inventory – Inventory consists of supplies and is stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

Other assets – Other current assets are comprised of deposits, funds held in escrow, property taxes and insurance reserves. Other long term assets are comprised of a [REDACTED] [REDACTED] as of December 31, 2015 and 2014, respectively; and other miscellaneous investments.

Property and equipment – Property and equipment acquisitions are recorded at cost. Major renewals or improvements over \$750 are capitalized, whereas ordinary maintenance and repairs are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows: leasehold improvements and equipment under capital lease – the shorter of the useful life of the assets or length of the lease; furniture, fixture and equipment – 3 to 20 years; and buildings – 27.5 years. Depreciation expense for property and equipment was approximately [REDACTED] and [REDACTED] for the years ended December 31, 2015 and 2014, respectively.

Note 2 – Summary of Significant Accounting Policies (continued)

Impairment of long-lived assets – The Company assesses long-lived assets for impairment in accordance with the provisions of Financial Accounting Standards Board (FASB) ASC 360 “Property, Plant and Equipment.” A long-lived asset (asset group) shall be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted net cash flows expected to result from the use and eventual disposition of the asset. The amount of impairment loss, if any, is measured as the difference between the net book value of the asset and its estimated fair value. For purposes of these tests, long-lived assets must be grouped with other assets and liabilities for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities.

Intangible assets – Intangible assets subject to amortization include loan closing costs (including loan fees, legal fees, and appraisal fees), non-compete covenants and customer contracts. Loan closing costs are being amortized using the straight-line method over the life of the related loan. Customer contracts are being amortized over the life of the contracts, which range from ten to fifteen years. See details of intangible assets and goodwill at Note 5.

Letters of credit –



Insurance coverage – The Company purchased a claims made general and professional liability insurance policy from an outside insurance carrier. Premiums are expensed on a straight-line basis over a twelve-month period (see Note 12).

Real property coverage is insured by an outside insurance carrier and premiums are expensed on a straight-line basis over a twelve-month period.

Workers’ compensation coverage for Washington employees is insured through the state of Washington, which is paid quarterly via the labor and industries tax, and expenses are accrued monthly. Workers’ compensation coverage for all other facilities and entities is insured by an outside insurance carrier. The Company pays a stipulated premium monthly as well as claim costs as they occur, and expenses are accrued monthly.

AVAMERE GROUP, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

The estimated liability for unpaid professional liability claims has been recorded in the consolidated balance sheet at the gross estimated liability. The related estimated insurance recoveries are recorded as a receivable.

Common stock – The consolidated financial statements include two corporations, which record common stock. The consolidated financial statements reflect the common stock issued and outstanding in these corporations (see Note 9).

Resident care and ancillary revenue – The Company has agreements with third-party payors that provide for payments at amounts different from its established rates. Resident care revenue, ancillary revenue and other related service fees are recognized in the period the service is rendered. Resident care and ancillary revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Revenue under third-party payor agreements is subject to audit and retroactive adjustment. Provisions for estimated third-party payor settlements are provided in the period the related services are rendered. Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the year of settlement.

Management revenue – Each facility is operated under an agreement with Avamere Skilled Advisors, LLC (dba Avamere Living), owned by Avamere Group, LLC. Avamere Living charges a fee for providing certain administrative support services. These fees were eliminated during consolidation. The Company also manages other entities. The revenue recognized under these arrangements was approximately [REDACTED] for the years ended December 31, 2015 and 2014, respectively.

Medicare bundled payments – In 2015, the Centers for Medicare & Medicaid Services (CMS) selected Avamere Health Services, LLC (AHS) as an “Awardee Convener” in Medicare’s Bundled Payments for Care Improvement (BPCI) initiative. AHS’s participation commenced on April 1, 2015. AHS assumes financial responsibility for BPCI initiative patients for a 90-day episode beginning with the initiation of post-acute care services after an acute care hospitalization. AHS only recognizes BPCI gains or losses after the CMS reconciliation process is complete, which occurs nine months following the beginning of the 90 day episode. AHS recorded approximately [REDACTED] gains in 2015.

Advertising – Advertising costs, which are included in administration expenses, are expensed as incurred. Advertising expense was approximately [REDACTED] for the years ended December 31, 2015 and 2014, respectively.

Fair value measurements – FASB ASC 820, *Fair Value Measurements and Disclosures*, apply to the following areas:

- Goodwill and indefinite-lived intangible asset impairment testing, which involves the fair value measurement of reporting units, assets, and/or liabilities
- Nonfinancial long-lived assets (such as property and equipment or land held for future development) measured at fair value for impairment assessment

AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

Income taxes – The consolidated financial statements include Limited Liability Companies and S-Corporations. Accordingly, all federal income tax attributes are passed through to the Company's shareholders or members. Therefore, no provision is made in the accompanying consolidating financial statements for liabilities for federal, state or local income taxes since such liabilities are the responsibility of the individual partners.

The Company accounts for uncertain tax positions in accordance with ASC 740-10. The Company does not have any entity level uncertain tax positions. The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. Generally, the Company is subject to examination by U.S. federal (or state and local) income tax authorities for three years from the filing of a tax return.

Reclassification – Certain accounts were reclassified in the prior year for consistency and comparison purposes with the current year presentation. Such reclassifications have no effect on previously reported net income.

Subsequent events – Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are available to be issued. The Company recognizes in the consolidated financial statements, the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated balance sheet, including the estimates inherent in the process of preparing the financial statements. The Company's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the consolidated balance sheet date and before consolidated financial statements are available to be issued.

The Company has evaluated subsequent events through March 22, 2016, which is the date the consolidated financial statements were available to be issued.

Note 3 – Fair Value of Assets and Liabilities

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To determine fair value, the Company must maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

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

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

AVAMERE GROUP, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 – Fair Value of Assets and Liabilities (continued)

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies used for instruments measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheet, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Fair value was determined as follows:

Long-lived assets held and used – In evaluating long-lived assets held and used (generally land, buildings, property and equipment) for impairment purposes, the fair value is determined, whenever possible, by reference to quoted market prices and other market information for similar assets.

In accordance with the provisions of the Impairment or Disposal of Long-Lived Assets Subsection of FASB Codification Subtopic 360-10, long-lived assets and land held for future development were evaluated for impairment. For the years ended December 31, 2015 and 2014, these assets were determined to not be impaired.

Goodwill – In evaluating goodwill for impairment purposes, the fair value of goodwill is determined based on the fair market value of similar sales or an estimated value of three to five times the annualized earnings before interest, taxes, depreciation and amortization.

Goodwill was determined to not be impaired as of December 31, 2015 and 2014.

Intangible assets –

Indefinite-lived intangible assets – The fair value of indefinite-lived intangible assets is determined based upon review of sales of similar assets within the market.

Amortizable intangible assets – The fair value of amortizable intangible assets is determined based on discounted expected future cash inflows over the estimated remaining life of the asset.

For the years ended December 31, 2015 and 2014, the intangible assets were determined to not be impaired.

AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 – Notes Receivable

	December 31,	
	2015	2014
<p>Note receivable from an unrelated party as the result of a sale in 2011. Personally guaranteed by the buyers. Due in monthly payments of \$ [REDACTED] including interest at [REDACTED]. Due November 2016.</p>	[REDACTED]	
<p>Note receivable from an unrelated party. Due in monthly interest only payments at [REDACTED] interest. Due September 2016.</p>		
<p>Note receivable from a related party in connection with the sale of shares in [REDACTED] accruing interest at [REDACTED] annually, with no scheduled monthly payments. Note will mature and become payable in full, including all interest, contemporaneously with any acquisition of borrower's shares for cash or other consideration once it is converted to cash.</p>		
<p>Note receivable from an unrelated party as a result of the sale of [REDACTED]. Due in monthly payments of [REDACTED], including interest at [REDACTED].</p>		
<p>Note receivable from a therapy customer, converted from accounts receivable. Due in four monthly interest only payments of [REDACTED] and six monthly payments of \$ [REDACTED] including interest of [REDACTED]. Due May 2016.</p>		
<p>Note receivable from a therapy customer, converted from accounts receivable. Due in monthly payment of [REDACTED] including interest of [REDACTED]. Paid off in October 2015.</p>		
<p>Less current portion of notes receivable</p>		

AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 – Intangible Assets and Goodwill

Intangible assets are as follows:

	December 31, 2015		
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Intangible Assets, net</u>
Amortizable intangible assets			
Customer contracts			
Non-compete covenants			
Loan closing costs			
Indefinite-lived intangible assets			
Bed rights			
Certificate of need			
Government authorizations			
Amortizable intangible assets			
Customer contracts			
Non-compete covenants			
Loan closing costs			
Indefinite-lived intangible assets			
Bed rights			
Certificate of need			

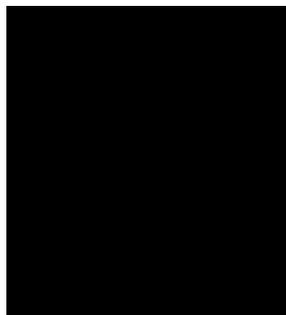
AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 – Intangible Assets and Goodwill (continued)

Amortization is computed using the straight-line method over the estimated useful life of the asset. Amortization expense on these assets for the years ended December 31, 2015 and 2014 was approximately [REDACTED] respectively.

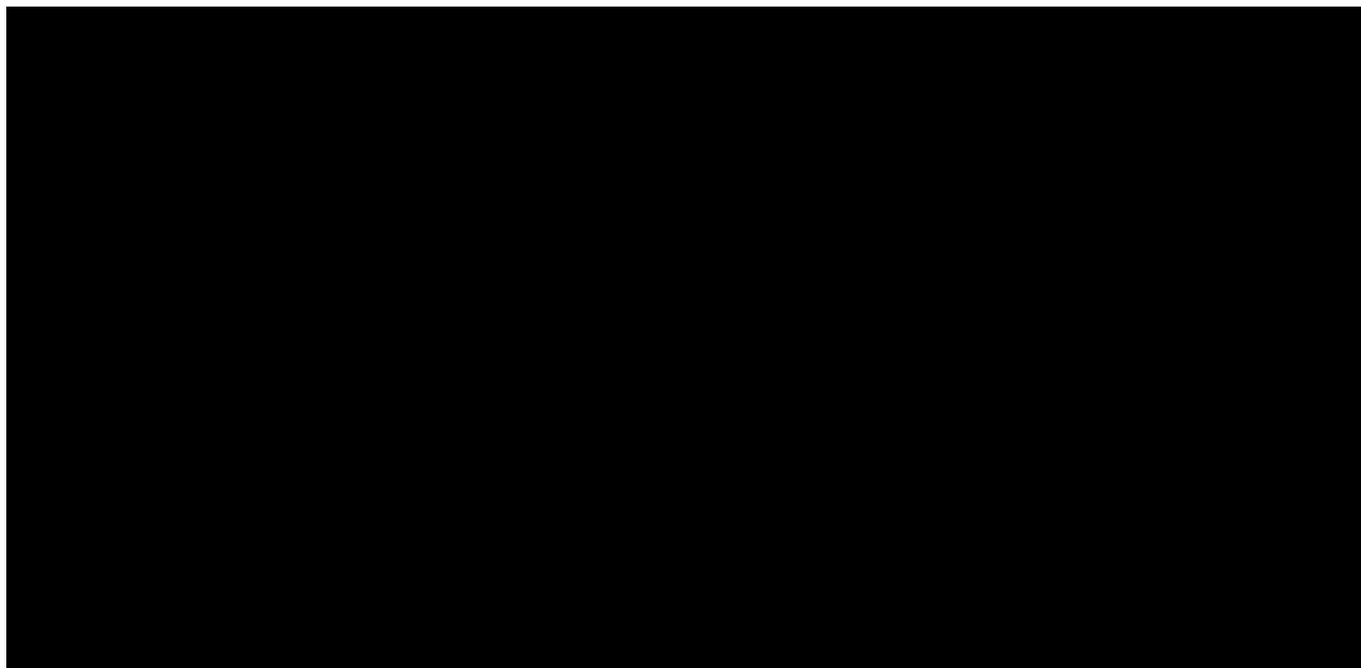
Future expected amortization expense for the years ending December 31 are as follows:

2016
2017
2018
2019
2020
Thereafter



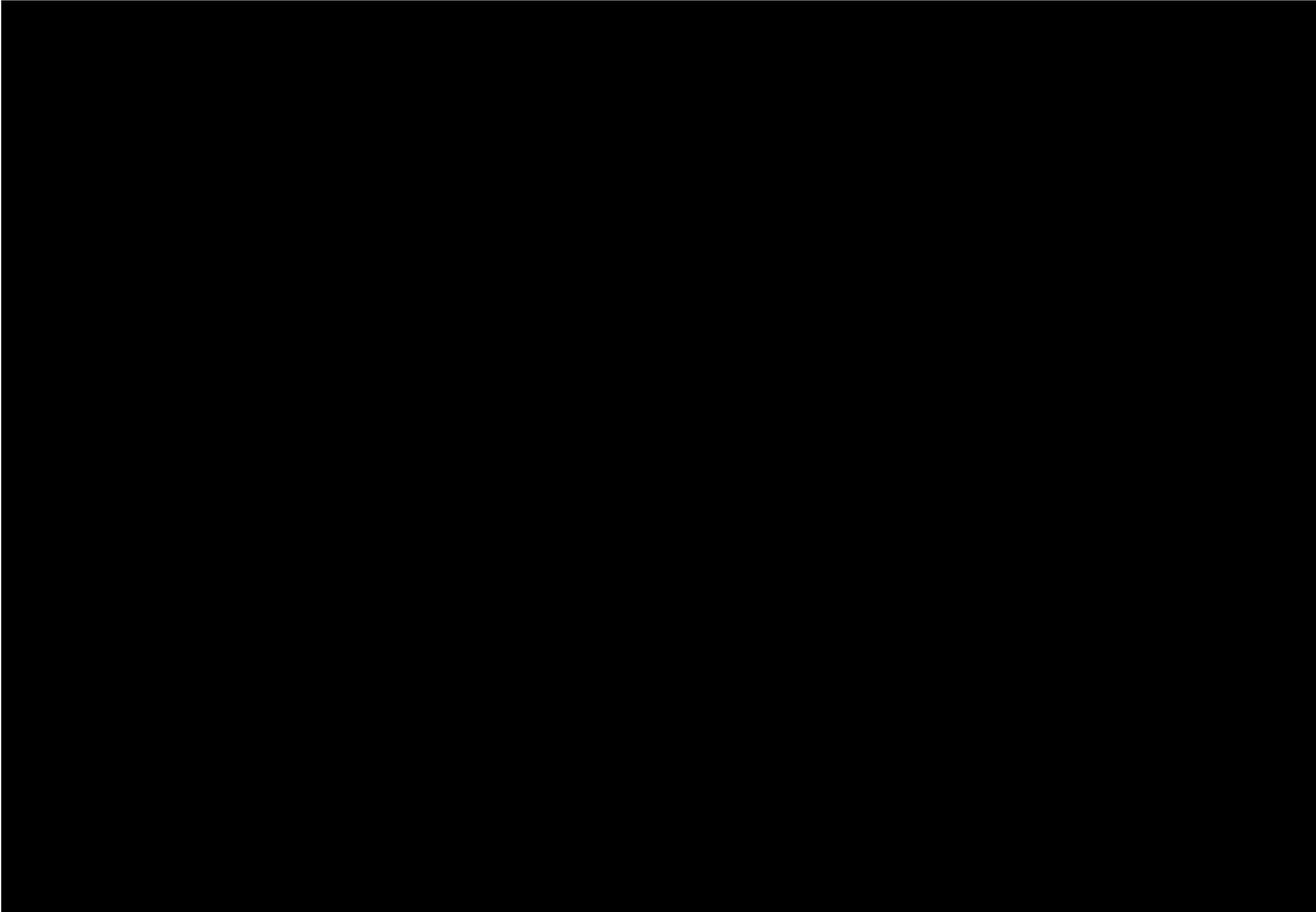
Goodwill – The carrying amount of goodwill as of December 31, 2015 and 2014 reflects the cumulative amount paid, adjusted for any impairment charges, in excess of the fair value of net assets acquired in one or more business combination transactions. Management tests goodwill for impairment annually.

Note 6 – Lines of Credit



AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

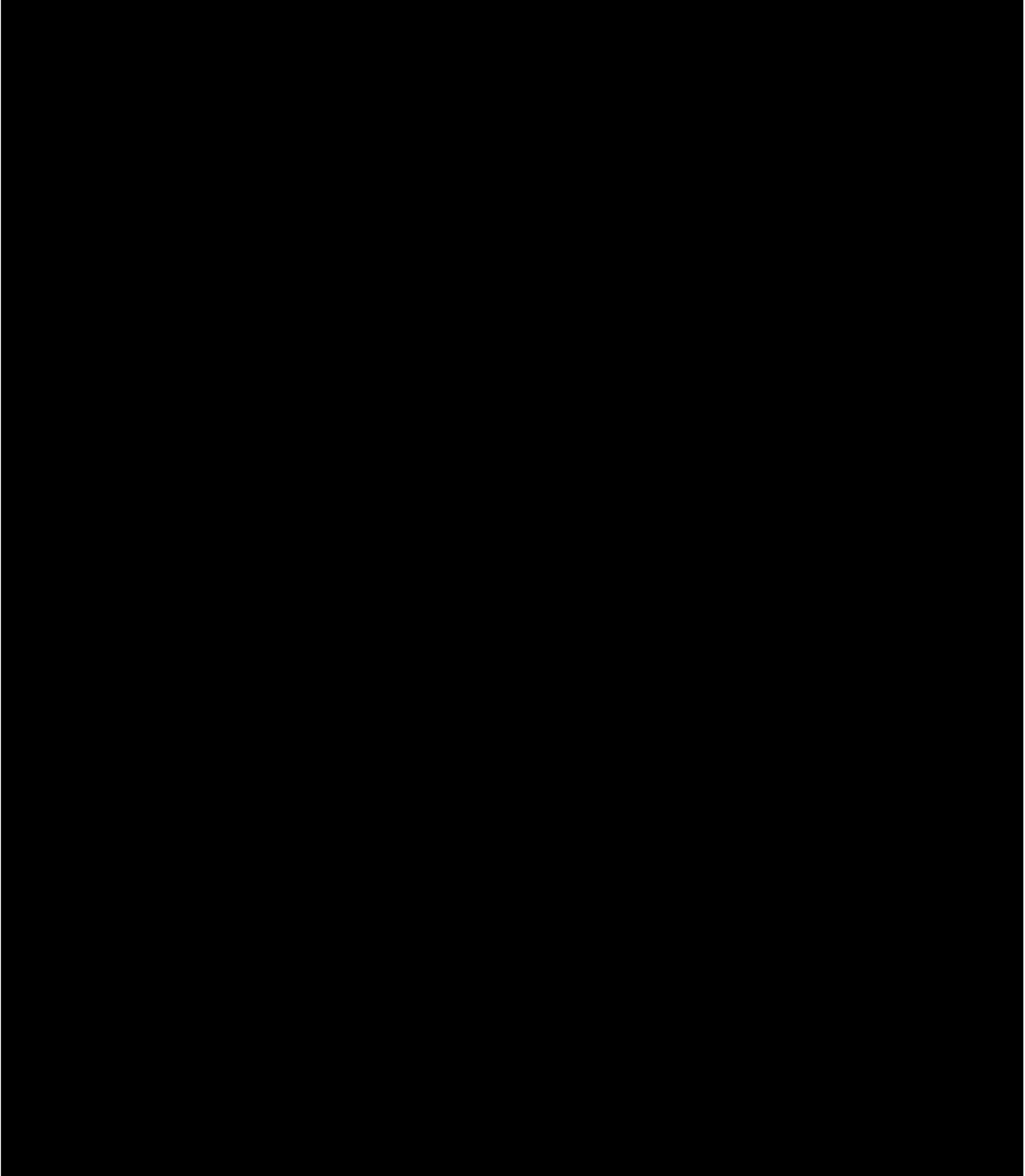
Note 6 – Lines of Credit (continued)



AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 - Long Term Debt

December 31,	
2015	2014



AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 - Long Term Debt (continued)

	December 31,	
	2015	2014

Principal maturities of long term debt as of December 31, 2015 are as follows:

2016
2017
2018
2019
2020

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Note 8 - Deferred Gain on Sale

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Note 9 - Common Stock, Member Units, and Ownership Transaction

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AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 – Common Stock, Member Units, and Ownership Transaction (continued)

The Company has the following issued and outstanding Membership Units:

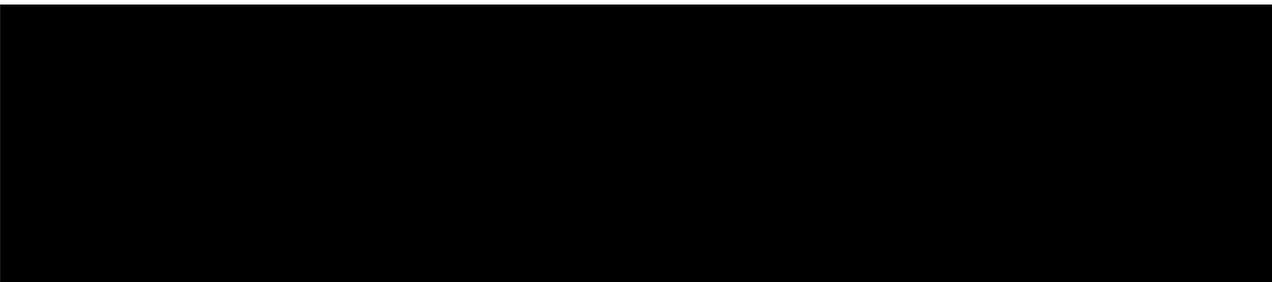
	Avamere Group Membership Units			
	Class A	Class B	Class C	Total
Balance, December 31, 2013				
Units issued				
Balance, December 31, 2014				
Units issued				
Balance, December 31, 2015				

The following consolidated entities have authorized, issued and outstanding shares of stock as of December 31, 2015 and 2014 as follows:

	Stock Shares as of December 31, 2015			
	Authorized	Issued	Outstanding	Dollar Value
Peckham-Miller, Inc.				
Home Health Advantage, Inc.				
Balance as of December 31, 2015				
Peckham-Miller, Inc.				
Home Health Advantage, Inc.				
Balance as of December 31, 2014				

All stock has zero par value.

Note 10 – Pension Plans

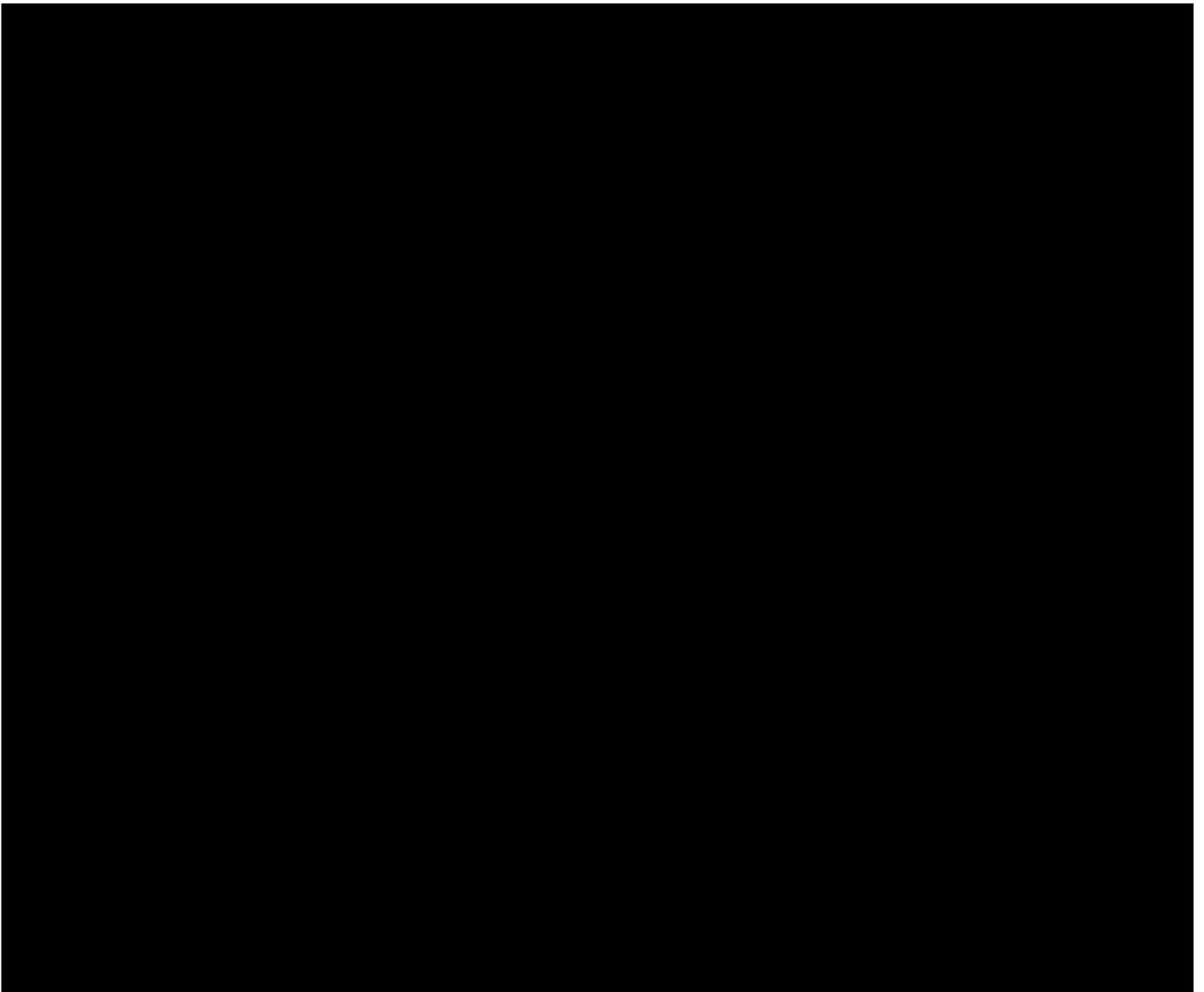


AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

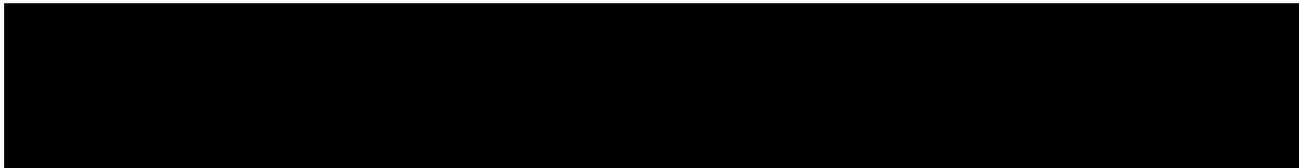
Note 10 - Pension Plans (continued)



Note 11 - Operating Leases



Note 11 – Operating Leases (continued)



Note 12 – Commitments and Contingencies

Industry regulations – The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditations, government health care programs participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayment for patient services previously billed. Management believes that the Company is in compliance with fraud and abuse as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions known or unasserted at this time.

Payments from Federal and State Health Care Programs – Entities doing business with governmental payors, including Medicare and Medicaid, are subject to risks unique to the government-contracting environment that are difficult to anticipate and quantify. Revenues are subject to adjustment as a result of examination by government agencies as well as auditors, contractors, and intermediaries retained by the federal, state, or local governments (collectively “Government Agents”). Resolution of such audits or reviews often extends (and in some cases does not even commence until) several years beyond the year in which services were rendered and/or fees received. In accordance with generally accepted accounting principles, to account for the uncertainty around governmental payor regulations and audits, the Company estimates the amount of revenue that will ultimately be received under these programs. The result of future examinations or audits could vary from these estimates.

AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12 - Commitments and Contingencies (continued)

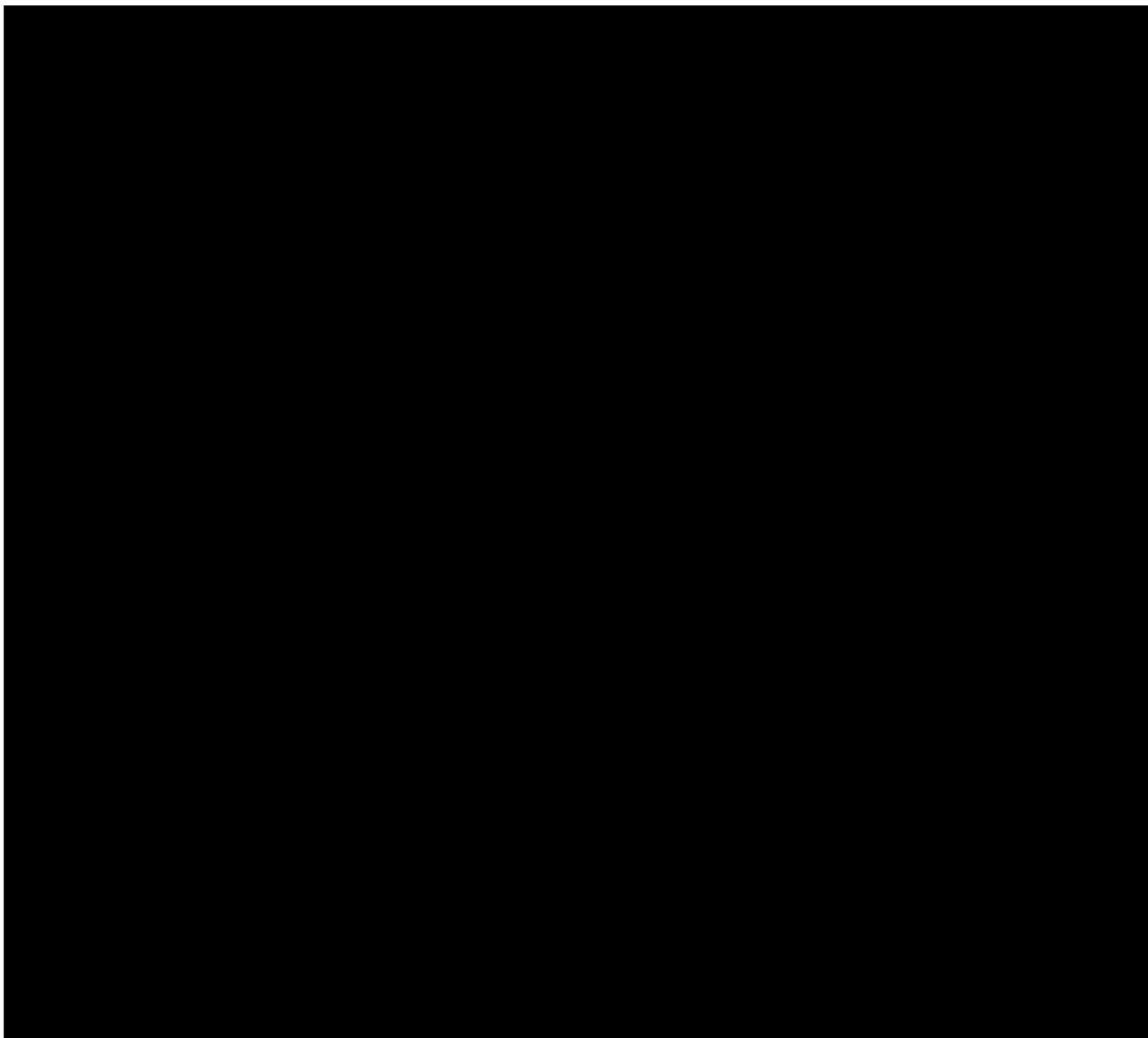
Litigation – Avamere Group, LLC and their related entities are party to various legal actions and administrative proceedings and subject to various claims arising in the ordinary course of business. The Company does not believe that the ultimate disposition of these matters will have a material adverse effect on the financial position or results of operations. The Company estimated the total gross liabilities and the related insurance recovery receivable as follows:

	December 31,	
	2015	2014
Estimated litigation liability - current	[REDACTED]	
Estimated litigation liability - long-term		
Total estimated litigation liability		
Estimated insurance recoveries - current		
Estimated insurance recoveries - long-term		
Total estimated insurance recoveries		
Net litigation exposure		

Insurance –

[REDACTED]

Note 12 – Commitments and Contingencies (continued)



Health care reform – As a result of enacted federal and state health care reform legislation, substantial changes are occurring in the United States health care system. Such legislation includes numerous provisions affecting the delivery of health care services, the financing of health care costs, reimbursement of health care providers and the legal obligations of health insurers, providers and employers. These provisions are slated to take effect at specified times over approximately the next decade. The Company continues to evaluate the impact of health care reform legislation in future years.

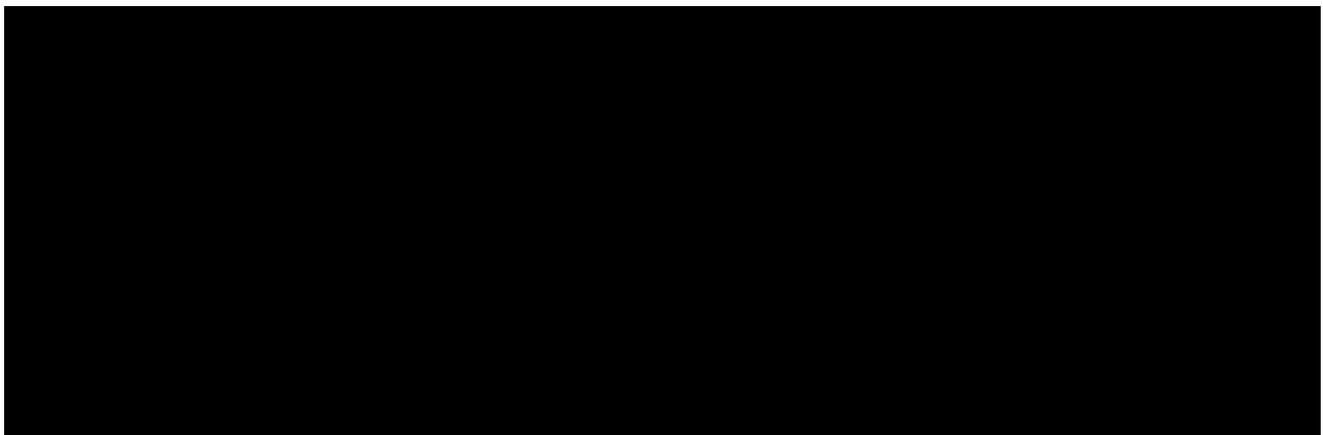
AVAMERE GROUP, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

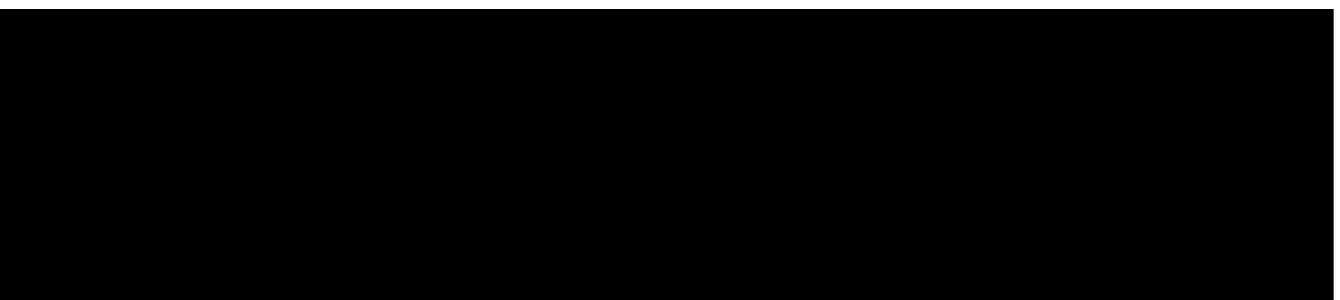
Note 13 – Business Consolidation

Consolidated variable interest entities – Generally accepted accounting principles require a reporting entity to consolidate a VIE when the reporting entity has a variable interest, or combination of variable interests, that provides it with a controlling financial interest in the VIE. The entity that consolidates a VIE is referred to as the primary beneficiary of that VIE. To determine if the Company should consolidate a VIE, management evaluates the Company’s ownership and relationship to determine if they have a controlling financial interest. Variable interests may occur through contractual, ownership, or other financial interest in an entity whose value changes with changes in the fair value of the entity’s net assets, exclusive of variable interests. The variable interest may be explicit or implicit. Explicit variable interests are those which directly absorb the variability of a VIE and can include contractual interests such as loans or guarantees as well as equity investments. An implicit variable interest acts the same as an explicit variable interest except it involves the absorbing of variability indirectly, such as through related-party arrangements or implicit guarantees. The analysis includes consideration of the design of the entity, its organizational structure, including decision making ability over the activities that most significantly impact the VIE’s economic performance.

The Company identified Premere Rehab LLC (Premere) as a VIE and has concluded the Company is the primary beneficiary. The Company’s consolidated equity is reflected as the controlling financial interest in the accompanying consolidated financial statements.



Note 14 – Retrospective Application of Consolidation

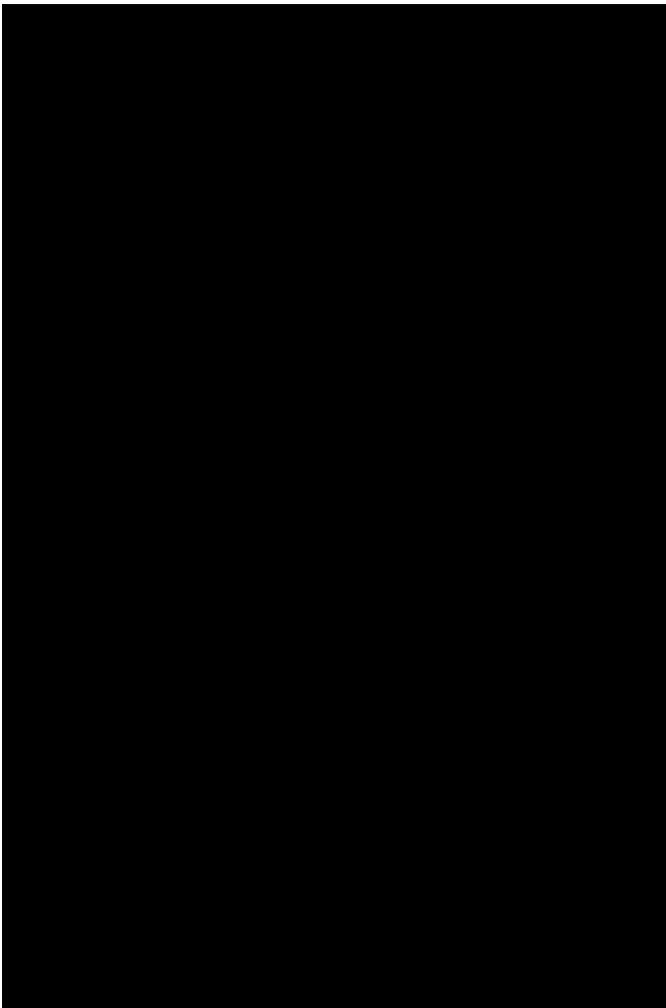


AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14 – Retrospective Application of Consolidation (continued)



	December 31,		
	2014		
	As Previously Reported	Retrospective Consolidation	Adjusted
CURRENT ASSETS			
Cash and cash equivalents			
Designated cash			
Accounts receivable, net			
Other accounts receivable			
Current portion of notes receivable			
Current portion of insurance recovery receivable			
Inventory			
Prepaid expenses			
Other current assets			
Total current assets			
PROPERTY AND EQUIPMENT			
Accumulated depreciation and amortization			
Total property and equipment			
OTHER ASSETS			
Letter of credit			
Intangible assets, net			
Goodwill			
Land held for future development			
Notes receivable, net of current portion			
Insurance recovery receivable, net of current portion			
Other assets			
Total other assets			
Total assets			



AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14 – Retrospective Application of Consolidation (continued)

	December 31,		
	As Previously Reported	Retrospective Consolidation	Adjusted
CURRENT LIABILITIES			
Lines of credit			
Accounts payable			
Accrued payroll, taxes and benefits			
Accrued business and property taxes			
Other accrued liabilities			
Current portion of litigation reserve			
Current portion of deferred gain on sale			
Current portion of capital leases			
Current portion of long-term debt			
Total current liabilities			
 LONG-TERM DEBT AND OTHER LIABILITIES			
Litigation reserve, net of current portion			
Capital leases, net of current portion			
Long-term debt, net of current portion			
Long term deferred gain on sale			
Deferred rent			
Total long-term debt and other liabilities			
Total liabilities			
 SHAREHOLDERS' AND MEMBERS' DEFICIT			
Common stock			
Retained earnings/members' deficit			
Total equity attributable to Avamere Group, LLC			
Non-controlling interest			
Total shareholders' and members' deficit			
Total liabilities and shareholders' and members' deficit			

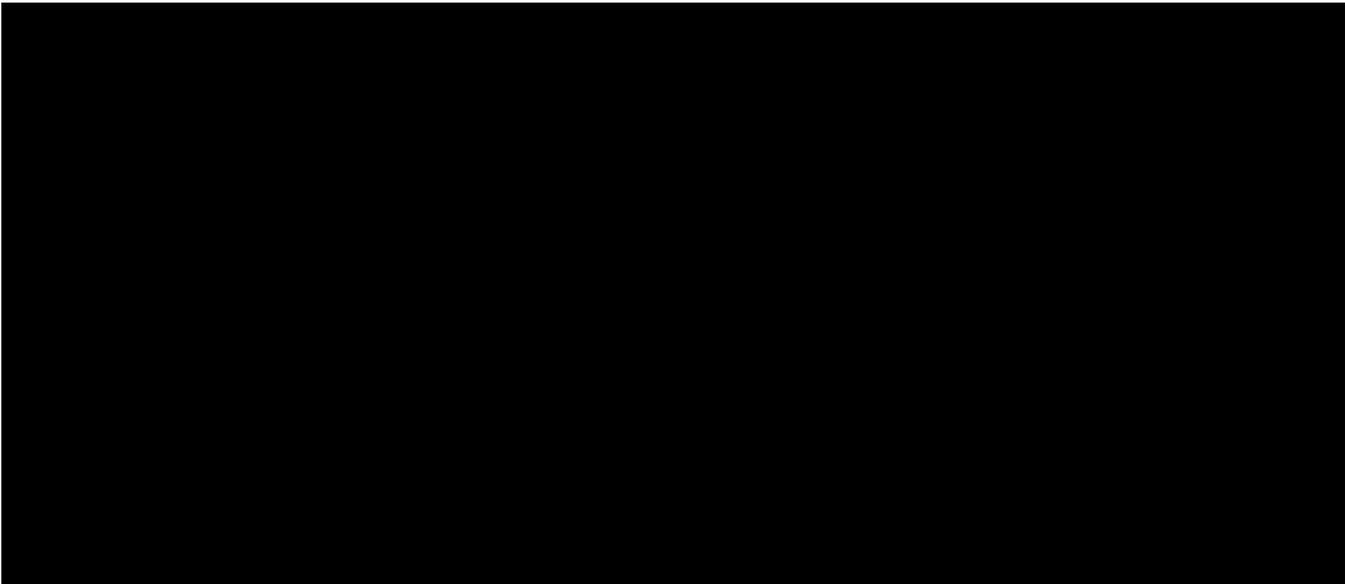
AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14 – Retrospective Application of Consolidation (continued)

	Year Ended December 31, 2014		
	As Previously Reported	Retrospective Consolidation	Adjusted
OPERATING REVENUE			
Resident care revenue			
Ancillary revenue			
Provision for bad debts			
Total other operating revenue			
Net operating revenue			
OPERATING EXPENSES			
NON-OPERATING REVENUES AND EXPENSES			
NET INCOME			

Note 15 – Acquisitions and Sales

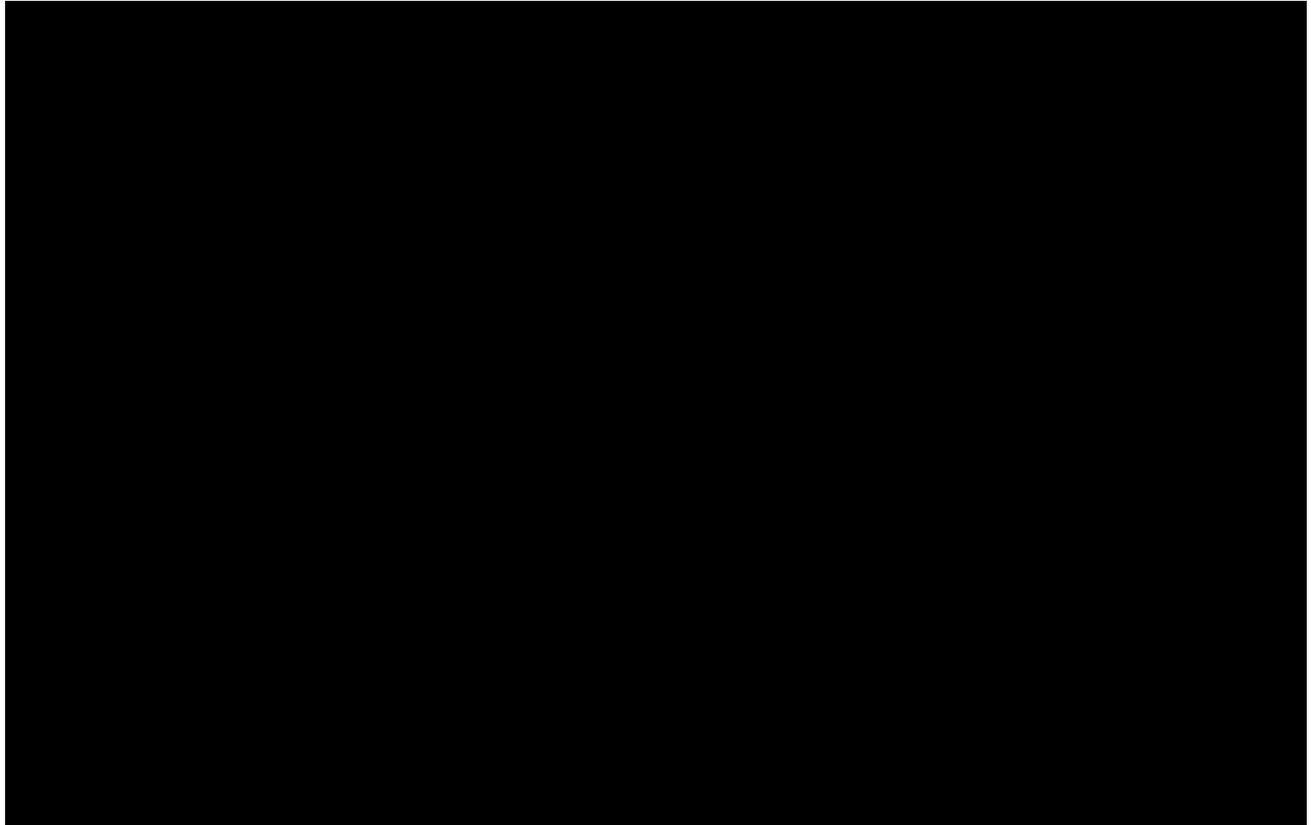
2015 Activity –



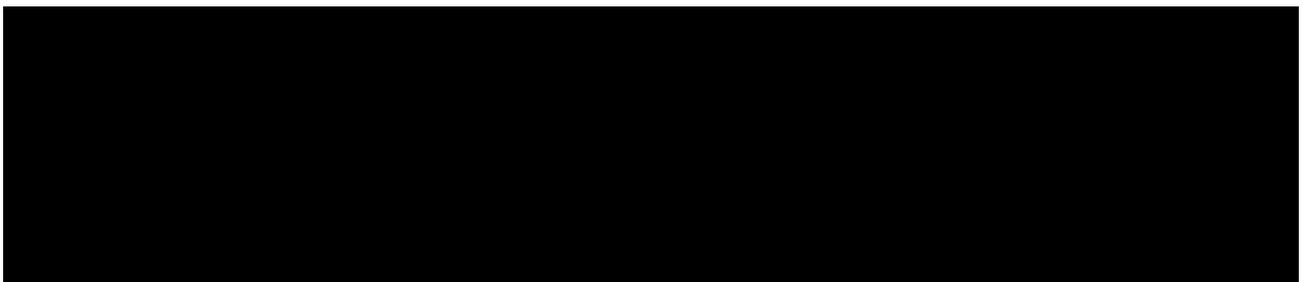
AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15 - Acquisitions and Sales (continued)

2014 Activity -



Note 16 - Real Estate Activities



AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 17 – Collective Bargaining Agreements

Certain entities' employees are covered by collective bargaining agreements. The agreement covering these employees are for the following entities and contract periods:

	<u>Beginning</u>	<u>Ending</u>

Approximately [REDACTED] of the Company's labor force is covered by a collective bargaining agreement as of December 31, 2015.

SUPPLEMENTARY INFORMATION
(See Report of Independent Auditors)

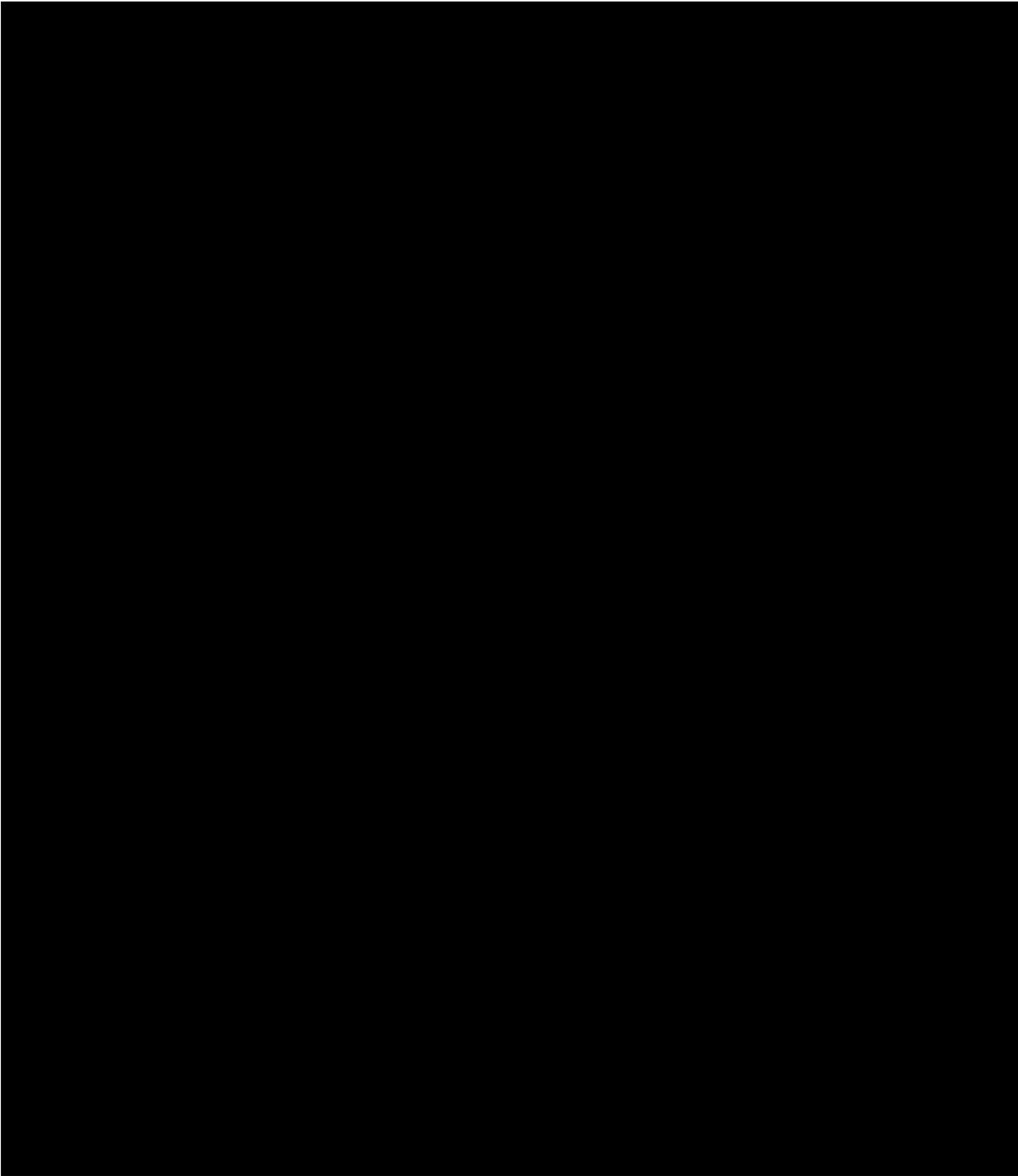
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AVAMERE GROUP, LLC
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2015

	SNF OPERATIONS 12/31/15	CAMPUS OPERATIONS 12/31/15	CBC OPERATIONS 12/31/15	COMBINED SNF & CBC OPS TOTAL 12/31/15	REHAB OPERATIONS 12/31/15	HOME HEALTH OPERATIONS 12/31/15
Current Assets						
Cash						
Designated Cash						
Accounts Receivable						
Less Allowance for Bad Debt						
Other Accounts Receivable						
Due from Intercompany						
Current Portion of Notes Receivable						
Current Portion of Insurance Recovery						
Inventory						
Prepaid Expenses						
Other Current Assets						
Total Current Assets						
Property and Equipment						
Land						
Buildings						
Leasehold Improvements						
Furniture, Fixtures & Equipment						
Vehicles						
Construction In Progress						
Accumulated Depreciation						
Total Property and Equipment						
Other Assets						
Letter of Credit						
Intangible Assets						
Accumulated Amortization						
Goodwill						
Land Held for Future Development						
Notes Receivable						
Insurance Recovery Receivable						
Long-Term from Intercompany						
Other Assets						
Total Other Assets						
Total Assets						
Current Liabilities						
Lines of Credit						
Accounts Payable						
Payroll Payable						
Taxes Payable						
Due to Intercompany						
Other Accrued Liabilities						
Current Portion of Litigation Reserve						
Current Portion Deferred Gain						
Current Portion Capital Leases						
Current Portion Long-Term Debt						
Total Current Liabilities						
Noncurrent Liabilities						
Litigation Liability						
Capital Leases, net of current portion						
Long Term Debt, net of current portion						
Deferred Gain, net of current portion						
Deferred Rent, net of current portion						
Long-Term Due to Intercompany						
Total Long Term Liabilities						
Total Liabilities						
Equity						
Common Stock						
Members Equity						
Non-Controlling Equity						
Total Equity						
Total Liabilities and Shareholders Equity						

AVAMERE GROUP, LLC
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2015

HOSPICE OPERATIONS 12/31/15	SIGNATURE PHARMACY 12/31/15	NP2U 12/31/15	MANAGEMENT OPERATIONS 12/31/15	OTHER BUSINESSES 12/31/15	Sub-total pre-elim 12/31/15	ELIMINATIONS 12/31/15	CONSOLIDATED AVAMERE GROUP 12/31/15
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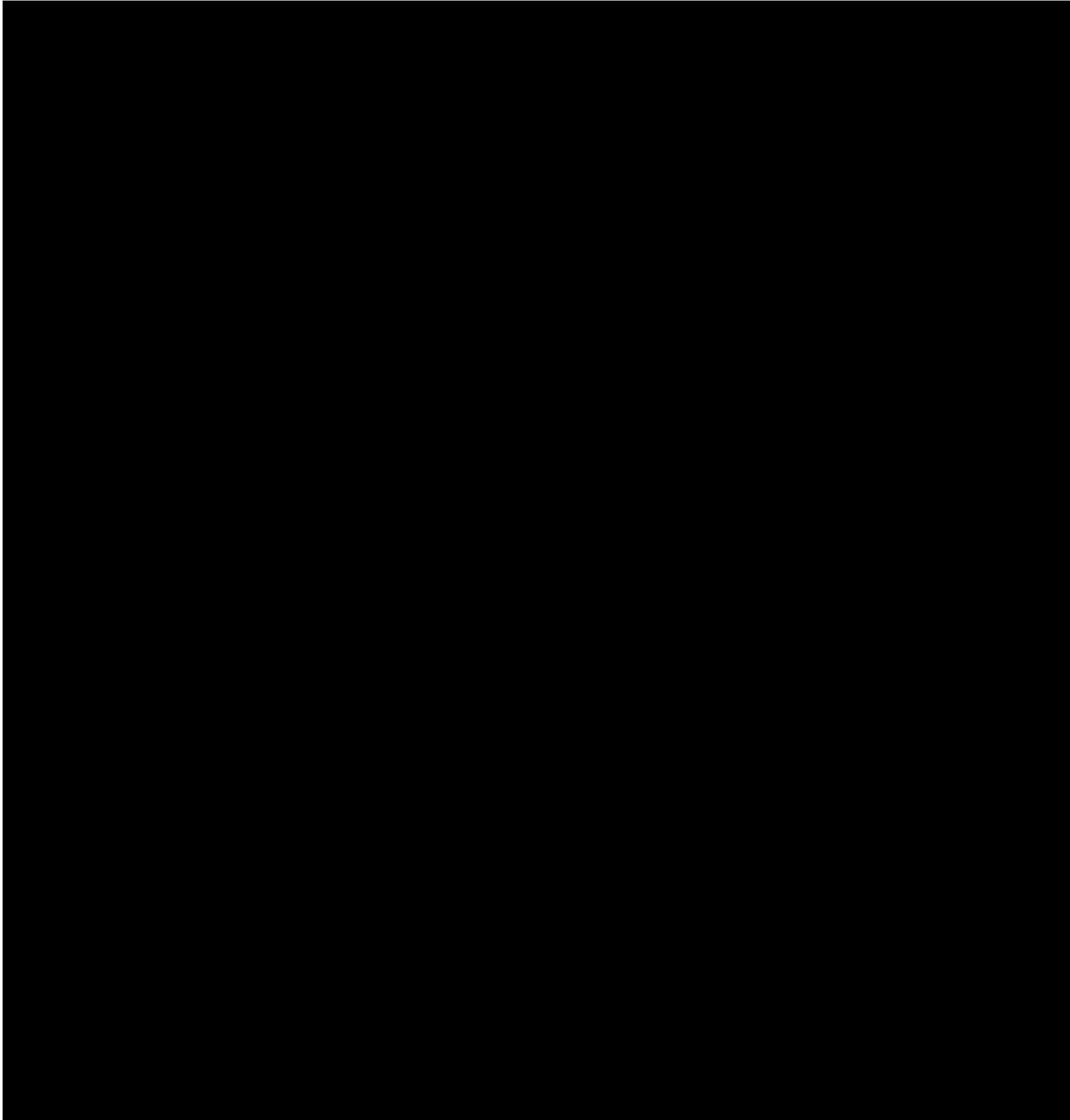


AVAMERE GROUP, LLC
CONSOLIDATING STATEMENT OF INCOME
YEAR ENDING DECEMBER 31, 2015

	SNF OPERATIONS 12/31/15	CAMPUS OPERATIONS 12/31/15	CBC OPERATIONS 12/31/15	COMBINED SNF & CBC Ops Total 12/31/15	REHAB OPERATIONS 12/31/15	HOME HEALTH OPERATIONS 12/31/15
OPERATING REVENUES						
Resident Care - Medicare						
Resident Care - Medicaid						
Resident Care - Private						
Resident Care - Other						
Resident Care - Veterans						
Miscellaneous Facility Revenue						
Resident Care Revenue						
Ancillary Revenue						
Provision for Bad Debts						
Rental Income						
Management Revenue						
Miscellaneous Revenue						
Net Operating Revenue						
OPERATING EXPENSES						
Ancillary Expense						
Nursing Services						
Administration						
Rent Expense						
Dietary						
Plant Operations						
Depreciation and Amortization						
Property Taxes & Insurances						
Housekeeping						
Social Services						
Activities						
Interest						
Laundry and Linen						
Medical Records						
Restorative Care						
Miscellaneous Expense						
Income Taxes						
Management Fees						
Total Operating Expenses						
NON-OPERATING REVENUES & EXPENSES						
Miscellaneous Revenue						
Miscellaneous Expenses						
Investment Income						
Donations						
Gain (Loss) on Sale of Assets						
Total Non-operating Revenue and Expense						
NET PROFIT (LOSS)						
Net Income Attributable to Non-Controlling Interest						
NET PROFIT (LOSS) Attributable to Avamere Group, LLC						
Plus Depreciation						
Plus Interest						
Plus Income Taxes						
EBITDA						
Plus Rent						
EBITDAR						

AVAMERE GROUP, LLC
CONSOLIDATING STATEMENT OF INCOME
YEAR ENDING DECEMBER 31, 2015

HOSPICE OPERATIONS 12/31/15	SIGNATURE PHARMACY 12/31/15	NP2U 12/31/15	MANAGEMENT OPERATIONS 12/31/15	OTHER BUSINESSES 12/31/15	ELIMINATIONS 12/31/15	ACTUAL CONSOLIDATED AVAMERE GROUP 12/31/15
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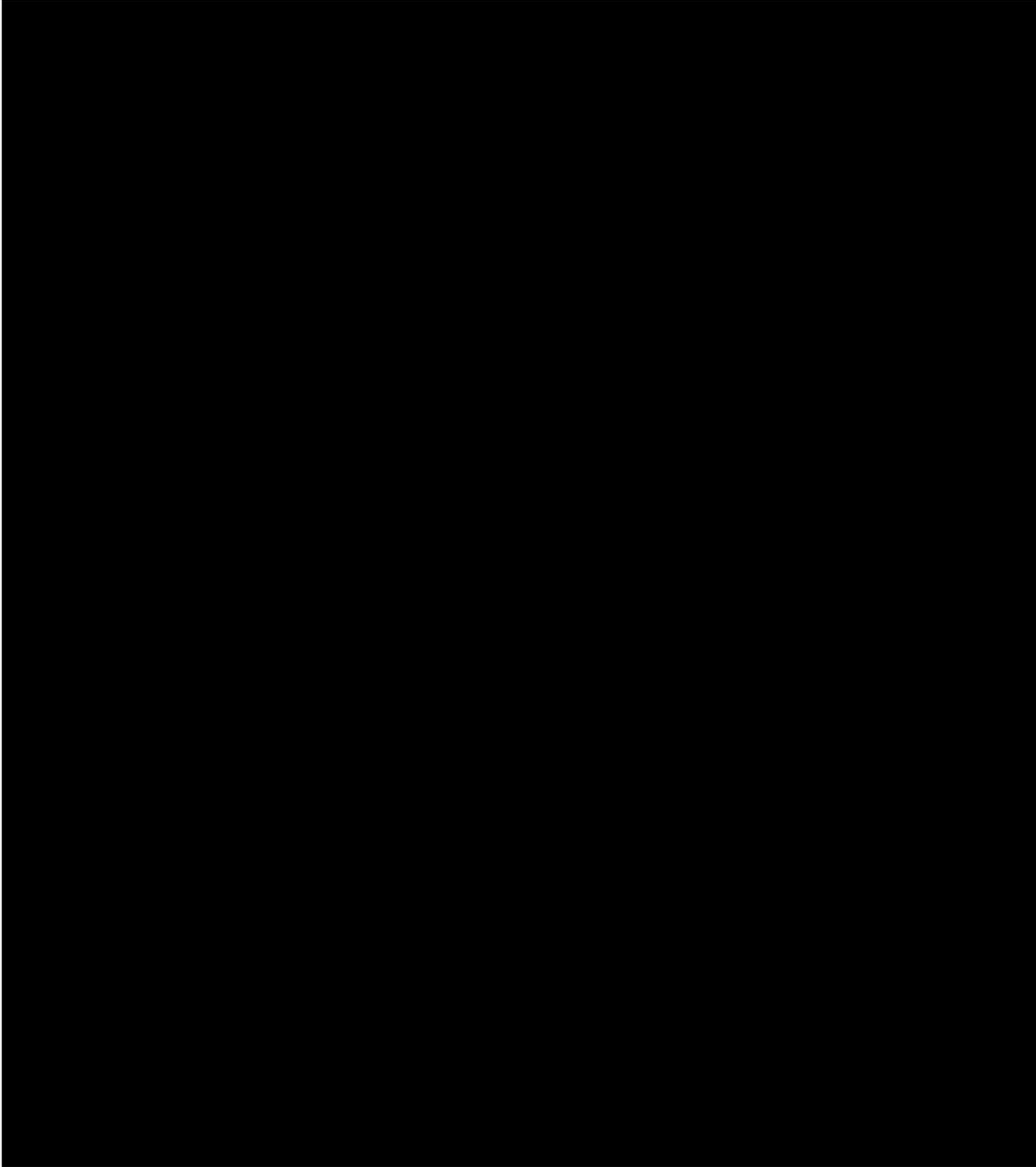


AVAMERE GROUP, LLC
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2014

	SNF OPERATIONS 12/31/14	CAMPUS OPERATIONS 12/31/14	CBC OPERATIONS 12/31/14	COMBINED SNF & CBC OPS TOTAL 12/31/14	REHAB OPERATIONS 12/31/14	MERIT OPERATIONS 12/31/14
Current Assets						
Cash						
Designated Cash						
Accounts Receivable						
Less Allowance for Bad Debt						
Other Accounts Receivable						
Due from Intercompany						
Current Portion of Notes Receivable						
Current Portion of Insurance Recovery						
Inventory						
Prepaid Expenses						
Other Current Assets						
Total Current Assets						
Property and Equipment						
Land						
Buildings						
Leasehold Improvements						
Furniture, Fixtures & Equipment						
Vehicles						
Construction In Progress						
Accumulated Depreciation						
Total Property and Equipment						
Letter of Credit						
Intangible Assets						
Accumulated Amortization						
Goodwill						
Land Held for Future Development						
Notes Receivable						
Insurance Recovery Receivable						
Long-Term from Intercompany						
Other Assets						
Total Other Assets						
Total Assets						
Current Liabilities						
Lines of Credit						
Accounts Payable						
Payroll Payable						
Taxes Payable						
Due to Intercompany						
Other Accrued Liabilities						
Current Portion of Litigation Reserve						
Current Portion Deferred Gain						
Current Portion Capital Leases						
Current Portion Long-Term Debt						
Total Current Liabilities						
Noncurrent Liabilities						
Litigation Liability						
Capital Leases, net of current portion						
Long Term Debt, net of current portion						
Deferred Gain, net of current portion						
Deferred Rent, net of current portion						
Long-Term Due to Intercompany						
Total Long Term Liabilities						
Total Liabilities						
Equity						
Common Stock						
Members Equity						
Non-Controlling Equity						
Total Equity						
Total Liabilities and Shareholders Equity						

AVAMERE GROUP, LLC
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2014

HOME HEALTH OPERATIONS 12/31/14	HOSPICE OPERATIONS 12/31/14	SIGNATURE PHARMACY 12/31/14	NP2U 12/31/14	MANAGEMENT OPERATIONS 12/31/14	OTHER BUSINESSES 12/31/14	Sub-total pre-elim 12/31/14	ELIMINATIONS 12/31/14	CONSOLIDATED AVAMERE GROUP 12/31/14
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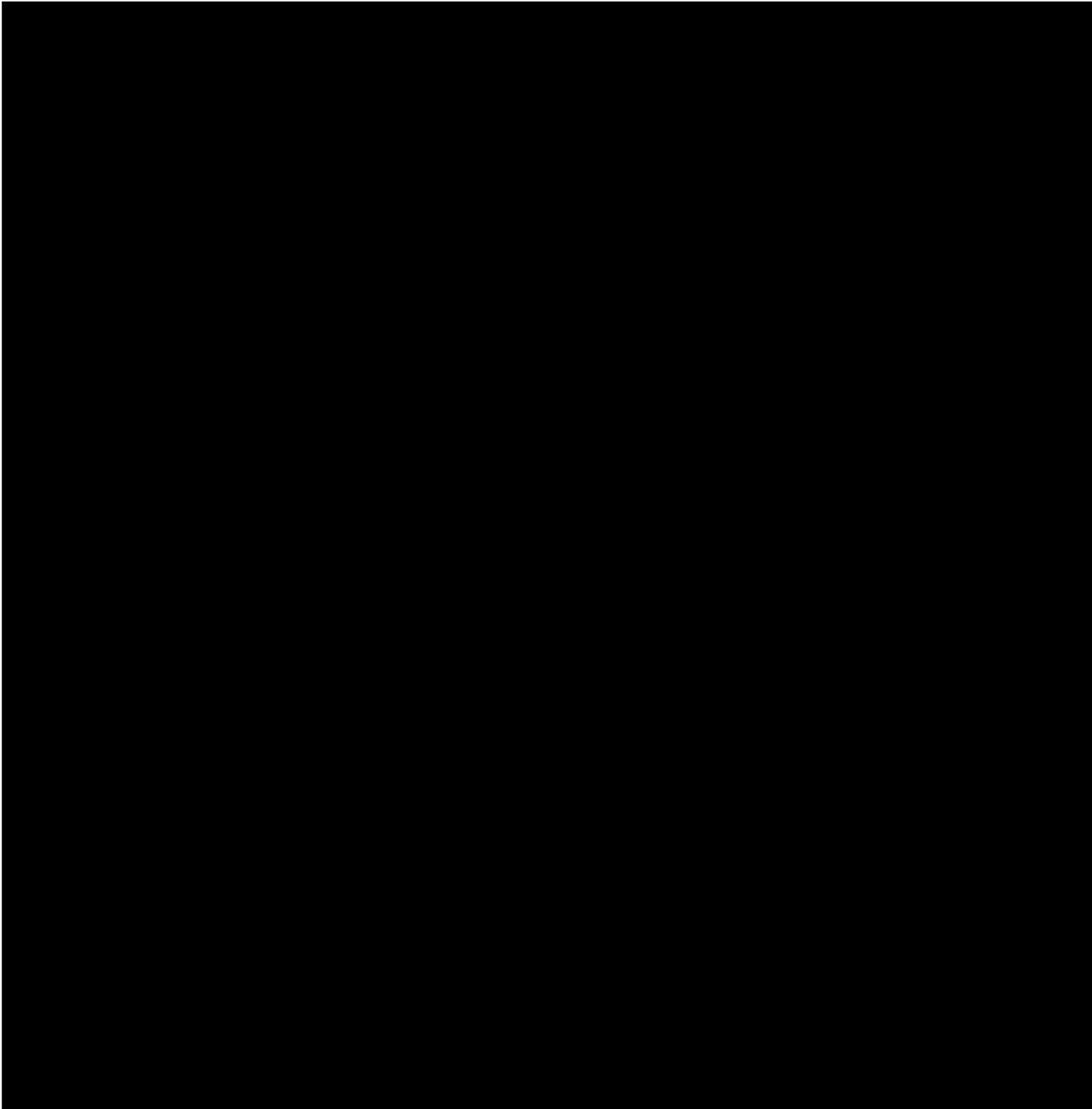


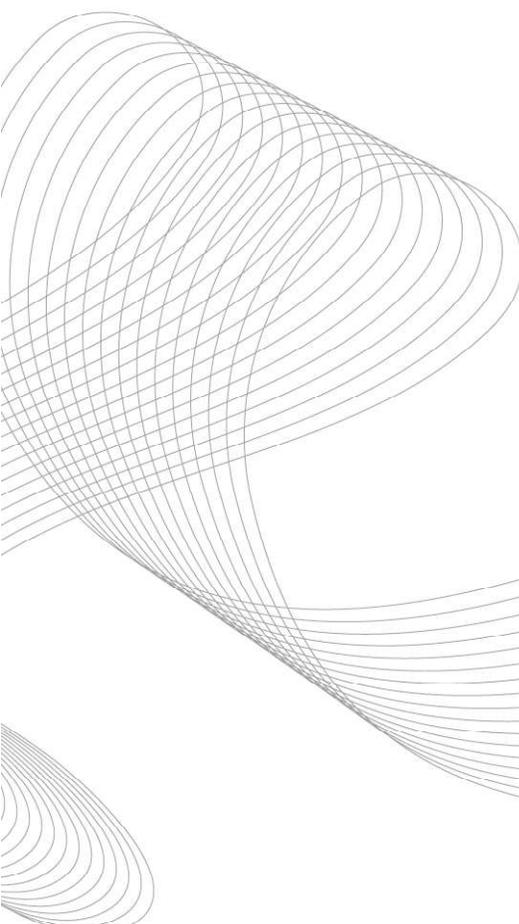
AVAMERE GROUP, LLC
CONSOLIDATING STATEMENT OF INCOME
YEAR ENDING DECEMBER 31, 2014

	SNF OPERATIONS 12/31/14	CAMPUS OPERATIONS 12/31/14	CBC OPERATIONS 12/31/14	COMBINED SNF & CBC Ops Total 12/31/14	REHAB OPERATIONS 12/31/14	MERIT OPERATIONS 12/31/14
OPERATING REVENUES						
Resident Care - Medicare						
Resident Care - Medicaid						
Resident Care - Private						
Resident Care - Other						
Resident Care - Veterans						
Miscellaneous Facility Revenue						
Resident Care Revenue						
Ancillary Revenue						
Provision for Bad Debts						
Rental Income						
Management Revenue						
Miscellaneous Revenue						
Net Operating Revenue						
OPERATING EXPENSES						
Ancillary Expense						
Nursing Services						
Administration						
Rent Expense						
Dietary						
Plant Operations						
Depreciation and Amortization						
Property Taxes & Insurances						
Housekeeping						
Social Services						
Activities						
Interest						
Laundry and Linen						
Medical Records						
Restorative Care						
Miscellaneous Expense						
Income Taxes						
Management Fees						
Total Operating Expenses						
NON-OPERATING REVENUES & EXPENSES						
Miscellaneous Revenue						
Miscellaneous Expenses						
Investment Income						
Donations						
Gain (Loss) on Sale of Assets						
Total Non-operating Revenue and Expense						
NET PROFIT (LOSS)						
Net Income Attributable to Non-Controlling Interest						
NET PROFIT (LOSS) Attributable to Avamere Group, LLC						
Plus Depreciation						
Plus Interest						
EBITDA						
Plus Rent						
EBITDAR						

AVAMERE GROUP, LLC
CONSOLIDATING STATEMENT OF INCOME
YEAR ENDING DECEMBER 31, 2014

HOME HEALTH OPERATIONS 12/31/14	HOSPICE OPERATIONS 12/31/14	SIGNATURE PHARMACY 12/31/14	NP2U 12/31/14	MANAGEMENT OPERATIONS 12/31/14	OTHER BUSINESSES 12/31/14	ELIMINATIONS 12/31/14	ACTUAL CONSOLIDATED AVAMERE GROUP 12/31/14
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Report of Independent Auditors and
Consolidated Financial Statements with
Supplementary Information for

Avamere Group, LLC

December 31, 2014 and 2013

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

Acumen. Agility. Answers.

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REPORT OF INDEPENDENT AUDITORS

The Shareholders and Members of
Avamere Group, LLC

We have audited the accompanying consolidated financial statements of Avamere Group, LLC (an Oregon LLC), which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of income, statements of shareholders' and members' equity/deficit, and statements of cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

REPORT OF INDEPENDENT AUDITORS (continued)

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Avamere Group, LLC as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Consolidating Information

Our audits were conducted for the purpose of forming an opinion of the consolidated financial statements as a whole. The consolidating information in the supplementary information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and it is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations, and cash flows for the individual companies.

The consolidating information is the responsibility of management and was derived from and relates to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidating financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidating financial statements or to the consolidating financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

A handwritten signature in blue ink that reads "Moss Adams LLP". The signature is written in a cursive, flowing style.

Portland, Oregon
March 23, 2015

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AVAMERE GROUP, LLC
CONSOLIDATED BALANCE SHEETS

ASSETS

December 31,

2014

2013

CURRENT ASSETS

Cash and cash equivalents (a)
 Designated cash
 Accounts receivable, net of allowance for bad debt of
 Other accounts receivable
 Current portion of notes receivable
 Current portion of insurance recovery receivable
 Inventory
 Prepaid expenses
 Other current assets

Total current assets

PROPERTY AND EQUIPMENT

Land
 Buildings
 Leasehold improvements
 Furniture, fixtures, and equipment
 Vehicles
 Construction in progress

Accumulated depreciation and amortization

Total property and equipment

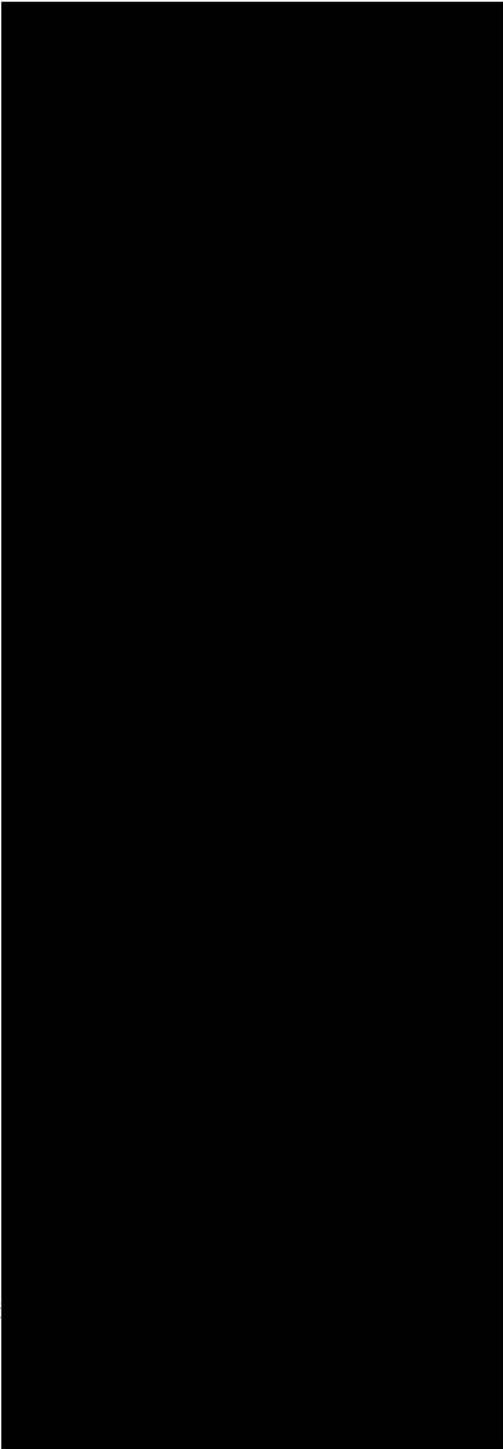
OTHER ASSETS

Letter of credit
 Intangible assets, net of accumulated amortization
 Goodwill
 Land held for future development
 Notes receivable, net of current portion
 Insurance recovery receivable, net of current portion
 Other assets

Total other assets

Total assets

(a) As of December 31, 2014 and 2013, the assets listed above include amounts from Premere Rehab, LLC (consolidated variable interest entity).
 Cash and cash equivalents
 Accounts receivable, net
 Intangibles, net



AVAMERE GROUP, LLC
CONSOLIDATED BALANCE SHEETS

LIABILITIES AND SHAREHOLDERS' AND MEMBERS' DEFICIT

December 31,

2014

2013

CURRENT LIABILITIES

Lines of credit (b)
Accounts payable
Accrued payroll, taxes and benefits (b)
Accrued business and property taxes
Other accrued liabilities
Current portion of litigation reserve
Current portion of deferred gain on sale
Current portion of capital leases
Current portion of long term debt

Total current liabilities

LONG TERM DEBT AND OTHER LIABILITIES

Litigation reserve, net of current portion
Capital leases, net of current portion
Long term debt, net of current portion
Long term deferred gain on sale
Deferred rent

Total long term debt and other liabilities

Total liabilities

SHAREHOLDERS' AND MEMBERS' EQUITY/DEFICIT

Common stock
Retained earnings/members' equity/deficit

Total equity attributable to Avamere Group, LLC
Non-controlling interest

Total shareholders' and members' equity/deficit

Total liabilities and shareholders' and members'
equity/deficit

(b) As of December 31, 2014 and 2013, the liabilities listed above include amounts from Premere Rehab, LLC (consolidated variable interest entity)

Lines of credit
Accrued payroll, taxes and benefits



AVAMERE GROUP, LLC
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,	
	2014	2013
OPERATING REVENUE		
Resident care – Medicare		
Resident care – Medicaid		
Resident care – Private		
Resident care – Third-party payors		
Resident care – Veteran		
Miscellaneous facility revenue		
Resident care revenue		
Therapy		
Home health/home care		
Hospice		
Nurse practitioner		
Management operations		
Pharmacy		
Ancillary revenue		
Provision for bad debts		
Rental income		
Management revenue		
Miscellaneous revenue		
Total other operating revenue		
Net operating revenue		
OPERATING EXPENSES		
Ancillary expense		
Nursing services		
Administration		
Rent		
Dietary		
Plant operations and maintenance		
Property taxes and insurance		
Housekeeping		
Depreciation and amortization		
Social services		
Activities		
Laundry and linen		
Medical records		
Restorative care		
Interest		
Miscellaneous expense		
Total operating expenses		

AVAMERE GROUP, LLC
CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31,

2014 2013

NON-OPERATING REVENUE AND EXPENSES

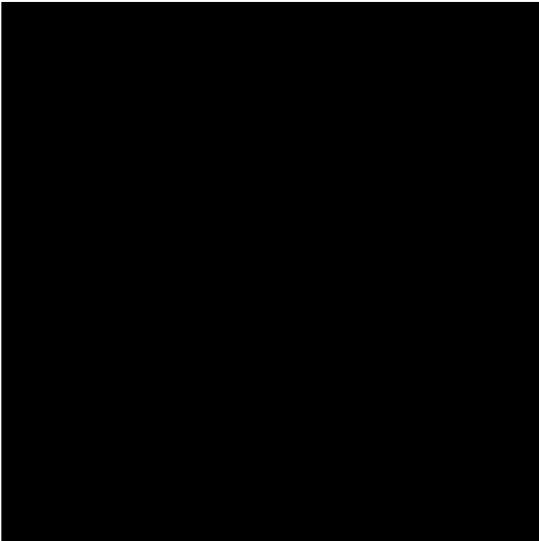
- Miscellaneous revenue
- Miscellaneous expense
- Investment income
- Donations
- Gain on sale of assets

Total non-operating revenue and expenses

NET INCOME

NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTEREST

NET INCOME ATTRIBUTABLE TO AVAMERE GROUP, LLC



AVAMERE GROUP, LLC
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' AND MEMBERS' EQUITY/DEFICIT

	<u>Common Stock</u>	<u>Retained Earnings/ Members' Equity/Deficit</u>	<u>Non-controlling Interest</u>	<u>Total</u>
Beginning balance, January 1, 2013				
Contributions				
Distributions/draws				
Transfer between controlling and non-controlling				
Net income				
Ending balance, December 31, 2013				
Contributions				
Distributions/draws				
Transfer between controlling and non-controlling				
Net income				
Ending balance, December 31, 2014				

AVAMERE GROUP, LLC
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income		
Adjustments to reconcile net income to net cash from operating activities		
Change in provision for bad debt		
Depreciation and amortization		
Investment income		
Donation		
Gain on sale of assets		
Interest earned on letter of credit		
Deferred rent		
Changes in assets and liabilities		
Designated cash		
Accounts receivable		
Other accounts receivable		
Insurance recovery receivable		
Inventory		
Prepaid expenses		
Other current assets		
Other assets		
Accounts payable		
Accrued payroll and payroll benefits		
Accrued business and property taxes		
Other accrued liabilities		
Insurance reserve		
Net cash from operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment		
Proceeds from sale of assets and land held for development		
Purchase of intangible assets		
Net cash from investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments received on notes receivable		
Payments on long-term debt		
Deposits on letter of credit		
Net activity on lines of credit		
Payments on capital leases		
Contribution		
Distributions/draws		
Net cash from financing activities		
CHANGE IN CASH AND CASH EQUIVALENTS		
CASH AND CASH EQUIVALENTS, beginning of year		
CASH AND CASH EQUIVALENTS, end of year		

AVAMERE GROUP, LLC
CONSOLIDATED STATEMENTS OF CASH FLOWS

	December 31,	
	2014	2013
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest		
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES		
Equipment financed with capital lease		
Construction of Boone Road in 2014		
Increase in net property and equipment and long-term debt		
Sale of Merit Rehab in 2014		
Reduction in accounts receivable, net		
Reduction in net property and equipment		
Reduction in net goodwill		
Reduction in accounts payable		
Non-cash distribution to owners		
Increase in notes receivable		
Reduction in retained earnings		
Purchase of XL Hospice in 2014		
Increase in net property and equipment		
Increase in intangible assets		
Increase in goodwill		
Increase in long-term debt		
Contribution of Parkway Courtyard LLC in 2014		
Increase in net property and equipment		
Increase in intangible assets		
Increase in long-term debt		
Contribution to equity		
Net transfer of land held for future development to land in 2014		
Donation of Scholls Property in 2013		
Reduction in net property and equipment		
Reduction of long-term debt through contribution by owner		
Reduction of other accrued liabilities through contribution by owner		
Pharmacy merger in 2013		
Reduction in accounts receivable		
Reduction in net property and equipment		
Reduction in other current assets		
Increase in other assets		
Reduction in accounts payable		
Reduction in accrued liabilities		

AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Business and Organization

Avamere Group, LLC (Avamere or the Company) provides a spectrum of healthcare solutions for seniors in more than 40 communities throughout Oregon, Washington, Idaho and Colorado. Through its home health, independent living, assisted living, skilled nursing, dementia care, rehabilitation therapy, hospice and nurse practitioner, Avamere provides seniors choices of quality care services in settings that best meet their needs and preferences. Avamere’s mission is “To enhance the life of everyone we serve.” For seniors, they offer the dignity of a choice in setting and the confidence of high quality care provided by dedicated professionals. Avamere’s businesses operate primarily in Oregon and Washington. Avamere expands the range of services community by community through acquisition, expansion of service businesses, as well as development and construction of new facilities.

The following entities are included in the consolidated financial statements:

TYPE	LEGAL NAME	LOCATION
MANAGEMENT COMPANIES		
	Avamere Health Services, LLC	Wilsonville, OR
	Avamere Skilled Advisors, LLC	Wilsonville, OR
HOLDING COMPANIES		
	Avamere Group, LLC	Wilsonville, OR
	ARI, LLC	Wilsonville, OR
	ARI Operations, LLC	Wilsonville, OR
	ASR Northwest, LLC	Wilsonville, OR
	ACR Northwest, LLC	Wilsonville, OR
	ARISO, LLC	Wilsonville, OR
	ARI CBC, LLC	Wilsonville, OR
CAMPUS FACILITIES OPERATIONS		
	Waterford Operations, LLC	Medford, OR
	Keizer Campus Operations, LLC	Keizer, OR
	Avamere Lake Oswego Operations Investors, LLC	Lake Oswego, OR

AVAMERE GROUP, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Business and Organization (continued)

TYPE	LEGAL NAME	LOCATION
COMMUNITY BASED CARE FACILITIES OPERATIONS		
	Avamere Bethany Operations, LLC	Portland, OR
	Avamere Hillsboro Operations, LLC	Hillsboro, OR
	Genesis Newberg Operations Co, LLC	Newberg, OR
	Avamere Sandy Operations, LLC	Sandy, OR
	Avamere Sherwood Operations, LLC	Sherwood, OR
	Avamere St. Helens Operations, LLC	St. Helens, OR
	Avamere Stafford Operations, LLC	Lake Oswego, OR
	Forest Drive Operations, LLC	Seaside, OR
	Gaffney Operations, LLC	Oregon City, OR
	Avamere Bethany Cottages Operations, LLC	Portland, OR
	Avamere Hillsboro Cottages Operations, LLC	Hillsboro, OR
	Avamere Gable Road Cottages Operations, LLC	St. Helens, OR
	Berry Park Villas Operations, LLC	Oregon City, OR
	Keizer River Operations, LLC (new in 2013)	Keizer, OR
SKILLED NURSING FACILITIES OPERATIONS		
	Beaverton Rehab & Specialty Care, LLC	Beaverton, OR
	Belair Rehab, LLC (closed March 2010)	Tacoma, WA
	Bellingham Operations, LLC (new in 2013)	Bellingham, WA
	Boise Operations, LLC (new in 2013)	Boise, ID
	Brighton Operations, LLC (new in 2013)	Brighton, CA
	Clackamas Rehabilitation, LLC	Clackamas, OR
	Coos Bay Rehabilitation, LLC	Coos Bay, OR
	Crestview Operations, LLC	Portland, OR
	Eugene Rehabilitation, LLC	Eugene, OR
	Georgian Rehab, LLC	Lakewood, WA
	Heritage Rehab, LLC	Tacoma, WA
	Junction City Rehabilitation, LLC	Junction City, OR
	King City Rehab, LLC	Tigard, OR
	Lebanon Care Center, LLC	Lebanon, OR
	Medford Operations, LLC (new in 2013)	Medford, OR
	Mountain View Rehab, LLC	Oregon City, OR
	Newport Rehabilitation, LLC	Newport, OR
	Northglenn Operations, LLC (new in 2013)	Northglenn, CO
	Peckham-Miller, Inc.	Hillsboro, OR
	Richmond Beach Rehab, LLC	Richmond Beach, WA
	Riverpark Operations, LLC	Eugene, OR
	Seattle Operations, LLC (new in 2013)	Seattle, WA
	Sequim Rehabilitation, LLC	Sequim, WA
	South Salem Rehabilitation, LLC	Salem, OR
	Sunnyside Operations, LLC (new in 2014)	Salem, OR
	St. Francis Operations, LLC	Bellingham, WA
	Tacoma Rehab, LLC	Tacoma, WA
	Twin Oaks Rehab, LLC	Sweet Home, OR

AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Business and Organization (continued)

TYPE	LEGAL NAME	LOCATION
PROPERTY ENTITIES		
	Avamere Bel Air Properties, LLC	Tacoma, WA
	Avamere Gable Road Cottages II, LLC	St. Helens, OR
	Bell Street Properties, LLC	Tacoma, WA
	Boone Road Properties, LLC	Salem, OR
	Capital Heights, LLC (sold 2013)	Olympia, WA
	Eugene Chambers Properties, LLC	Eugene, OR
	Gaffney Investors 2, LLC	Oregon City, OR
	Gaffney Investors I, LLC	Oregon City, OR
	Gladstone Properties, LLC	Gladstone, OR
	Kurth Properties, LLC	South Salem, OR
	MDN Gladstone, LLC	Gladstone, OR
	Olympic Meadows, LLC	Sequim, WA
	Parkway Courtyard, LLC	Wilsonville, OR
	Redmond 97 Lot 200, LLC	Redmond, OR
	Sandy Villas, LLC	Sandy, OR
ANCILLARY AND OTHER ENTITIES		
	A-One Home Health Services, Inc.	Wilsonville, OR
	Avamere ALF Operations, LLC	Wilsonville, OR
	Avamere Home Health Care, LLC	Wilsonville, OR
	Avamere Outpatient Services, LLC (sold in 2014)	Wilsonville, OR
	Avamere Rehab Services, LLC	Wilsonville, OR
	Home Health Advantage, Inc.	Wilsonville, OR
	MWMD Pharmacy Holdings, LLC (sold in 2013)	Wilsonville, OR
	MWMD Pharmacy Solutions 2, LLC (new in 2013)	Wilsonville, OR
	Prime Home Health, Inc.	Wilsonville, OR
	Northwest Ancillary Investors, LLC	Wilsonville, OR
	Northwest Hospice, LLC	Wilsonville, OR
	Northwest Nightingale, LLC (new in 2013)	Wilsonville, OR
	Premere Rehab, LLC	Wilsonville, OR

AVAMERE GROUP, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies

Principals of consolidation – The consolidated financial statements include the accounts of the Company and all of its wholly-owned and majority-owned subsidiaries. The Company follows authoritative guidance on the Consolidation of Variable Interest Entities (VIEs), which addresses consolidation by business enterprises of VIEs. The Company has considered its agreements and business activities with related parties in order to determine whether any of the relationships qualify as VIEs and whether the Company would be deemed to be the primary beneficiary and be required to consolidate the activities of these VIEs in the Company's consolidated financial statements. All significant inter-company balances and transactions have been eliminated in consolidation. The consolidated financial statements have been prepared on the accrual method of accounting.

Variable interest entities – Generally accepted accounting principles require a qualitative approach to identifying a controlling financial interest in a VIE and requires an ongoing assessment of the primary beneficiary of the VIE based on an evaluation to determine whether an entity has: (a) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance, and (b) the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. In determining whether an entity has the power to direct the activities of the VIE that most significantly affect the VIE's performance, the guidance requires a reporting entity to assess whether it has an implicit financial responsibility to ensure that a VIE operates as designed. The guidance also requires: (a) separate presentation on the face of the statement of financial position of certain assets and liabilities of a consolidated VIE, (b) disclosure of the significant judgments and assumptions made by an enterprise in its determination as to whether or not the enterprise is the primary beneficiary of a VIE, and (c) additional expanded disclosures regarding the enterprise's involvement with a VIE.

Non-controlling interests – The Company reports its non-controlling interests as a separate component of shareholders' equity. The Company also presents the consolidated net income and the portion of the consolidated net income allocable to the non-controlling interests and to the shareholders of the Company separately in its consolidated statements of income. In addition, losses applicable to the non-controlling interest are allocated to the non-controlling interest even when those losses are in excess of the non-controlling interests' investment basis.

Use of estimates – The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include accounts receivable allowance for bad debt, depreciation lives, valuation of goodwill and intangible assets, self-insured medical claims incurred but not reported, and litigation reserve.

AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

Cash and cash equivalents – The Company considers all highly-liquid investment securities purchased with a maturity of three months or less to be cash equivalents. The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts.

Designated cash – The Company has restricted cash for resident trust funds. The resident trust liability is included in accounts payable on the balance sheet. Total resident trust cash and related liability was \$301,561 and \$348,457 as of December 31, 2014 and 2013, respectively.

Concentrations of credit risk – Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. The Company maintains its cash balances in a commingled account with entities having common ownership.

Accounts receivable – The Company grants credit in the normal course of business to private individuals, other businesses, governmental agencies, and insurance companies. The Company performs ongoing credit evaluations and generally does not require collateral. The Company receives payment for services rendered from private pay payors, Medicare and Medicaid programs, Veterans Administration, and third-party payors. Management does not believe there are any credit risks associated with receivables from governmental agencies. Private and other receivables consist of receivables from a large number of payors involved in diverse activities and subject to differing economic conditions, which do not represent any concentrated credit risks to the Company.

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, management analyzes its past history and identifies trends to estimate the appropriate allowance for doubtful accounts and provision for bad debts.

For receivables associated with self-pay residents (which includes both residents without insurance and residents with deductible and copayment balances due for which third-party and government coverage exists for part of the bill), the Company records a provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off to provision for bad debt.

The Company also has receivable balances from unrelated third-party entities for services provided by the ancillary entities. The Company assesses the collectability of these accounts based upon historical collections, and known financial issues with the customers. The Company records a provision for bad debts in the period of service based upon this information.

AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

Management regularly monitors and adjusts its reserves and allowances related to these receivables. Interest is charged on accounts at the discretion of management. The Company’s allowance for bad debt was [REDACTED] as of December 31, 2014 and 2013, respectively. In addition, the Company’s bad debt provision expense was approximately [REDACTED] for the years ended December 31, 2014 and 2013, respectively. There was no change in the methodology used by the Company to estimate the allowance for contractual adjustments and bad debt provision in the current year.

The mix of receivables as of December 31, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Private	[REDACTED]	
Medicare		
Other third-party payers		
Medicaid		
Veterans		
	<u>100%</u>	<u>100%</u>

Inventory – Inventory consists of supplies and is stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

Other assets – Other current assets are comprised of deposits, funds held in escrow, replacement and insurance reserves. Other long term assets are comprised of a restricted investment of approximately [REDACTED] as of December 31, 2014 and 2013, respectively; and a 30% equity investment in Payless Drug Pharmacy Group, LLC of approximately [REDACTED] as of December 31, 2014 and 2013, respectively; and other miscellaneous investments.

AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

Property and equipment – Property and equipment acquisitions are recorded at cost. Major renewals or improvements over \$750 are capitalized, whereas ordinary maintenance and repairs are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows: leasehold improvements and equipment under capital lease – the shorter of the useful life of the assets or length of the lease; furniture, fixture and equipment – 3 to 20 years; and buildings – 27.5 years. Depreciation expense for property and equipment was approximately [REDACTED] and [REDACTED] for the years ended December 31, 2014 and 2013, respectively.

Impairment of long-lived assets – The Company assesses long-lived assets for impairment in accordance with the provisions of Financial Accounting Standards Board (FASB) ASC 360 “Property, Plant and Equipment.” A long-lived asset (asset group) shall be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted net cash flows expected to result from the use and eventual disposition of the asset. The amount of impairment loss, if any, is measured as the difference between the net book value of the asset and its estimated fair value. For purposes of these tests, long-lived assets must be grouped with other assets and liabilities for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities.

Intangible assets – Intangible assets subject to amortization include loan closing costs (including loan fees, legal fees, survey fees and appraisal fees), non-compete covenants and customer contracts. Loan closing costs are being amortized using the straight-line method over the life of the related loan. Customer contracts are being amortized over the life of the contracts, which range from ten to fifteen years. See details of intangible assets and goodwill at Note 5.

[REDACTED]

Insurance coverage – The Company purchased a claims made general and professional liability insurance policy from an outside insurance carrier. Premiums are expensed on a straight-line basis over a twelve-month period (see Note 12).

Real property coverage is insured by an outside insurance carrier and premiums are expensed on a straight-line basis over a twelve-month period.

AVAMERE GROUP, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

Workers' compensation coverage for Washington employees is insured through the state of Washington, which is paid quarterly via the labor and industries tax, and expenses are accrued monthly. Workers' compensation coverage for all other facilities and entities is insured by an outside insurance carrier. The Company pays a stipulated premium monthly as well as claim costs as they occur, and expenses are accrued monthly.

The estimated liability for unpaid professional liability claims has been recorded in the consolidated balance sheet at the gross estimated liability. The related estimated insurance recoveries are recorded as a receivable.

Common stock – The consolidated financial statements include two corporations, which record common stock. The consolidated financial statements reflect the common stock issued and outstanding in these corporations (see Note 9).

Resident care and ancillary revenue – The Company has agreements with third-party payors that provide for payments at amounts different from its established rates. Resident care revenue, ancillary revenue and other related service fees are recognized in the period the service is rendered. Resident care and ancillary revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Revenue under third-party payor agreements is subject to audit and retroactive adjustment. Provisions for estimated third-party payor settlements are provided in the period the related services are rendered. Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the year of settlement.

Management revenue – Each facility is operated under an agreement with Avamere Skilled Advisors, LLC (dba Avamere Living), owned by Avamere Group, LLC. Avamere Living charges a fee for providing certain administrative support services. These fees were eliminated during consolidation. The Company also manages other entities. The revenue recognized under these arrangements was approximately [REDACTED] for the years ended December 31, 2014 and 2013, respectively.

Advertising – Advertising costs, which are included in administration expenses, are expensed as incurred. Advertising expense was approximately [REDACTED] for the years ended December 31, 2014 and 2013, respectively.

Fair value measurements – FASB ASC 820, *Fair Value Measurements and Disclosures*, apply to the following areas:

- Goodwill and indefinite-lived intangible asset impairment testing, which involves the fair value measurement of reporting units, assets, and/or liabilities
- Nonfinancial long-lived assets (such as property and equipment or land held for future development) measured at fair value for impairment assessment

AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

Income taxes – The consolidated financial statements include Limited Liability Companies and S-Corporations. Accordingly, all federal income tax attributes are passed through to the Company's shareholders or members. Therefore, no provision is made in the accompanying consolidating financial statements for liabilities for federal, state or local income taxes since such liabilities are the responsibility of the individual partners.

The Company accounts for uncertain tax positions in accordance with ASC 740-10. The Company does not have any entity level uncertain tax positions. The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. Generally, the Company is subject to examination by U.S. federal (or state and local) income tax authorities for three years from the filing of a tax return.

Subsequent events – Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. The Company recognizes in the consolidated financial statements, the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated balance sheet, including the estimates inherent in the process of preparing the financial statements. The Company's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the consolidated balance sheet date and before consolidated financial statements are issued. See Note 17 for disclosure of subsequent events.

The Company has evaluated subsequent events through March 23, 2015, which is the date the consolidated financial statements were issued.

Note 3 – Fair Value of Assets and Liabilities

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To determine fair value, the Company must maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

AVAMERE GROUP, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 – Fair Value of Assets and Liabilities (continued)

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

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies used for instruments measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheet, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Fair value was determined as follows:

Long-lived assets held and used – In evaluating long-lived assets held and used (generally land, buildings, property and equipment) for impairment purposes, the fair value is determined, whenever possible, by reference to quoted market prices and other market information for similar assets.

In accordance with the provisions of the Impairment or Disposal of Long-Lived Assets Subsection of FASB Codification Subtopic 360-10, long-lived assets and land held for future development were evaluated for impairment. For the years ended December 31, 2014 and 2013, these assets were determined to not be impaired.

Goodwill – In evaluating goodwill for impairment purposes, the fair value of goodwill is determined based on the fair market value of similar sales or an estimated value of three to five times the annualized earnings before interest, taxes, depreciation and amortization.

Goodwill was determined to not be impaired as of December 31, 2014 and 2013.

Intangible assets –

Indefinite-lived intangible assets – The fair value of indefinite-lived intangible assets is determined based upon review of sales of similar assets within the market.

Amortizable intangible assets – The fair value of amortizable intangible assets is determined based on discounted expected future cash inflows over the estimated remaining life of the asset.

For the years ended December 31, 2014 and 2013, the intangible assets were determined to not be impaired.

AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 – Notes Receivable

	December 31,	
	2014	2013
Note receivable from an unrelated party as the result of a sale in 2011. Personally guaranteed by the buyers. Due in monthly payments of [REDACTED] including interest at [REDACTED]. Due November 2016.		
Note receivable from an unrelated party as a result of the sale of [REDACTED] Note includes interest at [REDACTED] Due August 2015.		
Note receivable from a therapy customer, converted from accounts receivable. Due in monthly payment of [REDACTED] including interest of [REDACTED] Due October 2015.		
Note receivable from an unrelated party. Due in monthly payments interest only at [REDACTED] Due September 2016		
Less current portion of notes receivable		

AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 – Intangible Assets and Goodwill

Intangible assets are as follows:

	December 31, 2014		
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Intangible Assets, net</u>
Amortizable intangible assets			
Customer contracts			
Loan closing costs			
Non-compete covenants			
Indefinite-lived intangible assets			
Certificate of need			
Amortizable intangible assets			
Customer contracts			
Loan closing costs			
Non-compete covenants			
Indefinite-lived intangible assets			
Certificate of need			

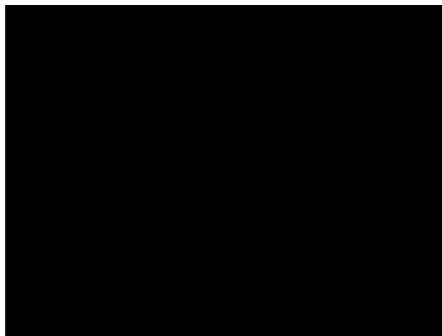
AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 – Intangible Assets and Goodwill (continued)

Amortization is computed using the straight-line method over the estimated useful life of the asset. Amortization expense on these assets for the years ended December 31, 2014 and 2013 was approximately [REDACTED] respectively.

Future expected amortization expense for the years ending December 31 are as follows:

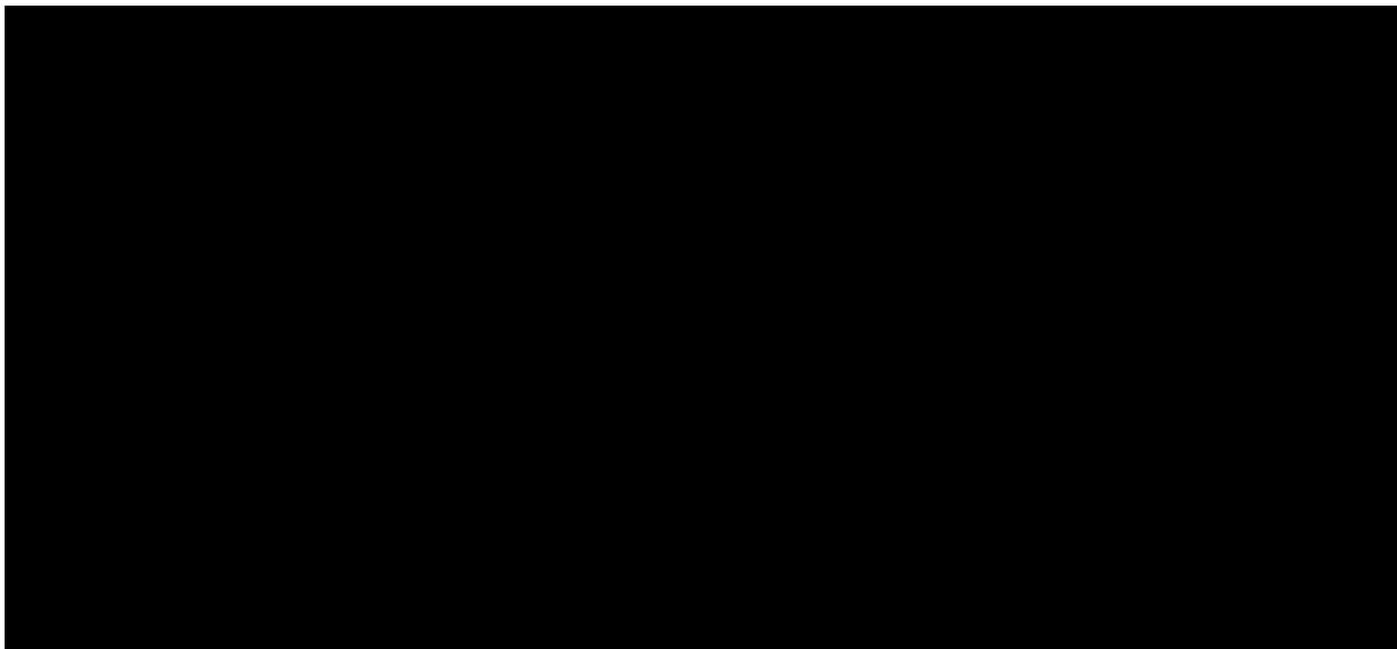
2015
2016
2017
2018
2019
Thereafter



2015	[REDACTED]
2016	[REDACTED]
2017	[REDACTED]
2018	[REDACTED]
2019	[REDACTED]
Thereafter	[REDACTED]

Goodwill – The carrying amount of goodwill as of December 31, 2014 and 2013 reflects the cumulative amount paid, adjusted for any impairment charges, in excess of the fair value of net assets acquired in one or more business combination transactions. Management tests goodwill for impairment annually.

Note 6 – Lines of Credit



[REDACTED]

AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

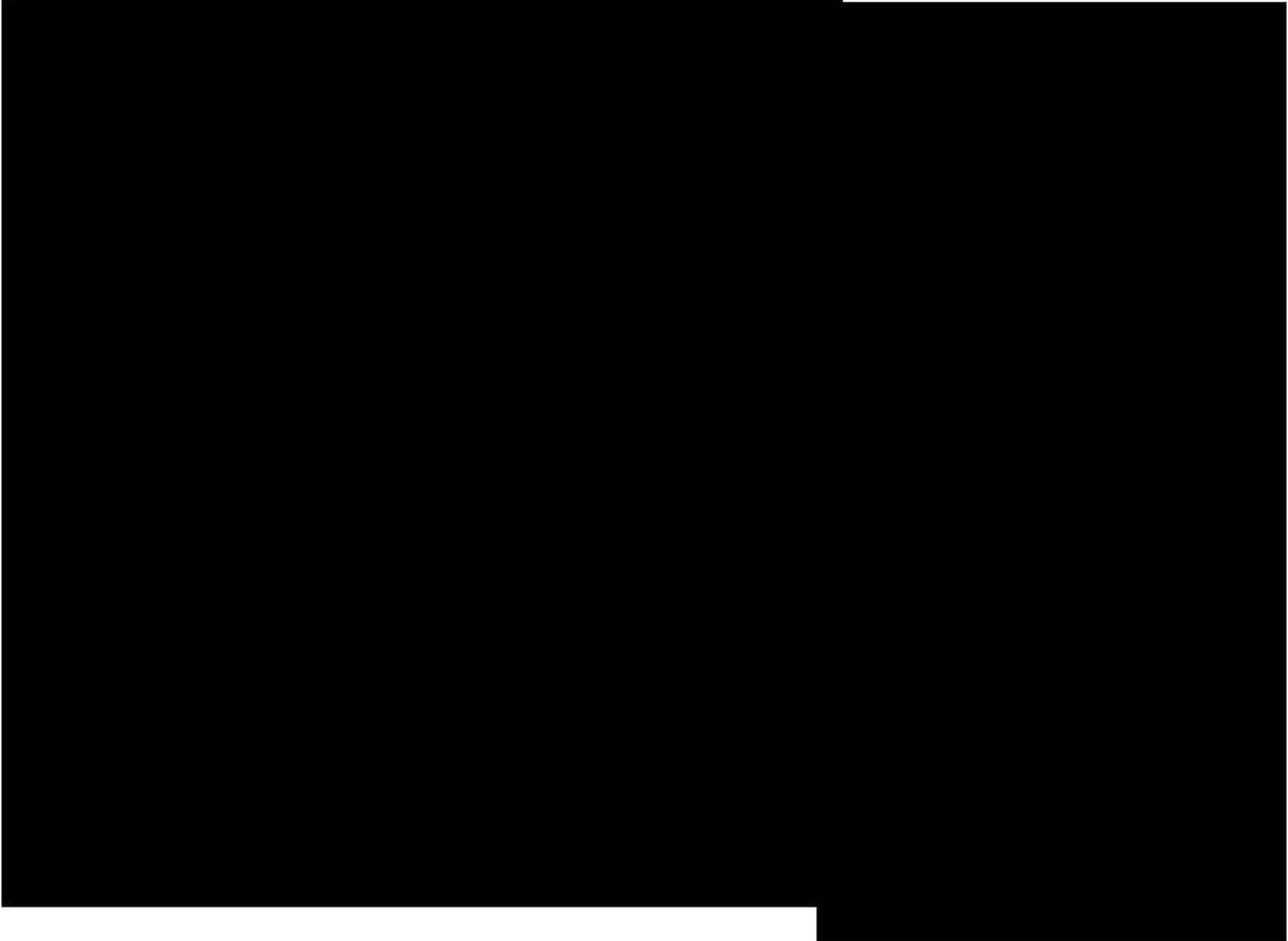
Note 6 – Lines of Credit (continued)



AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

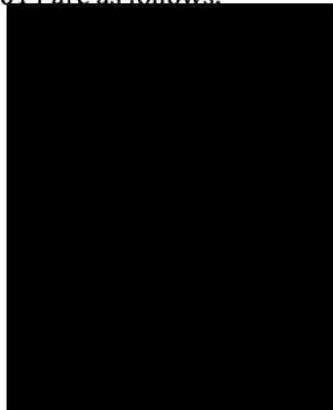
Note 7 - Long Term Debt

December 31,	
2014	2013



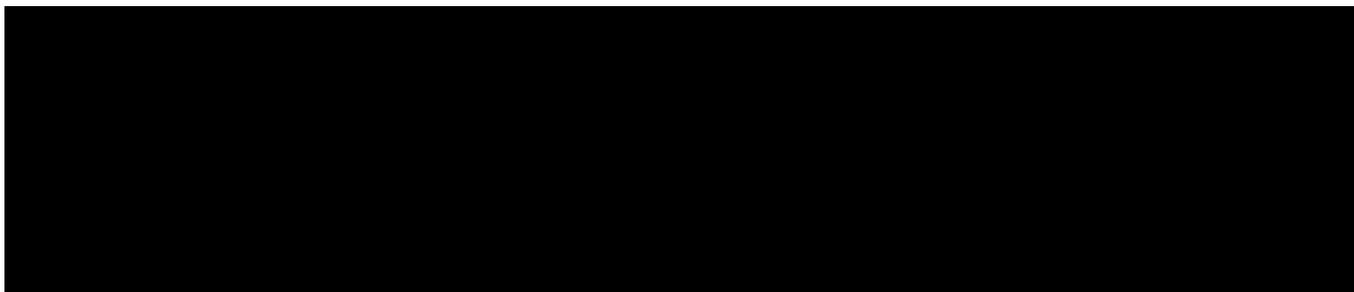
Principal maturities of long term debt as of December 31, 2014 are as follows:

- 2015
- 2016
- 2017
- 2018
- 2019
- Thereafter

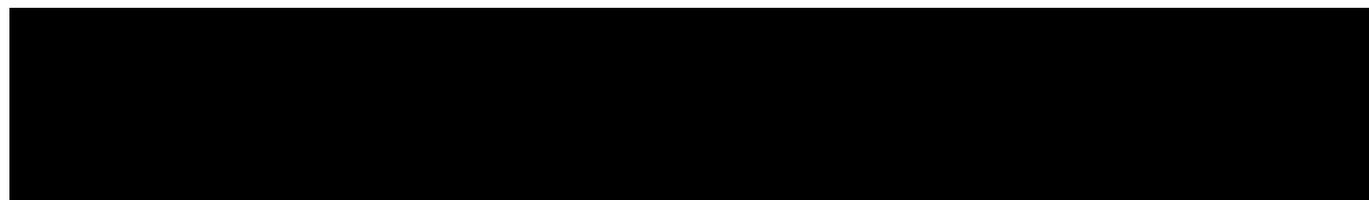


AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 – Deferred Gain on Sale



Note 9 – Common Stock, Member Units, and Ownership Transaction



The Company has the following issued and outstanding Membership Units:

	Avamere Group Membership Units			
	Class A	Class B	Class C	Total
Balance, December 31, 2012				
Units issued				
Balance, December 31, 2013				
Units issued				
Balance, December 31, 2014				

AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 – Common Stock, Member Units, and Ownership Transaction (continued)

The following consolidated entities have authorized, issued and outstanding shares of stock as of December 31, 2014 and 2013 as follows:

Entity	Stock Shares			Dollar Value
	Authorized	Issued	Outstanding	
Peckham-Miller, Inc.				
Home Health Advantage, Inc.				
Balance as of December 31				

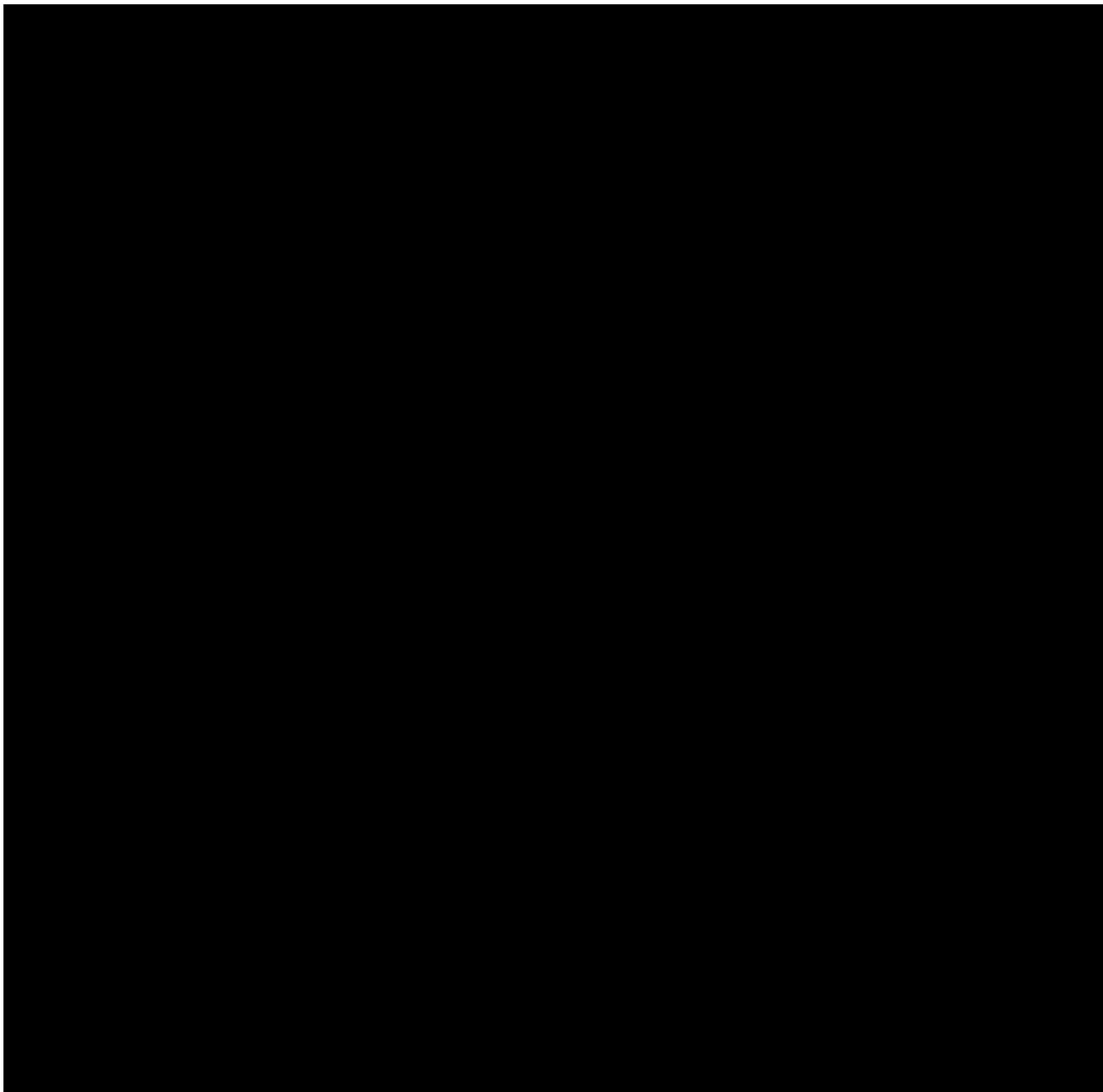
All stock has zero par value.

Note 10 – Pension Plans

Note 11 – Operating Leases

AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

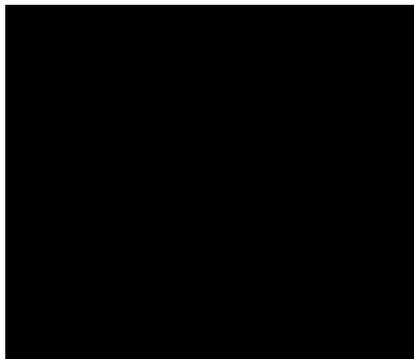
Note 11 - Operating Leases (continued)



Note 11 – Operating Leases (continued)

Future minimum payments under these operating leases at December 31, 2014 are approximately as follows:

2015
2016
2017
2018
2019
Thereafter



Note 12 – Commitments and Contingencies

Industry regulations – The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditations, government health care programs participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayment for patient services previously billed. Management believes that the Company is in compliance with fraud and abuse as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions known or unasserted at this time.

Payments from Federal and State Health Care Programs – Entities doing business with governmental payors, including Medicare and Medicaid, are subject to risks unique to the government-contracting environment that are difficult to anticipate and quantify. Revenues are subject to adjustment as a result of examination by government agencies as well as auditors, contractors, and intermediaries retained by the federal, state, or local governments (collectively “Government Agents”). Resolution of such audits or reviews often extends (and in some cases does not even commence until) several years beyond the year in which services were rendered and/or fees received.

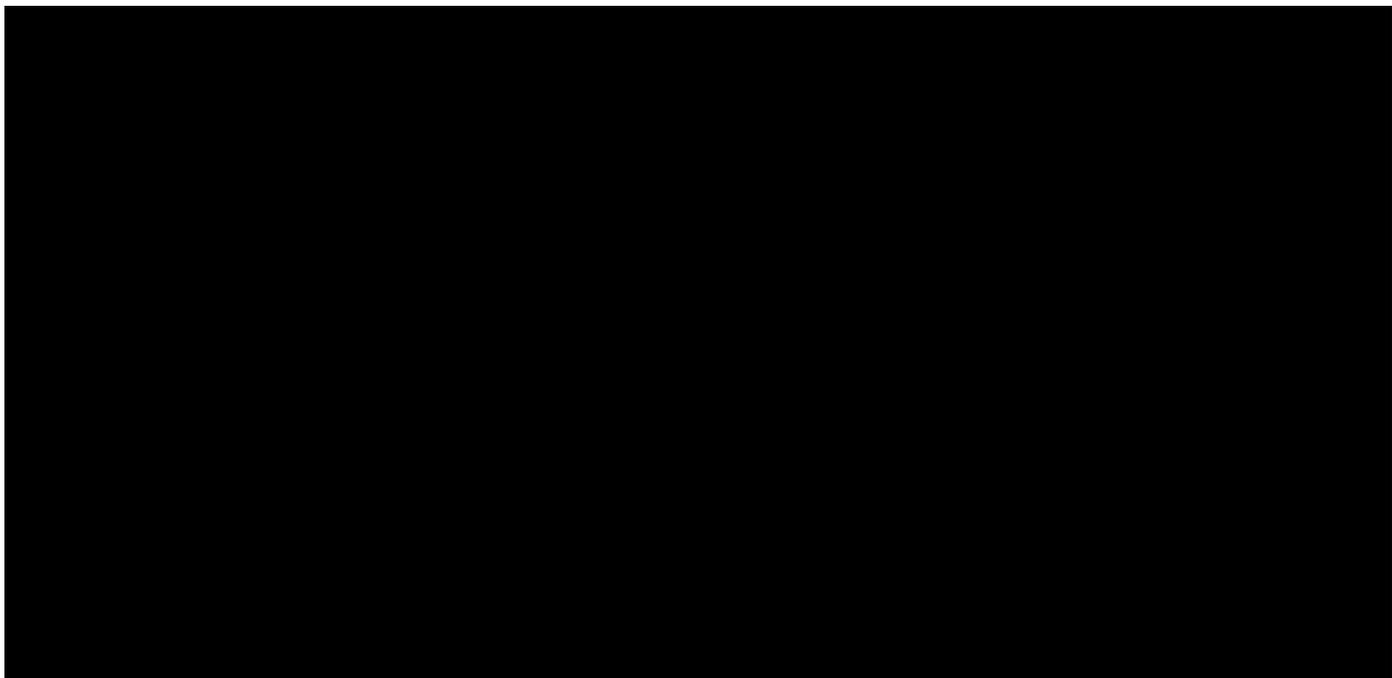
In accordance with generally accepted accounting principles, to account for the uncertainty around Medicare and Medicaid revenues, the Company estimates the amount of revenue that will ultimately be received under the Medicare and Medicaid programs. Amounts ultimately received or paid may vary significantly from these estimates.

AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

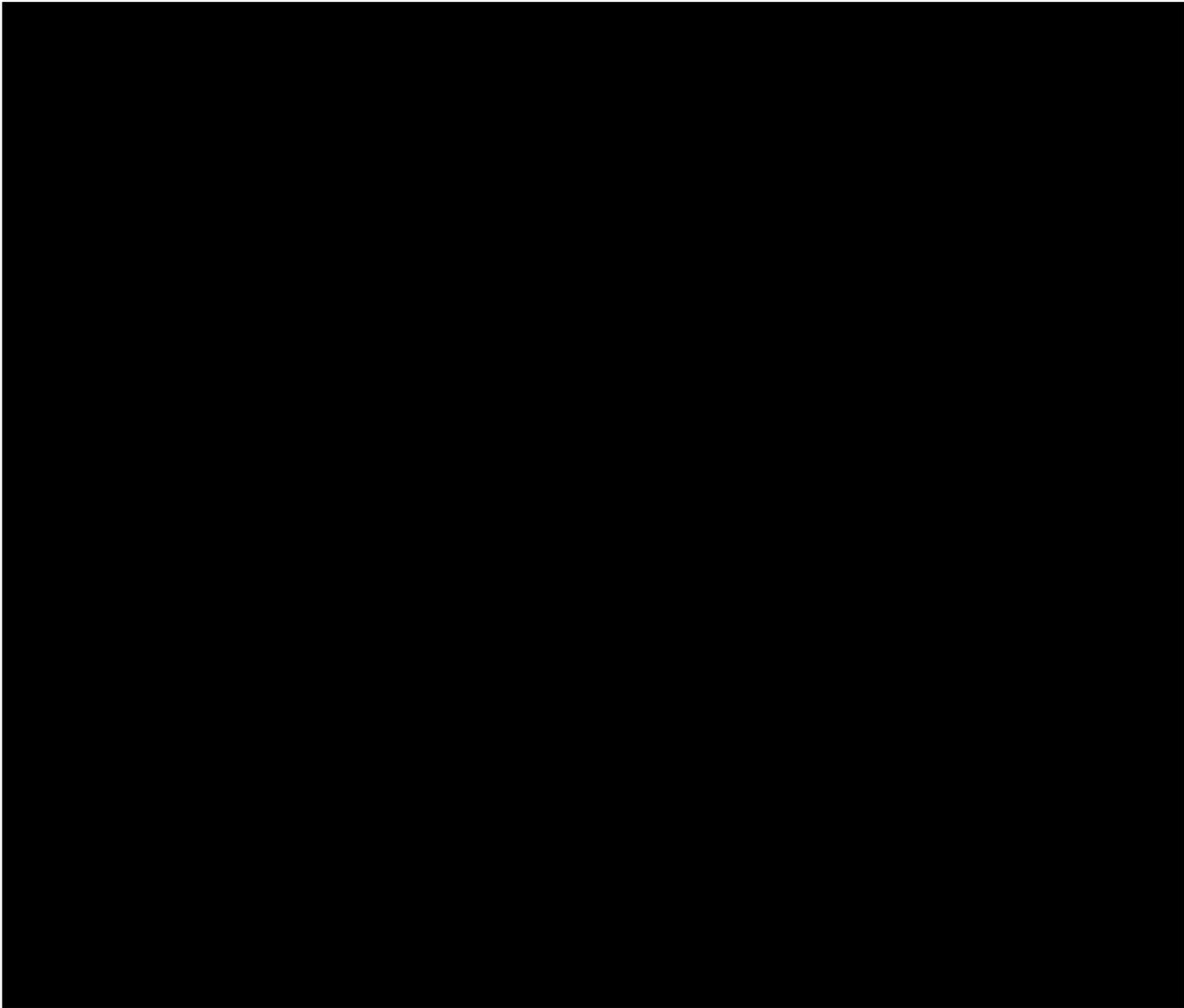
Note 12 - Commitments and Contingencies (continued)

Litigation - Avamere Group, LLC and their related entities are party to various legal actions and administrative proceedings and subject to various claims arising in the ordinary course of business. The Company does not believe that the ultimate disposition of these matters will have a material adverse effect on the financial position or results of operations. The Company estimated the total gross liabilities and the related insurance recovery receivable as follows:

	December 31,	
	2014	2013
Estimated litigation liability - current	[REDACTED]	
Estimated litigation liability - long-term		
Total estimated litigation liability		
Estimated insurance recoveries - current		
Estimated insurance recoveries - long-term		
Total estimated insurance recoveries		
Net litigation exposure		



Note 12 - Commitments and Contingencies (continued)



AVAMERE GROUP, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12 – Commitments and Contingencies (continued)

Health care reform – On March 23, 2010, the Patient Protection and Affordable Care Act (PPACA) was signed into law. On March 30, 2010, the Health Care and Education Reconciliation Act of 2010 was signed, amending the PPACA (collectively the “Affordable Care Act”). The Affordable Care Act addresses a broad range of topics affecting the health care industry, including a significant expansion of healthcare coverage. The expansion is accomplished primarily through incentives to individuals to obtain and employers to provide healthcare coverage and an expansion in Medicaid eligibility. The Affordable Care Act also includes incentives for medical research and the use of electronic health records, changes designed to curb fraud, waste and abuse, and creates new agencies and demonstration projects to promote the innovation and efficiency in the healthcare delivery system. Some provisions of the healthcare reform legislation were effective immediately; others will be phased in through 2016. Further legislative policies are required for several provisions that will be effective in future years. The impact of this legislation will likely affect the Company. The effect of the changes that will be required in future years are not determinable at this time.

Note 13 – Business Consolidation

Consolidated variable interest entities – Generally accepted accounting principles require a reporting entity to consolidate a VIE when the reporting entity has a variable interest, or combination of variable interests, that provides it with a controlling financial interest in the VIE. The entity that consolidates a VIE is referred to as the primary beneficiary of that VIE. To determine if the Company should consolidate a VIE, management evaluates the Company’s ownership and relationship to determine if they have a controlling financial interest. Variable interests may occur through contractual, ownership, or other financial interest in an entity whose value changes with changes in the fair value of the entity’s net assets, exclusive of variable interests. The variable interest may be explicit or implicit. Explicit variable interests are those which directly absorb the variability of a VIE and can include contractual interests such as loans or guarantees as well as equity investments. An implicit variable interest acts the same as an explicit variable interest except it involves the absorbing of variability indirectly, such as through related-party arrangements or implicit guarantees. The analysis includes consideration of the design of the entity, its organizational structure, including decision making ability over the activities that most significantly impact the VIE’s economic performance.

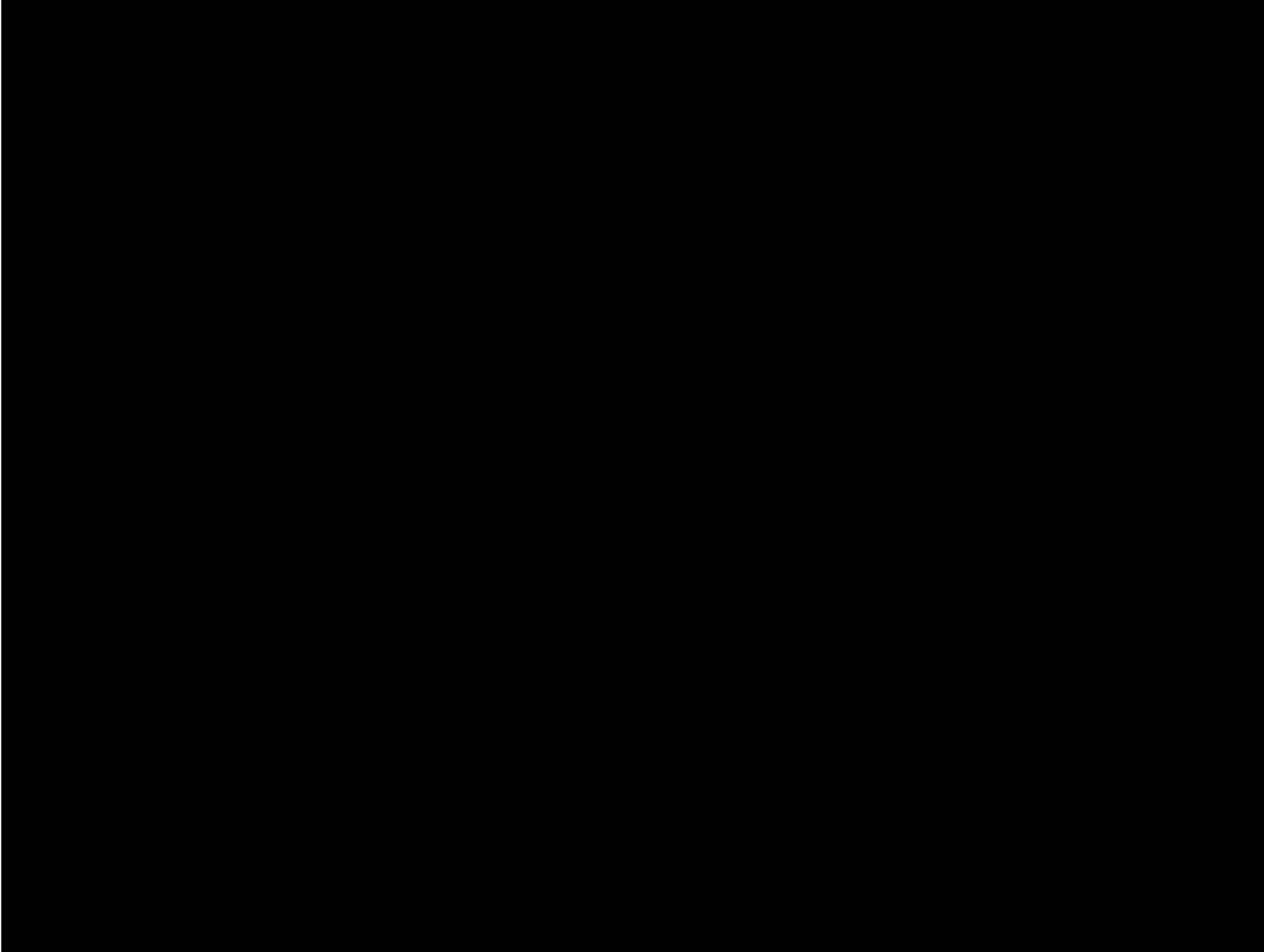
The Company identified Premere Rehab LLC (Premere) as a VIE and has concluded the Company is the primary beneficiary. The Company’s consolidated equity is reflected as the controlling financial interest in the accompanying consolidated financial statements.

Note 13 - Business Consolidation (continued)



Note 14 - Acquisitions and Sales

2014 Activity -



AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14 – Acquisitions and Sales (continued)

2013 Activity –



Note 15 – Real Estate Activities



AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16 – Collective Bargaining Agreements

Certain entities' employees are covered by collective bargaining agreements. The agreement covering these employees are for the following entities and contract periods:

<u>Beginning</u>	<u>Ending</u>

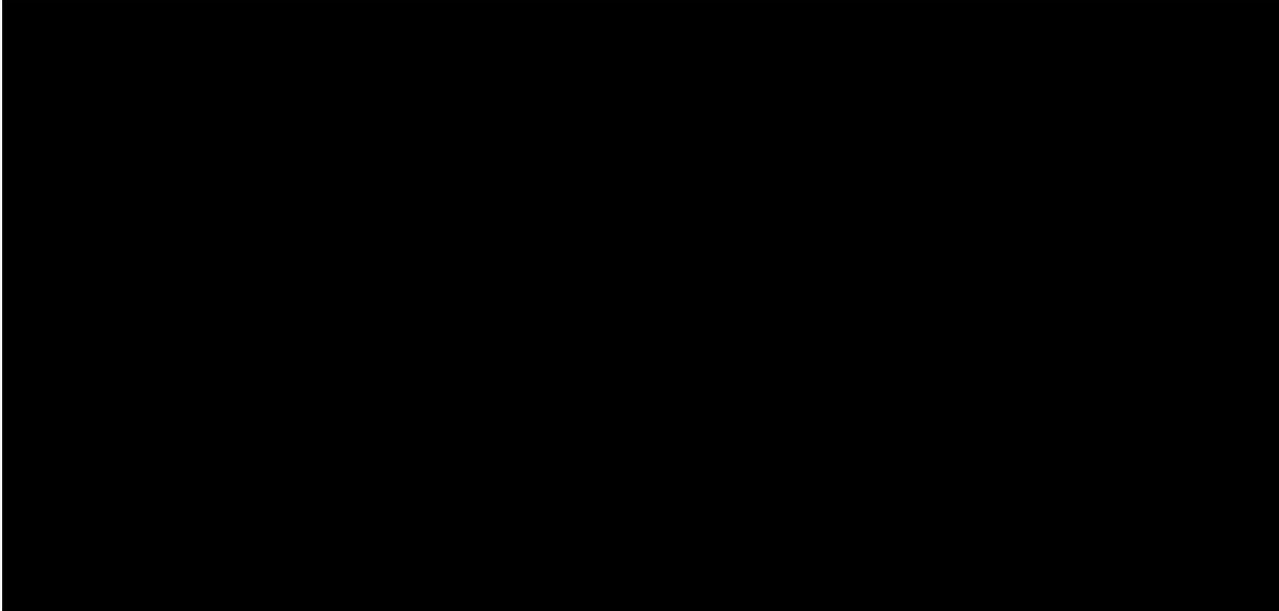
Approximately [REDACTED] of the Company's labor force is covered by a collective bargaining agreement.

Note 17 – Subsequent Events

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AVAMERE GROUP, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 17 – Subsequent Events (continued)



SUPPLEMENTARY INFORMATION
(See Report of Independent Auditors)

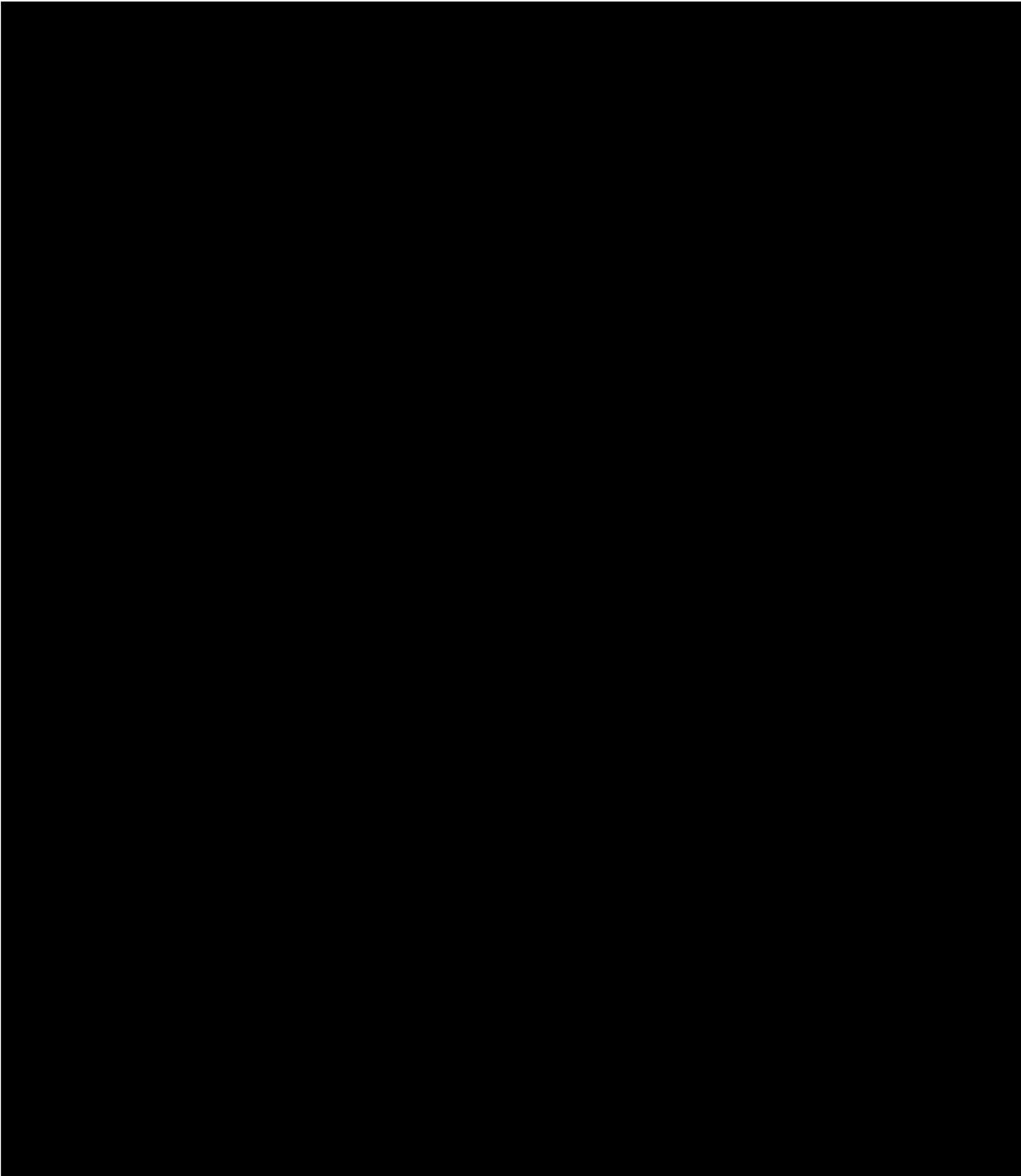
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AVAMERE GROUP, LLC
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2014

	SNF OPERATIONS 12/31/14	CAMPUS OPERATIONS 12/31/14	CBC OPERATIONS 12/31/14	COMBINED SNF & CBC OPS TOTAL 12/31/14	PREMERE REHAB OPERATIONS 12/31/14	HOME HEALTH OPERATIONS 12/31/14
Current Assets						
Cash and cash equivalents						
Designated Cash						
Accounts Receivable						
Accumulated Amortization						
Other Accounts Receivable						
Due from Intercompany						
Current Portion of Notes Receivable						
Current Portion of Insurance Recovery						
Inventory						
Prepaid Expenses						
Other Current Assets						
Total Current Assets						
Non Current Assets						
Land						
Buildings						
Leasehold Improvements						
Furniture, Fixtures & Equipment						
Vehicles						
Construction in Progress						
Accumulated Depreciation						
Total Property and Equipment						
Letter of Credit						
Intangible Assets						
Accumulated Amortization						
Goodwill						
Land Held for Future Development						
Notes Receivable, net of current portion						
Insurance Recovery Receivable, net of current po						
Long-Term from Intercompany						
Other Assets						
Total Non Current Assets						
Total Assets						
Current Liabilities						
Lines of Credit						
Accounts Payable						
Payroll Payable						
Taxes Payable						
Due to Intercompany						
Other Accrued Liabilities						
Current Portion of Litigation Reserve						
Current Portion Deferred Gain						
Current Portion Capital Leases						
Current Portion Long Term Debt						
Total Current Liabilities						
Long Term Liabilities						
Litigation Reserves						
Long Term Capital Leases						
Long Term Debt						
Long Term Deferred Gain						
Long Term Deferred Rent						
Long Term Due to Intercompany						
Total Long Term Liabilities						
Total Liabilities						
Equity						
Common Stock						
Retained Earnings/Members Equity						
Non-Controlling Interest						
Total Equity						
Total Liabilities and Shareholders Equity						

AVAMERE GROUP, LLC
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2014

HOSPICE OPERATIONS 12/31/14	MWMD2 SIGNATURE PHARMACY 12/31/14	NP2U 12/31/14	MANAGEMENT OPERATIONS 12/31/14	OTHER BUSINESSES 12/31/14	Sub-total pre-elim 12/31/14	ELIMINATIONS 12/31/14	CONSOLIDATED AVAMERE GROUP 12/31/14
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AVAMERE GROUP, LLC
CONSOLIDATING STATEMENT OF INCOME
YEAR ENDING DECEMBER 31, 2014

	SNF OPERATIONS 12/31/14	CAMPUS OPERATIONS 12/31/14	CBC OPERATIONS 12/31/14	COMBINED SNF & CBC Ops Total 12/31/14	PREMERE REHAB OPERATIONS 12/31/14	MERIT OPERATIONS 12/31/14
OPERATING REVENUES						
Resident Care - Medicare						
Resident Care - Medicaid						
Resident Care - Private						
Resident Care - Third-Party Payors						
Resident Care - Veterans						
Miscellaneous Facility Revenue						
Resident Care Revenue						
Ancillary Revenue						
Provision for Bad Debts						
Rental Income						
Management Revenue						
Miscellaneous Revenue						
Net Operating Revenue						
OPERATING EXPENSES						
Ancillary Expense						
Nursing Services						
Administration						
Rent						
Dietary						
Plant Operations and Maintenance						
Property Taxes and Insurance						
Housekeeping						
Depreciation and Amortization						
Social Services						
Activities						
Laundry and Linen						
Medical Records						
Restorative Care						
Interest						
Management Fees						
Miscellaneous Expenses						
Total Operating Expenses						
NON-OPERATING REVENUES & EXPENSES						
Miscellaneous Revenue						
Miscellaneous Expense						
Investment Income						
Donations						
Gain on Sale of Assets						
Total Non-operating Revenue and Expense						
NET INCOME (LOSS)						
Net Income Attributable to Non-Controlling Interests						
NET INCOME (LOSS) Attributable to Avamere Group, LLC						
EBITDA						
EBITDAR						

AVAMERE GROUP, LLC
CONSOLIDATING STATEMENT OF INCOME
YEAR ENDING DECEMBER 31, 2014

HOME HEALTH OPERATIONS 12/31/14	HOSPICE OPERATIONS 12/31/14	MWMD2 SIGNATURE PHARMACY 12/31/14	NP2U 12/31/14	MANAGEMENT OPERATIONS 12/31/14	OTHER BUSINESSES 12/31/14	ELIMINATIONS 12/31/14	CONSOLIDATED AVAMERE GROUP 12/31/14
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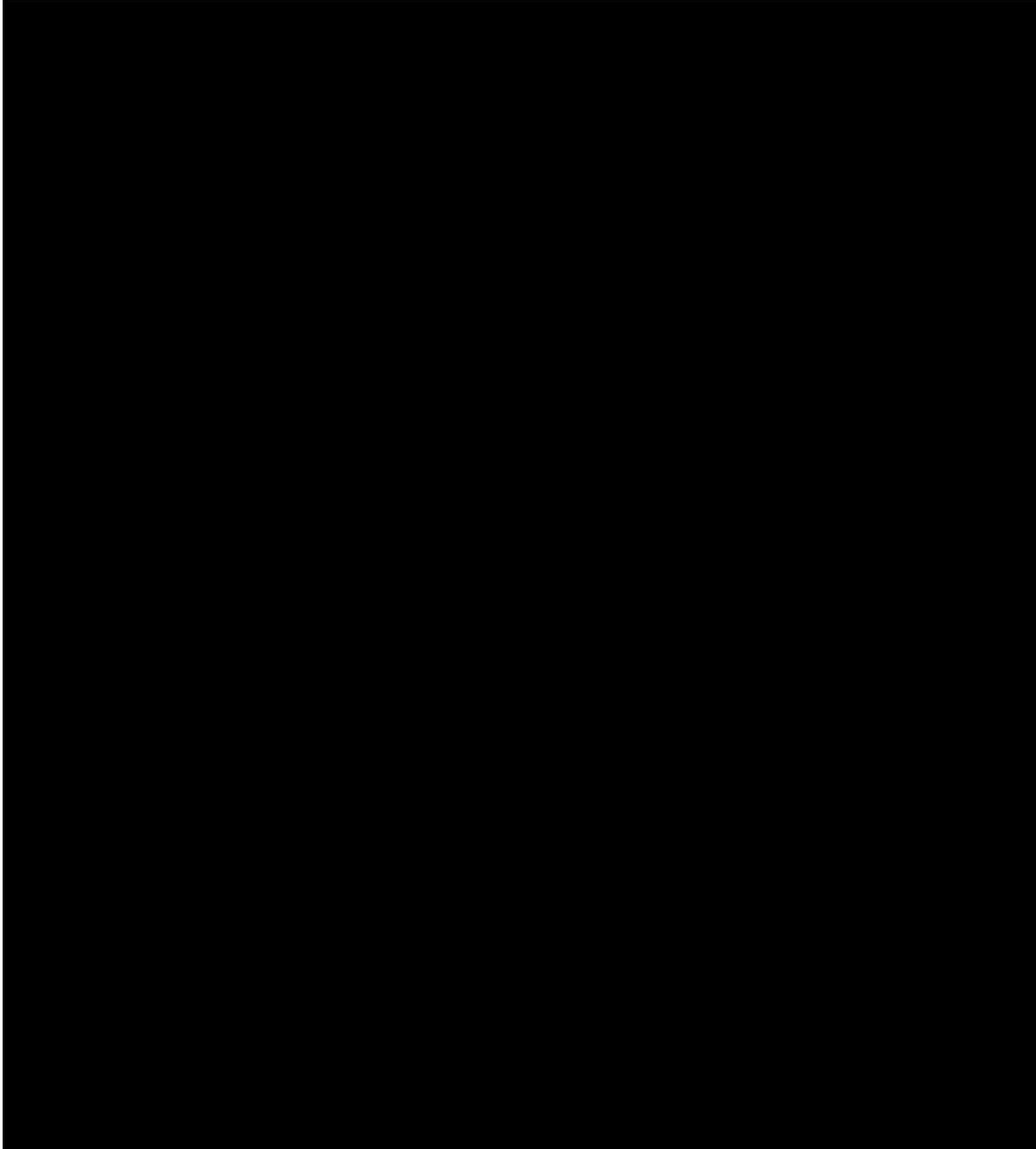


AVAMERE GROUP, LLC
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2013

	SNF OPERATIONS 12/31/13	CAMPUS OPERATIONS 12/31/13	CBC OPERATIONS 12/31/13	COMBINED SNF & CBC OPS TOTAL 12/31/13	PREMERE REHAB OPERATIONS 12/31/13	MERIT OPERATIONS 12/31/13
Current Assets						
Cash and cash equivalents						
Designated Cash						
Accounts Receivable						
Less Allowance for Bad Debt						
Other Accounts Receivable						
Due from Intercompany						
Current Portion of Note Receivable						
Current Portion of Insurance Recovery						
Inventory						
Prepaid Expenses						
Other Current Assets						
Total Current Assets						
Non Current Assets						
Land						
Buildings						
Leasehold Improvements						
Furniture, Fixtures & Equipment						
Vehicles						
Construction in Progress						
Accumulated Depreciation						
Total Property and Equipment						
Letter of Credit						
Intangible Assets						
Accumulated Amortization						
Goodwill						
Land held for future development						
Notes receivable						
Insurance recovery receivable						
Other Assets						
Total Other Assets						
Total Assets						
Current Liabilities						
Lines of Credit						
Accounts Payable						
Payroll Payable						
Taxes Payable						
Due to Intercompany						
Other Accrued Liabilities						
Current portion of litigation reserve						
Current Portion Deferred Gain						
Current Portion Capital Leases						
Current Portion Long Term Debt						
Total Current Liabilities						
Long Term Liabilities						
Litigation Reserves						
Long Term Capital Leases						
Long Term Debt						
Long Term Deferred Gain						
Deferred Rent						
Long Term Due to Intercompany						
Total Long Term Liabilities						
Total Liabilities						
Equity						
Common Stock						
Retained Earnings/Members Equity						
Non-Controlling Equity						
Total Equity						
Total Liabilities and Shareholders Equity						

AVAMERE GROUP, LLC
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2013

HOME HEALTH OPERATIONS 12/31/13	HOSPICE OPERATIONS 12/31/13	MWMD2 SIGNATURE PHARMACY 12/31/13	MANAGEMENT OPERATIONS 12/31/13	OTHER BUSINESSES 12/31/13	Sub-total pre-elim 12/31/13	ELIMINATIONS 12/31/13	CONSOLIDATED AVAMERE GROUP 12/31/13
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AVAMERE GROUP, LLC
CONSOLIDATING STATEMENT OF INCOME
YEAR ENDING DECEMBER 31, 2013

	SNF OPERATIONS 12/31/13	CAMPUS OPERATIONS 12/31/13	CBC OPERATIONS 12/31/13	COMBINED SNF & CBC Ops Total 12/31/13	PREMERE REHAB OPERATIONS 12/31/13	MERIT OPERATIONS 12/31/13
OPERATING REVENUES						
Resident Care - Medicare						
Resident Care -Medicaid						
Resident Care -Private						
Resident Care - Third-Party Payors						
Resident Care - Veterans						
Miscellaneous facility Revenue						
Resident Care Revenue						
Ancillary Revenue						
Provision for Bad Debts						
Rental Income						
Management Revenue						
Miscellaneous Revenue						
Net Operating Revenue						
OPERATING EXPENSES						
Ancillary Expense						
Nursing Services						
Administration						
Rent						
Dietary						
Plant Operations and Maintenance						
Property Taxes and Insurance						
Housekeeping						
Depreciation and amortization						
Social Services						
Activities						
Laundry and Linen						
Medical Records						
Restorative Care						
Interest						
Management Fees						
Miscellaneous Expenses						
Total Operating Expenses						
NON-OPERATING REVENUES & EXPENSES						
Miscellaneous Revenue						
Miscellaneous Expenses						
Investment income						
Donations						
Gain on sale of assets						
Total non-operating revenue and expense						
NET INCOME (LOSS)						
Net income attributable to Non-Controlling interest						
NET INCOME (LOSS) attributable to Avamere Group, LLC						
EBITDA						
EBITDAR						

AVAMERE GROUP, LLC
CONSOLIDATING STATEMENT OF INCOME
YEAR ENDING DECEMBER 31, 2013

HOME HEALTH OPERATIONS 12/31/13	HOSPICE OPERATIONS 12/31/13	MWMD2 SIGNATURE PHARMACY 12/31/13	MANAGEMENT OPERATIONS 12/31/13	OTHER BUSINESSES 12/31/13	ELIMINATIONS 12/31/13	CONSOLIDATED AVAMERE GROUP 12/31/13

EXHIBIT F

Management Agreement

MANAGEMENT SERVICES AGREEMENT

THIS MANAGEMENT SERVICES AGREEMENT (this “Agreement”) is entered into effective as of the Effective Date by and between **ALLYALIGN HEALTH, INC.**, a Delaware corporation (“Manager”), and **MARQUIS ADVANTAGE, INC.**, an Oregon corporation (“Health Plan”).

RECITALS

A. Manager desires to perform Management Services for Health Plan’s health maintenance organization (“HMO”), including, but not necessarily limited to, any Institutional Special Needs Plans or other Medicare Advantage Plans established by the Medicare Modernization Act of 2003, in accordance with the terms and conditions of this Agreement.

B. Health Plan desires to contractually engage Manager to provide Management Services for Health Plan’s HMO and its product for the Medicare Programs. Health Plan will be responsible for 100% of the financial and insurance risk for all products sold or contracted for.

NOW, THEREFORE, for and in consideration of the mutual promises, covenants and agreements hereinafter set forth, the parties hereto agree as follows:

Article I DEFINITIONS

In addition to certain terms defined elsewhere in this Agreement, the following terms shall be defined as set forth below.

1.1 Management Services Fees means the management fees that Health Plan is obligated to pay Manager as compensation for the provision of Management Services under Section 6.1.

1.2 Management Services means the management and consulting services that Manager is obligated to provide to Health Plan under this Agreement.

1.3 Affiliates means (i) any person directly or indirectly controlling, controlled by or under common control with another person; (ii) any person owning or controlling 10% or more of the outstanding voting securities of such other person; (iii) any officer, director or partner of such person; and (iv) if such person is an officer, director or partner, any such company for which such person acts in such capacity.

1.4 Agreement has the meaning ascribed in the Preamble hereto.

1.5 Claim means every written or electronic request received by Health Plan for the payment of Covered Services under the applicable Covered Contracts.

1.6 Clean Claim means a claim that does all of the following: (i) identifies the health professional, health facility, home health care provider, or durable medical equipment provider that provided service sufficiently to verify, if necessary, affiliation status and includes any identifying numbers; and (ii) complies with any state law definition of Clean Claim.

1.7 CMS means the Centers for Medicare & Medicaid Services.

1.8 HMO Contract(s) means the managed care contract(s) which may be entered into by and between the Health Plan and the CMS for the service area to be identified by the Health Plan, and known as a HMO Contract, and any and all certificates or evidence of coverage issued to Covered Members pursuant to such managed care contracts entered into with the Center for Medicare & Medicaid Services.

1.9 Contract Year means January 1 through December 31 of each year during the Term, provided that the initial Contract Year shall commence on the Effective Date and end December 31, 2015. The use of the term Contract Year herein does not affect the Term of this Agreement, as established in Section 8.1 hereof, or have the effect of creating a contract from year to year.

1.10 Covered Contracts means the HMO contracts including without limitation all Centers for Medicare & Medicaid Contracts for Medicare Advantage on behalf of Health Plan.

1.11 Covered Members means the members, subscribers, enrollees and dependents of the subscribers under a Covered Contract.

1.12 Covered Services means the health care benefits that are covered under the Covered Contracts issued by or on behalf of Health Plan to the applicable group or individual.

1.13 Effective Date means November 30, 2015.

1.14 Health Care Providers means physicians, hospitals, clinics, pharmacies and other health care providers licensed or otherwise duly authorized to provide health care services under the laws of the jurisdiction in which such provider renders such services. The term "Health Care Providers" includes, but is not limited to, Network Providers.

1.15 CMS means the Centers for Medicare & Medicaid Services.

1.16 Health Plan has the meaning ascribed in the Preamble hereto.

1.17 Initial Term has the meaning ascribed in Section 8.1.

1.18 Medicare Advantage means a private health plan that offers Medicare benefits to Medicare beneficiaries under the Medicare Modernization Act of 2003.

1.19 Medicare Contract(s) means the Medicare Advantage contract(s) to be entered into by and between the Health Plan and CMS, and known as an HMO Contract or Contracts, and any and all certificates or evidence of coverage issued to Covered Members pursuant to such contracts entered into with CMS.

1.20 Network Providers means the Health Care Providers that have contracted directly or indirectly with Health Plan to provide covered health care services to Covered Members.

1.21 Proprietary Information has the meaning ascribed in Section 7.1.

1.22 Provider Agreements means the written agreements for the provision of health care services that have been executed by and between providers or any designated network and Health Plan.

1.23 Renewal Term has the meaning ascribed in Section 8.1.

1.24 Service Area means the geographic service area of Health Plan described by county in Exhibit E hereto. To the extent that Health Plan begins to undertake the Subject Business in new counties within the State, those counties will automatically be added to the definition of Service Area unless the parties mutually agree otherwise.

1.25 Manager has the meaning ascribed to it in the Preamble.

1.26 State means the state of Oregon.

1.27 Subject Business means the business of providing managed care services to Covered Members in the Service Area.

1.28 Term has the meaning ascribed in Section 8.1.

1.29 OID means the Oregon Insurance Division.

1.30 Work Product means the policies, procedures, plans, lists, contracts, agreements, Health Plan logos, applications, manuals, instructions, member applications, member booklets, reports, data, databases, financial documents, papers, programs, training material, websites, books, records, guidelines, correspondence, email, handbooks, deliverables, documentation, specifications, computer source code, computer programs, and other documents, work product and materials related thereto that Manager is required to or otherwise does create for Health Plan in connection with the Management Services hereunder.

1.31 Intellectual Property Rights means any and all registered and unregistered rights granted, applied for or otherwise now or hereafter in existence under or related to any patent, copyright, trademark, trade secret, database protection or other intellectual property rights laws, and all similar or equivalent rights or forms of protection, in any part of the world.

1.32 Pre-Existing Materials means all information in any form or media, including documents, data, know-how, ideas, specifications, software code, ideas, inventions, improvements, discoveries, software design, charts, drawings, specifications, notebooks, tracings, photographs, negatives, draft or final reports, findings, recommendations, data and memoranda that (a) were developed or otherwise acquired by Manager prior to the Effective Date; (b) were generated after the Effective Date but are independent of the services offered under the Agreement; (c) were developed generally to support Manager's service offerings and which can be used with Manager's other customers completely free of content that is specific to the Health Plan; or (d) are identified as Pre-Existing Materials in Exhibit I. Pre-Existing Materials includes materials that do not constitute Work Product but are included in, or necessary to, the Work Product.

Article II

ENGAGEMENT OF MANAGER

2.1 Engagement of Manager. Health Plan hereby engages Manager as the exclusive provider of the Management Services pursuant to the terms and conditions of this Agreement as more particularly set forth in Article III hereof, and Manager hereby accepts such engagement upon the terms and conditions set forth herein and agrees to provide such Management Services in accordance herewith. This exclusive engagement applies to all HMO products offered or contracted for by Health Plan in all Service Areas, as well as any new service areas subsequently developed in the State of Oregon after the Effective Date. During the Term hereof, Health Plan shall not, directly or indirectly, contract with or engage any other person or entity, whether affiliated or unrelated, to provide (a) any of the Management Services described herein for such products and in the State, or (b) any services substantially similar to the services that Manager has been engaged to provide to Health Plan under the terms of this Agreement. Manager may offer its services to other entities without permission from the Health Plan as long as such services are not primarily delivered within the State.

2.2 Performance of Management Services. Manager shall provide, or cause to be provided, the Management Services set forth in Article III, beginning on the Effective Date and for the duration of the Term specified in Section 8.1, subject to the terms and conditions of this Agreement. Manager shall use its best efforts to appropriately discharge, or cause to be appropriately discharged, its duties and obligations under this Agreement in a manner consistent with applicable state and federal law and the industry standards of Manager. Manager shall have only such power and authority as are reasonably necessary to perform its duties and obligations under this Agreement and such power and authority are hereby delegated to Manager by Health Plan subject, however, to Sections 2.3 and 2.5 hereof. Manager agrees to comply with applicable statutory, contractual, and regulatory requirements related to a function assumed or carried out by Manager as an administrator for Health Plan.

2.3 Oversight Authority. This Agreement shall not limit Manager's respective duties to comply with all applicable regulatory requirements of OID, CMS, and other applicable government authorities with respect to all matters delegated to Manager hereunder. Health Plan shall have the right to review all activities of Manager and the Network Providers to determine compliance with applicable law. Health Plan shall monitor Manager on an ongoing basis and shall formally review Manager's performance of services set forth herein on an annual basis. The parties acknowledge that Health Plan oversees and is accountable to CMS for any functions or responsibilities set forth in the Medicare Advantage Institution Special Need Plan(s). Health Plan shall have the right to terminate the Agreement in accordance with Section 8.2 (c) and (d), if Manager does not satisfactorily perform the services delegated to Manager herein in all material respects and does not cure any material breach or default as required by Section 8.2(d).

2.4 Further Delegation. Upon advanced written approval by Health Plan, Manager may, to the extent it deems necessary using reasonable business discretion, delegate certain of its responsibilities, duties and functions under this Agreement to independent contractors, providers or consultants holding all licenses required by federal or state authorities to perform the delegated functions. Health Plan acknowledges that the responsibilities, duties, and functions identified in Exhibit F hereto will be delegated by Manager to certain other vendors and service

providers. Furthermore, Health Plan retains the right to immediately suspend or terminate any delegated parties selected by Manager if such delegated party or parties fail to meet the requirements of this Agreement in all material respects. No delegation under this Section 2.4 shall relieve Manager of ultimate responsibility for performance under this Agreement. Manager shall be solely liable and responsible for the payment of all wages, fringe benefits and other compensation of Manager employees associated with such delegation of responsibilities, duties, and functions.

2.5 Independent Contractors. It is agreed and understood by and between the parties hereto that Manager and Health Plan are associated only for the purposes and to the extent set forth in this Agreement. The relationship of Manager and Health Plan with respect to Manager's duties and functions under this Agreement shall not be construed as an agreement of employment, a partnership, joint venture, or any other form of business entity, or as creating any other type of relationship other than the contractual relationship expressly specified herein.

Article III RESPONSIBILITIES AND DUTIES OF MANAGER

3.1 Management Services. Health Plan hereby appoints Manager as its exclusive provider of the Management Services and authorizes Manager to perform the duties and responsibilities of Manager set forth in this Agreement. Manager shall provide the Management Services consistent with Manager's industry standards and all applicable state and federal statutes, regulations, and procedures.

3.2 Administrative Information Systems. Manager shall maintain a computerized management information system ("MIS") that shall be made available for the Subject Business, for the purposes of (i) claim adjudication and making payment(s) to all categories of Health Care Providers, (ii) utilization review, (iii) quality assessment, (iv) determining patient eligibility, (v) billing, (vi) customer service and complaint processes, and (vii) making required reports to OID and CMS.

3.3 Financial Systems and Services. Manager shall provide the following financial systems and services that are reasonably necessary and appropriate for operation of the Subject Business:

(a) Manager shall maintain accounting, billing, accounts receivable and collection procedures and records for the Subject Business.

(b) Manager shall provide financial reports to Health Plan consistent with the terms hereof. This function will include the production of all documents, reports, and audit preparations and responses which might be required by state and federal regulations for Health Plan to operate an HMO in the state of Oregon, and as may be reasonably required by Health Plan's independent accountants.

(c) Manager shall use, its reasonable best efforts to procure adequate stop loss reinsurance with a third party reinsurer for the Subject Business on terms and conditions that are acceptable to Health Plan in its sole discretion. Reinsurance premiums are not included in the Management Services Fees and Manager shall have no obligation with respect to the payment of such premiums.

3.4 Claims Administration and Premium Collection. Manager shall maintain systems and procedures necessary and appropriate for (i) the collection of premiums in accordance with industry standards, (ii) the evaluation, processing and adjudication of all claims in accordance with the provisions of Exhibit A hereto, which may be amended at the sole discretion of Health Plan or superseded by Health Plan's written policies and procedures (iii) member services, and (iv) complaint/appeal tracking, resolution and reporting. The claims adjudication system shall include (i) eligibility verification, (ii) detection of duplicate billing and other appropriate editing, (iii) administration of subrogation and coordination of benefits programs, (iv) benefits computation, and (v) claims payment.

3.5 Underwriting and Rating.

(a) Manager shall be responsible for underwriting and actuarial services for Health Plan for the Service Area hereto

(b) Health Plan shall be responsible for assuring that the rating methodology, which has been approved by Manager, and the underwriting guidelines meet the requirements of applicable state and federal law.

3.6 Prompt Payment of Claims. For each clean claim submitted by a Network Provider, Manager, on behalf of Health Plan, shall pay the clean claim in accordance with the applicable prompt pay and clean claims requirements of the Covered Contracts. Although Medicare Advantage contracts are not covered by applicable Oregon regulations, Manager shall process clean claims to meet the same performance requirements as it does for clean insured commercial claims. Manager shall have responsibility for prompt payment penalties, unless and to the extent that the delay in payment is at Health Plan's direction, or otherwise a direct consequence of Health Plan's oversight of claims payment, in which case Health Plan shall be responsible.

3.7 Network Provider and Covered Member Services. Manager shall provide Health Plan with the following services, in compliance with Medicare Advantage and all other applicable requirements; related to Network Providers and Covered Members:

(a) Manager shall be responsible for enrollment and eligibility functions. Manager shall maintain and update on a monthly basis Covered Member and Network Provider files to permit eligibility verification, claims adjudication, and responses to inquiries from Covered Members and Network Providers.

(b) Manager shall be responsible for the production of Covered Member identification cards, including replacements.

(c) Manager shall maintain enrollment forms, explanation of benefits materials, and educational materials.

(d) Manager shall conduct enrollment activities, including distribution of enrollment packets to Covered Members upon enrollment. Manager shall provide Covered Members toll-free telephone numbers with Spanish-speaking customer service representatives.

(e) During regular business hours, Manager shall promptly respond to inquiries from Health Care Providers and Health Plan staff concerning the administration of the Subject Business.

(f) Manager shall maintain written procedures for handling Covered Member and Network Provider complaints.

(g) Manager shall comply with appropriate HIPAA compliance activities, as well as state privacy requirements with respect to the Covered Members. The parties agree to comply with the requirements of Exhibit B hereto and the requirements of applicable state and federal law regarding the protection of health information.

(h) Manager shall be responsible for pre-certification and verification requirements in accordance with OID regulations.

(i) Manager shall provide information systems, customer support/service representatives and other infrastructure necessary to support the services to be provided by Manager hereunder.

3.8 Utilization Review. Manager shall maintain the MIS as appropriate to support the applicable utilization review program. Utilization management, prior authorization and complaint and appeal processes shall be performed by Manager in compliance with applicable laws. Manager shall employ or contract with a dedicated medical director for the Service Area. Health Plan shall have the sole right to approve the medical director, and upon written demand from Health Plan, the right to direct that the medical director be replaced as Health Plan determines in its reasonable discretion.

3.9 Quality Assurance/Quality Improvement. Manager shall maintain and operate systems and procedures necessary or appropriate to support the quality assurance/quality improvement program of the Subject Business, consistent with Manager's industry standards and in compliance with all applicable laws, including necessary reporting to state agencies, where applicable including, but not limited to, the quality assurance/quality improvement activities listed on Exhibit H. Without limiting the generality of the foregoing, Manager will ensure that the program meets the requirements of 42 CFR 422.152. Manager shall prepare all quality assurance reports required by applicable law.

3.10 Development and Management of Provider Network. Except as provided in Section 5.7 hereof, Manager, as delegated by Health Plan and subject to the revocation by Health Plan of this delegation, shall have the sole responsibility for contracting on behalf of Health Plan, and arranging, for Health Care Providers to deliver and/or provide Covered Services for the Covered Members within the Service Area and for managing all functions relating to the network including provider relations. Manager shall be responsible for recruiting Health Care Providers and negotiating Provider Agreements on terms acceptable to Health Plan including applicable fee schedules.

3.11 Credentialing/Recredentialing. Manager shall be responsible for credentialing or recredentialing of Network Providers, and oversight of peer review functions. In providing such services, Manager shall ensure that all Network Providers meet all applicable Medicare Advantage Program requirements.

3.12 Plan Development and Administration. Manager shall be responsible for the printing of the applicable benefit package, enrollment and application materials, Covered Member handbooks, all of which shall be prepared by Manager, which will ensure they are in compliance with applicable laws. Health Plan is responsible for carefully reviewing and approving all of the plan documents. Health Plan is solely responsible for the final content of the benefit plan. Manager will not have the power or authority to alter, modify, or waive any terms of the plan without consent from the Health Plan. Manager shall submit all written marketing and advertising materials to Health Plan for prior approval before using such materials.

3.13 Reporting. Manager shall provide Health Plan with reports including:

- (a) Monthly financial reports
- (b) Monthly cash disbursement reports
- (c) Any annual reports necessary for submissions to CMS
- (d) Other reports as Health Plan may reasonably request from time to time to provide for the payment or care coordination of Claims or as required by law

3.14 Personnel.

(a) Administrative Personnel. Manager will employ or otherwise retain and shall be responsible for selecting, training, supervising, and terminating all administrative, management, clerical, secretarial, bookkeeping, accounting, payroll, billing and collection, and other personnel as Manager deems reasonably necessary and appropriate from time to time for Manager's performance of its duties and responsibilities under this Agreement, including without limitation a regional executive director. Manager shall be responsible for any disciplinary action required to be taken with respect to such personnel. Manager will employ, as employees of Manager and not Health Plan, individuals to serve in all of the positions set forth in Exhibit G, with the exception of the Compliance Officer, which will be an employee or contractor of Health Plan, as indicated below.

(b) Compliance Officer. Manager shall be responsible for the recruitment and selection with a Compliance Officer which will serve the Health Plan directly as an employee or independent contractor. The Compliance Officer shall report directly to the Health Plan's chief executive or other senior management. The Compliance Officer is vested with the day-to-day operations of the compliance program of the Health Plan. The Compliance Officer will develop, implement and lead all aspects of the compliance program the Health Plan. The Compliance Officer defines the program structure, educational requirements, reporting, and complaint mechanisms, response and correctional procedures, and compliance expectations of all personnel and first tier, downstream, and related entities. The Compliance Program must include the seven (7) compliance elements specified in 42 C.F.R. §§ 422.503(b)(vi) and 423.504(b)(4)(vi) and associated sub regulations.

(c) Employment Responsibilities. As part of Manager's staffing obligations, Manager shall have sole responsibility for compensation and management of such

personnel, including, where applicable, administration and payment of tax withholding, unemployment insurance, workers compensation insurance and similar employer obligations and responsibilities.

3.15 Miscellaneous Duties and Authorities. Subject to the provisions of Section 2.3, Manager shall have the following additional duties and authorities under this Agreement:

(a) Compliance. Manager shall assure that the performance of any of the Management Services under this Agreement complies with the requirements of applicable statutes, laws, rules and regulations in all material respects.

(b) Regulatory Relations. Health Plan and Manager shall consult and cooperate on a best efforts basis in responding to regulatory inquiries and complaints received with respect to the Covered Contracts. If Health Plan or Manager receives notice of any regulatory investigation or proceeding relating to the Covered Contracts, Health Plan or Manager, as applicable, shall promptly notify the other party thereof. Manager and Health Plan shall work cooperatively to respond to and resolve all regulatory matters, consumer complaints and regulatory investigations and proceedings relating to the Covered Contracts including but not limited to matters involving OID or CMS. Neither party shall act unilaterally to respond to any regulatory issues without the prior written approval of the other party, unless the failure to respond (i) in and of itself is a violation of laws or regulations, (ii) would give rise to greater liability on the part of either party hereto or (iii) Health Plan or Manager fails to provide input on such responses in a timely manner under the circumstances but in any event not to exceed thirty (30) days.

(c) Report of Litigation. Manager shall promptly notify Health Plan of any litigation of which Manager receives notice that relates to the provisions of this Agreement. Each party hereto shall be responsible at its own expense for defending itself in any litigation brought against it, whether or not the other party is also a defendant, arising out of any aspect of this Agreement, unless the indemnification provisions in Article IX apply, in which case, the parties shall have the rights set forth in Article IX as to costs and expenses.

3.16 Insurance and Bonding. Manager shall maintain a statutory deposit or a fidelity bond covering the Manager's employees, personnel, and consultants performing the Management Services, which fidelity bond shall be adequate to meet applicable state and federal regulations and shall be adequate to cover losses caused by fraud, dishonesty or theft. In the event Manager maintains a fidelity bond, it will not have a deductible. Such fidelity bond shall be issued by an insurer that holds a certificate of authority in Oregon, and shall name Health Plan as obligee and obligate the surety to pay any loss of money or other property caused by Manager employees. Manager shall maintain with commercial carriers appropriate professional and comprehensive general liability insurance covering Manager. Coverage shall be in such amounts, on such bases, and upon such terms and conditions as are standard for the industry as reasonably determined by Manager. Manager shall provide evidence of such insurance upon request by Health Plan.

3.17 Administration of Payments to Network Providers and Other Network Administrators; Use of Existing Vendors. Except as provided in Section 5.7 hereof, Manager

shall administer payments to other networks and administrators for the provision of Covered Services. The cost of the Covered Services, and any management fees and/or network access fees charged by other networks or administrators, are not the responsibility of Manager and will be funded by Health Plan. Such charges include but are not limited to those of pharmacy benefit managers, disease management companies/vendors, behavioral health organizations, transplant networks, wrap networks and other provider networks. Notwithstanding the division of responsibilities provided for herein, Manager shall not be responsible for fees charged by vendors under contract with Health Plan as of the Effective Date unless Manager expressly elects to continue the use of such vendors after the Effective Date.

3.18 Development of All Required Health Plan Policies, Procedures, and Documentation. Manager will develop for use by Health Plan all of the policies, procedures, documents, plans, member materials, applications, and other written Work Product that is required to be maintained by Health Plan to comply with all regulations applicable to a Medicare Advantage Plan. Without limiting the generality of the foregoing, Manager will develop policies and procedures related to medical necessity determinations, coordination of services, advance directives, grievance and appeals, processing initial or continued authorization of services that reflect the current standard of medical practice, selection and evaluation of providers, the prevention, detection, and correction of non-compliance with CMS' program requirements, HIPAA, and business continuity following disruptions due to natural or man-made disasters.

3.19 Prepare Health Plan Applications. Manager will prepare, complete, and submit all necessary documentation and information needed to apply for and be certified by CMS as a Medicare Advantage Plan, including any information needed to offer Medicare prescription drug coverage, and any additional information needed to enter the final HMO Contract with CMS (the "Application"). Additionally, after the Application is submitted Manager will oversee and manage any on-site CMS visit and readiness reviews, or submission of bids.

3.20 Limit on Manager's Authority. Manager may not undertake any of the following on behalf of Health Plan without the advanced approval of Health Plan: (1) a capital expenditure or series of related capital expenditures in excess of \$150,000; (2) any non-capital expenditure in excess of \$150,000; (3) the entering into of a contract if: (i) the contract involves the payment of more than \$150,000 by or to the Health Plan; or (ii) the contract may not be terminated by the Health Plan upon 15 or fewer days' notice for any or no reason without any additional liability arising out of or resulting from the termination.

Article IV

MEDICARE ADVANTAGE PLAN

4.1 Compliance with Medicare Advantage Plan Regulations. Manager understands and agrees that Manager is being contracted to deliver Management Services as it relates to Medicare Advantage plans. Accordingly, Manager's services with respect to Covered Members are subject to and will be provided in compliance with all applicable Medicare Advantage laws, regulations, manuals and instructions with respect to such Programs. Additional requirements applicable to the Health Plan are incorporated herein by reference as set forth in Exhibits C and D hereto.

4.2 Availability of Books and Records. Manager agrees that CMS may audit, evaluate, or inspect any books, contracts, medical records, patient care documentation, and any other additional information related to the Medicare Advantage Program.

4.3 Compliance with Agreement(s). Manager understands and agrees that Health Plan maintains ultimate responsibility for adhering to and otherwise fully complying with all terms and conditions of any agreement with CMS. Notwithstanding the foregoing, Manager will ensure that any service or function provided by or carried out Manager under this Agreement that is intended to, will in fact, comply with any term or condition of any Health Plan agreement with CMS.

4.4 Confidentiality of Medical Records. Manager shall establish and maintain procedures and controls so that no information contained in Manager's records or obtained from others in carrying out the terms of the Agreement shall be used by or disclosed by Manager, its agents, officers or employees.

4.5 Medicare Advantage. Manager will provide Management Services on behalf of Health Plan for Programs to be offered by Health Plan for the Service Areas approved in the State of Oregon pursuant to applicable agreements with CMS, and Manager will be a material subcontractor for Health Plan with respect thereto. As described in Section 5.7 hereof, Manager will not assume any obligations or liabilities owed to Covered Members by Health Plan under a Medicare Advantage HMO Contract. Subject to the terms and conditions of this Agreement, the Management Services provided by Manager on behalf of Health Plan will be compensated according to Exhibit F attached hereto.

Article V RESPONSIBILITIES AND DUTIES OF HEALTH PLAN

5.1 Health Plan's Insurance. Health Plan shall, at a minimum and at Health Plan's expense, obtain and maintain with commercial carriers or through self-insurance or a combination thereof, insurance and reinsurance coverages as are appropriate and/or required by applicable law.

5.2 Marketing Commissions and Expenses. Health Plan shall be directly responsible for funding all agent and broker fees, commissions (including incentives and bonuses), and sales expenses. Manager will administer payment of agent and broker fees, commissions, and sales expenses with funding received from Health Plan.

5.3 Advertising. Health Plan shall be responsible for all advertising expenses, including production and placement.

5.4 Provider Credentialing. Health Plan shall be responsible for and will reimburse Manager for reasonable expenses associated with Manager's delegated function of credentialing providers.

5.5 Offices, Furnishings and Equipment. Health Plan will provide sufficient office space within Health Plan's office location, and reasonable furnishings and equipment to Manager for Manager's personnel located in 4560 SE International Way, Suite 100, Milwaukie, OR

97222, to perform the services required under this Agreement based on a separate agreement between the parties.

5.6 Consulting, Actuarial, Audit, Rating and Legal Fees. Health Plan will be financially responsible for all third party consulting, accounting, actuarial, examination, audit, rating and legal fees for projects or engagements related to the Subject Business. Manager shall provide annual actuarial certifications at Manager's expense; Manager shall have no obligation or liability for any other consulting, accounting, actuarial, examination, audit, rating or legal expenses of Health Plan.

5.7 Health Plan as Primary MCO Contractor. Health Plan will be the "Contractor" and/or "MCO" as such terms are defined by the Medicare Advantage Programs. Health Plan will be responsible for any and all Covered Services, liabilities, obligations, claims (of Covered Members and of Health Care Providers), losses, fines, penalties, liquidated damages and expenses of any kind (including loss adjustment expenses) arising out of, relating to or under the Contract(s). However, to the extent that any of the foregoing arises out of a breach by the Manager of a representation, warranty, covenant, or duty under this Agreement, Manager will indemnify Health Plan and will be directly responsible to the fullest extent permitted by law. Manager will bear no business, credit, financial, insurance or reinsurance risk whatsoever with respect to the CHIP Contract(s).

5.8 Other Duties. Health Plan agrees that (1) Health Plan is solely financially responsible for paying for any benefits owed to Members for Covered Services under the applicable Covered Contracts, (2) Health Plan is responsible for those duties that are not permitted to be delegated to Manager by law, and (3) Health Plan is specifically responsible for those additional duties specifically set forth in Exhibit D. Notwithstanding the foregoing, Manager will be responsible, to the extent maximally permitted by law, for administering, and for ensuring that Health Plan complies with, all other duties, obligations, and responsibilities owed to the Covered Members, the Health Care Providers, and regulatory authorities with respect to the Subject Business.

5.9 Bank Account. The Health Plan shall establish, maintain and appropriately fund a checking account in the name of the Health Plan. The Health Plan shall be responsible for all Claim checks issued against the account. Manager shall be given the necessary nonexclusive authority to utilize any funds in said account for payment of Covered Services under the Plan. Manager shall provide the Health Plan with access to the daily online check register, and will also provide a monthly report for reconciliation purposes.

5.10 Control of Plan Assets. In the event that the Manager is found to have Plan assets, the Health Plan shall have absolute authority with respect to such Plan assets, and Manager shall neither have nor be deemed to exercise any discretion, control or authority with respect to the disposition of Plan assets.

5.11 Cooperation. Health Plan shall cooperate with Manager to the extent reasonably necessary to enable Manager to provide services in accordance with this Agreement and shall provide any needed information in addition to the information required under this Section that is

reasonable and necessary to enable Manager to provide services in accordance with this Agreement.

5.12 Administrator Review. Health Plan will conduct a review of the operations of Manager semiannually, or more frequently in Health Plan's reasonable discretion, which may be performed electronically. Health Plan will conduct an on-site audit of Manager biennially, or more frequently in Health Plan's reasonable discretion. Audits shall be performed in compliance with the requirements of OID. Health Plan agrees to maintain audit related documentation for at least five years from the date of the audit and make it available to the OID upon request.

Article VI FEES AND EXPENSES

6.1 Management Services Fees. In consideration for Manager's performance of the Management Services, Health Plan shall pay to Manager during the Term monthly administrative services fees, calculated in accordance with Exhibit G hereto (the "Management Services Fees") on or before the 10th day of each month.

6.2 Administrative Expenses. In addition to the other costs and expenses for which Manager is expressly responsible under this Agreement, Manager shall bear the liability for and shall be responsible for paying the following costs and expenses:

- (a) All travel related expenses incurred by Manager or its personnel in connection with Manager's performance of the Management Services;
- (b) All insurance costs, including professional liability/malpractice and general liability of Manager (but not of Health Plan);
- (c) License and filing fees and other fees associated with filings and reports required by federal and state law applicable to Manager for the Subject Business, but not such fees owed by Health Plan;
- (d) All licensing and certification fees for Manager to operate its programs, including but not limited to all deposits, bonds, or insurance required by federal and state law, but not such fees owed by Health Plan;
- (e) All fees charged and expenses incurred in connection with external audits and/or examinations of Manager conducted by regulatory authorities; and
- (f) All other fees and expenses incurred in connection with Manager's performance of the Management Services, unless the fee or expense is specifically designated as the responsibility of Health Plan in this Agreement.

6.3 Sales and Use Taxes. The Management Services Fee shall not be inclusive of any sales and use tax (or any administrative services tax) for which either party shall be responsible under applicable state law. Manager shall be responsible for collecting such taxes from Health Plan and for reporting and remitting such taxes, and Health Plan shall promptly remit to Manager payment for such taxes, where applicable.

6.4 Federal, State Income Tax, and State Imposed Assessments. Health Plan shall be financially responsible for its own federal and state income taxes and for state and federal

premium, excise and maintenance taxes for its insured line of business and for any amounts owed under Medicaid or CHIP Contracts including but not limited to experience rebate related obligations. State imposed taxes and assessments such as, but not limited to, insurance risk pools, health reinsurance systems, guaranty fund, and other governmental assessments, will be allocated and charged to Health Plan as assessed from the governmental agency to each line of business. Manager shall have no responsibility for such assessments.

6.5 Services Not Listed. Manager's fees with respect to any services not described herein will be negotiated prior to performing such services.

6.6 Resolution. In the event that Health Plan disagrees with the amount of Management Services fees invoiced hereunder, the parties will work together to resolve the issue. If the parties are unable to come to satisfactory resolution, Health Plan agrees to pay any amount of the invoice that is undisputed, and the parties will proceed under Article X to arbitration.

Article VII COVENANTS REGARDING PROPRIETARY INFORMATION

7.1 Covenant Regarding Confidentiality of Proprietary Information. Health Plan and Manager each acknowledge that they will receive from one another certain proprietary information with respect to the internal business practices, methods, processes and documents (base and customized) used to provide administrative services (including templates for workflows, assessment tools and care pathways), and business records of the other (including, without limitation, information concerning products, customer lists, pricing concepts, pricing formula, contracts and business methods, and claims payment; utilization management and case management processes; work flow configurations and processes; and technologies including software and hardware technologies, whether or not specifically marked "confidential"), as well as personal information and medical information of individuals in conjunction with claims under the Subject Business (collectively, "Proprietary Information"). Health Plan and Manager each acknowledge and agree that all Proprietary Information furnished to either by the other is proprietary and confidential and that the unrestricted disclosure of any such Proprietary Information would result in substantial damage to the other party, which damage would be irreparable and extremely difficult to quantify.

7.2 Obligation and Nondisclosure. All Proprietary Information furnished by any party to this Agreement (or by any one or more of its officers, directors or employees) in connection with the performance of this Agreement or the transactions contemplated hereby constitutes and shall constitute, and shall be treated by the other as proprietary and confidential Proprietary Information of the party furnishing same; provided, however, that notwithstanding anything contained herein to the contrary, information which is or shall become generally known to the public (except by reason of a breach under this Agreement) and shall not be construed to be Proprietary Information that is subject to the provisions of this Section 7.2. Neither party hereto shall disclose to any person or use any of the Proprietary Information, directly or indirectly, for any purpose other than as may be necessary in connection with this Agreement and the transactions contemplated hereby, unless such disclosure shall be required pursuant to an order of a court of competent jurisdiction.

7.3 Non-transfer. Neither party hereto shall transfer originals, copies or other reproductions of any of the Proprietary Information to any person without the prior written consent of the other party hereto, for any purpose other than as may be necessary in connection with this Agreement and the transactions contemplated hereby.

7.4 Ownership. Except as provided herein, all Proprietary Information shall remain the property of the party furnishing such Proprietary Information to the other. Upon request, each receiving party shall, upon the termination of this Agreement, either return or cause the return to the disclosing party of all documents and materials (and all copies thereof) containing any Proprietary Information of the disclosing party, deliver same to the disclosing party's designee, or destroy or cause the destruction of all such items, as the disclosing party may direct.

7.5 Collective Information. Subject to the confidentiality obligations herein, certain summary and/or aggregated data may be collected by Manager or Health Plan and may be reproduced in various reporting formats which do not disclose Proprietary Information and/or violate HIPAA regulations. The party producing the data may use such data for all internal, statutory and regulatory reporting requirements, and to respond to requests of auditors. Neither party may use such collective data either directly or in any derivative form for purposes of distribution to third parties (other than applicable regulatory authorities) in any form whatsoever without the written permission of the other party.

7.6 Trademarks. Neither party will use or obtain any ownership interest in the other's name, trademarks, service marks, trade symbols, or copyrights. The parties agree to work together to brand documents, policies, procedures, handbooks, applications, and other materials provided to third parties in the name of Health Plan. Notwithstanding the forgoing, the branding of any document in the name of Health Plan will not give rise to or any presumption of any Intellectual Property Rights, which such rights of the parties are determined solely in accordance with Article XI of this Agreement.

Article VIII TERM AND TERMINATION

8.1 Term of Agreement. The initial term of this Agreement shall be for a period of beginning on the Effective Date and ending on December 31, 2019 (the "Initial Term"). If this Agreement has not been terminated pursuant to any of the provisions of Section 8.2 by the end of the Initial Term, then this Agreement shall automatically renew for a period of one year and shall continue to renew for additional one-year periods (each a "Renewal Term") unless this Agreement has thereafter been terminated pursuant to any provision of Section 8.2. The Initial Term and the Renewal Term(s), if any, are referred to herein as the "Term."

8.2 Termination of Agreement. This Agreement shall terminate upon the first to occur of any of the following:

- (a) The mutual agreement, in writing, of the parties hereto.
- (b) Before the expiration of the Initial Term or any Renewal Term, without cause, at either Health Plan's or Manager's option, upon one hundred eighty (180) days' prior written notice of intent not to renew to the other party.

(c) At the non-breaching party's option, immediately upon the occurrence of any of the following: (i) the revocation of any license held by the other party necessary to perform its duties and obligations under the Agreement (unless the parties agree not to terminate but to amend the duties and obligations of the Agreement as necessary as a result of such license revocation), (ii) the insolvency of the other party, (iii) the appointment of a receiver for the other party, the filing of a petition in bankruptcy by the other party, (iv) the initiation of liquidation or rehabilitation of the other party, (v) the commission of any felony or the commission of any act involving moral turpitude, (vi) the gross negligence or willful misconduct of the other party, or (vii) The expulsion of the other party from participation in Medicare, Medicaid and/or any other government-sponsored programs, if applicable

(d) At the non-breaching party's option, upon thirty (30) days' prior written notice to the other party, in the event of a material default in the performance, or breach, of any term, condition, covenant, duty, responsibility, or function contained in this Agreement (not including the provisions of Section 3.17), which default or breach shall continue for a period of thirty (30) days after written notice to the party committing such default or breach by the other party stating the specific nature of such default or breach and requiring it to be remedied; provided, however, if such default cannot be reasonably cured within such thirty (30) day period, the length of such cure period shall be extended for the period reasonably required therefor if the defaulting party commences curing such default within such thirty (30) day period and continues the curing thereof with reasonable diligence and continuity, but not to exceed ninety (90) days.

(e) At Health Plan's option, upon the failure to achieve an executed HMO Contract, beginning September 1, 2016.

(f) Notice given by Health Plan to the Manager within the first 60 days of the effective date of this Agreement that Health Plan has determined in good faith that any part of, or the totality of, the arrangements contemplated by the parties under this Agreement and/or related agreements between the parties poses undue compliance risk under state or federal laws.

8.3 Effect of Termination. Upon the termination of this Agreement, Manager and Health Plan shall have the following duties and responsibilities:

(a) Except for a termination under Section 8.2(f), Health Plan shall continue to pay to Manager all Management Services Fees earned for all periods prior to the termination hereof, and Manager shall be compensated (i) \$2.50 per claim for the runoff of all claims incurred prior to the effective date of termination, and (ii) on a time and materials basis for all services provided by Manager after termination hereof with respect to regulatory matters affecting Health Plan including but not limited to matters involving OID or CMS. If this Agreement is terminated under Section 8.2(f), no fees will be owed under this Agreement to Manager, and Manager will promptly (but in no case more than 30 days) refund any fees already paid by Health Plan under Section 6.

(b) Manager and Health Plan shall reasonably cooperate with each other to effect timely and orderly transition between Manager and its successor, if applicable. Manager will deliver to Health Plan all Work Product owned by Health Plan. Manager

will use Manager's best efforts to comply with Health Plan's reasonable requests to deliver all Health Plan's Work Product in an organized manner and in the format requested by Health Plan designed to ensure accessibility and usability by Health Plan or by Manager's successor. Without limiting the generality of the foregoing, data must be delivered in a readable and usable format that is readily portable to alternative systems used by Health Plan or by subsequent Manager.

(c) Termination of this Agreement will not affect the rights or obligations of either party arising out of the period during which this Agreement was in effect.

(d) The obligations under the indemnification provisions set forth in this Agreement shall survive the expiration or other termination of this Agreement, consistent with the terms of Article IX, regardless of the cause of such termination.

(e) This Agreement may be terminated immediately upon a completion of the Call Option as that term is defined in the current Shareholders' Rights Agreement of Marquis Advantage, Inc., provided the Call Option is exercised fully that Ally Align is paid the Buy-Out Purchase Price, which shall include the value to Ally Align of its role as Manager in this Agreement.

Article IX INDEMNIFICATION

9.1 Indemnification by Health Plan. Subject to the limitations of Section 9.3, Health Plan shall indemnify and hold harmless Manager and its respective officers, directors, employees, agents and Affiliates against any and all claims, losses, costs, expenses, fees, fines, restitution, liabilities and damages, including interest, penalties and reasonable attorneys' fees and disbursements (each individually a "Loss," and collectively, "Losses" arising out of, in connection with or otherwise relating to the breach by Health Plan of any representation, warranty, covenant or agreement made by Health Plan in the performance of this Agreement, unless such actions were caused by the acts or omissions of Manager or Manager's failure to perform the Management Services in accordance with the terms of this Agreement or applicable law.

9.2 Indemnification by Manager. Subject to the limitations of Section 9.3, Manager shall indemnify and hold harmless Health Plan and its respective officers, directors, employees, agents and Affiliates against any and all Losses arising out of, in connection with or otherwise relating to the breach by Manager, or any of its independent contractors, providers or consultants pursuant to any duties delegated pursuant to Section 2.4, of any representation, warranty, covenant or agreement made by Manager in the performance of this Agreement. Manager shall have no liability or obligation to Health Plan, the Covered Members or the Health Care Providers for any Losses relating or pertaining to "bad faith," punitive, exemplary, consequential or other extra-contractual damages, or any fines, penalties or liquidated damages assessed by any regulatory authority with respect to the Subject Business, unless such actions were caused by the acts or omissions of Manager or Manager's failure to perform the Management Services in accordance with the terms of this Agreement or applicable law.

9.3 Limitations. The indemnification rights and obligations set forth in this Article IX shall survive the termination of this Agreement for a period of three (3) years; provided, however, that with respect to claims notified in good faith to the indemnifying party prior to the expiration of the indemnity rights, the parties' obligations with respect to its indemnity rights and obligations shall continue in effect until payment or other resolution of such claims.

9.4 Notice and Right to Defend.

(a) Should any claim or action by a third party arise for which Manager or Health Plan may be liable to the other under the indemnity provisions of this Agreement, the indemnitee shall notify the indemnitor in writing and in reasonable detail as soon as practicable, but in no event later than ten (10) days after the indemnitee receives notice of such claim or action in the manner provided for the giving of notices under this Agreement. The expenses of all proceedings, contests, lawsuits, or investigations of claims with respect to such claims or actions, shall be borne by the indemnitor. If an indemnitor wishes to assume the defense of such claim or action, it shall give written notice to the indemnitee, within ten (10) days after notice from the indemnitee of such claim or action, of its intention to assume the defense. The indemnitor shall thereafter assume the defense of any such claim or liability through counsel reasonably satisfactory to the indemnitee, provided that the indemnitee may also participate in such defense at its own expense.

(b) If the indemnitor shall not assume the defense of, or if after so assuming it shall fail to defend, any such claim or action, the indemnitee may defend against any such claim or action in such manner as it may reasonably deem appropriate and the indemnitee may settle such claim or litigation on such terms as it may reasonably deem appropriate, and the indemnitor shall promptly reimburse the indemnitee for the amount of all reasonable expenses, legal and otherwise, incurred by the indemnitee in connection with the defense and/or settlement of such claim or action. If no settlement of such claim or action is made, the indemnitor shall satisfy any judgment rendered with respect to such claim or in such action before indemnitee is required to do so, and shall pay all expenses, legal or otherwise, incurred by the indemnitee in the defense against such claim or litigation.

Article X DISPUTE RESOLUTION

10.1 Overall Scope. Any dispute, controversy or claim arising out of or relating in any way to this Agreement including without limitation any dispute concerning the construction, validity, interpretation, enforceability or breach of the Agreement (a "Dispute"), shall be exclusively resolved by the following dispute resolution policy ("Policy"). Any dispute to which this Policy applies is called a "Dispute" and any person, corporation, or entity that is subject to this Policy is called a "Party."

10.2 Good Faith Effort. In the event of a Dispute, the complaining Party shall notify the other Party in writing thereof. Within thirty (30) days of such notice, management level representatives of both Parties shall meet at an agreed location to attempt to resolve the dispute

in good faith. Should the dispute not be resolved within thirty (30) days after such notice, the complaining Party shall seek mediation.

10.3 Mediation. If the Dispute cannot be settled informally, any Party wishing to commence mediation will send a written notice of intent to mediate to the other Party, specifying in detail the nature of the Dispute and proposing a resolution thereof. Within fifteen (15) calendar days after such notice is received by the other Party, if the parties cannot agree on a proposed mediator, one will be appointed by the executive director or functional equivalent of American Health Lawyers Association (“AHLA”) or its successor from a list provided by AHLA. Each Party will designate no more than three (3) representatives who will meet with the mediator to mediate the dispute. Mediation will be commenced as soon as the mediator can be scheduled after the other Party receives such notice. The mediator will be a person having no conflict of interest relationship with a Party. The mediation will be non-binding. Any non-binding mediation conducted under the terms of this Section will be confidential. The cost of the mediation will be borne equally by the Parties. Should a Party disagree with the decision rendered by the mediator, the Parties will have the right to proceed with arbitration proceedings as set forth below.

10.4 Arbitration. Mediation will be a prerequisite to invoking arbitration. If unsuccessful in resolving a Dispute submitted to mediation as outlined above, such Dispute must be resolved by binding confidential arbitration. In the event arbitration between the Parties becomes necessary, such arbitration shall be initiated by either Party making a written demand for arbitration on the other Party. The arbitrator shall be chosen from a panel having at least ten (10) years of professional experience and who are familiar with the subject matter of this Agreement. The arbitrator shall be selected by agreement of the Parties; but if no agreement can be reached within ten (10) days from the date the written demand is received by the other Party, the arbitrator shall be appointed pursuant to the procedures of the American Health Lawyers Dispute Resolution Service. Such arbitration shall be conducted under the rules of the American Health Lawyers Dispute Resolution Service, and it shall be conducted by that organization, except where applicable federal or state law requires otherwise. The arbitration will occur in the county in which the Company utilizes as its principal office for the State in which Provider is located. The Parties expressly agree to be bound by the decision of the arbitrator(s). During the arbitration, each Party shall bear its own attorney’s fees. The issue of whether a Party’s claims are subject to arbitration under this Agreement, whether this Agreement to arbitrate is enforceable, and whether a condition precedent to arbitration has been fulfilled, shall be decided by arbitration in accordance with this Section. Upon an award of the arbitrator, the prevailing Party shall be entitled to recover its share of arbitration costs expended, and all its other costs, including its attorneys’ fees. Judgment upon the award rendered by the arbitrator shall be entered in any court having jurisdiction thereof, and such arbitrator shall have the authority to grant injunctive relief in a form similar to that which court of law would otherwise grant.

10.5 Venue. The arbitration shall be conducted in Oregon. Any Member may be represented by counsel or other authorized representative.

Article XI
INTELLECTUAL PROPERTY RIGHTS

11.1 Work Product. Except as set forth in Section 11.2, Health Plan is and will be the sole and exclusive owner of all right, title and interest in and to the Work Product, including all Intellectual Property Rights therein. Manager shall, and shall cause Manager's personnel and Manager's subcontractors to, create all Work Product as work made for hire as defined in Section 101 of the Copyright Act of 1976.

11.2 Pre-Existing Materials. Manager and its licensors are, and will remain, the sole and exclusive owners of all right, title and interest in and to the Pre-Existing Materials, including all Intellectual Property Rights therein.

11.3 Pre-Existing Materials License. Subject to the terms and conditions of this Agreement, Manager hereby grants to Health Plan and Health Plan accepts a worldwide, fully-paid and royalty-free, perpetual, nontransferable license to use the Pre-Existing Materials to develop, make, use, and operate Health Plan as a Medicare Advantage Plan without incurring any fees or costs to Manager or any other person in respect of the Pre-existing Materials. In furtherance of, and without limiting, the foregoing, such rights and licenses shall:

- (a) be perpetual, worldwide, fully paid-up and royalty-free;
- (b) include the rights to use, reproduce, perform (publicly or otherwise), display (publicly or otherwise), modify, improve, create derivative works of, distribute, import, and make the Pre-Existing Materials, including all such modifications, improvements and derivative works thereof for the purpose of operating Health Plan as a Medicare Advantage Plan;
- (c) be freely assignable and sublicensable to any subcontractor administering, managing or otherwise providing services to Health Plan in order to provide services related to operating Health Plan as a Medicare Advantage Plan;
- (d) be non-transferable; and
- (e) be limited to use in the operation of Health Plan as a Medicare Advantage.

Article XII
MISCELLANEOUS

12.1 Notices. All notices and other communications hereunder shall be in writing and shall be either (i) deposited in first class United States mail, certified, with postage prepaid, (ii) delivered by messenger, (iii) sent by overnight courier, or (iv) sent by fully completed and confirmed facsimile transmission (with a written confirmation simultaneously sent in first class United States mail), as follows:

If to Manager:

AllyAlign Health, Inc.
10900 Nuckols Road, Suite 110
Glen Allen, Virginia 23060

Copy to:

Husch Blackwell LLP
111 Congress Avenue, Suite 1400
Austin, Texas 78701-4093

Attn.: Will Saunders

Attn: David W. Hilgers

If to Health Plan:

Copy to:

Marquis Advantage, Inc.
4560 SE International Way Ste 100
Milwaukie, OR 97222
Attn: Steve Fogg

Schwabe, Williamson, & Wyatt, P.C.
1211 SW 5th, Suite 1900
Portland, OR 97204
Attn: Peter D. Ricoy

or such other address or fax number as any party may request by notice given as aforesaid. Notices sent as provided herein shall be deemed given on the date received by the recipient. If a recipient rejects or refuses to accept a notice given pursuant to this Section, or if a notice is not deliverable because of a changed address or fax number of which no notice was given in accordance with the provisions hereof, such notice shall be deemed to be received two days after such notice was mailed (whether as the actual notice or as the confirmation of a faxed notice) in accordance with the terms hereof. The foregoing shall not preclude the effectiveness of actual written notice given to a party at any address or by any means.

12.2 Waiver. No waiver by either Manager or Health Plan hereto of its rights under any provision of this Agreement shall constitute a waiver of such party's rights under such provision at any other time or a waiver of such party's rights under any other provision of this Agreement.

12.3 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. An executed faxed copy of this Agreement shall be deemed an original executed copy of this Agreement.

12.4 Headings. The headings contained in this Agreement have been inserted for convenience of reference only and shall in no way restrict or modify any of the terms or provisions hereof.

12.5 Severability. If any provision of this Agreement is held by final judgment of a court of competent jurisdiction to be invalid, illegal or unenforceable, such invalid, illegal or unenforceable provision shall be severed from the remainder of this Agreement, and the remainder of this Agreement shall be enforced. In addition, the invalid, illegal or unenforceable provision shall be deemed to be automatically modified, and, as so modified, to be included in this Agreement, such modification being made to the minimum extent necessary to render the provision valid, legal and enforceable. Notwithstanding the foregoing, if the severed or modified provision concerns all or a portion of the essential consideration to be delivered under this Agreement by one party to the other, the remaining provisions of this Agreement shall also be modified to the extent necessary to adjust equitably the parties' respective rights and obligations hereunder.

12.6 Entire Agreement. This Agreement and the attached schedules and exhibits constitute the entire agreement between the parties hereto with respect to the subject matter hereof. If a conflict arises between the language in any exhibit or schedule and the language in

the main body of this Agreement, the parties shall attempt in good faith to resolve such conflict consistent with the original intent of the parties, but if they are unable to do so, the language in the exhibits and schedules shall control over the language in the main body of this Agreement. Each party is responsible for the accuracy of its respective schedules regardless of any assistance provided by the other party in connection with the preparation of the schedules.

12.7 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective successors and assigns of the parties hereto. Notwithstanding the foregoing, this Agreement shall not be assignable by any party without the prior written consent of the other, and any attempt at an assignment in violation of this Section shall be void *ab initio*.

12.8 Governing Law. This Agreement is to be governed by and interpreted under the laws of the State of Oregon, without resort to choice of law or conflict of law principles which direct the application of the laws of a different state.

12.9 Cost of Transaction. Except as described herein:

(a) Manager shall pay the fees, expenses, and disbursements of Manager and its agents, representatives, accountants and counsel.

(b) Health Plan shall pay the fees, expenses and disbursements of Health Plan and its agents, representatives, accountants and counsel.

(c) Health Plan shall absorb or pay, as applicable, all costs and expenses (including wages, overhead and professional fees) relating to all notices or other communications to the Network Providers and Covered Members required in connection with this Agreement.

12.10 Further Assurances. Each party hereto agrees for the benefit of the other parties hereto to execute and deliver any necessary documents, instruments or agreements, and to take any and all necessary actions, in order to carry out the terms of this Agreement.

12.11 Construction. Whenever the context of this Agreement requires, the gender of all words herein shall include the masculine, feminine, and neuter, and the number of all words herein shall include the singular and plural. All parties to this Agreement have been represented by counsel and, accordingly, this Agreement shall not be construed strictly for or against any party hereto. All references to section numbers in this Agreement shall be references to sections in this Agreement, unless otherwise specifically indicated.

12.12 Third Parties. None of the provisions of this Agreement shall confer rights or benefits as third party beneficiaries or otherwise upon any third party that is not expressly a party to this Agreement including, without limitation, the Covered Members, and the provisions of this Agreement shall not be enforceable by any such third party.

12.13 Disclosure. Notwithstanding the terms of this Agreement requiring the confidentiality of certain information (including, without limitation, the Proprietary Information), the parties may disclose any terms or conditions of this Agreement to any third parties to comply

with securities laws or insurance laws, and as needed to meet prudent business requirements of shareholders, investors, bondholders, members, advisors and other creditors.

12.14 Rights Cumulative. Except as set forth herein, all rights, powers and remedies herein given to each party are cumulative and not alternative, and are in addition to all statutes or rules of law. Any forbearance or delay by such party in exercising the same shall not be deemed to be a waiver thereof, and the exercise of any right or partial exercise thereof shall not preclude the further exercise thereof, and the same shall continue in full force and effect until specifically waived by an instrument in writing executed by such party. For clarity, both parties have, retain, and reserve all rights and remedies available at law, in addition to the rights and remedies set forth herein.

12.15 Amendments. No amendment, modification, termination or waiver of any provision of this Agreement shall be effective unless the same shall be set forth in a writing signed by each party, and then only to the extent specifically set forth therein.

12.16 Survival. Provided that all fees contemplated in this Agreement are timely paid, the duties and responsibilities set forth in the following sections shall survive the termination of this Agreement regardless of how such termination occurs until the claims runoff function has been completed: Section 3.4 (claims payment functions only), 3.6, 3.15(b), 3.15(c), 8.2 and 8.3, Article V, and Article VI. All other provisions of this Agreement that would reasonably be expected to survive the termination of this Agreement will do so, including Article VII, Article X, Article XI, and Article XII. Article IX shall survive termination of this Agreement for a period of three (3) years. Manager's obligations hereunder with respect to the administration of claims shall be limited to claims arising on or before the date of termination of this Agreement.

12.17 Force Majeure. The parties to this Agreement shall be excused from performance of their obligations under this Agreement which they are prevented from so performing by wars, acts of enemies, strikes, fires, floods, acts of God or, without limiting the foregoing, by any cause not within the control of the party whose performance is interfered with, and which by the exercise of reasonable diligence the party is unable to prevent. All parties will perform such parts or aspects of their obligations that are not interfered with by these causes.

12.18 Retention of Agreement. Manager and Health Plan shall retain a copy of this Agreement as part of their official records during the term of the Agreement and until the fifth anniversary of the date on which this Agreement expires. On written request by OID, Manager shall make the written agreement available for inspection. Information provided to OID shall be confidential and may not be made available to the public. OID or CMS may examine the information in exercising powers and performing duties under applicable regulations.

12.19 Books and Records. Manager shall maintain at Manager's home office adequate books and records of each transaction in which Manager provides Management Services on behalf of Health Plan. Manager shall maintain the books and records until the fifth anniversary of the termination or expiration of this Agreement and in accordance with prudent standards of insurance recordkeeping. Subject to Article VII of this Agreement, and within 30 days of termination of this Agreement, Manager shall provide an original or a copy of a complete set of

Health Plan's records to a successor administrator, if any, or to Health Plan in compliance with applicable regulations.

12.20 Relationship. Manager and Health Plan are independent contractors regarding the performance of the Management Services and other obligations under this Agreement. Manager shall be responsible for any applicable employment taxes or withholdings for its employees. Neither Manager nor its employees, agents, representatives or contractors will (unless specifically provided for in this Agreement), without the Health Plan's prior written approval, (i) enter into any contract, lease or other agreement with any third party in the name of the Health Plan, (ii) incur any debt or liability in the name of the Health Plan or cause the Health Plan to become liable for any debt or liability except as specifically contemplated in this Agreement, or (iii) assign this Agreement or its duties hereunder to any third party without prior notice to and with the express written approval of the Health Plan. Neither Manager nor its employees, agents, representatives or contractors shall be considered an employee of the Health Plan. Health Plan shall not be responsible for withholding federal and state income taxes, paying Social Security taxes, unemployment insurance or maintaining workers' compensation insurance coverage on behalf of Manager or its employees, agents, representatives or contractors. Neither Manager nor its employees, agents, representatives or contractors shall be eligible to participate in health insurance programs or 401(k) plans, receive vacation benefits, paid-time-off accrual or any other benefits offered by Health Plan to Health Plan's employees. This Agreement shall be binding upon and inure to the benefit of the Parties and their successors and permitted assigns

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the Effective Date.

Manager:

Health Plan:

ALLYALIGN HEALTH, INC.

Marquis Advantage, Inc.

By: Will Saunders
Name: Will Saunders
Title: CEO

By: Will Saunders
Name: Will Saunders
Title: President

Exhibit A

PAYMENT OF CLAIMS

Claims Processing and Adjudication. As Health Plan's agent, Manager shall process and adjudicate Claims submitted by providers for Covered Services.

Health Plan shall establish a separate bank account to be used by Manager for the payment of claims to providers for Covered Services provided to Covered Members. Manager shall supply the Health Plan with a summary of total payments by provider per claims payment cycle. Plan shall transfer funds into the account in an amount sufficient to cover the cost of claims for Covered Services. Health Plan shall be responsible for the cost of any tax or surcharge imposed on claims by a state or federal authority. Health Plan acknowledges that it is responsible for payment of claims to providers for Covered Services provided to Covered Members pursuant to contracts between providers and either Health Plan or Manager. Health Plan further acknowledges that Manager shall pay such provider claims only if and to the extent the bank account established for payment of claims is funded by Health Plan.

Manager shall process claims in accordance with federal regulations applicable to Medicare Advantage plans, including timely claims payment requirements.

Manager shall coordinate with Health Plan regarding coordination of benefits ("COB") and third-party liability and recovery activities.

- Manager will receive and review Claims for Covered Services under the Health Plan and will use commercially reasonable efforts, consistent with industry standards, to compute the Covered Services payable, if any, in accordance with the terms and conditions of the Health Plan.
- Correspond with the Covered Members and providers of services if additional information is deemed necessary by Manager to complete the processing of Claims.
- Coordinate Covered Services payable under the Health Plan with other benefit plans, if any according to the Coordination of Benefits provision in the Health Plan.
- Prepare the disbursement checks for the amount of Covered Services determined to be payable under the Health Plan. Claims will be paid in the order processed, to the extent that sufficient funds are available from the Health Plan's designated bank account. Manager shall accept claims from providers through paper claims or electronic data interchange, and shall offer providers electronic funds transfer ("EFT") and provide electronic remittance advices.
- Provide an Explanation of Benefits (EOB) notice to Covered Persons each time a Claim is submitted. The EOB will explain how much the Health Plan has paid towards the Claim, if any, and how much of the Claim is the Covered Person's responsibility due to cost-sharing obligations, non-covered services, penalties or other Health Plan provisions.

If a Claim is denied in whole or in part, the EOB will list the reason(s) for denial of services, and inform the Covered Person of his or her right to appeal.

- Provide a Remittance Advice (RA) statement to providers of services each time a Claim is submitted. The RA will explain how much the Health Plan has paid towards the Claim, if any, and how much of the Claim is the Covered Person's responsibility, negotiated rate or other provider discount.

Overpayments: In the event payment is made to or on behalf of an ineligible Covered Person, or if an overpayment is made, Manager or its affiliated company(s) shall make an attempt to recover payments over One Hundred Dollars (\$100) by sending an initial request letter to the provider and/or Covered Person requesting repayment. This will be followed by a second letter and a phone call as needed. In the event the above recovery attempts are unsuccessful, the Health Plan will receive written communication outlining the legal recovery processes that are available through Manager's affiliated company(ies).

Claims Run-Out Services. Manager agrees that it will use commercially reasonable efforts to process all Claims received up to the date of termination of this Agreement. Any unprocessed Claims received near the end of this Agreement or following termination of this Agreement will be returned to the Health Plan or the Health Plan's designee, unless the Health Plan requests Manager to provide claims run-out services pursuant to Section 8.3 of this Agreement.

Exhibit B

BUSINESS ASSOCIATE PROVISIONS

This **BUSINESS ASSOCIATE AGREEMENT** (“Agreement”) by and between **MARQUIS ADVANTAGE, INC.** (“Covered Entity”) and **ALLYALIGN HEATH, INC.** (“Business Associate”), is entered into on this 30th day of November, 2015 (“Effective Date”), for the purposes of complying with the privacy and security regulations issued by the United States Department of Health and Human Services (“HHS”) under the Health Insurance Portability and Accountability Act of 1996 (“HIPAA”), and applicable state law. Covered Entity and Business Associate are collectively referred to as the “Parties.”

RECITALS

WHEREAS, Covered Entity and Business Associate have entered into or are entering into agreements or other documented arrangements (the “Service Agreement”) pursuant to which Business Associate may provide products and/or services for Covered Entity that require Business Associate to access, create, and use health information that is protected by state and/or federal law; and

WHEREAS, Business Associate and Covered Entity desire to enter into this Business Associate Agreement;

NOW, THEREFORE, in consideration of the mutual covenants, promises and agreements contained herein, the Parties hereto agree as follows:

1. DEFINITIONS. For the purposes of this Agreement, the following capitalized terms shall have the meanings ascribed to them below. Any other capitalized term not otherwise defined in this Section 1 of this Agreement and shall have the meanings set forth in the Privacy Standards, Security Standards or the HITECH Act, as applicable.

1.1. “Designated Record Set” or “DRS” shall have the meaning given to such term under the Privacy Rule, including but not limited to 45 C.F.R. Section 164.501.B.

1.2. “Electronic Protected Health Information” or “EPHI” shall have the meaning given to such term under the HIPAA Rule, including but not limited to 45 C.F.R. Parts 160, 162, and 164, and under HITECH.

1.3. “HITECH” shall mean the Health Information Technology for Economic and Clinical Health Act, Division A, Title XIII of the American Recovery and Reinvestment Act of 2009 (Pub. L. 111-5), 42 U.S.C. 83000 et seq., and implementation, regulations and guidance.

1.4. “Individual” shall have the meaning given to such term under the Privacy Rule, including but not limited to 45 C.F.R. Sections 164.501 and 160.103 and shall include a person who qualifies as a personal representative in accordance with 45 C.F.R. Section 164.502(g).

1.5. “Information” shall mean any “health information” as defined in 45 C.F.R. Section 160.103.

1.6. “Privacy Rule” shall mean the Standards for Privacy of Individually Identifiable Health Information at 45 C.F.R. Part 160 and Part 164, Subparts A and E.

1.7. “Protected Health Information” or “PHI” shall have the meaning ascribed to this term in 45 C.F.R. Sections 164.501 and 160.103, and is the information created or received by Business Associate from or on behalf of Covered Entity.

1.8. “Required by Law” shall have the meaning ascribed to this term in 45 C.F.R. Sections 164.501 and 160.103.

1.9. “Secretary” shall have the meaning ascribed to this term in 45 C.F.R. Section 160.103.

1.10. “Security Incident” shall mean the attempted or successful unauthorized access, use, disclosure, modification, or destruction of information or interference with system operations in an information system.

1.11. “Security Rule” shall mean the HIPAA regulation that is codified at 45 C.F.R. Part 164.

1.12. “Subcontractor” shall mean a person (or entity) to whom a business associate delegates a function, activity, or service, other than in the capacity of a member of the workforce of such business associate. For purposes of this Agreement, the term “Subcontractor” shall include the downstream subcontractors of a Subcontractor (“Downstream Subcontractor”).

2. CONFIDENTIALITY. The Parties shall comply with all federal and state laws governing the confidentiality and privacy of health information including, without limitation, the Privacy Standards and Security Standards promulgated pursuant to HIPAA, the HITECH Act, and the final Omnibus Rule.

2.1. Obligations of Business Associate and Business Associate Subcontractors.

2.1.1 Use and Disclosure of Protected Health Information.

(i) Business Associate shall: (a) use or disclose PHI only in connection with fulfilling its duties and obligations under this Agreement and the Service Agreement; (b) not use or disclose PHI other than as permitted or required by this Agreement, the Service Agreement, or by law; and (c) not use or disclose PHI in any manner that violates HIPAA or would violate HIPAA if used or disclosed in such manner by Covered Entity.

(ii) Business Associate shall use appropriate safeguards and comply with applicable HIPAA requirements with respect to EPHI. Business Associate covenants that such safeguards shall include, without limitation, implementing written policies and procedures in compliance with HIPAA, HITECH, and the final Omnibus Rule, conducting a security risk assessment, and training employees who will have access to PHI with respect to the policies and procedures required by HIPAA, HITECH, the final Omnibus Rule, and implementing regulations.

(iii) To the extent the Business Associate is to carry out a Covered Entity obligation under HIPAA, Business Associate will comply with the requirements of HIPAA that apply to Covered Entity in the performance of such obligation.

(iv) Covered Entity acknowledges that Business Associate will use the PHI for, among other purposes, to evaluate and coordinate health care services for patients of the Covered Entity, and may disclose such PHI to various payers, reimbursement for services provided by Covered Entity or Business Associate.

2.1.2 Associate Use for Management and Administration. Business Associate may use PHI for the necessary management and administration of Business Associate, or to carry out the legal responsibilities of the Business Associate if:

(i) The disclosure is required by law; or

(ii) Business Associate secures written assurance from the receiving party that the receiving party will: (a) hold the PHI confidentially; (b) use or disclose the PHI only as required by law or for the purposes for which it was disclosed to the recipient; and (c) notify the Business Associate of any breaches in the confidentiality of the PHI.

2.1.3 Business Associate Books and Records.

(i) *Entity Request.* Business Associate will, within fifteen (15) business days of Covered Entity's reasonable written request, provide Covered Entity with copies of Business Associate's policies and procedures relating to the use or disclosure of PHI for the purpose of allowing Covered entity to determine Business Associate's compliance with the Agreement,

(ii) *Government Request.* Business Associate will make its internal practices, books and records on the use and disclosure of PHI available to the Secretary of the Department of Health and Human Services to the extent required for determining compliance with the Privacy Standards and any other provisions of HIPAA and HIPAA regulations. Notwithstanding this provision, no attorney-client, accountant-client, or other legal privilege will be deemed waived by the Business Associate or Covered Entity as a result of this Section.

2.2. Access of Individuals to Information.

2.2.1 In order to allow Covered Entity to respond to a request by an Individual for access pursuant to 45 C.F.R. Section 164.524, within seven (7) business days of a written request by Covered Entity for access to PHI about an Individual contained in a Designated Record Set, Business Associate shall make available to Covered Entity such PHI for as long as such information is maintained in the Designated Record Set.

2.2.2 In the event any Individual requests access to PHI directly from Business Associate, Business Associate shall forward such request to Covered Entity.

2.2.3 Business Associate shall process PHI subject to access in the electronic form or format requested by Covered Entity, unless Covered Entity requests a readable hard copy form or such other format requested by Covered Entity.

2.2.4 Any denial of access to PHI shall be the sole responsibility of Covered Entity, including resolution or reporting of all appeals and/or complaints arising from denials.

2.3. Amendment of Information.

2.3.1 In order for Covered Entity to respond to a request by an Individual for an amendment of PHI pursuant to 45 C.F.R. Section 164.526, Business Associate shall, within fifteen (15) business days of a written request by Covered Entity to amend PHI about an Individual contained in a Designated Record Set, make available to Covered Entity such PHI for as long as such information is maintained in the Designated Record Set.

2.3.2 In the event any Individual requests amendment of PHI directly from Business Associate, Business Associate shall forward such request to Covered Entity within fifteen (15) business days.

2.3.3 Any denial of amendment of PHI determined by Covered Entity pursuant to 45 C.F.R. Section 164.526, shall be the sole responsibility of Covered Entity, including resolution or reporting of all appeals and/or complaints arising from denials.

2.4. Accounting of Disclosures.

2.4.1 In order to allow Covered Entity to respond to a request by an Individual for an accounting pursuant to 45 C.F.R. Section 164.528, Business Associate shall, within fifteen (15) business days of a written request by Covered Entity for an accounting of disclosures of PHI about an Individual, make available to Covered Entity such PHI in a reasonable format.

2.4.2 In the event any Individual requests an accounting of disclosure of PHI directly from Business Associate, Business Associate shall forward such request to Covered Entity within fifteen (15) business days.

2.5. Patient Request for Restrictions. If an Individual requests Business Associate to restrict the use or disclosure of PHI, Business Associate will forward the request to Covered Entity within twenty (20) days of Business Associate's receipt of the request. Covered Entity will be responsible for making all determinations regarding the grant or denial of an Individual's request for restrictions, and Business Associate will make no such determinations.

2.6. Survival. The provisions of this Section 2 shall survive the termination of this Agreement.

3. DISCLOSURE TO THIRD PARTIES.

3.1. Subject to any limitations in this Agreement and the Service Agreement, Business Associate may disclose PHI to Subcontractors as necessary to perform its obligations under the Service Agreement, this Agreement, and as permitted or required by applicable federal or state law.

3.2. Business Associate shall not (and shall provide that its directors, officers, employees, Subcontractors, and agents, do not) disclose PHI to any other person (other than members of their respective workforce, unless disclosure is required by law or authorized, by this Agreement, the Service Agreement, or by the person whose PHI is to be disclosed. Business Associate shall enter into a signed written agreement with its Subcontractor(s) (as applicable) that:

3.2.1 Establishes the permitted and required uses and disclosures of PHI by the Subcontractor. The written agreement shall not authorize the Subcontractor to use or further disclose PHI in a manner that would violate the Privacy Rule, if done by Covered Entity.

3.2.2 Binds the Subcontractor and Downstream Subcontractors to the same provisions, restrictions, and conditions of this Agreement pertaining to PHI, and Electronic PHI that apply to Business Associate for the express benefit of Covered Entity. Business Associate, Subcontractor, and Downstream Subcontractors shall not use or further disclose PHI other than as permitted or required by this Agreement or as required by law.

3.2.3 Requires the Subcontractor and Downstream Subcontractors comply with the applicable requirements of HIPAA and the contractual obligations set forth in this Agreement by entering into a written contract.

3.2.4 Contains reasonable assurances from Subcontractor that PHI will be held confidential as provided in this Agreement, and only disclosed as required by law for the purposes for which it was disclosed to Subcontractor.

3.2.5 Obligates Subcontractor to notify Business Associate of any breaches (including breaches of unsecured PHI as required by 45 C.F.R. Section 164.410) of the confidentiality of the PHI and Security Incidents of which it becomes aware.

3.2.6 Obligates Business Associate and Subcontractor to comply with the principle of “minimum necessary use and disclosure,” i.e., only the minimum PHI that is necessary to accomplish the intended purpose may be disclosed; provided further, Business Associate and Subcontractor shall comply with Section 13405(b) of the HITECH Act, and any regulations or guidance issued by HHS concerning such provision, regarding the minimum necessary standard and the use and disclosure (if applicable) of Limited Data Sets.

3.2.7 Requires that Subcontractor enter into a written agreement with its Downstream Subcontractors that requires Downstream Subcontractors to agree to the same responsibilities, restrictions, and conditions that apply to the Subcontractor and Business Associate.

3.2.8 To the extent the Subcontractor is to carry out Covered Entity’s obligations under HIPAA, the Subcontractor shall comply with the requirements of HIPAA that apply to Covered Entity in the performance of such obligation.

4. SAFEGUARDS.

4.1. Business Associate and Subcontractors shall employ appropriate administrative, technical and physical safeguards, consistent with the size and complexity of Business Associate’s operations, to protect the confidentiality of PHI and to prevent the use or disclosure of PHI in any manner inconsistent with the terms of this Agreement.

4.2. Business Associate and Subcontractors shall provide Covered Entity with a copy of its written information security program upon request.

4.3. Business Associate acknowledges (and Subcontractors shall acknowledge) that the HITECH Act and final Omnibus Rule require Business Associate and Subcontractors to

comply (in part) with 45 C.F.R. Sections 164.306, 164.308, 164.310, 164.312, 164.314, and 164.316 as if Business Associate (and Subcontractors) were a Covered Entity, and Business Associate agrees that it and Subcontractors through written contract shall comply with these provisions of the Security Standards and all additional security provisions of the Security Rule.

5. REPORTING OF BREACHES AND IMPROPER DISCLOSURES.

5.1. Breaches. A breach is the unauthorized acquisition, access, use, or disclosure of PHI in a manner not permitted by HIPAA which compromises the security or privacy of such information.

5.1.1 In the event of a Breach of any “Unsecured Protected Health Information” (i.e., Protected Health Information that is not rendered unusable, unreadable, or indecipherable to unauthorized individuals through the use of a technology or methodology specified by the Secretary in the guidance issued under section 1302(h)(2) of Pub.L. 111-5) that Business Associate (or a Subcontractor) accesses, maintains, retains, modifies, records, stores, destroys, or otherwise holds or uses on behalf of Covered Entity, Business Associate shall provide notice of the Breach to Covered Entity immediately, but in no event more than two (2) days after discovering the Breach.

5.1.2 Notice of a Breach shall include, at a minimum: (i) the identification of each individual whose PHI has been, or is reasonably believed to have been, accessed, acquired, or disclosed during the Breach; (ii) the date of the Breach, if known; (iii) the scope of the Breach; (iv) a description of the Business Associate’s response to the Breach; and (v) any other reasonable information requested by Covered Entity.

5.2. Improper Disclosures.

5.2.1 Business Associate acknowledges that the HITECH Act requires Business Associate to comply with 45 C.F.R. Sections 164.308, 164.310, 164.312 and 164.316 as if Business Associate were a Covered Entity, and Business Associate agrees to comply with these provisions of the Security Standards and all additional security provisions of the HITECH Act.

5.3. Security Incident.

5.3.1 Within 72 hours of a Security Incident (as defined below) that results in access to or disruption of PHI, Business Associate will provide Covered Entity with a description of the Security Incident, the scope of the Security Incident, the Business Associate’s response, and, if known, the identification of the party responsible for causing the Security Incident.

5.3.2 Periodically as reasonably requested in writing by Covered Entity, Business Associate will provide Entity with a general description of Security Incidents that were not successful in accessing or disrupting PHI within seven (7) days of receipt of the written request.

“Security Incident” means the attempted or successful unauthorized access, use, disclosure, modification, or destruction of information or interference with system operations in an information system.

6. TERM AND TERMINATION.

6.1. General Term. This Agreement shall become effective on the Effective Date set forth above and shall terminate upon the termination or expiration of the Service Agreement and when all PHI provided by either party to the other, or created or received by Business Associate on behalf of Covered Entity is, in accordance with Section 7 below, destroyed or returned to Covered Entity or, if it is not feasible to return or destroy PHI, protections are extended to such information, in accordance with the terms of this Agreement.

6.2. Termination. In the event of breach of any term or condition of this Agreement, the non-breaching party may terminate the Agreement upon providing thirty (30) days' advance written notice of breach to the breaching party and affording the breaching party the opportunity to cure the breach to the reasonable satisfaction of the non-breaching party within twenty (20) days of such notice. If the breaching party fails to timely cure the breach, as reasonably determined by the non-breaching party, the Agreement will terminate after the cure period and as provided in the notice.

7. RETURN/DESTRUCTION OF PROTECTED HEALTH INFORMATION UPON TERMINATION.

Upon termination of this Agreement for any reason, Business Associate shall:

7.1. If feasible, return or destroy all PHI received from, or created or received by Business Associate on behalf of Covered Entity that Business Associate or any of its directors, officers, Subcontractors, employees, affiliates, agents, and representatives still maintain in any form, and Business Associate shall retain no copies of such information; or

7.2. If Covered Entity determines that such return or destruction is not feasible, extend the protections of this Agreement to such information and limit further uses and disclosures to those purposes that make the return or destruction of the PHI infeasible, in which case Business Associate's obligations under this Section shall survive the termination of this Agreement. The parties acknowledge that Covered Entity may maintain PHI after termination of the Services Agreement for auditing, management, and compliance purposes.

8. AMENDMENT. If any of the rules or regulations promulgated under HIPAA, HITECH, the Final Omnibus Rule, or state law are amended or interpreted in a manner that renders this Agreement inconsistent therewith, Business Associate may, on thirty (30) days' written notice to Covered Entity, amend this Agreement to the extent necessary to comply with such amendments or interpretations.

9. INDEMNIFICATION. Notwithstanding anything to the contrary in the Agreement, if a Breach or other violation of the Requirements occurs due solely to the acts or omissions of one party, that party shall indemnify, defend and hold the other party harmless from and against any and all losses, liabilities, damages, costs and expenses (including reasonable attorneys' fees) arising solely out of such Breach or other violation of the Requirements. This Section shall survive termination of this Agreement and/or the Service Agreement and is without regard to any limitation or exclusion of damages provision otherwise set forth in the Agreement.

10. CONFLICTING TERMS. In the event any terms of this Agreement conflict with any terms of the Service Agreement, the terms of this Agreement shall govern and control.

11. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of **Oregon**. Venue shall be in **Multnomah County, Oregon**

12. **NOTICES.** All notices, requests, approvals, demands and other communications required or permitted to be given under this Agreement shall be in writing and delivered either personally, or by certified mail with postage prepaid and return receipt requested, or by overnight courier to the party to be notified. All communications will be deemed given when received. The addresses of the parties shall be as follows; or as otherwise designated by any party through notice to the other party:

If to Covered Entity:

Marquis Advantage, Inc.
4560 International Way Suite 100
Milwaukie, OR 97222
Attn: Steve Fogg

If to Manager:

AllyAlign Health, Inc.
10900 Nuckols Road, Suite 110
Glen Allen, Virginia 23060
Attn.: Will Saunders

13. **DAYS.** All references to the term “days” in this Agreement shall mean business days.

14. **INDEPENDENT CONTRACTORS.** The parties are and shall be independent contractors to one another, and nothing in this Agreement shall be deemed to cause this Agreement to create an agency, partnership, or joint venture between the parties. Except as expressly provided herein, neither party shall be liable for any debts, accounts, obligations, or other liabilities of the other party.

15. **ASSIGNMENT.** This Agreement shall be binding on the parties and their successors and assigns, provided that neither party shall assign any of its rights under this Agreement to any other party without the prior written consent of the other party.

16. **SEVERABILITY.** In the event that any court or any governmental authority or agency declares all or part of any section of this Agreement to be unlawful or invalid, such unlawfulness or invalidity shall not serve to invalidate any other section of this Agreement, and in the event that only a portion of any section is so declared to be unlawful or invalid, such unlawfulness or invalidity shall not serve to invalidate the balance of such section.

17. **COUNTERPARTS.** This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original, but all of which shall constitute one and the same agreement.

IN WITNESS WHEREOF, each of the undersigned has duly executed this Agreement on behalf of the party and on the date set forth below.

Covered Entity:

Business Associate:

Marquis Advantage, Inc.

ALLYALIGN HEALTH, INC.

By: Will Saunders
Name: Will Saunders
Title: President

By: Will Saunders
Name: Will Saunders
Title: CEO

Exhibit C

MANDATORY CONTRACT PROVISIONS

This **ADDENDUM** supplements the **MANAGEMENT SERVICES AGREEMENT** (“Agreement”), dated November 30, 2015 between Marquis Advantage, Inc., an Oregon corporation (“Plan”), and **ALLYALIGN HEALTH, INC.**, a Delaware corporation (“Manager”) identified in the Agreement effective with respect to Members enrolled in Plan’s Medicare Advantage and Prescription Drug Benefits products (“Medicare Members”). Plan and Provider are referred to collectively herein as the “Parties”.

RECITALS

WHEREAS, the Centers for Medicare and Medicaid Services (“CMS”) requires that specific terms and conditions be incorporated into the Agreement between a Medicare Advantage Organization or First Tier Entity and a First Tier Entity or Downstream Entity to comply with the Medicare laws, regulations, and CMS instructions, including, but not limited to, the Medicare Prescription Drug, Improvement and Modernization Act of 2003, Pub. L. No. 108- 173, 117 Stat. 2066 (“MMA”); and

WHEREAS, except as provided herein, all other provisions of the Agreement between the Plan and Manager not inconsistent herein shall remain in full force and effect. This Addendum shall supersede and replace any inconsistent provisions to such Agreement; to ensure compliance with required CMS provisions, and shall continue concurrently with the term of such Agreement.

NOW, THEREFORE, in consideration of the mutual covenants, promises and agreements contained herein, the Parties hereto agree as follows:

1. DEFINITIONS. For the purposes of this Agreement, the following capitalized terms shall have the meanings ascribed to them below. Any other capitalized term not otherwise defined in this Section 1 of this Agreement and shall have the meanings set forth in the MMA, as applicable.

1.1. “Completion of Audit” means the completion of audit by the Department of Health and Human Services, the Government Accountability Office, or their designees of a Medicare Advantage Organization, Medicare Advantage Organization contractor or related entity.

1.2. “Downstream Entity” means any party that enters into a written arrangement with persons or entities involved with the Program, below the level of the arrangement between Plan and a First-Tier Entity, such as Provider. (42 C.F.R. §§422.2 and 423.4).

1.3. “HITECH” shall mean the Health Information Technology for Economic and Clinical Health Act, Division A, Title XIII of the American Recovery and Reinvestment Act of 2009 (Pub. L. 111-5), 42 U.S.C. 83000 et seq., and implementation, regulations and guidance.

1.4. “Final Contract Period” means the final term of the contract between CMS and the Medicare Advantage Organization.

1.5. “First Tier Entity” means any party, such as Provider, that enters into a written arrangement with Plan to provide management and/or health care services, including the Covered Services, to a Medicare Member. (42 C.F.R. §§422.2).

1.6. “Medicare Advantage (“MA”)” means an alternative to the traditional Medicare program in which private plans run by health insurance companies provide health care benefits that eligible beneficiaries would otherwise receive directly from the Medicare program.

1.7. “Medicare Advantage Organization (“MA organization”)” means a public or private entity organized and licensed by a State as a risk-bearing entity (with the exception of provider-sponsored organizations receiving waivers) that is certified by CMS as meeting the MA contract requirements.

1.8. “Member or Enrollee” means a Medicare Advantage eligible individual who has enrolled in or elected coverage through a Medicare Advantage Organization.

1.9. “Provider” (1) any individual who is engaged in the delivery of health care services in a State and is licensed or certified by the State to engage in that activity in the State; and (2) any entity that is engaged in the delivery of health care services in a State and is licensed or certified to deliver those services if such licensing or certification is required by State law or regulation.

1.10. “Related entity” means any entity that is related to the MA organization by common ownership or control and (1) performs some of the MA organization's management functions under contract or delegation; (2) furnishes services to Medicare enrollees under an oral or written agreement; or (3) leases real property or sells materials to the MA organization at a cost of more than \$2,500 during a contract period.

1.11. “Security Rule” shall mean the HIPAA regulation that is codified at 45 C.F.R. Part 164.

1.12. “Subcontractor” shall mean a person (or entity) to whom a business associate delegates a function, activity, or service, other than in the capacity of a member of the workforce of such business associate. For purposes of this Agreement, the term “Subcontractor” shall include the downstream subcontractors of a Subcontractor (“Downstream Subcontractor”).

2. REQUIRED PROVISIONS. Manager Agrees to the following:

2.1. HHS, the Comptroller General, or their designees have the right to audit, evaluate, and inspect any pertinent information for any particular contract period, including, but not limited to, any books, contracts, computer or other electronic systems (including medical records and documentation of the first tier, downstream, and entities related to CMS’ contract with Plan, (hereinafter, “MA organization”) through 10 years from the final date of the final contract period of the contract entered into between CMS and the MA organization or from the date of completion of any audit, whichever is later. [42 C.F.R. §§422.504(i)(2)(i) and (ii)].

2.2. Manager will comply with the confidentiality and enrollee record accuracy requirements, including: (1) abiding by all Federal and State laws regarding confidentiality and disclosure of medical records, or other health and enrollment information, (2) ensuring that medical information is released only in accordance with applicable Federal or State law, or pursuant to court orders or subpoenas, (3) maintaining the records and information in an accurate and timely manner, and (4) ensuring timely access by enrollees to the records and information that pertain to them. [42 C.F.R. §§422.504(a)(13) and 422.118]

2.3. Enrollees will not be held liable for payment of any fees that are the legal obligation of the MA organization. [42 C.F.R. §§422.504(i)(3)(i) and 422.504(g)(1)(i)].

2.4. Any services or other activity performed in accordance with a contract or written agreement by Manager are consistent and comply with the MA organization's contractual obligations. [42 C.F.R. §422.504(i)(3)(iii)].

2.5. Contracts or other written agreements between the MA organization and providers or between first tier and downstream entities must contain a prompt payment provision, the terms of which are developed and agreed to by the contracting parties. The MA organization is obligated to pay contracted providers under the terms of the contract between the Plan and the provider. [42 C.F.R. §§422.520(b)(1) and (2)].

2.6. Manager and any related entity, contractor or subcontractor will comply with all applicable Medicare laws, regulations, and CMS instructions. [42 C.F.R. §§422.504(i)(4)(v)].

2.7. If any of the MA organization's activities or responsibilities under its contract with CMS are delegated to any first tier, downstream and related entity:

2.7.1 The delegated activities and reporting responsibilities are specified in Health Plan's written policies and procedures.

2.7.2 CMS and the MA organization reserve the right to revoke the delegation activities and reporting requirements or to specify other remedies in instances where CMS or the MA organization determine that such parties have not performed satisfactorily.

2.7.3 The MA organization will monitor the performance of the parties on an ongoing basis.

2.7.4 The credentials of medical professionals affiliated with the party or parties will be either reviewed by the MA organization or the credentialing process will be reviewed and approved by the MA organization and the MA organization must audit the credentialing process on an ongoing basis.

2.7.5 If the MA organization delegates the selection of providers, contractors, or subcontractor, the MA organization retains the right to approve, suspend, or terminate any such arrangement. [42 C.F.R. §§422.504(i)(4) and (5)].

2.8. Health Plan shall be entitled to oversee the activities of Manager and any approved subcontractors under this Agreement and shall be accountable under the CMS Contract for such activities regardless of the provisions of this Agreement. [42 C.F.R. §422.504(i)(1)]

2.9. Manager shall, and shall require its approved subcontractors to, comply with all applicable Medicare laws, rules, regulations, and CMS instructions. [42 C.F.R. §422.504(i)(4)(v); Manual Ch. 11 §100.4]

2.10. Cumulative to other record retention requirements herein, Manager shall, and shall require its approved subcontractors to, allow audits by CMS and/or its designees and cooperate, assist, and provide information as requested, and maintain records a minimum of ten (10) years or longer if otherwise required by this Agreement. [Manual Ch. 11 §100.4]

2.11. Cumulative to other oversight and monitoring requirements herein, Health Plan shall oversee and is accountable to CMS for any functions and responsibilities described in MA regulations. [Manual Ch. 11 §100.4]

2.12. Health Plan may revoke delegated activities or reporting requirements, if any, from Manager or any Manager subcontractor in instances where CMS or Health Plan determines that Manager or the subcontractor, as the case may be, has not performed satisfactorily. [42 C.F.R. §§422.504(i)(3)(ii) and 422.504(i)(4)(ii)]

2.13. Manager shall, and shall require its subcontractors to, comply with Health Plan's policies and procedures. [Manual Ch. 11 §100.4]

2.14. Manager shall not, and shall require its approved subcontractors not to, hold any Enrollee liable for payment of any fees that are the legal obligation of Health Plan, including, without limitation, in a circumstance of Health Plan's insolvency or other financial difficulties. [42 C.F.R. §§422.504.(i)(3)(i) and 422.504(g)(1)(i); Manual Ch. 11 §100.3]

2.15. Manager shall, and shall require its subcontractors to, hold Enrollees harmless for payment of fees that are the legal obligation of Health Plan to fulfill. The foregoing sentence shall apply, but will not be limited to insolvency of Health Plan, contract breach, and provider billing. [Manual Ch. 11 §100.4]

2.16. Manager agrees, and shall require its subcontractors to adhere, to the following: Any Services or other activity performed under this Agreement with respect to the MA program shall be consistent and comply with Health Plan's contractual obligations under CMS Contracts, regardless of whether such requirements are explicitly included or referenced in this Exhibit C or the Agreement. [42 C.F.R. §422.504(i)(3)(iii)]

2.17. Health Plan shall pay Manager promptly within the time period for payment set forth in this Agreement. Manager shall promptly pay claims to providers in accordance with the applicable provider agreements, as well as applicable laws and MA program requirements, as further detailed in this Agreement. [42 C.F.R. §422.520(b); Manual Ch. 11 §100.4]

2.18. Manager shall require providers to, upon termination of this Agreement for any reason (except for immediate termination), continue to provide covered services (a) for all Enrollees, for the duration of the CMS Contract Period for which CMS payments have been made, and (b) for Enrollees who are hospitalized on the date the CMS Contract terminates or, in the event of an insolvency, through discharge. [42 C.F.R. §422.504(g)(2); Manual Ch. 11 §100.3]

2.19. Manager shall have provider relationships in place to ensure that Enrollees are provided post-hospital extended care services, should an Enrollee elect such services, through a home skilled nursing facility. [42 C.F.R. §422.504(a)(3)]

2.20. Manager shall require its subcontractors to ensure that (a) the hours of operation of the providers are convenient to the Enrollee population served under Benefit Plans subject to CMS Contracts and do not discriminate against Medicare Enrollees, and (b) Covered Services are available 24 hours a day, 7 days a week, when medically necessary. [42 C.F.R. §422.112(a)(7)].

2.21. Manager shall require providers to ensure that services are provided in a culturally competent manner to all Enrollees, including those with limited English proficiency or reading skills, and diverse cultural and ethnic backgrounds. [42 C.F.R. §422.112.(a)(8)]

2.21.1 Manager shall, and shall require its approved subcontractors to, comply with Health Plan's compliance program elements regarding effective training and education between Health Plan's compliance officer and Manager or its subcontractors.

Such training and education shall occur at a minimum annually and must be made a part of the orientation for Manager, its subcontractors, and their respective employees. Providers who have met the fraud, waste, and abuse certification requirements through enrollment into the Medicare program are deemed to have met the training and educational requirements for fraud, waste, and abuse (but not necessarily other elements of Health Plan's compliance program). [42 C.F.R. §422.503(b)(4)(vi)(C)]

2.21.2 Health Plan shall, and shall require its subcontractors to, comply with Manager's compliance program elements regarding effective lines of communication, ensuring confidentiality between Manager's compliance officer and Health Plan or its subcontractors. Such lines of communication must be accessible to all and allow compliance issues to be reported, including a method for anonymous and confidential good-faith reporting of potential compliance issues as they are identified. [42 C.F.R. §422.503(b)(4)(vi)(D)]

2.22. If Health Plan delegates selection of providers, contractors, or subcontractors to Manager or its subcontractor, Health Plan retains the right to approve, suspend, or terminate any such arrangement. [42 C.F.R. §422.504(i)(5)]

2.23. Manager shall not, and shall require its subcontractors not to, delegate any services or activities under this Agreement to any other individual or entity except upon Health Plan's prior written consent, and such delegation agreements, if made, shall be in writing and conform to MA program requirements, including the following:

2.23.1 Written arrangements shall specify delegated activities and reporting responsibilities. [42 C.F.R. §422.504(i)(4)(i)]

2.23.2 Written arrangements shall either provide for revocation of the delegated activities and reporting requirements or specify other remedies in instances where CMS or Health Plan determine that such parties have not performed satisfactorily. [42 C.F.R. §422.504(i)(4)(ii)]

2.23.3 Written arrangements must specify that the performance of the parties is monitored by Health Plan on an ongoing basis. [42 C.F.R. §422.504(i)(4)(iii)]

2.23.4 Written arrangements must specify that (i) the credentials of medical professionals affiliated with the party or parties will be either reviewed by Health Plan, or (ii) the credentialing process shall be reviewed and approved by Health Plan and Health Plan must audit the credentialing process on an ongoing basis. [42 C.F.R. §422.504(i)(4)(iv)]

2.23.5 All contracts or written arrangements must specify that the Manager or subcontractor must comply with all applicable Medicare laws, rules, regulations, and CMS instructions. [42 C.F.R. §422.504(i)(4)(v)]

In the event of a conflict between the terms and conditions above and the terms of a related agreement, the terms above control.

[Signature Page Follows]

IN WITNESS WHEREOF, each of the undersigned has duly executed this Addendum on behalf of the party and on the date set forth below.

MA Organization:
MARQUIS ADVANTAGE, INC.

By: Will Saunders
Name: Will Saunders
Title: President

First Tier Entity:
ALLYALIGN HEALTH, INC.

By: Will Saunders
Name: Will Saunders
Title: CEO

Exhibit D**ADDITIONAL DUTIES OF HEALTH PLAN**

1. Health Plan shall contract directly for and with respect to certain aspects of pharmacy benefit management, disease management and behavioral health management services with applicable third party vendors and providers, and Manager shall have no obligation with respect to the functions delegated directly by Health Plan to the third party vendors and providers.

Exhibit E**MEDICARE ADVANTAGE ISNP SERVICE AREA**

The following counties make up the initial Medicare Advantage ISNP Service Area in Oregon:

- Clackamas County
- Klamath County
- Lane County
- Marion County
- Multnomah County
- Washington County
- Yamhill County

Exhibit F

DELEGATED RESPONSIBILITIES, DUTIES AND FUNCTIONS

Manager stipulates that the following functions will be delegated:

- Provider credentialing
- Pharmacy Benefits Manager (PBM) Services

Exhibit G

MANAGER FEES

The following fees shall be payable to the Manager:

1. Application Fees. Upon execution of this Agreement, an Application Development Fee of **\$350,000** shall be payable to the Manager. Contingent upon an executed agreement with CMS, an Application Submission Fee of **\$150,000** payable upon the successful submission of the Application to the designated website, which will occur on or before September 15, 2016. Application Fees cover all costs of Manager related to the completion and submission of the CMS initial MA ISNP application, completion and submission of the MA-PD application, on-site CMS visit and readiness reviews and submission of bids.

2. New Health Plan Activation Fee. Contingent upon an executed agreement with CMS, beginning September 1, 2016, the New Plan Activation Fee shall be due monthly on the 10th day of the month. The New Plan Activation Fee shall be \$300,000 in total at **\$75,000 per month** for four months to cover all Manager activities required to begin before the go-live date of January 1, 2017, like patient enrollment activities, marketing and educational events, initial risk assessments for HCC coding submission, training and orientation of Manager’s staff, and general implementation.

3. Management Services Fee. Beginning January 1, 2017, the monthly Management Services Fee shall be due monthly on the 10th day of the month. Services Fee shall be set at **11% of Health Plan revenues**. Health Plan revenues are 100% of premiums collected by the Health Plan from any source.

Category	Function	MSA Section Reference	Premium %
Core Infrastructure	Administrative Information System - Claims Processing MIS & Platform	3.2	6.0%
	Financial Systems and Services	3.3	
	Claims Administration and Premium Collection	3.4	
	Prompt Payment of Claims	3.6	
	Administration of Payment to Providers	3.18	
Network Management	Network Provider and Covered Member Services	3.7	3.0%
	ID Cards, Enrollment Forms		
	Utilization Review	3.8	
	Care Coordination Platform (Align360)		
	Development and Management of Provider Network	3.10	
Enrollment	Credentialing/Rec credentialing	3.11	1.0%

	Plan Development and Administration	3.12	
Centralized Admin Functions	Quality Assurance/Quality Improvement	3.9	1.0%
	Underwriting and Rating	3.5	
	Reporting	3.13	
	Personnel Management	3.14	
	Misc Duties and Authorities	3.15	
	Total		11%

*Above fees include costs for all of the following associated staffing, all of which will be employees of Manager (with the exception of the Compliance Officer) to the extent permitted by law:

Onsite Executive Director (full time if membership >1000)

Onsite Member Advocates @ 1:250 members

Utilization Manager and UM Nurses

Business Analysts

Finance & Accounting

Compliance Hotline/Customer Service

Compliance Reporting

Pharmacy Director

Network Development

Contracting

Corporate Medical Director

Human Resource Director

Compliance Officer (Employee/Consultant to Health Plan Directly)

Exhibit H

QUALITY ASSURANCE/QUALITY IMPROVEMENT ACTIVITIES

In addition to the Management Services outlines in Article III of this Agreement, Manager will provide the following:

- **Quality Improvement.** Manager shall conduct quality improvement functions for the Health Plan with regards to the monitoring and identifying opportunities for improvement in delivery of care rendered by the Health Plan contracted providers as well as Claims pursuant to Manager's statutory and regulatory requirement and as agreed to by the parties. Manager will have credentialing-, peer review, and quality improvement information with regard to delivery service Claims with the Health Plan, as requested
- **Care Coordination.** Manager shall conduct Care Coordination functions, which includes utilization management, disease management, case management and service coordination to eligible Health Plan clients\ ho meet criteria for these activities, as determined jointly by the Health Plan and Manager. Manager will share care coordination activities and outcomes to the Health Plan on an agreed upon frequency. For purposes of this Agreement. Care Coordination functions shall be defined as follows:
 - Utilization Management - a system for review of the medical necessity and appropriateness of health care services provided, being provided, or proposed to be provided to an individual as well as discharge planning. This includes elective requests for clarification of coverage.

UM functions include:

- **Pre-service, prospective review or prior authorization** - the assessment of the appropriateness of a proposed service. The basic elements of pre-service decision review include eligibility verification. Benefit interpretation and medical necessity review and review for experimental and or investigational service to determine coverage decisions of both in and out-patient services.
- **Concurrent review** - an assessment of ongoing care to determine continued medical necessity and appropriateness. This process is episodic and is utilized for inpatient care, transitional care, and home health.
- **Discharge planning** - the coordination of a patient's continued care when discharged from one level of care to another. The initial evaluation for discharge, planning begins at the time of an actual or proposed patient admission.
- **Post-service or retrospective review** - the utilization decisions that involve the assessment of the appropriateness of services that have already been rendered. The basic elements of post-service/retrospective review include eligibility verification, benefit interpretation, and medical

necessity review to include a system review to determine coverage for experimental or investigational nature of healthcare services previously rendered but not authorized in advance of the delivery of care.

- **Disease management** - a system of coordinated healthcare interventions and communications for populations with conditions in which individuals self-care efforts are significant. Care management or health improvement service that is population-based and member-specific providing health education for members with chronic diseases.
- **Case Management** - a collaborative process which assesses, plans, implements, coordinates, monitors and evaluates the options and services to meet an individual's health needs, using communication and available resources to promote quality cost effective outcomes.
- **Medical Case Management** - Case Management for members who are at high risk or have catastrophic illnesses or injuries and require assistance in navigating the healthcare system.

Levels of Medical Case Management include:

- **Transitional Case Management** (generally short-term) such as hospital discharge planning and follow-up to ensure smooth transition to home.
- **Comprehensive Case Management** - (episodic and short term) provided to members who have an acute or exacerbation of a chronic illness and do not meet the health plan criteria for Complex Case Management.
- **Complex Case Management** - (episodic) a systematic coordination and assessment of care and services provided to members who have experienced a critical event or diagnosis that require the extensive use of resources.
- **Service Coordination** - (ever-present and long term) a program to assist individual members with chronic behavioral, medical or functional problems. Services include support of the member's long-term psycho-social, medical and functional needs, to coordinate care and resources, using plan benefits, community resources and coordination with PCP, specialist, ancillary and long term care providers, member and family.

Exhibit I**MANAGER'S PRE-EXISTING MATERIALS**

- 1) Health Risk Assessment Tool (HRAT)
- 2) Sales, Marketing & Enrollment Handbook
- 3) Model of Care Template
- 4) Quality Plan Template
- 5) Compliance Plan Template
- 6) Model of Care Workflows
- 7) Antibiotic Stewardship Program
- 8) Care Paths and Care Guidelines
- 9) Plan Dashboards
- 10) NFist Position
- 11) Pay for performance plans (for facilities, NFists, and NPs)
- 12) Template Brochures and Website content
- 13) Provider Manual Template
- 14) NFist Welcome Manual
- 15) Model of Care Training
- 16) Sales and Marketing Training
- 17) Sales and enrollment Scripting
- 18) SNP Implementation Manual
- 19) Risk Level Scores
- 20) Risk Level Scoring Methodology

AMENDMENT NO. 1 TO MANAGEMENT SERVICES AGREEMENT

This Amendment No. 1 to Management Services Agreement (“**Amendment**”) is between AllyAlign Health, Inc., a Delaware Corporation (“**Manager**”) and Marquis Advantage, Inc., an Oregon corporation (“**Health Plan**”).

RECITALS

- A.** The parties entered into a Management Services Agreement dated effective November 30, 2015 (the “**Agreement**”).
- B.** The parties desire to amend the Agreement.

AGREEMENT

- 1. Amendment.** Section 8.2(f) of the Agreement is amended to read in its entirety as follows:

“Notice given by Health Plan to the Manager within the first 90 days of the effective date of this Agreement that Health Plan has determined in good faith that any part of, or the totality of, the arrangements contemplated by the parties under this Agreement and/or related agreements between the parties poses undue compliance risk under state or federal laws.”
- 2. Other Provisions.** The provisions of the Agreement that are not amended or deleted by this Amendment remain unchanged and in full force and effect.
- 3. Signatures.** This Amendment may be signed in counterparts. A fax transmission of a signature page will be considered an original signature page. At the request of a party, the other party will confirm a fax-transmitted signature page by delivering an original signature page to the requesting party.

Dated effective: January 28, 2016

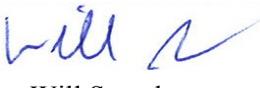
Manager:

ALLYALIGN HEALTH, INC.

By: 
Name: Will Saunders
Title: CEO

Health Plan:

Marquis Advantage, Inc.

By: 
Name: Will Saunders
Title: President

AMENDMENT NO. 2 TO MANAGEMENT SERVICES AGREEMENT

This Amendment No. 2 (“**Second Amendment**”) is entered into as of February 1, 2016 (the “**Effective Date**”), by and between AllyAlign Health, Inc., a Delaware corporation (“**Manager**”), and Marquis Advantage, Inc., an Oregon corporation (“**Health Plan**”). Manager and Health Plan may be referred to individually as a “**Party**” or collectively as the “**Parties**.”

RECITALS

WHEREAS, Manager and Health Plan are parties to that certain Management Services Agreement with an effective date of November 30, 2015 (the “**Original Agreement**”), wherein Manager agreed to provide certain management services for the Health Plan’s health maintenance organization;

WHEREAS, Manager and Health Plan amended the Original Agreement effective January 28, 2016 (“**First Amendment**”);

WHEREAS, in accordance with Section 12.15 of the Original Agreement, the Parties desire to further amend the Original Agreement as set forth herein.

NOW, THEREFORE, in consideration of the mutual promises, covenants and undertakings hereinafter contained, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties to this Second Amendment hereby agree as follows:

1. Network Provider and Covered Member Services.

- a. Section 3.7(a) of the Original Agreement shall be deleted in its entirety and replaced with the following language:
 - (a) Manager shall manage the enrollment and eligibility functions of Covered Members on Health Plan’s behalf. Manager shall maintain and update on a monthly basis Covered Member and Network Provider files to permit eligibility verification, claims adjudication, and responses to inquiries from Covered Members and Network Providers.
- b. Section 3.7(d) of the Original Agreement shall be deleted in its entirety and replaced with the following language:
 - (d) Manager shall manage enrollment activities on the Health Plan’s behalf, including distribution of enrollment packets to Covered Members upon enrollment. Manager shall provide Covered Members toll-free telephone numbers with Spanish-speaking customer service representatives.

2. Marketing Commissions and Expenses. The following language shall be added to Section 5.2 of the Original Agreement:

Health Plan may engage in marketing as prescribed by CMS during the open enrollment period according to the marketing guidelines for Medicare Advantage products, or as

otherwise approved by CMS. Health Plan will not otherwise directly and on its own behalf market to Medicare beneficiaries. Health Plan may assist individual providers in educating patients about Health Plans services but only at the request and under the supervision of the provider or the providers' representatives.

3. **Manager Fees.** Exhibit G to the Original Agreement shall be deleted in its entirety and replaced with the Exhibit G attached to this Second Amendment as Appendix A.
4. All defined terms used in this Second Amendment shall have the meaning provided in the Original Agreement.
5. All other terms in the Original Agreement not amended by this Second Amendment shall be unchanged and remain in full force and effect.

Signature Page to Follow

IN WITNESS WHEREOF, the Parties hereto have caused this Second Amendment to be executed as of the Effective Date.

Manager:

AllyAlign Health, Inc.

By: Will Saunders

Name: Will Saunders _____

Title: Chief Executive Officer _____

Health Plan:

Marquis Advantage, Inc.

By: Will Saunders

Name: Will Saunders _____

Title: President _____

APPENDIX A

EXHIBIT G
MANAGER FEES

The following fees shall be payable to the Manager:

1. Application Fees. As of the Effective Date of this Agreement, an Application Development Fee of **\$350,000** has been made payable to the Manager. Contingent upon an executed agreement with CMS, an Application Submission Fee of **\$150,000** shall be payable to Manager on January 31, 2017. Application Fees cover all costs of Manager related to the completion and submission of the CMS initial MA ISNP application, completion and submission of the MA-PD application, on-site CMS visit and readiness reviews and submission of bids.
2. New Health Plan Activation Fee. Beginning September 10, 2016, the Health Plan will pay Manger a New Plan Activation Fee of \$300,000 in total at **\$75,000 per month** for four months, and due monthly on the 10th day of the month. The New Plan Activation Fee will cover all Manager activities required to begin before the go-live date of January 1, 2017, like patient enrollment activities, marketing and educational events on behalf of the Health Plan, initial risk assessments for HCC coding submission, training and orientation of Manager’s staff, and general implementation.
3. Management Services Fee. Contingent upon an executed agreement with CMS, beginning January 1, 2017, the monthly Management Services Fee shall be set at **10% of Health Plan revenues**. Health Plan revenues are 100% of premiums collected by the Health Plan from any source.

a. The Management Services Fee will Include the Services outlined below:

Category	Function	MSA Section Reference
Core Infrastructure	Administrative Information System - Claims Processing MIS & Platform	3.2
	Financial Systems and Services	3.3
	Claims Administration and Premium Collection	3.4
	Prompt Payment of Claims	3.6
	Administration of Payment to Providers	3.18
Network Management	Network Provider and Covered Member Services	3.7
	ID Cards, Enrollment Forms	
	Utilization Review	3.8
	Care Coordination Platform (Align360)	
Development and Management of Provider Network	3.10	

Enrollment	Credentialing/Re-credentialing	3.11
	Plan Development and Administration	3.12
Centralized Admin Functions	Quality Assurance/Quality Improvement	3.9
	Underwriting and Rating	3.5
	Reporting	3.13
	Personnel Management	3.14
	Misc. Duties and Authorities	3.15

*Above fees include costs for all of the following associated staffing, all of which will be employees of Manager (with the exception of the Compliance Officer) to the extent permitted by law:

- Executive Director (full time if membership >1000)
- Member Advocates @ 1:250 members
- Utilization Manager and UM Nurses
- Business Analysts
- Finance & Accounting
- Compliance Hotline/Customer Service
- Compliance Reporting

- Pharmacy Director
- Network Development
- Contracting
- Corporate Medical Director
- Human Resource Director

- Compliance Officer (Employee/Consultant to Health Plan Directly)